WEX Inc.
Form 10-Q
October 30, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

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: 001-32426

WEX INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	01-0526993 (I.R.S. Employer Identification No.)
97 Darling Avenue, South Portland, Maine (Address of principal executive offices)	04106 (Zip Code)

(207) 773-8171
(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. ý Yes ¨ No

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 27, 2015
Common Stock, $0.01 par value per share	38,642,308 shares

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FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for statements that are forward-looking and are not statements of historical facts. This Quarterly Report includes forward-looking statements including, but not limited to, statements about management’s plan and goals. Any statements in this Quarterly Report that are not statements of historical facts are forward-looking statements. When used in this Quarterly Report, the words “may,” “could,” “anticipate,” “plan,” “continue,” “project,” “intend,” “estimate,” “believe,” “expect” and similar expressions are inten identify forward-looking statements, although not all forward-looking statements contain such words.

Forward-looking statements relate to our future plans, objectives, expectations and intentions and are not historical facts and accordingly involve known and unknown risks and uncertainties and other factors that may cause the actual results or performance to be materially different from future results or performance expressed or implied by these forward-looking statements. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report, in press releases and in oral statements made by our authorized officers: the effects of general economic conditions on fueling patterns, payments, transaction processing activity and the commercial activity of fleets; the effects of the Company’s business expansion and acquisition efforts; the ability to consummate previously announced acquisitions; the Company’s failure to successfully integrate the businesses it has acquired; the failure of corporate investments to result in anticipated strategic value; the impact and size of credit losses; the impact of changes to the Company's credit standards; breaches of the Company’s technology systems and any resulting negative impact on our reputation, or liabilities, or loss of relationships with customers or merchants; fuel price volatility and changes in fleet fuel efficiency; the Company’s failure to maintain or renew key agreements; failure to expand the Company’s technological capabilities and service offerings as rapidly as the Company’s competitors; the actions of regulatory bodies, including banking and securities regulators, or possible changes in banking regulations impacting the Company’s industrial bank and the Company as the corporate parent; the impact of foreign currency exchange rates on the Company’s operations, revenue and income; changes in interest rates; the impact of the Company’s outstanding notes on its operations; financial loss if the Company determines it necessary to unwind its derivative instrument position prior to the expiration of a contract; the incurrence of impairment charges if our assessment of the fair value of certain of our reporting units changes; the uncertainties of litigation; as well as other risks and uncertainties identified in Item 1A of our Annual Report for the year ended December 31, 2014, filed on Form 10-K with the Securities and Exchange Commission on February 26, 2015. Our forward-looking statements and these factors do not reflect the potential future impact of any, alliance, merger, acquisition, disposition or stock repurchases. The forward-looking statements speak only as of the date of the initial filing of this Quarterly Report and undue reliance should not be placed on these statements. We disclaim any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

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PART I
Item 1. Financial Statements.
WEX INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

	September 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$533,626	$284,763
Accounts receivable (less reserve for credit losses of $11,535 in 2015 and $13,919 in 2014)	1,791,681	1,865,538
Securitized accounts receivable, restricted	91,756	—
Income taxes receivable	—	6,859
Available-for-sale securities	18,738	18,940
Fuel price derivatives, at fair value	13,417	40,969
Property, equipment and capitalized software (net of accumulated depreciation of $184,159 in 2015 and $169,382 in 2014)	124,632	105,596
Deferred income taxes, net	9,675	5,764
Goodwill	1,068,455	1,116,902
Other intangible assets, net	443,027	497,297
Other assets	253,497	175,506
Total assets	$4,348,504	$4,118,134
Liabilities and Stockholders’ Equity		
Accounts payable	$518,892	$425,956
Accrued expenses	184,927	137,358
Income taxes payable	8,911	—
Deposits	1,189,314	979,553
Securitized debt	78,303	—
Revolving line-of-credit facilities and term loan	709,219	901,564
Deferred income taxes, net	70,565	44,004
Notes outstanding	400,000	400,000
Other debt	50,340	52,975
Amounts due under tax receivable agreement	60,319	69,637
Other liabilities	10,793	12,776
Total liabilities	3,281,583	3,023,823
Commitments and contingencies (Note 14)		
Redeemable non-controlling interest	—	16,590
Stockholders’ Equity		
Common stock $0.01 par value; 175,000 shares authorized; 43,077 shares issued in 2015 and 43,021 in 2014; 38,745 shares outstanding in 2015 and 38,897 in 2014	431	430
Additional paid-in capital	172,788	179,077
Non-controlling interest	12,332	17,396
Retained earnings	1,162,733	1,081,730
Accumulated other comprehensive income	(109,021)	(50,581)
Less treasury stock at cost; 4,428 shares in 2015 and 4,218 shares in 2014	(172,342)	(150,331)
Total stockholders’ equity	1,066,921	1,077,721
Total liabilities and stockholders’ equity	$4,348,504	$4,118,134

See notes to unaudited condensed consolidated financial statements.

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WEX INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenues				
Fleet payment solutions	$140,672	$144,497	$404,682	$425,760
Other payment solutions	85,385	77,637	237,313	180,023
Total revenues	226,057	222,134	641,995	605,783
Expenses				
Salary and other personnel	57,174	55,392	174,682	142,720
Restructuring	(45)	—	8,514	—
Service fees	36,924	34,024	100,935	88,160
Provision for credit losses	6,635	7,261	14,532	23,154
Technology leasing and support	10,157	8,006	29,612	22,184
Occupancy and equipment	5,240	5,362	15,271	13,489
Depreciation, amortization and impairment	20,778	19,600	62,924	49,794
Operating interest expense	1,483	1,860	4,419	4,747
Cost of hardware and equipment sold	706	1,830	2,499	5,033
Other	19,260	13,438	50,919	39,275
Gain on divestiture	—	(27,169)	(1,215)	(27,169)
Total operating expenses	158,312	119,604	463,092	361,387
Operating income	67,745	102,530	178,903	244,396
Financing interest expense	(11,330)	(9,840)	(35,334)	(24,472)
Net foreign currency gain (loss)	6,525	(7,560)	(12)	(5,289)
Net realized and unrealized gain on fuel price derivative instruments	7,922	14,773	4,671	9,057
Non-cash adjustments related to tax receivable agreement	1,634	(1,356)	1,634	(1,356)
Income before income taxes	72,496	98,547	149,862	222,336
Income taxes	30,714	24,697	61,647	69,557
Net income	41,782	73,850	88,215	152,779
Less: Net gain (loss) attributable to non-controlling interests	203	(593)	(2,201)	(1,539)
Net earnings attributable to WEX Inc.	41,579	74,443	90,416	154,318
Accretion of non-controlling interest	(9,413)	—	(9,413)	—
Net earnings attributable to shareholders	$32,166	$74,443	$81,003	$154,318
Net earnings attributable to shareholders per share:				
Basic	$0.83	$1.92	$2.09	$3.97
Diluted	$0.83	$1.91	$2.08	$3.96
Weighted average common shares outstanding:				
Basic	38,745	38,867	38,780	38,896
Diluted	38,808	38,961	38,852	39,004

See notes to unaudited condensed consolidated financial statements.

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WEX INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income	$41,782	$73,850	$88,215	$152,779
Changes in available-for-sale securities, net of tax effect of $59 and $(15) for the three months ended September 30, 2015 and 2014 and $29 and $116 for the nine months ended September 30, 2015 and 2014	99	(26)	50	200
Foreign currency translation	(34,948)	(33,832)	(55,265)	(11,170)
Comprehensive income	6,933	39,992	33,000	141,809
Less: comprehensive loss attributable to non-controlling interests	(2,255)	(3,571)	(8,084)	(3,261)
Comprehensive income attributable to WEX Inc.	$9,188	$43,563	$41,084	$145,070

See notes to unaudited condensed consolidated financial statements.

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WEX INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Common Stock							
	Shares	Amount at par	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	Non-controlling interest in subsidiaries	Total Stockholders' Equity
Balance at December 31, 2013	38,987	$ 429	$ 168,891	$ (15,495)	$ (130,566)	$ 879,519	$ 519	$ 903,297
Stock issued upon exercise of stock options	17	—	236	—	—	—	—	236
Tax benefit from stock option and restricted stock units	—	—	1,432	—	—	—	—	1,432
Stock issued upon vesting of restricted and deferred stock units	77	1	(1)	—	—	—	—	—
Stock-based compensation, net of share repurchases for tax withholdings	—	—	6,747	—	—	—	—	6,747
Purchase of shares of treasury stock	(211)	—	—	—	(19,765)	—	—	(19,765)
Changes in available-for-sale securities, net of tax effect of $116	—	—	—	200	—	—	—	200
Foreign currency translation	—	—	—	(9,448)	—	—	(1,007)	(10,455)
Non-controlling interest investment	—	—	—	—	—	—	21,267	21,267
Net income (loss)	—	—	—	—	—	154,318	(1,508)	152,810
Balance at September 30, 2014	38,870	$ 430	$ 177,305	$ (24,743)	$ (150,331)	$ 1,033,837	$ 19,271	$ 1,055,769
Balance at December 31, 2014	38,897	$ 430	$ 179,077	$ (50,581)	$ (150,331)	$ 1,081,730	$ 17,396	$ 1,077,721
Stock issued upon exercise of stock options	2	—	24	—	—	—	—	24
Tax from stock option and restricted stock units	—	—	(230)	—	—	—	—	(230)
	56	1	(1)	—	—	—	—	—

Stock issued upon vesting of restricted and deferred stock units								
Stock-based compensation, net of share repurchases for tax withholdings		—	7,845	—	—	—	—	7,845
Purchase of shares of treasury stock	(210)	—	—	—	(22,011)	—	—	(22,011)
Changes in available-for-sale securities, net of tax effect of ($29)	—	—	—	50	—	—	—	50
Foreign currency translation	—	—	—	(49,382)	—	—	(1,673)	(51,055)
Adjustment of redeemable non-controlling interest	—	—	(13,927)	(9,108)	—	(9,413)	—	(32,448)
Net income (loss)	—	—	—	—	—	90,416	(3,391)	87,025
Balance at September 30, 2015	38,745	$ 431	$ 172,788	$ (109,021)	$ (172,342)	$ 1,162,733	$ 12,332	$ 1,066,921

See notes to unaudited condensed consolidated financial statements.

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WEX INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine months ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income	$88,215	$152,779
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Fair value change of fuel price derivatives	27,552	(14,140)
Stock-based compensation	10,227	10,089
Depreciation, amortization and impairment	65,243	51,658
Gain on divestiture	(1,215)	(27,169)
Deferred taxes	24,057	25,190
Foreign currency remeasurement	17,074	—
Restructuring charge	8,514	—
Provision for credit losses	14,532	23,154
Loss on disposal of property, equipment and capitalized software	298	1,138
Changes in operating assets and liabilities:		
Accounts receivable	(78,951)	(389,339)
Other assets	(82,133)	(42,455)
Accounts payable	107,884	201,506
Accrued expenses	40,539	19,203
Income taxes	17,288	(6,757)
Other liabilities	(2,221)	(1,724)
Amounts due under tax receivable agreement	(9,318)	(5,772)
Net cash provided by (used for) operating activities	247,585	(2,639)
Cash flows from investing activities		
Purchases of property, equipment and capitalized software	(47,117)	(39,403)
Purchases of available-for-sale securities	(263)	(2,740)
Maturities of available-for-sale securities	544	279
Acquisitions and investments, net of cash	—	(591,791)
Proceeds from divestitures	17,265	46,890
Net cash used for investing activities	(29,571)	(586,765)
Cash flows from financing activities		
Excess tax benefits from equity instrument share-based payment arrangements	658	1,432
Repurchase of share-based awards to satisfy tax withholdings	(2,382)	(3,342)
Proceeds from stock option exercises	24	235
Net change in deposits	211,015	379,812
Other debt	155	47,798
Loan origination fee	—	(3,309)
Net activity on 2014 revolving credit facility	(168,752)	190,700
Net change in securitized debt	85,658	—
Payments on term loan	(20,625)	(14,375)
Borrowings on 2014 term loan	—	222,500
Purchase of redeemable non-controlling interest	(46,018)	—

Purchase of shares of treasury stock	(22,011)	(19,765)
Net cash provided by financing activities	37,722	801,686
Effect of exchange rate changes on cash and cash equivalents	(6,873)	2,938
Net change in cash and cash equivalents	248,863	215,220
Cash and cash equivalents, beginning of period	284,763	361,486
Cash and cash equivalents, end of period	$533,626	$576,706
Supplemental cash flow information		
Interest paid	$41,292	$31,757
Income taxes paid	$19,899	$49,504

See notes to unaudited condensed consolidated financial statements.

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WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)
(unaudited)

1. Basis of Presentation

The acronyms and abbreviations identified below are used in the accompanying unaudited condensed consolidated financial statements and the notes thereto. The following is provided to aid the reader and provide a reference point when reviewing the unaudited condensed consolidated financial statements.

2011 Credit Agreement	Credit agreement entered into on May 23, 2011 among the Company, as borrower, WEX Card Holdings Australia Pty Ltd, a wholly-owned subsidiary of the Company, as specified designated borrower, Bank of America, N.A., as administrative agent and letter of credit issuer, and the other lenders party thereto
2013 Credit Agreement	Amended and restated credit agreement entered into on January 18, 2013 by and among the Company and certain of our subsidiaries, as borrowers, and WEX Card Holdings Australia Pty Ltd, as specified designated borrower, with a lending syndicate
2014 Amendment Agreement	Amendment and restatement agreement entered into on August 22, 2014, among the Company, the lenders party thereto, and Bank of America, N.A., as administrative agent
2014 Credit Agreement	Second amended and restated credit agreement entered into on August 22, 2014, by and among the Company and certain of our subsidiaries, as borrowers, and WEX Card Holding Australia
Adjusted Net Income or ANI	A non-GAAP metric that adjusts net earnings attributable to WEX Inc. to exclude fair value changes of fuel-price related derivative instruments, the amortization of purchased intangibles, the impact of net foreign currency remeasurement gains and losses, the expense associated with stock-based compensation, acquisition related expenses, the net impact of tax rate changes on the Company’s deferred tax asset and related changes in the tax-receivable agreement, deferred loan costs associated with the extinguishment of debt, certain non-cash asset impairment charges, restructuring charges, gains on the extinguishment of a portion of the tax receivable agreement, regulatory reserves, gains or losses on divestitures and adjustments attributable to non-controlling interests, including adjustments to the redemption value of a non-controlling interest, as well as the related tax impacts of the adjustments
ASU 2014-09	Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers (Topic 606)
ASU 2015-03	Accounting Standards Update No. 2015-03 Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs
ASU 2015-04	Accounting Standards Update No. 2015-04 Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets
Company	WEX Inc. and all entities included in the unaudited condensed consolidated financial statements
European fleet business	Consists primarily of our European commercial fleet card portfolio acquired by the Company from ExxonMobil on December 1, 2014 ("Esso portfolio in Europe")
Evolution1	EB Holdings Corp. and its subsidiaries which includes Evolution1, Inc., acquired by the Company on July 16, 2014
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation

GAAP	Generally Accepted Accounting Principles in the United States
Indenture	Indenture dated as of January 30, 2013 among the Company, the guarantors listed therein, and The Bank of New York Mellon Trust Company, N.A., as trustee
NCI	Non-controlling interests
Notes	$400 million notes with a 4.75% fixed rate, issued on January 30, 2013
NOW deposits	Negotiable order of withdrawal deposits
Pacific Pride	Pacific Pride Services, LLC, previously a wholly owned subsidiary, sold on July 29, 2014
rapid! PayCard	rapid! PayCard, previously a line of business of the Company, sold on January 7, 2015
SaaS	Software-as-a-service
SEC	Securities and Exchange Commission
Securitization Subsidiary	Southern Cross WEX 2015-1 Trust, a bankruptcy-remote subsidiary consolidated by the Company
UNIK	UNIK S.A., the Company's Brazilian subsidiary
WEX	WEX Inc.

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WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by GAAP for complete financial statements. However, except as disclosed herein, there have been no material changes in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K of WEX Inc. for the year ended December 31, 2014. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements that are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on February 26, 2015. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for any future quarter(s) or the year ending December 31, 2015.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other liabilities approximate their respective fair values due to the short-term nature of such instruments. The carrying values of certificates of deposit, interest-bearing money market deposits, borrowed federal funds and credit agreement borrowings approximate their respective fair values as the interest rates on these financial instruments are variable. All other financial instruments are reflected at fair value on the unaudited condensed consolidated balance sheets.

2. New Accounting Standards

In May 2014, the FASB issued ASU 2014-09 related to revenue recognition, which will supersede most existing revenue recognition guidance under U.S. GAAP. The new revenue recognition standard requires entities to recognize revenue for the transfer of 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. The standard permits the use of either the retrospective or cumulative effect transition method. On July 9, 2015, the the Board voted to defer the effective date by one year to interim and annual reporting periods beginning after December 15, 2017, and permitted early adoption of the standard, but not for periods beginning on or before the original effective date of December 15, 2016. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method.

In April 2015, the FASB issued ASU 2015-03 related to the simplification of the presentation of debt issuance costs. The standard requires entities to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The new standard is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. Entities would apply the new guidance retrospectively to all prior periods and provide the applicable disclosures for a change in accounting principal: (i) the nature of and reason for the change in accounting principle; (ii) the transition method; (iii) a description of the prior-period information that has been retrospectively adjusted; and, (iv) the effect of the change on the financial statement line item. The adoption of this standard affects presentation only and, as such, is not expected to have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-04 related to using a practical expedient for the measurement date of an employer's defined benefit obligation and plan assets.The new standard gives an entity with a fiscal year-end that does not coincide with a calendar month-end the ability, as a practical expedient, to measure its defined benefit retirement obligations and related plan assets as of the month-end that is closest to its fiscal year-end. Additionally, the new standard provides guidance on accounting for (i) contributions to the plan and (ii) significant events that require a remeasurement (e.g., a plan amendment, settlement, or curtailment) that occur during the period between a month-end measurement date and the employer's fiscal year-end. An entity should reflect the effects of those contributions or significant events in the measurement of the retirement benefit obligations and related plan assets. As a separate practical expedient, an entity may elect to measure the effects of a significant event as of the calendar month-end closest to the date of the significant event. The new standard is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted and the new standard should be applied prospectively. The Company does not believe that the adoption of ASU 2014-05 will have a material impact on its results of operations.

In September 2015, the FASB issued ASU 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments.” This standard replaces the requirement that an acquirer in a business combination account for measurement period adjustments retrospectively with a requirement that an acquirer recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer is required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The pronouncement is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The guidance is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance. The Company is currently evaluating the impact the pronouncement will have on the consolidated financial statements and related disclosures.

(in thousands, except per share data)

3. Business Acquisitions

Acquisition of remaining 49% of UNIK

On August 31, 2015, the Company acquired the remaining 49 percent ownership in UNIK for $46,018. See Note 12 Non-controlling interests for further information.

Esso portfolio in Europe

On December 1, 2014, the Company acquired certain assets of the Esso portfolio in Europe through a majority owned subsidiary, WEX Europe Services Limited. The Company formed this entity during 2013 and has 75 percent ownership. The Company paid $379,458 in cash, which includes an $80,000 advance payment made in the third quarter of 2014. The transaction was financed through the Company's cash on hand and existing credit facility. Under the terms of the transaction, WEX purchased ExxonMobil's commercial fleet fuel card program which includes operations, funding, pricing, sales and marketing in nine countries in Europe. As part of the transaction, both parties have agreed to enter into a long term supply agreement to serve the current and future Esso Card customers and to grow the business. The Company entered into this transaction in order to expand its presence in the European market and to broaden its international footprint, while laying the foundation for further expansion.

During the fourth quarter of 2014, the Company obtained preliminary information to assist in determining the fair values of certain tangible and intangible assets acquired and liabilities assumed in the Esso portfolio in Europe transaction. During the first nine months of 2015, the Company obtained additional information to assist in determining the fair values of certain tangible and intangible assets acquired and liabilities assumed as of the acquisition date. Based on such information, the Company retrospectively adjusted the fiscal year 2014 comparative information resulting in an increase in goodwill of $537, a decrease in accounts receivable of $2, a decrease in the customer relationship intangible asset of $374, a decrease in the licensing agreements intangible asset of $374, and an increase in other tangible assets and liabilities, net, including consideration receivable of $213. The Company recorded intangible assets and goodwill as described below. The Company is still reviewing the valuation as well as performing procedures to verify the completeness and accuracy of the data used in the independent valuation of all assets and liabilities. The Company has not finalized the purchase accounting. Goodwill related to this transaction is expected to be deductible for income tax purposes. The results of operations for the Esso portfolio in Europe are presented in the Company's Fleet Payment Solutions segment.

The following is a summary of the preliminary allocation of the purchase price to the assets and liabilities acquired:

Consideration paid (net of cash acquired)	$379,458
Less:	
Accounts receivable	303,376
Other tangible assets and liabilities, net	(8,497)
Licensing agreements[a]	36,605
Customer relationships[b]	7,346
Recorded goodwill	$40,628

[a] Weighted average life – 4.6 years.

(b) Weighted average life – 7.2 years.

Supplemental pro forma financial information related to the Esso portfolio in Europe acquisition has not been provided as it would be impracticable to do so. Historical financial information regarding the acquired assets is not accessible and, thus, the amounts would require estimates to be significant and render the disclosure irrelevant.

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WEX INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(in thousands, except per share data)
(unaudited)

Acquisition of Evolution1

On July 16, 2014, the Company acquired all of the outstanding stock of Evolution1, a leading provider of cloud-based technology and payment solutions within the healthcare industry, for approximately $532,174 in cash. The transaction was financed through the Company’s cash on hand and existing credit facility. Evolution1 developed and operates an all-in-one, multi-tenant technology platform, card products, and mobile offering that supports a full range of healthcare account types. This includes consumer-directed payments for health savings accounts, health reimbursement arrangements, flexible spending accounts, voluntary employee beneficiary associations, and defined contribution and wellness programs. The Company acquired Evolution1 to enhance the Company's capabilities and positioning in the growing healthcare market.

During the third quarter of 2014, the Company obtained preliminary information to assist in determining the fair values of certain tangible and intangible assets acquired and liabilities assumed in the Evolution1 acquisition. During the fourth quarter of 2014 and the first half of 2015, the Company obtained additional information to assist in determining the fair values of certain tangible and intangible assets acquired and liabilities assumed as of the acquisition date. Based on such information, the Company retrospectively adjusted the fiscal year 2014 comparative information resulting in an increase in goodwill of $379, an increase in other tangible assets and liabilities of $127, and an increase in deferred income tax liabilities of $252. There were no changes to the previously reported consolidated statements of operations or statements of cash flows. The valuation of all assets and liabilities have been finalized. Evolution1 had previously recorded goodwill on its financial statements from a prior acquisition, some of which is expected to be deductible for tax purposes. The results of operations for Evolution1 are presented in the Company's Other Payment Solutions segment.

The following is a summary of the allocation of the purchase price to the assets and liabilities acquired:

Consideration paid (net of cash acquired)	$532,174
Less:	
Accounts receivable	8,418
Accounts payable	(175)
Deferred tax liabilities, net	(68,768)
Other tangible assets and liabilities, net	(3,712)
Acquired software and developed technology[(a)]	70,000
Customer relationships[(b)]	211,000
Trade name[(c)]	7,900
Trade name[(d)]	11,000
Recorded goodwill	$296,511

(a) Weighted average life – 6.4 years.
(b) Weighted average life – 9.7 years.
(c) Weighted average life – 9.9 years.
(d) Indefinite-lived

The following represents unaudited pro forma operational results as if Evolution1 had been included in the Company’s unaudited condensed consolidated statements of operations as of the beginning of the fiscal periods ended:

	Three Months Ended September 30, 2014	Nine months Ended September 30, 2014
Revenue	$225,181	$653,192

Net income attributable to WEX Inc.	$69,889	$141,206
Pro forma net income attributable to WEX Inc. per common share:		
Net income per share – basic	$1.80	$3.63
Net income per share – diluted	$1.79	$3.62

The pro forma financial information assumes that the companies were combined as of January 1, 2013, and includes the business combination accounting impact from the acquisition, including acquisition related expenses, amortization charges from acquired intangible assets, interest expense for debt incurred in the acquisition and net income tax effects. The pro forma results of operations do not include any cost savings or other synergies that may result from the acquisition or any estimated

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integration costs that have been or will be incurred by the Company. The pro forma information as presented above is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal year 2014.

4. Sale of Subsidiary and Assets

rapid! PayCard

On January 7, 2015, the Company sold the assets of its operations of rapid! PayCard for $20,000, which resulted in a pre-tax gain of approximately $1,215. The Company's primary focus in the U.S. continues to be in the fleet, travel, and healthcare industries. As such, the Company divested the operations of rapid! PayCard. The operations of rapid! PayCard were not material to the Company's annual revenue, net income or earnings per share. The Company does not view this divestiture as a strategic shift in its Other Payment Solution segment.

Pacific Pride

On July 29, 2014, the Company sold its wholly owned subsidiary Pacific Pride for $49,664, which resulted in a pre-tax gain of $27,490. The transfer of the operations of Pacific Pride occurred on July 31, 2014. The Company decided to sell the operations of Pacific Pride as it did not align with the long-term strategy of the core fleet business. The operations of Pacific Pride were not material to the Company's annual revenue, net income or earnings per share. Simultaneously with the sale, the Company entered into a multi-year agreement with the buyer that will continue to allow WEX branded card acceptance at Pacific Pride locations. The Company does not view this divestiture as a strategic shift in its Fleet Payment Solution segment.

The following is a summary of the allocation of the assets and liabilities sold:

Consideration received	$49,664
Less:	
Expenses associated with the sale	1,340
Accounts receivable	48,699
Accounts payable	(53,001)
Other tangible assets and liabilities, net	828
Customer relationships	3,727
Trademarks and trade name	1,444
Goodwill	19,137
Gain on sale	$27,490

5. Reserves for Credit Losses

In general, the Company’s trade receivables provide for payment terms of 30 days or less. The portfolio of receivables consists of a large group of smaller balance homogeneous amounts that are collectively evaluated for impairment. No customer made up more than ten percent of the outstanding receivables at September 30, 2015.

Receivables are generally written off when they are 150 days past due or upon declaration of bankruptcy by the customer. The reserve for credit losses is calculated by an analytic model that also takes into account other factors, such as the actual charge-offs for the preceding reporting periods, expected charge-offs and recoveries for the subsequent reporting periods, a review of accounts receivable balances which become past due, changes in customer payment patterns, known fraudulent activity in the portfolio, as well as leading economic and market indicators.

As of September 30, 2015, approximately 98 percent of the outstanding balance of total trade accounts receivable was less than 60 days past due. As of September 30, 2014, approximately 99 percent of the total trade accounts receivable outstanding balance was less than 60 days past due.

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The following table presents changes in reserves for credit losses related to accounts receivable:

	Nine months ended September 30, 2015	2014
Balance, beginning of period	$13,919	$10,396
Provision for credit losses	14,532	23,154
Charge-offs	(20,667)	(25,776)
Recoveries of amounts previously charged-off	3,965	5,730
Currency translation	(214)	(58)
Balance, end of period	$11,535	$13,446

6. Goodwill and Other Intangible Assets

Goodwill

The changes in goodwill during the first nine months of 2015 were as follows:

	Fleet Payment Solutions Segment	Other Payment Solutions Segment	Total
Gross goodwill, January 1, 2015	$759,986	$374,424	$1,134,410
Impact of foreign currency translation	(29,235)	(6,679)	(35,914)
Disposal of certain assets	(147)	(12,386)	(12,533)
Gross goodwill, September 30, 2015	730,604	355,359	1,085,963
Accumulated impairment, September 30, 2015	(1,337)	(16,171)	(17,508)
Net goodwill, September 30, 2015	$729,267	$339,188	$1,068,455

As described in Note 3, the Company adjusted the amount of goodwill as of December 31, 2014 in the accompanying unaudited condensed consolidated balance sheet to account for the measurement period adjustments to the Esso portfolio in Europe purchase price allocation.

The Company had no impairments to goodwill during the nine months ended September 30, 2015.

Management is currently evaluating its internal reporting structure and is in the process of determining the impact of the changes on the Company’s segment and goodwill reporting.

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Other Intangible Assets
The changes in other intangible assets during the first nine months of 2015 were as follows:

	Net Carrying Amount, January 1, 2015	Amortization	Disposals	Impact of foreign currency translation	Net Carrying Amount, September 30, 2015
Definite-lived intangible assets					
Acquired software and developed technology	$119,509	$ (8,195)	$—	$(4,289)	$ 107,025
Customer relationships	309,450	(23,506)	(2,329)	(6,977)	276,638
Licensing agreements	35,341	(3,159)	(164)	(2,701)	29,317
Patent	1,245	(67)	—	(282)	896
Trade names	15,373	(849)	(723)	(338)	13,463
Indefinite-lived intangible assets					
Trademarks and trade names	16,379	—	—	(691)	15,688
Total	$497,297	$ (35,776)	$(3,216)	$(15,278)	$ 443,027

The following table presents the estimated amortization expense related to the definite-lived intangible assets listed above for the remainder of 2015 and for each of the five succeeding fiscal years:

Remaining 2015	$11,910
2016	$46,534
2017	$46,348
2018	$43,050
2019	$39,901
2020	$36,621

Other intangible assets, net consist of the following:

	September 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets						
Acquired software and developed technology	$144,857	$(37,832)	$ 107,025	$150,458	$(30,949)	$ 119,509
Customer relationships	373,099	(96,461)	276,638	393,942	(84,492)	309,450
Licensing agreements	33,054	(3,737)	29,317	35,726	(385)	35,341
Patent	2,307	(1,411)	896	2,697	(1,452)	1,245
Trademarks and trade names	16,420	(2,957)	13,463	17,786	(2,413)	15,373
	$569,737	$(142,398)	427,339	$600,609	$(119,691)	480,918
Indefinite-lived intangible assets						
Trademarks and trade names			15,688			16,379
Total			$ 443,027			$ 497,297

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7. Earnings per Share

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the three and nine months ended September 30, 2015 and 2014:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net earnings attributable to WEX Inc. available for common stockholders – Basic and Diluted	$32,166	$74,443	$81,003	$154,318
Weighted average common shares outstanding – Basic	38,745	38,867	38,780	38,896
Unvested restricted stock units	46	74	55	85
Stock options	17	20	17	23
Weighted average common shares outstanding – Diluted	38,808	38,961	38,852	39,004

For the three and nine month periods ended September 30, 2015, certain potential outstanding stock options and restricted stock units were excluded from the computation of diluted earnings per share because the effect of including these options and restricted stock units would be anti-dilutive. No material amount of shares were considered anti-dilutive during the periods reported.

8. Derivative Instruments

The Company is exposed to certain market risks relating to its ongoing business operations. Derivative instruments are utilized to manage the Company's commodity price risk. The Company enters into put and call option contracts related to the Company’s commodity price risk, which are based on the wholesale price of gasoline and the retail price of diesel fuel and settle on a monthly basis. These put and call option contracts, or fuel price derivative instruments, are designed to reduce the volatility of the Company’s cash flows associated with its fuel price-related earnings exposure in North America.

During the fourth quarter of 2014, the Company suspended purchases under its fuel derivatives program due to unusually low prices in the commodities market. Management will continue to monitor the fuel price market and evaluate its alternatives as it relates to this hedging program. For the fourth quarter of 2015, the Company holds fuel price sensitive derivative instruments to hedge approximately 40 percent of our anticipated U.S. fuel-price related earnings exposure. For the first quarter of 2016, the amount hedged declines to 20 percent. At this time, there are no hedges beyond the first quarter of 2016.

Beginning in April 2014, the Company initiated a partial foreign currency exchange hedging program. The Company used currency forward contracts to offset the foreign currency impact of balance sheet translation. Prior to the first quarter of 2015, the Company managed foreign currency exchange exposure on an intra-quarter basis. Beginning in the first quarter of 2015, the Company held foreign currency exchange contracts that were outstanding over the quarter-end period, sought to minimize foreign cash balances, and expanded the scope of its hedging program to include additional currencies. During the third quarter of 2015, the Company terminated this foreign currency hedging program.

Beginning in September of 2015, the Company initiated a new limited foreign currency exchange hedging program, entering into short-term foreign currency swaps to convert the foreign currency exposures of certain foreign currency denominated intercompany loans and investments to U.S. dollars.

The realized and unrealized gains or losses on the currency forward contracts and swaps are reported in earnings within the same unaudited condensed consolidated statement of income line as the impact of the foreign currency translation, net foreign currency gain (loss).

Accounting guidance requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the unaudited condensed consolidated balance sheet. The Company’s fuel price derivative instruments and foreign currency instruments do not qualify for hedge accounting treatment, and therefore, no such hedging designation has been made.

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Derivatives Not Designated as Hedging Instruments

For derivative instruments that are not designated as hedging instruments, the gain or loss on the derivative is recognized in current earnings.

As of September 30, 2015, the Company had the following put and call option contracts related to the Company's commodity fuel price derivatives, which are not designated as hedging contracts and settle on a monthly basis:

	Aggregate Notional Amount (gallons) [(a)]
Fuel price derivative instruments – unleaded fuel	
Option contracts settling October 2015 – March 2016	7,769
Fuel price derivative instruments – diesel	
Option contracts settling October 2015 – March 2016	3,848
Total fuel price derivative instruments	11,617

(a) The settlement of the put and call option contracts is based upon the New York Mercantile Exchange’s New York Harbor Reformulated Gasoline Blendstock for Oxygenate Blending and the U.S. Department of Energy’s weekly retail on-highway diesel fuel price for the month.

As of September 30, 2015, the Company had the following contracts related to its foreign currency swaps, which are not designated as hedging contracts and settle in U.S. dollars at various dates within 2 days:

	Aggregate Notional Amount
Australian dollar	A$9,500
Euro	€ 1,700
Pound sterling	£ 17,000

The following table presents information on the location and amounts of derivative fair values in the unaudited condensed consolidated balance sheets:

	Derivatives Classified as Assets				Derivatives Classified as Liabilities			
	September 30, 2015		December 31, 2014		September 30, 2015		December 31, 2014	
Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity contracts	Fuel price derivatives, at fair value	$13,417	Fuel price derivatives, at fair value	$40,969	Fuel price derivatives, at fair value	$—	Fuel price derivatives, at fair value	$—
Foreign currency swaps	Accounts receivable	$15	Accounts receivable	$—	Accounts payable	$115	Accounts payable	$—

The following table presents information on the location and amounts of derivative gains and losses in the unaudited condensed consolidated statements of income:

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Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Three months ended September 30,		Nine months ended September 30,	
		2015	2014	2015	2014
Commodity contracts	Net realized and unrealized gain on fuel price derivative instruments	$7,922	$14,773	$4,671	$9,057
Foreign currency forward exchanges	Net foreign currency gain (loss)	$—	$8,177	21,967	$6,893
Foreign currency swaps	Net foreign currency gain (loss)	$(100)	$—	$(100)	$—

9. Financing and Other Debt

2014 Credit Agreement

As of September 30, 2015, the Company has $243,594 of borrowings against its $700,000 revolving credit facility. The outstanding debt under the Company's amortizing term loan arrangement, which expires in January of 2018, totaled $465,625 at September 30, 2015 and $486,250 at December 31, 2014. As of September 30, 2015, amounts outstanding under the amortizing term loan bear interest at a rate of LIBOR plus 200 basis points. The revolving credit facility currently bears interest at a rate equal to, at our option, (a) LIBOR plus 200 basis points, (b) the prime rate plus 100 basis points for our domestic borrowings; and the Eurocurrency rate plus 200 basis points for our international borrowings.

Borrowed Federal Funds

In the second quarter of 2015, the Company increased its federal funds lines of credit by $135,000 to $260,000. As of September 30, 2015, the Company had $0 outstanding on its $260,000 federal funds lines of credit. As of December 31, 2014 the Company had no outstanding balance on its $125,000 of available credit on these lines.

UNIK debt

UNIK had approximately $5,340 of debt as of September 30, 2015, and $7,975 of debt as of December 31, 2014. UNIK's debt is comprised of various credit facilities held in Brazil, with various maturity dates. The weighted average annual interest rate was 14.1 percent as of September 30, 2015, and 13.9 percent as of December 31, 2014. This debt is classified in Other debt on the Company’s unaudited condensed consolidated balance sheets for the periods presented.

Participation debt

During the second quarter of 2014, WEX Bank entered into an agreement with a third party bank to fund a customer balance that exceeded WEX Bank's lending limit to an individual customer. This borrowing carries a variable interest rate of 3-month LIBOR plus a margin of 2.25 percent. The balance of the debt as of both September 30, 2015 and December 31, 2014, was $45,000. The participation debt balance will fluctuate on a daily basis based on customer funding needs, and will range from $0 to $45,000. The participation debt agreement will mature on April 1, 2016. This debt is classified in Other debt on the Company’s unaudited condensed consolidated balance sheets for the periods presented.

Securitization facility

On April 28, 2015, the Company entered into a one year securitized debt agreement with a bank. Under the terms of the agreement, each month, on a revolving basis, the Company sells certain of its Australian receivables to a bankruptcy-remote subsidiary consolidated by the Company ("Securitization Subsidiary"). The Securitization Subsidiary, in turn, uses the receivables as collateral to issue asset-backed commercial paper ("securitized debt") for approximately 85 percent of the securitized receivables. The amount collected on the securitized receivables is restricted to pay the securitized debt and is not available for general corporate purposes.

The Company pays a variable interest rate on the outstanding balance of the securitized debt, based on the Australian Bank Bill Rate plus an applicable margin. The interest rate as of September 30, 2015, was 2.91 percent. As of September 30, 2015, the Company had $78,303 of securitized debt.

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10. Fair Value

The Company holds mortgage-backed securities, fixed income and equity securities, derivatives (see Note 8, Derivative Instruments) and certain other financial instruments which are carried at fair value. The Company determines fair value based upon quoted prices when available or through the use of alternative approaches, such as model pricing, when market quotes are not readily accessible or available. In determining the fair value of the Company's obligations, various factors are considered, including: closing exchange or over-the-counter market price quotations; time value and volatility factors underlying options and derivatives; price activity for equivalent instruments; and the Company's own credit standing.

These valuation techniques may be based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 – Instruments whose significant value drivers are unobservable.

The following table presents the Company's assets that are measured at fair value and the related hierarchy levels as of September 30, 2015:

		Fair Value Measurements at Reporting Date Using		
	September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Mortgage-backed securities	$656	$—	$656	$—
Asset-backed securities	892	—	892	—
Municipal bonds	423	—	423	—
Equity securities	16,767	16,767	—	—
Total available-for-sale securities	$18,738	$16,767	$1,971	$—
Executive deferred compensation plan trust [(a)]	$5,446	$5,446	$—	$—
Fuel price derivatives – unleaded fuel [(b)]	$8,972	$—	$8,972	$—
Fuel price derivatives – diesel [(b)]	4,445	—	—	4,445
Total fuel price derivatives	$13,417	$—	$8,972	$4,445
Foreign currency swaps [(c)]	$15	$—	$15	$—
Liabilities:				
Foreign currency swaps [(d)]	$115	—	$115	—

(a) The fair value of these instruments is recorded in Other assets.
(b) The balance sheet presentation combines unleaded fuel and diesel fuel positions.
(c) The fair value of these instruments is recorded in Accounts receivable.
(d) The fair value of these instruments is recorded in Accounts payable.

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The following table presents the Company's assets and liabilities that are measured at fair value and the related hierarchy levels as of December 31, 2014:

	December 31, 2014	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Mortgage-backed securities	$810	$—	$810	$—
Asset-backed securities	1,165	—	1,165	—
Municipal bonds	554	—	554	—
Equity securities	16,411	16,411	—	—
Total available-for-sale securities	$18,940	$16,411	$2,529	$—
Executive deferred compensation plan trust [a]	$5,927	$5,927	$—	$—
Fuel price derivatives – unleaded fuel [b]	$29,120	$—	$29,120	$—
Fuel price derivatives – diesel [b]	11,849	—	—	11,849
Total fuel price derivatives	$40,969	$—	$29,120	$11,849

[a] The fair value of these instruments is recorded in Other assets.
[b] The balance sheet presentation combines unleaded fuel and diesel fuel positions.

The following table presents a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended:

	September 30, 2015 Fuel Price Derivatives – Diesel	September 30, 2014 Fuel Price Derivatives – Diesel
Beginning balance	$6,078	$(1,925)
Total gains and (losses) – realized/unrealized		
Included in earnings [a]	(1,633)	4,211
Included in other comprehensive income	—	—
Purchases, issuances and settlements	—	—
Transfers (in)/out of Level 3	—	—
Ending balance	$4,445	$2,286

(a)Gains and losses (realized and unrealized) associated with fuel price derivatives, included in earnings for the three months ended September 30, 2015 and 2014, are reported in net realized and unrealized gain on fuel price derivative instruments on the unaudited condensed consolidated statements of income.

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The following table presents a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the nine months ended:

	September 30, 2015 Fuel Price Derivatives – Diesel	September 30, 2014 Fuel Price Derivatives – Diesel
Beginning balance	$11,848	$(2,142)
Total gains and (losses) – realized/unrealized		
Included in earnings (a)	(7,403)	4,428
Included in other comprehensive income	—	—
Purchases, issuances and settlements	—	—
Transfers (in)/out of Level 3	—	—
Ending balance	$4,445	$2,286

(a)Gains and losses (realized and unrealized) associated with fuel price derivatives, included in earnings for the nine months ended September 30, 2015 and 2014, are reported in net realized and unrealized gain on fuel price derivative instruments on the unaudited condensed consolidated statements of income.

$400 Million Notes outstanding

The Notes outstanding as of September 30, 2015, have a carrying value of $400,000 and fair value of $384,000. As of December 31, 2014, the carrying value of the $400,000 in Notes outstanding had a fair value of $388,000. The fair value is based on market rates for the issuance of our debt. The Company determined the fair value of its Notes outstanding are classified as Level 2 in the fair value hierarchy.

Available-for-sale securities and executive deferred compensation plan trust

When available, the Company uses quoted market prices to determine the fair value of available-for-sale securities; such items are classified in Level 1 of the fair-value hierarchy. These securities primarily consist of exchange-traded equity securities.

For mortgage-backed and asset-backed debt securities and bonds, the Company generally uses quoted prices for recent trading activity of assets with similar characteristics to the debt security or bond being valued. The securities and bonds priced using such methods are generally classified as Level 2. The obligations related to the deferred compensation plan trust are classified as Level 1 in the fair value hierarchy because the fair value is determined using quoted prices for identical instruments in active markets.

Foreign currency contracts

Derivatives include foreign currency forward and swap contracts. Our foreign currency forward and swap contracts are valued using an income approach (Level 2) based on the spot rate less the contract rate multiplied by the notional amount. We consider counterparty credit risk in the valuation of our derivatives. However, counterparty credit risk did not impact the valuation of our derivatives during 2015 and 2014.

Fuel price derivative instruments

The majority of fuel price derivative instruments entered into by the Company are executed over-the-counter and are valued using internal valuation techniques, as no quoted market prices exist for such instruments. The valuation technique and inputs depend on the type of derivative and the nature of the underlying instrument. The principal technique used to value these instruments is a comparison of the spot price of the underlying instrument to its related futures curve adjusted for the Company’s assumptions of volatility and present value, where appropriate. The fair values of derivative contracts reflect the expected cash the Company will pay or receive upon settlement of the respective contracts.

The key inputs depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, the spot price of the underlying instruments, volatility, and correlation. The item is placed in either Level 2 or Level 3 depending on the observability of the significant inputs to the model. Correlation and inputs with longer tenures are generally less observable.

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Fuel price derivative instruments – diesel. The assumptions used in the valuation of the diesel fuel price derivative instruments use both observable and unobservable inputs. There is a lack of price transparency with respect to forward prices for diesel fuel. Such unobservable inputs are significant to the diesel fuel derivative contract valuation methodology.

Quantitative Information About Level 3 Fair Value Measurements. The significant unobservable inputs used in the fair value measurement of the Company's diesel fuel price derivative instruments designated as Level 3 as of September 30, 2015, are as follows:

	Fair Value	Valuation Technique	Unobservable Input	Range $ per gallon
Fuel price derivatives – diesel	$4,445	Option model	Future retail price of diesel fuel after September 30, 2015	$3.72 – 3.85

Sensitivity to Changes in Significant Unobservable Inputs. As presented in the table above, the significant unobservable inputs used in the fair value measurement of the Company's diesel fuel price derivative instruments are the future retail price of diesel fuel from the third quarter of 2015 through the first quarter of 2016. Significant changes in these unobservable inputs in isolation would result in a significant change in the fair value measurement.

11. Accumulated Other Comprehensive Income

A reconciliation of accumulated other comprehensive income (loss) for the three month periods ended September 30, 2015 and 2014, is as follows:

	2015 Unrealized Gains and Losses on Available-for-Sale Securities	Foreign Currency Items	2014 Unrealized Gains and Losses on Available-for-Sale Securities	Foreign Currency Items
Beginning balance	$(178)	$(67,344)	$(207)	$6,344
Other comprehensive income (loss)	99	(32,490)	(26)	(30,854)
Purchase of redeemable non-controlling interest	—	(9,108)	—	—
Ending balance	$(79)	$(108,942)	$(233)	$(24,510)

A reconciliation of accumulated other comprehensive income for the nine month periods ended September 30, 2015 and 2014, is as follows:

	2015 Unrealized Gains and Losses on Available-for-Sale Securities	Foreign Currency Items	2014 Unrealized Gains and Losses on Available-for-Sale Securities	Foreign Currency Items
Beginning balance	$(129)	$(50,452)	$(433)	$(15,062
Other comprehensive (loss) income	50	(49,382)	200	(9,448

Purchase of redeemable non-controlling interest	—	(9,108)	—	—
Ending balance	$(79)	$(108,942)	$(233)	

Our exposure to interest rate risk also relates to the amount of interest we must pay on our borrowings under our credit facility, which allows us to borrow up to a maximum amount of $50.0 million. Borrowings under our credit facility will accrue interest at a variable rate based upon the applicable base rate or LIBOR plus a margin depending on the Company's leverage ratio of consolidated funded indebtedness to consolidated Adjusted EBITDA (customarily defined). As of December 31, 2013, we had no borrowings under the credit facility.

Foreign Currency Exchange Risk

In our view, our primary foreign currency exposures are economic, translation, and transaction.

Economic Exposure

The direct effect of foreign currency fluctuations on our sales and expenses have not been material because our sales and expenses are primarily denominated in U.S. dollars. However, we are indirectly exposed to changes in foreign currency exchange rates to the extent of our use of foreign contract manufacturers whom we pay in U.S. dollars. Changes in the local currency rates of these vendors in relation to the U.S. dollar could cause an increase in the price of products that we purchase. Additionally, if the U.S. dollar strengthens relative to other currencies, such strengthening could have an indirect effect on our sales to the extent it raises the cost of our products to non-U.S. customers and thereby reduces demand. A weaker U.S. dollar could have the opposite effect. The precise indirect effect of currency fluctuations is difficult to measure or predict because our sales are influenced by many factors in addition to the impact of such currency fluctuations.

Translation Exposure

Our sales contracts are primarily denominated in U.S. dollars and, therefore, the majority of our revenues are not subject to foreign currency risk. We are directly exposed to changes in foreign exchange rates to the extent such changes affect our expenses related to our foreign assets and liabilities with our subsidiary in China and the United Kingdom, whose functional currencies are the Chinese Renminbi ("RMB") and British Pound Sterling, respectively.

Our operating expenses are incurred primarily in the United States, with a small portion of expenses incurred in China associated with our research and development operations that are maintained there, and in the United Kingdom for our sales and services office there. Our operating expenses are generally denominated in the functional currencies of our subsidiaries in which the operations are located. For 2013, approximately 92% of our operating expenses were U.S.-dollar denominated, and 4% of our expenses were denominated in each of British pound and Chinese RMB. If the currency exchange rates in 2013 had been the same as in 2012, our 2013 operating results would have decreased by approximately $67 thousand. If the U.S. dollar had appreciated or depreciated by 10%, relative to the British pound and the Chinese RMB, our operating expenses for 2013 would have decreased or increased by $1.6 million, or

1%. We do not currently enter into forward exchange contracts to hedge exposure denominated in foreign currencies or any derivative financial instruments. In the future, we may consider entering into hedging transactions to help mitigate our foreign currency exchange risk.

Foreign exchange rate fluctuations may also adversely impact our financial position as the assets and liabilities of our foreign operations are translated into U.S. dollars in preparing our Consolidated Balance Sheets. The effect of foreign exchange rate fluctuations on our consolidated financial position for the year ended December 31, 2013 was a net translation gain of approximately $58 thousand. This gain is recognized as an adjustment to stockholders' equity through accumulated other comprehensive income.

Transaction Exposure

We have certain assets and liabilities, primarily receivables and accounts payable (including inter-company transactions) that are denominated in currencies other than the relevant entity's functional currency. In certain circumstances, changes in the functional currency value of these assets and liabilities create fluctuations in our reported consolidated financial position, cash flows and results of operations. Transaction gains and losses on these foreign currency denominated assets and liabilities are recognized each period within other income (expense), net in our Consolidated Statements of Comprehensive Loss. During the year ended December 31, 2013, net loss we recognized related to these foreign exchange assets and liabilities was approximately $0.1 million.

ITEM 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Calix, Inc.

We have audited the accompanying consolidated balance sheets of Calix, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Calix, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Calix, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 20, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, California
February 20, 2014

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CALIX, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 82,747	$ 46,995
Restricted cash	295	—
Accounts receivable, net	43,520	59,519
Inventory	51,071	43,282
Deferred cost of revenue	21,076	21,077
Prepaid expenses and other current assets	5,757	5,677
Total current assets	204,466	176,550
Property and equipment, net	17,473	21,083
Goodwill	116,175	116,175
Intangible assets, net	43,740	62,301
Other assets	1,745	1,788
Total assets	$ 383,599	$ 377,897
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 23,163	$ 16,804
Accrued liabilities	32,075	36,176
Deferred revenue	34,862	39,315
Total current liabilities	90,100	92,295
Long-term portion of deferred revenue	18,431	15,782
Other long-term liabilities	1,145	745
Total liabilities	109,676	108,822
Commitments and contingencies (See Note 5)		
Stockholders' equity:		
Preferred stock, $0.025 par value; 5,000,000 shares authorized; no shares issued and outstanding as of December 31, 2013 and December 31, 2012	—	—
Common stock, $0.025 par value; 100,000,000 shares authorized 50,224,952 shares and 48,898,924 shares issued and outstanding as of December 31, 2013 and December 31, 2012, respectively	1,256	1,222
Additional paid-in capital	782,253	760,232
Accumulated other comprehensive income	190	132
Accumulated deficit	(509,776)	(492,511)
Total stockholders' equity	273,923	269,075
Total liabilities and stockholders' equity	$ 383,599	$ 377,897

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2013	2012	201
Revenue	$382,618	$330,218	$34
Cost of revenue:			
Products and services [(1)]	203,191	185,103	195.
Acquisition-related expenses	—	—	19,9
Amortization of intangible assets	8,353	7,539	9,55
Total cost of revenue	211,544	192,642	225.
Gross profit	171,074	137,576	119.
Operating expenses:			
Research and development [(1)]	79,299	66,748	67,7
Sales and marketing [(1)]	68,075	62,129	55,5
General and administrative [(1)]	31,945	26,114	27,0
Amortization of intangible assets	10,208	10,208	8,56
Acquisition-related expenses [(1)]	—	1,401	12,9
Total operating expenses	189,527	166,600	171.
Loss from operations	(18,453)	(29,024)	(52,
Interest and other income (expense), net:			
Interest income	7	15	87
Interest expense	(167)	(185)	(184
Utilization of inventory credit	1,651	—	—
Gain on bargain purchase	—	1,029	—
Other income (expense), net	(317)	(3)	92
Total interest and other income (expense), net	1,174	856	(5
Loss before provision for (benefit from) income taxes	(17,279)	(28,168)	(52,
Provision for (benefit from) income taxes	(14)	158	224
Net loss	(17,265)	(28,326)	(52,
Net loss per common share:			
Basic and diluted	$(0.35)	$(0.59)	$(1.
Weighted-average number of shares used to compute net loss per common share:			
Basic and diluted	49,419	48,180	45,5
Other comprehensive income, net of tax:			
Unrealized loss on investments, net	$—	$—	$(2
Foreign currency translation adjustments, net	58	34	88
Total other comprehensive income, net of tax	58	34	67
Comprehensive loss	$(17,207)	$(28,292)	$(52

(1) Includes stock-based compensation as follows:			
Cost of revenue	$1,468	$1,433	$1,5
Research and development	4,896	4,227	4,82
Sales and marketing	5,577	5,160	4,50
General and administrative	7,980	6,617	9,53
Acquisition-related expenses	—	—	1,23

$19,921	$17,437	$21

See accompanying notes to consolidated financial statements.

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CALIX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Capital			
Balance at December 31, 2010	38,712	$968	$605,939	$31	$(411,635)	$195,303
Stock-based compensation	—	—	21,603	—	—	21,603
Acquisition of Occam Networks	6,359	159	118,469	—	—	118,628
Exercise of stock options and warrants	207	5	799	—	—	804
Issuance of vested restricted stock units, net of taxes withheld	1,703	42	(10,418)	—	—	(10,376)
Restricted stock awards issued	423	11	(11)	—	—	—
Stock issued under employee stock purchase plan	421	10	3,928	—	—	3,938
Net loss	—	—	—	—	(52,550)	(52,550)
Other comprehensive income	—	—	—	67	—	67
Balance at December 31, 2011	47,825	1,195	740,309	98	(464,185)	277,417
Stock-based compensation	—	—	17,437	—	—	17,437
Exercise of stock options	115	3	191	—	—	194
Issuance of vested restricted stock units, net of taxes withheld	400	10	(1,564)	—	—	(1,554)
	619	16	4,047	—	—	4,063

Stock issued under employee stock purchase plan						
Shares withheld for taxes for vested restricted stock awards	(35)	(1)	(189)	—	—	(190)
Restricted stock awards forfeited	(25)	(1)	1			—
Net loss	—	—	—	—	(28,326)	(28,326)
Other comprehensive income	—	—	—	34	—	34
Balance at December 31, 2012	48,899	$1,222	$760,232	$132	$(492,511)	$269,075
Stock-based compensation	—	—	19,921	—	—	19,921
Exercise of stock options	160	4	743	—	—	747
Issuance of vested restricted stock units, net of taxes withheld	529	14	(3,045)	—	—	(3,031)
Stock issued under employee stock purchase plan	686	17	4,811	—	—	4,828
Shares withheld for taxes for vested restricted stock awards	(34)	(1)	(409)	—	—	(410)
Restricted stock awards forfeited	(15)	—	—	—	—	—
Net loss	—	—	—	—	(17,265)	(17,265)
Other comprehensive income	—	—	—	58	—	58
Balance at December 31, 2013	50,225	$1,256	$782,253	$190	$(509,776)	$273,923

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2013	2012	2011
Operating activities:			
Net loss	$(17,265)	$(28,326)	$(52,550)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization of premiums relating to available-for-sale securities	—	—	244
Depreciation and amortization	10,181	8,562	7,954
Loss on retirement of property and equipment	569	262	2,449
Amortization of intangible assets	18,561	17,747	18,121
Stock-based compensation	19,921	17,437	21,603
Utilization of inventory credit	(1,651)	—	—
Gain on bargain purchase	—	(1,029)	—
Changes in operating assets and liabilities:			
Restricted cash	(295)	754	300
Accounts receivable, net	15,999	(13,011)	13,722
Inventory	(6,138)	11,308	8,557
Deferred cost of revenue	1	(13,379)	73
Prepaid expenses and other assets	535	47	(148)
Accounts payable	6,359	2,554	(7,818)
Accrued liabilities	(4,217)	(869)	(386)
Deferred revenue	(1,804)	26,403	2,781
Other long-term liabilities	62	(782)	(313)
Net cash provided by operating activities	40,818	27,678	14,589
Investing activities:			
Purchase of property and equipment	(6,987)	(10,179)	(7,355)
Sales and maturities of marketable securities	—	—	31,755
Acquisitions, net of cash acquired	—	(12,000)	(60,809)
Net cash used in investing activities	(6,987)	(22,179)	(36,409)
Financing activities:			
Proceeds from exercise of stock options and other	747	194	804
Proceeds from employee stock purchase plan	4,828	4,063	3,938
Taxes withheld upon vesting of restricted stock units and restricted stock awards	(3,441)	(1,744)	(10,376)
Payments for debt issuance costs	(316)	—	—
Net cash provided by (used in) financing activities	1,818	2,513	(5,634)

Effect of exchange rate changes on cash and cash equivalents	103	45	88
Net increase (decrease) in cash and cash equivalents	35,752	8,057	(27,366)
Cash and cash equivalents at beginning of period	46,995	38,938	66,304
Cash and cash equivalents at end of period	$82,747	$46,995	$38,938
Supplemental disclosures of cash flow information			
Interest paid	$57	$68	$87
Income taxes paid	96	125	79
Non-cash financing and investing activities			
Property and equipment acquired using credits from Ericsson Inc.	$125	$—	$—
Value of common stock issued in acquisition	—	—	117,258
Fair value of equity awards assumed in connection with acquisition	—	—	1,370

See accompanying notes to consolidated financial statements.

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CALIX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. Description of Business and Significant Accounting Policies
Company
Calix, Inc. (together with its subsidiaries, “Calix,” the “Company,” “our,” “we,” or “us”) was incorporated in August 1999, and is a Delaware corporation. The Company is a leading provider in North America 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, which the Company refers to as the Unified Access portfolio that are designed to enhance and transform CSP access networks to meet the changing demands of subscribers rapidly and cost-effectively.
Basis of Presentation
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.
The accompanying 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”). In the opinion of management, the consolidated 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.
Applicable Accounting Guidance
Any reference in these notes to applicable accounting guidance (“guidance”) is meant to refer to the authoritative U.S. generally accepted accounting principles ("GAAP") as found in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).
Use of Estimates
The preparation of financial statements is in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. For the Company, these estimates include, but are not limited to: allowances for doubtful accounts and sales returns, excess and obsolete inventory, allowances for obligations to its contract manufacturers, valuation of stock-based compensation, useful lives assigned to long-lived assets and acquired intangible assets, warranty costs, and contingencies. Actual results could differ from those estimates,

and such differences could be material to the Company's financial position and results of operations.

Business Combination

The Company accounted for its business acquisitions under ASC Topic 805, “Business Combinations” ("ASC Topic 805"). Under this guidance all of the assets acquired and liabilities assumed are recognized at their fair value as of the acquisition date. The excess of the purchase price over the estimated fair values of the net tangible and intangible assets acquired is recorded as goodwill. If a business combination results in a bargain purchase for the Company, the economic gain resulting from the fair value received being greater than the purchase price is recorded as a gain that is included in other income (expense), net in the Consolidated Statements of Comprehensive Loss. Prior to recognizing the gain, the Company reassesses whether it has correctly identified all of the assets acquired and liabilities assumed and recognizes any additional assets or liabilities that result from that review. The Company also reviews the measurement procedures used in valuing the assets acquired and liabilities assumed.

While the Company uses its best estimates and assumptions as a part of calculating the fair value at the acquisition date, the Company's estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which maybe up to one year from the acquisition date, the Company may record adjustments retrospectively to the fair value of assets acquired and liabilities assumed, with the corresponding offset to goodwill, or records a corresponding other income or expense in the case of a bargain purchase. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's Consolidated Statements of Comprehensive Loss.

Transaction costs associated with the business combinations are expensed as incurred, and are included in acquisition-related expenses within operating expenses in the Consolidated Statements of Comprehensive Loss.

Revenue Recognition

The Company derives revenue primarily from the sale of hardware products and related software. Revenue is recognized when all of the following criteria have been met:

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- Persuasive evidence of an arrangement exists. The Company generally relies upon sales agreements and customer purchase orders as evidence of an arrangement.
- Delivery has occurred. The Company uses the shipping terms of the arrangement or evidence of customer acceptance to verify delivery or performance.
- Sales price is fixed or determinable. The Company assesses whether the sales price is fixed or determinable based on the payment terms and whether the sales price is subject to refund or adjustment. Payment terms to customers can range from net 30 to net 120 days.
- Collectability is reasonably assured. The Company assesses collectability based primarily on creditworthiness of customers and their payment histories.

Revenue from installation and training services are recognized as the services are completed. Post-sales software support revenue and extended warranty services revenue are deferred and recognized ratably over the period during which the services are to be performed. To date, service revenue has comprised an insignificant portion of the Company's revenue and the Company has not reported service revenue separately from product revenue in its financial statements. In instances where substantive acceptance provisions are specified in the customer agreement, revenue is deferred until all acceptance criteria have been met. From time to time, the Company offers customers sales incentives, which include volume rebates and discounts. These amounts are estimated on a quarterly basis and recorded as a reduction of revenue.

The Company enters into arrangements with certain of its customers who receive government supported loans and grants from the U.S. Department of Agriculture's Rural Utility Service (“RUS”) to finance capital spending. Under the terms of an RUS equipment contract that includes installation services, the customer does not take possession and control and title does not pass until formal acceptance is obtained from the customer. Under this type of arrangement, the Company does not recognize revenue until it has received formal acceptance from the customer. For RUS arrangements that do not involve installation services, the Company recognizes revenue in accordance with the revenue recognition policy described above.

The Company's products contain both software and non-software components that function together to deliver the products' essential functionality. When the Company enters into sales arrangements that consist of multiple deliverables of its product and service offerings, the Company allocates the total consideration of the arrangement to each separable deliverable based on its relative selling price. The Company limits the amount allocable to delivered elements to the amount that is not contingent upon the delivery of additional items or meeting specified performance conditions, and recognizes revenue on each deliverable in accordance with its revenue recognition policy. The determination of selling price for each deliverable is based on a selling price hierarchy, which is vendor-specific objective evidence (“VSOE”) if available, third-party evidence (“TPE”) if VSOE is not available, or estimated selling price (“ESP”) if neither VSOE nor TPE is available. VSOE of selling price is based on the price charged when the element is sold separately. In determining VSOE, the Company requires that a substantial majority of the selling prices of an element fall within a narrow range when each element is sold separately. The Company has established VSOE for its training and post-sales software support services based on the normal pricing practices of these services when sold separately. TPE of selling price is established by evaluating whether there are similar competitor products or services that are sold in stand-alone sales transaction to similarly situated customers. Generally, the Company's marketing strategy differs from that of its peers and its offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Additionally, as the Company is unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis, it is not typically able to determine TPE. ESP 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 ESP is made through consultation with and formal approval by management, taking into consideration the go-to-market strategy.

Cost of Revenue

Cost of revenue consists primarily of finished goods inventory purchased from the Company’s contract manufacturers, payroll and related expenses associated with managing the relationships with contract manufacturers, depreciation of manufacturing test equipment, warranty costs, excess and obsolete inventory costs, shipping charges, and amortization of certain intangible assets. For the year ended December 31, 2011, cost of revenue also includes acquisition-related expenses associated with the acquisition of Occam primarily related to a charge resulting from the required revaluation of Occam inventory to its estimated fair value and an associated write-down of acquired inventory determined as excess and obsolete.

Stock-Based Compensation

In accordance with ASC Topic 718, "Compensation - Stock Compensation" ("ASC Topic 718"), stock-based awards are recorded at fair value as of the grant date and recognized to expense over the employee’s requisite service period (generally the vesting period), which the Company has elected to amortize on a straight-line basis. Stock-based compensation expense is reduced by the Company’s estimated forfeitures on all unvested awards.

The fair value of stock option and employee stock purchase right is estimated at the grant date using the Black-Scholes option valuation model. The fair value of restricted stock unit and restricted stock award is based on the closing market price of the Company's common stock on the date of grant. The fair value of performance restricted stock unit ("PRSU") with a market condition is estimated on the date of grant, using a Monte Carlo simulation model to estimate the total return ranking of the Company's stock in relation to the peer group over each performance period. Compensation cost on PRSUs with a market condition is not adjusted for subsequent changes in the Company's stock performance or the level of ultimate vesting.

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Warranty

The Company offers limited warranties for its hardware products for a period of one or five years, depending on the product type. Warranty service revenues are deferred and recognized ratably over the period during which the services are to be performed. The Company recognizes estimated costs related to warranty activities as a component of cost of revenue upon product shipment. The estimates are based on historical product failure rates and historical costs incurred in correcting product failures. The recorded amount is adjusted from time to time for specifically identified warranty exposure. Actual warranty expenses are charged against the Company’s estimated warranty liability when incurred. Factors that affect the Company’s warranty liability include the number of installed units and historical and anticipated rates of warranty claims and cost per claim.

Research and Development

Research and development costs include costs of developing new products and processes, as well as design and engineering costs. Such costs are charged to research and development expense as incurred. Development costs related to software incorporated in the Company’s products incurred subsequent to the establishment of technological feasibility are capitalized and amortized over the estimated useful lives of the related products. Technological feasibility is established upon completion of a working model.

Credit Risk and Inventory Supplier Concentrations

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash equivalents consist of money market funds, which are invested through financial institutions in the United States. Deposits in these financial institutions may, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company also has approximately $2.8 million of cash held by its foreign subsidiaries in China and the United Kingdom. Management believes that the financial institutions that hold the Company’s cash and cash equivalents are financially sound and, accordingly, minimal credit risk exists with respect to these cash and cash equivalents.

Concentrations of credit risk in relation to customers with an accounts receivable balance of 10% or greater of total accounts receivable and customers with net revenues of 10% or greater of total revenues are presented below for the periods indicated.

	Percentage of Accounts Receivable		Percentage of Revenue		
	At December 31,		Years Ended December 31,		
	2013	2012	2013	2012	2011
CenturyLink	15%	13%	26%	21%	20%
Ericsson (1)	12%	*	*	*	*

(1) Includes certain of Ericsson's consolidated subsidiaries.

* Less than 10% of total accounts receivable or revenue.

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company records a specific allowance based on an analysis of individual past-due balances. Additionally, based on its historical write-offs and collections experience, the Company records an additional allowance based on a percentage of outstanding receivables. The Company performs credit evaluations of its customers' financial condition. These evaluations require significant judgment and are based on a variety of factors including, but not limited to, current economic trends, payment history and financial review of the customer. Actual collection losses may differ from management's estimates, and such differences could be material to the Company's financial position and results of operations.

The Company depends primarily on a small number of outside contract manufacturers for the bulk of its finished goods inventory. In particular, the Company relies on Flextronics for the manufacture of most of its products. The Company generally purchases its products through purchase orders with its suppliers or contract manufacturers. While the Company seeks to maintain a sufficient reserve of its products, the Company's business and results of operations could be adversely affected by a stoppage or delay in receiving such products, the receipt of defective parts, an increase in price of such products or the Company's inability to obtain lower prices from its contract manufacturers and suppliers in response to competitive pressures.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, trade receivables, marketable securities, accounts payable, and other accrued liabilities approximate their fair value due to their relatively short-term nature. The carrying amount of the other long-term liabilities approximates its fair value.

Cash, Cash Equivalents, and Marketable Securities

The Company has invested its excess cash primarily in money market funds in 2013 and 2012. Before 2012, the Company also invested some cash in highly liquid debt instruments. The Company considers all investments with maturities of three months or less when purchased to be cash equivalents. Marketable securities represent highly liquid debt instruments with maturities greater than 90 days at date of purchase. Cash, cash equivalents and marketable securities are stated at amounts that approximate fair value based on quoted market prices.

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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 comprehensive loss in the stockholders’ equity until realized. Should the Company determine that any unrealized losses on the investments are other-than-temporary, the amount of that impairment to be recognized in earnings will depend on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit loss. During 2011, all of the Company's marketable securities had been sold or matured. Realized gains and losses, which have been immaterial, are determined on the specific identification method and are reflected in results of operations.

Restricted Cash

As of December 31, 2013, the Company had $0.3 million cash restricted for collateralizing the outstanding letters of credit with Silicon Valley Bank. As of December 31, 2012, there were no restricted cash balances.

Inventory

Inventory, which primarily consisted of finished goods purchased from contract manufacturers, is stated at the lower of cost, determined by the first-in, first-out method, or market value. Inbound shipping costs are included in cost of inventory. In addition, the Company, from time to time, procures component inventory primarily as a result of manufacturing discontinuation of critical components by suppliers. The Company regularly monitors inventory quantities on hand and records write-downs for excess and obsolete inventories based on the Company’s estimate of demand for its products, potential obsolescence of technology, product life cycles, and whether pricing trends or forecasts indicate that the carrying value of inventory exceeds its estimated selling price. These factors are impacted by market and economic conditions, technology changes, and new product introductions and require estimates that may include elements that are uncertain. Actual demand may differ from forecasted demand and may have a material effect on gross margins. If inventory is written down, a new cost basis is established that cannot be increased in future periods. Shipments from our suppliers or contract manufacturers before the Company receives them are recorded as in-transit inventory when title and the significant risks and rewards of ownership have passed to the Company.

Deferred Cost of Revenue

When the Company’s products have been shipped, but the product revenue associated with the arrangement has been deferred as a result of not meeting the criteria for immediate revenue recognition, the Company also defers the related inventory costs for the delivered items until all criteria are met for revenue recognition. Deferred cost of revenue also includes installation service costs related to customer installation projects in which the revenue has been deferred until completion of the project and, to a lesser extent, trial orders that are pending acceptance.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation, and are depreciated using the straight-line method over the estimated useful life of each asset. Computer equipment is depreciated over two years; purchased software is depreciated over three years; test equipment is depreciated over three years; furniture and fixtures are depreciated over seven years; and leasehold improvements are depreciated over the shorter of the respective lease term or the estimated useful life of the asset. Maintenance and repairs are charged to expense as incurred.

Goodwill

The Company records goodwill when consideration paid in a business acquisition exceeds the fair value of the net tangible assets and the identified intangible assets acquired. 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. The Company evaluates goodwill on an annual basis as of the end of the second quarter of each fiscal year. Management has determined that it operates as a single reporting unit and, therefore, evaluates goodwill impairment at the enterprise level.

In an annual impairment test, the Company first assesses qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. In assessing the qualitative factors, management considers 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. If the Company determines as a result of the qualitative assessment that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the quantitative test is required. Otherwise, no further testing is required.

In a quantitative test, the Company compares its fair value to its carrying value including goodwill. The Company determines its fair value using both an income approach and a market approach. Under the income approach, the Company determines fair value based on estimated future cash flows, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of the Company and the rate of return an outside investor would expect to earn. Under the market-based approach, the Company utilizes information regarding the Company as well as publicly available industry information to determine earnings multiples that are used to value the Company. If the carrying value of the Company exceeds its fair value, the Company will determine the amount of impairment loss by comparing the implied fair value of goodwill with the carrying value of goodwill. An impairment charge is recognized for the excess of the carrying value of goodwill over its implied fair value.

At the end of the second quarter of 2013, the Company has completed its annual goodwill impairment test. Based on its assessment of the aforementioned qualitative factors, management concluded that the fair value of the Company was more likely than not greater than its carrying amount as of June 29, 2013. As such, it was not necessary to perform the two-step quantitative goodwill impairment test at the time. Subsequent to the 2013 annual impairment test, there have been no significant events or circumstances affecting the valuation of goodwill. As

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of December 31, 2013, there was no impairment to the carrying value of the Company's goodwill. There were no impairment losses for goodwill during 2012 and 2011.

Intangible Assets and Other Long-Lived Assets

Intangible assets with finite useful lives are amortized over their estimated useful life, generally five years. The Company periodically evaluates long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that a potential impairment may have occurred. If such events or changes in circumstances arise, the Company compares the carrying amount of the long-lived assets to the estimated future undiscounted cash flows expected to be generated by the long-lived assets. If the estimated aggregate undiscounted cash flows are less than the carrying amount of the long-lived assets, an impairment charge, calculated as the amount by which the carrying amount of the assets exceeds the fair value of the assets, is recorded. The fair value of long-lived assets is determined based on the estimated discounted cash flows expected to be generated from the assets. The Company has reviewed events and changes to its business during the year and has determined that there was no impairment to its intangible assets and other long-lived assets during 2013. The Company did not incur any impairment losses for intangible assets and other long-lived assets during 2012 and 2011.

Income Taxes

The Company evaluates its tax positions and estimates its current tax exposure along with assessing temporary differences that result from different book to tax treatment of items not currently deductible for tax purposes. These differences result in deferred tax assets and liabilities on the Company’s balance sheets, which are estimated based upon the difference between the financial statement and tax bases of assets and liabilities using the enacted tax rates that will be in effect when these differences reverse. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in the Company’s statements of operations become deductible expenses under applicable income tax laws or loss or credit carryforwards are utilized. Accordingly, realization of the Company’s deferred tax assets is dependent on future taxable income against which these deductions, losses and credits can be utilized.

The Company must assess the likelihood that the Company’s deferred tax assets will be recovered from future taxable income, and to the extent the Company believes that recovery is not more likely than not, the Company must establish a valuation allowance. Management judgment is required in determining the Company’s provision for income taxes, the Company’s deferred tax assets and liabilities and any valuation allowance recorded against the Company’s net deferred tax assets. Excluding our foreign operations, the Company recorded a full valuation allowance at each balance sheet date presented because, based on the available evidence, the Company believes it is more likely than not that it will not be able to utilize all of its deferred tax assets in the future. The Company intends to maintain the full valuation allowances until sufficient evidence exists to support the reversal of the valuation allowances.

Foreign Currency Translation

Assets and liabilities of the Company's wholly owned foreign subsidiaries are translated from their respective functional currencies at exchange rates in effect at the balance sheet date, and revenues and expenses are translated at the monthly average exchanges rates. Any material resulting translation adjustments are reflected as a separate component of stockholders' equity. Realized foreign currency transaction gains and losses were not significant during the years ended December 31, 2013, 2012 and 2011.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force) ("ASU 2013-11"), which provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. Under the new standard update, in most circumstances, an unrecognized tax benefit should be presented in the Company's financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. ASU 2013-11 will be effective for the Company beginning in the first quarter of fiscal 2014. The Company does not expect adoption of this guidance to have a material impact on its financial statements.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"), to improve the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 was effective for the Company in its first quarter of fiscal 2013 and was applied prospectively. Other than requiring additional disclosures, adoption of this guidance did not have an impact on the financial statements of the Company.

2. Business Combinations

Acquisition of Ericsson Fiber Access Assets

On November 2, 2012, Calix acquired the fiber access assets of Ericsson Inc. ("Ericsson"), including the Ericsson EDA 1500 GPON solution and its complementary ONT portfolio, under an Asset Purchase Agreement

("EFAA Acquisition"). In connection with this acquisition, Calix and Ericsson also signed a non-exclusive global reseller agreement, under which Calix became Ericsson's preferred global

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partner for broadband access applications. Calix expected this partnership to provide Calix with an extensive new global reseller channel, and Calix believed that its acquisition of Ericsson's fiber access portfolio delivered powerful new complements to Calix's industry-leading Unified Access portfolio. Calix expected that this partnership would also provide Ericsson's existing fiber access customers with world-class support and maintenance, and an expanded portfolio of access systems and software from a leading company totally focused on access.

The EFAA Acquisition was accounted for as a business combination under ASC Topic 805. The Company finalized the fair values of the acquired assets and assumed liabilities from Ericsson, as summarized in the following table (in thousands), and closed the measurement period in 2013.

	At November 2, 2012	
Inventory	$9,361	
Other current asset	739	
Property and equipment	3,616	
Other current liabilities	(124	)
Deferred tax liability	(563	)
Net assets acquired	13,029	
Gain on bargain purchase	(1,029	)
Total purchase price	$12,000	

Total consideration for the purchase price was $12.0 million in cash. Because the fair value of identifiable assets acquired, net of liabilities assumed, exceeded the consideration transferred, the Company recognized a bargain purchase gain of $1.0 million, net of income taxes. The Company reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that all acquired assets and assumed liabilities were recognized and that the valuation procedures and resulting measures were appropriate. The gain is included as a separate line item on the Company's Consolidated Statements of Comprehensive Loss for the year ended December 31, 2012.

Pursuant to the Asset Purchase Agreement, the Company received a credit of approximately $3.3 million ("Ericsson Credit") that would expire on August 31, 2013 without cash value. The Ericsson Credit was recorded at fair value as of the date of the acquisition and it could be used for consulting services, additional inventory, and test equipment agreed to by both parties. During 2013, due to the Company's marketing and selling effort as well as changes in the market, the Company succeeded in obtaining inventories and equipment from Ericsson using the Ericsson Credit in a total amount in excess of the fair value of the Ericsson Credit that was recorded by the Company upon the completion of the acquisition. The Company recorded such inventories received at their fair market value and recognized a gain of $1.7 million for the amount in excess of the fair value of the Ericsson Credit within 'Utilization of inventory credit' in our consolidated statement of comprehensive loss. Subsequent to the acquisition, Ericsson extended the expiration date of the Ericsson Credit to December 31, 2014.

The Company recognized $1.4 million of acquisition-related costs in 2012 in connection with the EFAA Acquisition. These costs are included in the Consolidated Statements of Comprehensive Loss in the line item entitled “Acquisition-related expenses” within Operating expenses.

The assets, liabilities, and operating results associated with the EFAA Acquisition have been included in the Company's consolidated financial statements from the date of acquisition. For 2013, it is impracticable to determine the results of operations or the revenue which resulted from the EFAA acquisition as the acquired business had been integrated into our operations in 2013. For 2012, approximately $0.6 million of our total revenue resulted from the EFAA acquisition. Pro forma results of operations have not been presented because it is impracticable to obtain the historical operating results of EFAA before the acquisition on a standalone basis and that the effect of the acquisition was not material to our consolidated results of operations.

Acquisition of Occam Networks

On February 22, 2011, the Company completed its acquisition of Occam Networks, Inc. ("Occam") in a stock and cash transaction valued at approximately $213.1 million which consisted of $94.5 million of cash consideration and a value of $118.6 million of common stock and equity awards issued. In connection with the consummation of the acquisition, each outstanding share of common stock of Occam was converted, effective as of February 22, 2011, into the right to receive: (i) 0.2925 shares of Calix common stock and (ii) $3.8337 in cash. In addition, (a) each outstanding Occam stock option or restricted stock unit as of immediately prior to the effective time of the acquisition which was or became vested as of the effective time of the acquisition with a per share exercise price that was less than (i) $3.8337 plus (ii) 0.2925 multiplied by the average volume weighted average trading price of Calix common stock during the five consecutive trading days ending on the trading day that was one day before the effective time of the acquisition, such amount being referred to as the cash-out consideration and (b) Occam options or restricted stock units held by persons who were not Occam employees or consultants immediately prior to the effective time of the acquisition were automatically canceled and extinguished and the vested portion thereof was automatically converted into the right to receive the cash-out consideration for the aggregate number of shares of Occam common stock that were issuable upon the exercise of such stock options or restricted stock units, less any applicable per share exercise price. Unvested portions of each outstanding Occam stock option or restricted stock unit held by Occam employees who continued to be employed by Calix or its subsidiaries after the effective time of the merger transaction that were not cashed out and canceled as described above were, at the effective time, automatically converted into options or restricted stock units, as the case may be, for Calix common stock, subject to adjustments in accordance with the compensatory award exchange ratio, and subject to the terms and conditions of such award prior to the effective time, including vesting and exercisability. The fair value of Calix stock options and restricted stock units issued to

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employees of Occam was $5.8 million including those accelerated for Occam executives associated with their severance agreements, which were executed subsequent to the acquisition date. The fair value of options was estimated using a Black-Scholes option pricing model.

The following table represents the weighted average assumptions used to estimate fair value of stock options:

	At February 22, 2011
Expected volatility	52%
Expected life (years)	3.95
Expected dividend yield	—
Risk-free interest rate	1.65%

The acquisition of Occam was accounted for under the acquisition method of accounting, which requires the acquired assets and assumed liabilities to be recorded based on their estimated fair values. The fair values assigned to the acquired assets and assumed liabilities are based on valuations using management's best estimates and assumptions utilizing the best information available at the time these consolidated financial statements were issued. During the measurement period (which is not to exceed one year from the acquisition date), the Company is required to retrospectively adjust the provisional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date.

The Company finalized the fair values of the acquired assets and assumed liabilities and closed the measurement period in 2011. The following table summarizes the fair value of the acquired assets and assumed liabilities related to the acquisition of Occam (in thousands):

	At February 22, 2011	
Cash and cash equivalents	$33,631	
Restricted cash	1,054	
Accounts receivable	16,854	
Inventory	29,229	
Prepaid expenses and other assets	854	
Property and equipment	7,363	
Intangible assets:		
Trade name (useful life of 6 months)	2,290	
Customer relationships (useful life of 5 years)	51,040	
Core developed technology (useful life of 5 years)	25,494	
In-process technology	16,270	
Purchase order backlog (useful life of 10 months)	2,560	
Total intangible assets	97,654	
Goodwill	50,599	
Current liabilities	(22,414	)
Deferred revenue	(866	)
Long-term liabilities	(890	)
Total	$213,068	

Trade names represented acquired product names, which were expected to have a useful life of six months. Customer relationships represented agreements with existing Occam customers and have estimated useful lives of five years.

Core developed technology represented technology that had reached technological feasibility and includes Occam's primary product line. The fair value of the core developed technology was determined using future discounted cash flows related to the projected income stream of the developed technology for a discrete projection period. Core developed technology is being amortized over its estimated useful life of five years.

In-process technology represented projects that had not reached technological feasibility at the time of the acquisition and they did not have a finite useful life. See Note 3, "Goodwill and Intangible Assets" of these Notes to Consolidated Financial Statements for an update of the in-process technology acquired from Occam.

Acquired backlog represented goods and services that the Occam customers were contractually obligated to receive in the future and was expected to have a ten month life.

During the year ended December 31, 2011, the Company incurred $20.0 million of acquisition-related expenses that was recorded in cost of revenue, resulting from the required revaluation of inventory to its estimated fair value and an associated write-down of inventory determined as excess and obsolete. The Company also recorded $12.9 million of acquisition-related expenses within operating expenses in the twelve months ended December 31, 2011, related to severance for terminated employees and salaries for transitional employees, expenses associated with consolidating facilities, transaction costs for financial advisory, legal and accounting services, and stock-based compensation expense primarily related to accelerated vesting for certain Occam executives who terminated subsequent to the acquisition date.

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The premium paid by the Company in this transaction was attributable to the strategic benefits of creating a more competitive and efficient company, more capable of competing against larger telecommunications equipment companies in more markets and the significant cost synergies that would be obtained by the combined organization. The combined organization was expected to provide communications service providers globally with an enhanced portfolio of advanced broadband access systems, and accelerate innovation across the expanded Calix Unified Access portfolio. The acquisition was expected to result in more access options over both fiber and copper for communications service providers to deploy, which could expedite the proliferation of advanced broadband services to both residential and business subscribers, including such services as high-speed Internet, Internet protocol television, voice over internet protocol ("VOIP"), Ethernet business services, and other advanced broadband applications.

The results of operations of Occam have been included in the Company's consolidated financial statements since the acquisition date. Pro forma results of operations are not presented because they are not significantly different from our actual consolidated results of operations for 2011 as this acquisition occurred in February 2011.

3. Goodwill and Intangible Assets

Goodwill

Goodwill was recorded as a result of the Company's acquisitions of 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 or impairment to goodwill since the acquisition dates.

Intangible Assets

Intangible assets are carried at cost, less accumulated amortization. The details of intangible assets as of December 31, 2013 and December 31, 2012 are disclosed in the following table (in thousands):

	December 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Core developed technology	$68,964	$(47,339)	$21,625	$68,964	$(38,986)	$29,978
Customer relationships	54,740	(32,625)	22,115	54,740	(22,417)	32,323
Total intangible assets, excluding goodwill	$123,704	$(79,964)	$43,740	$123,704	$(61,403)	$62,301

At the end of the first quarter of 2012, upon the completion of the research and development efforts associated with the $16.3 million in-process technology that was acquired from Occam, the Company determined that this technology had a useful life of 5 years and therefore reclassified it as core developed technology. The Company began amortizing this intangible asset to cost of revenue during the second quarter of 2012.

Amortization expense for intangible assets was $18.6 million, $17.7 million, and $18.1 million for the years ended December 31, 2013, 2012, and 2011, respectively. Expected future amortization expense for the fiscal years indicated is as follows (in thousands):

Period	Expected Amortization Expense
2014	$18,561
2015	18,561
2016	5,805
2017	813
Total	$43,740

4. Balance Sheet Details

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

	December 31, 2013	December 31, 2012
Cash	$ 62,905	$ 27,157
Money market funds	19,842	19,838
Total cash and cash equivalents	$ 82,747	$ 46,995

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

	December 31, 2013	December 31, 2012
Accounts receivable	$ 44,642	$ 61,680
Allowance for doubtful accounts	(358)	(421)
Product return reserve	(764)	(1,740)
Accounts receivable, net	$ 43,520	$ 59,519

Inventory consisted of the following (in thousands):

	December 31, 2013	December 31, 2012
Raw materials	$ 6,591	$ 9,377
Finished goods	44,480	33,905
Total inventory	$ 51,071	$ 43,282

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

	December 31, 2013	December 31, 2012
Test equipment	$ 36,932	$ 37,595
Computer equipment and purchased software	27,280	31,582
Furniture and fixtures	1,614	1,470
Leasehold improvements	7,077	6,763
Total	72,903	77,410
Accumulated depreciation and amortization	(55,430)	(56,327)
Property and equipment, net	$ 17,473	$ 21,083

Depreciation and amortization expense was $10.2 million, $8.6 million, $8.0 million for the years ended December 31, 2013, 2012, and 2011, respectively.

Accrued liabilities consisted of the following (in thousands):

	December 31, 2013	December 31, 2012
Accrued compensation and related benefits	$ 13,127	$ 12,906
Accrued warranty	10,856	11,762
Accrued professional and consulting fees	1,634	1,740
Accrued excess and obsolete inventory at contract manufacturers	756	1,357
Accrued customer rebates	712	1,565
Accrued business travel expenses	540	593
Sales and use tax payable	521	929
Income taxes payable	368	627
Accrued other	3,561	4,697
Total accrued liabilities	$ 32,075	$ 36,176

Deferred cost of revenue consisted entirely of products and services.

Deferred revenue consisted of the following (in thousands):

	December 31, 2013	December 31, 2012
Deferred Revenue:		
Product and services - current	$32,051	$36,715

Extended warranty - current	2,811	2,600
Extended warranty - non-current	18,335	15,711
Product and services - non-current	96	71
Total deferred revenue	$53,293	$55,097

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The following table provides the balances and changes in the components of accumulated other comprehensive income (loss) for the years indicated (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Investments	Accumulated Other Comprehensive Income
Balance at 12/31/2010	$ 10	$ 21	$ 31
Current period other comprehensive income (loss)	88	(21)	67
Balance at 12/31/2011	98	—	98
Current period other comprehensive income	34	—	34
Balance at 12/31/2012	132	—	132
Current period other comprehensive income	58	—	58
Balance at 12/31/2013	$ 190	$ —	$ 190

5. Commitments and Contingencies
Lease Commitments
The Company leases office space under non-cancelable operating leases. Certain of the Company’s operating leases contain renewal options and rent acceleration clauses. Future minimum payments under the non-cancelable operating leases consisted of the following as of December 31, 2013 (in thousands):

Period	Minimum Future Lease Payments
2014	$3,438
2015	2,743
2016	2,252
2017	2,177
2018	1,894
Thereafter	252
Total	$12,756

The above total minimum payments have not been reduced by minimum sublease rentals of $0.2 million due in the future under non-cancelable sublease of a portion of the Company's office in Fremont, California.
The Company leases its primary office space in Petaluma, California under a lease agreement ("Petaluma Lease") that extends through February 2014. On January 28, 2013, the Company entered into an amendment to its Petaluma Lease ("Amendment") to extend the lease term to February 2019. In connection with the Petaluma Lease and the Amendment, the Company received lease incentives of $1.2 million and $0.4 million, respectively, which can be used for leasehold improvements or be applied as credits to rent payments. The Company had capitalized the full amount of the lease incentives upon inception of the respective agreement and these incentives are being amortized to reduce rent expense over the extended lease term. As of December 31, 2013, total unamortized lease incentive was $0.5 million, of which $0.1

million and $0.4 million were included in "Accrued liabilities" and "Other long-term liabilities", respectively, in the Consolidated Balance Sheet as of December 31, 2013. Payments under the Company's operating leases that escalate over the term of the lease are recognized as rent expense on a straight-line basis.

The above table also includes future minimum lease payments primarily for our facilities in Minneapolis, Minnesota; Acton, Massachusetts; Nanjing, China; Richardson, Texas; and Fremont, San Jose, and Santa Barbara, California, which expire at various dates through 2019, and for certain office equipment under non-cancelable operating lease agreements, which expire at various dates through 2015.

For the years ended December 31, 2013, 2012 and 2011, total rent expense of the Company, net of sublease income, was $3.9 million, $3.5 million, $3.6 million, respectively.

Purchase Commitments

The Company's primary contract manufacturers place orders for component inventory in advance based upon the Company's build forecasts in order to reduce manufacturing lead times and ensure adequate component supply. The components are used by the contract manufacturers to build the products included in the build forecasts. The Company does not take ownership of the components and any outstanding orders do not represent firm purchase commitments pursuant to the Company's agreement with the contract manufacturer. The Company will provide purchase orders to its contract manufacturers in order to fulfill its monthly finished product inventory requirements. The Company incurs a liability when the manufacturer has converted the component inventory to a finished product and takes ownership of the inventory when transferred to the designated shipping warehouse. However, historically, the Company has reimbursed its primary contract manufacturer for component inventory purchases when this inventory has been rendered excess or obsolete, for example due to manufacturing and engineering change orders resulting from design changes, manufacturing discontinuation of parts by its suppliers, or in

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cases where inventory levels greatly exceed projected demand. The estimated excess and obsolete inventory liabilities related to such manufacturing and engineering change orders, which are included in accrued liabilities in the accompanying balance sheets, were $0.8 million and $1.4 million as of December 31, 2013 and 2012, respectively. The Company records these amounts in cost of products and services in its Consolidated Statements of Comprehensive Loss.

As of December 31, 2013, the Company had non-cancelable outstanding purchase orders of $16.3 million for finished goods to be delivered by its contract manufacturers within one year.

Accrued Warranty

The Company provides a warranty for its hardware products. Hardware generally has a one to five-year warranty from the date of shipment. The Company accrues for potential warranty claims based on the Company's historical claims experience. 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 in the periods as indicated were as follows (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Balance at beginning of period	$11,762	$12,104	$3,789
Accrued warranty from the Occam acquisition	—	—	8,500
Warranty charged to cost of revenue	4,350	4,701	5,883
Utilization of warranty	(5,256)	(5,043)	(6,068)
Balance at end of period	$10,856	$11,762	$12,104

Litigation

From time to time, the Company is involved in various legal proceedings arising from the normal course of business activities.

On September 16, 2010, the Company, two direct, wholly-owned subsidiaries of the Company, and Occam entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement"). In response to the announcement of the Merger Agreement on October 6, 2010, a purported class action complaint was filed by stockholders of Occam in the Delaware Court of Chancery: Steinhardt v. Howard-Anderson, et al. (Case No. 5878-VCL). On November 24, 2010, these stockholders filed an amended complaint (the "amended Steinhardt complaint"). The amended Steinhardt complaint named Occam (which has since been merged into Calix) and the members of the Occam board of directors as defendants. The amended Steinhardt complaint did not name Calix as a defendant.

The amended Steinhardt complaint sought injunctive relief rescinding the merger transaction and an award of damages in an unspecified amount, as well as plaintiffs' costs, attorney's fees, and other relief.

The merger transaction was completed on February 22, 2011. On January 6, 2012, the Delaware court ruled on a motion for sanctions brought by the defendants against certain of the lead plaintiffs. The

Delaware court found that lead plaintiffs Michael Steinhardt, Steinhardt Overseas Management, L.P., and Ilex Partners, L.L.C., collectively the “Steinhardt Plaintiffs,” had engaged in improper trading of Calix shares, and dismissed the Steinhardt Plaintiffs from the case with prejudice. The court further held that the Steinhardt Plaintiffs are: (i) barred from receiving any recovery from the litigation, (ii) required to self-report to the SEC, (iii) directed to disclose their improper trading in any future application to serve as lead plaintiff, and (iv) ordered to disgorge trading profits of $0.5 million,to be distributed to the remaining members of the class of former Occam stockholders. The Delaware court also granted the motion of the remaining lead plaintiffs, Herbert Chen and Derek Sheeler, for class certification, and certified Messrs. Chen and Sheeler as class representatives. The certified class is a non-opt-out class consisting of all owners of Occam common stock whose shares were converted to shares of Calix on the date of the merger transaction, with the exception of the defendants in the Delaware action and their affiliates. Chen and Sheeler, on behalf of the class of similarly situated former Occam stockholders, continue to seek an award of damages in an unspecified amount.

Fact discovery in the case closed on April 30, 2013. On June 11, 2013, the plaintiffs filed their Second Amended Class Action Complaint for Breach of Fiduciary Duty (“Second Amended Complaint”). The Second Amended Complaint adds Occam's former CFO as a defendant, and alleges that each of the defendants breached their fiduciary duties by failing to attempt to obtain the best purchase price for Occam and failing to disclose certain allegedly material facts about the merger transaction in the preliminary proxy statement and prospectus included in the Registration Statement on Form S-4 filed with the SEC on November 2, 2010.

On July 17, 2013, attorneys representing all of the defendants named in the Second Amended Complaint filed Defendants' Opening Brief in Support of Their Motion for Summary Judgment, arguing that all defendants are entitled to summary judgment on all counts of the Second Amended Complaint. Plaintiffs' answering brief to the motion for summary judgment was filed on September 3, 2013, and defendants' reply brief was filed on October 4, 2013. A hearing on the motion for summary judgment was held on December 6, 2013. A decision on that motion is pending. If that decision does not dispose of the case entirely, the case is likely to go to trial at some time in 2014.

The Company believes that the allegations in the Second Amended Complaint are without merit and intends to continue to vigorously contest the action. However, there can be no assurance that the Company will be successful in defending this ongoing action. In addition, the Company has obligations, under certain circumstances, to hold harmless and indemnify each of the former Occam directors and officers against judgments, fines, settlements and expenses related to claims against such directors and otherwise to the fullest extent permitted under Delaware law and Occam's bylaws and certificate of incorporation. Such obligations may apply to this lawsuit.

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The Company is not currently a party to any other legal proceedings that, if determined adversely to the Company, would individually or in the aggregate have a material adverse effect on the Company's business, operating results or financial condition.

Guarantees

The Company from time to time enters into certain types of contracts that contingently require it to indemnify various parties against claims from third parties. These contracts primarily relate to (i) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company’s use of the applicable premises, (ii) certain agreements with the Company’s officers, directors, and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their relationship with the Company, (iii) contracts under which the Company may be required to indemnify customers against third-party claims that a Company product infringes a patent, copyright, or other intellectual property right and (iv) procurement or license agreements, under which the Company may be required to indemnify licensors or vendors for certain claims that may be brought against them arising from the Company’s acts or omissions with respect to the supplied products or technology.

Generally, a maximum obligation under these contracts is not explicitly stated. Because the obligated amounts associated with these types of agreements are not explicitly stated, the overall maximum amount of the obligation cannot be reasonably estimated. Historically, the Company has not been required to make payments under these obligations, and no liabilities have been recorded for these obligations in the Company’s balance sheets.

6. Fair Value Measurements

In accordance with 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.

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 fair value hierarchy also requires the Company to maximize the use of observable inputs, when available, and to minimize the use of unobservable inputs when determining inputs and determining fair value.

The following table sets forth the Company's financial assets measured at fair value as of December 31, 2013 and December 31, 2012, based on the three-tier fair value hierarchy (in thousands):

As of December 31, 2013	Level 1	Total
Money market funds	$19,842	$19,842
Total	$19,842	$19,842

As of December 31, 2012	Level 1	Total
Money market funds	$19,838	$19,838
Total	$19,838	$19,838

The Company's money market funds consisted of highly liquid investments with original maturities of three months or less and are classified as cash equivalents. The carrying amounts of our money market funds approximate their fair values due to their nature, duration and short maturities. The fair values of money market funds were derived from quoted market prices as active markets for these instruments exist. The Company has no level 2 or level 3 financial assets.

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7. Net Loss per Share

The following table sets forth the computation of basic and diluted net loss per share for the periods indicated (in thousands, except per share data):

	Years Ended December 31,		
	2013	2012	2011
Numerator:			
Net loss	$(17,265)	$(28,326)	$(52,550)
Denominator:			
Weighted-average common shares outstanding	49,419	48,180	45,546
Basic and diluted net loss per common share	$(0.35)	$(0.59)	$(1.15)
Potentially dilutive shares, weighted-average	5,308	4,454	3,695

For all the three years presented, unvested restricted stock awards are included in the calculation of basic weighted-average shares because such shares are participating securities, however the impact was immaterial.

Potentially dilutive shares are excluded from the computation of the basic and diluted net loss per share because their effect is antidilutive. These antidilutive shares were primarily from stock options, restricted stock units and performance restricted stock awards.

8. Stockholders' Equity

Common Stock

On March 2, 2010, the Company's board of directors approved an amended and restated certificate of incorporation that increased the authorized common stock to 100 million shares and the authorized preferred stock to 5.0 million shares effective immediately prior to the completion of the Company's initial public offering on March 26, 2010.

On March 21, 2010, the Company's board of directors approved an amended and restated certificate of incorporation effecting a 2-for-3 reverse stock split of its common stock and all convertible preferred stock. The par value and the authorized shares of the common stock and convertible preferred stock were not adjusted as a result of the reverse stock split. All issued and outstanding common stock, convertible preferred stock, warrants for common stock, warrants for preferred stock, and per share amounts contained in the financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented. The reverse stock split was effected on March 23, 2010.

On March 26, 2010, the Company completed its initial public offering in which 4,166,666 shares of common stock were sold by the Company at a public offering price of $13.00 per share. Gross proceeds of $54.2 million from the sale of common stock by the Company were reduced by issuance costs of $4.6 million and underwriters fees of $3.8 million. On April 8, 2010, the Company issued and sold 949,339 shares of common stock resulting from the exercise of the underwriters' option to purchase common shares associated with the Company's initial public offering.

This sale resulted in gross proceeds of $12.3 million based on an initial public offering price of $13.00 per share of common stock, which were reduced by underwriters' discount and offering expenses payable by the Company of $0.8 million.

On February 22, 2011, in connection with the acquisition of Occam, the Company issued 6.4 million shares of the Company's common stock, a value of $117.2 million. For more information regarding the acquisition of Occam see Note 2, "Business Combinations" of these Notes to Consolidated Financial Statements.

Holders of our common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds. No dividends have been declared or paid as of December 31, 2013. In the event of our liquidation, dissolution or winding up, holders of our common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any then outstanding shares of preferred stock.

Preferred Stock

The board of directors has the authority, without action by stockholders with the exception of stockholders who hold board positions, to designate and issue up to 5.0 million shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock. The issuance of the Company's preferred stock could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of the Company or other corporate action.

Subsequent to the Company's initial public offering and the conversion of all preferred stock outstanding at that date, the board of directors has not designated any rights, preference or powers of any preferred stock and no shares of preferred stock have been issued.

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Equity Incentive Plans
Prior to March 2010, the Company had the 2000 Stock Plan ("2000 Plan") and the Amended and Restated 2002 Stock Plan ("2002 Plan") (together, "Prior Plans"). Under the Prior Plans, the Company may grant incentive stock options at a price not less than 100% of the fair market value of the common stock on the date of grant and non-statutory stock options at a price not less than 85%, or, with respect to the 2002 Plan, 100% of the fair market value of the common stock on the date of grant. Before April 2004, certain options could be granted with the right to exercise those options before vesting. The majority of the stock options granted under the Prior Plans vest over 4 years and expire in 10 years.
On March 2, 2010, the Company's Board of Directors approved the 2010 Equity Incentive Award Plan ("2010 Plan") which allows the Company to grant stock options, restricted stock awards ("RSA"), restricted stock units ("RSU"), performance restricted stock units ("PRSU"), stock appreciation rights, dividend equivalents, deferred stock, and stock payments to employees, directors and consultants of the Company. A total of 4,666,666 shares of common stock were reserved for future issuance under the 2010 Plan, which became effective upon the completion of the Company's initial public offering of common stock. In addition, on the first day of each year beginning in 2011 and ending in 2020, the 2010 Plan provides for an annual automatic increase to the shares reserved for issuance and no more than 17,150,494 shares of Common Stock may be issued upon the exercise of Incentive Stock Options. Pursuant to the automatic annual increase, total 1,999,998 additional shares had been reserved under the 2010 Plan since 2011.
Upon the effectiveness of the 2010 Plan, equity awards were granted only under the 2010 Plan and shares of common stock previously reserved for issuance under the Prior Plans became available for issuance under the 2010 Plan. To date, awards granted under the 2010 Plan consist of stock options, RSAs, RSUs and PRSUs.
Stock options granted under the 2010 Plan are granted in general at a price not less than 100% of the fair market value of the common stock on the date of grant. Generally, the options issued under the 2010 Plan vest 25% on the first anniversary of the vesting commencement date and on a monthly basis thereafter for a period of an additional three years. The options have a maximum term of ten years.
Each RSU granted under the 2010 Plan represents a right to receive one share of the Company's common stock (subject to adjustment for certain specified changes in the capital structure of the Company) upon the completion of a specific period of continued service. The majority of RSUs granted vest over four years.
In July 2011, the Company granted 423,000 RSAs to executives under the 2010 Plan, which vest 25% per year for 4 years from the grant date. Upon issuance of RSA, the holder is entitled to have all the rights of a stockholder, subject to the restrictions in his or her Award Agreement, including the right to receive all dividends and other distributions paid or made with respect to the shares.

In 2012, the Company commenced granting PRSUs to its executives with two-year and three-year performance periods. The performance criterion is based on the relative total shareholder return ("TSR") of Calix common stock as compared to the TSR of the Company's peer group. The TSR is calculated by dividing (a) the average closing trading price for the 90-day period ending on the last day of the applicable performance period by (b) the average closing trading price for the 90-day period immediately preceding the first day of the applicable performance period. This TSR is then used to derive the achievement ratio, which is then multiplied by the number of units in the grant to derive the common stock to be issued for each performance period, which may equal from zero percent (0%) to two hundred percent (200%) of the target award.

Stock Option Exchange Program

On September 23, 2009, the Company completed a stock option exchange program, which was approved by its board of directors, pursuant to which eligible employees were able to exchange eligible stock options for restricted stock units on a one-for-one basis. Pursuant to the exchange, the Company canceled options for 3.4 million shares of the Company's common stock and issued an equivalent number of RSUs to eligible holders on September 23, 2009, of which 50% vested in October 2010 and the remaining 50% vested in May 2011. In connection with the RSU grants, the unrecognized compensation expense related to the exchanged options was expensed over the remainder of the original vesting period of the options exchanged. The incremental cost due to the exchange was deferred until a liquidity event, which happened with the Company's IPO, and had been recognized in accordance with the vesting periods described above.

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Stock Options

The following table summarizes the activity of stock options under the Company’s equity incentive plans (in thousands, except per share data):

Stock Options	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual L (in years)
Outstanding as of December 31, 2012	2,213	$13.51	
Granted	573	8.57	
Exercised	(160)	4.66	
Forfeited or expired	(66)	13.32	
Outstanding as of December 31, 2013	2,560	$12.96	7.6
Vested and expected to vest at December 31, 2013	2,520	$13.02	7.6

(1) Amounts represent the difference between the exercise price and the fair mark common stock at December 31, 2013 for all in the money options outstanding.

During the years ended December 31, 2013, 2012, and 2011, total intrinsic value of stock options exercised was $1.0 million, $0.6 million, $2.7 million, respectively. Total cash received from employees as a result of stock option exercises in 2013, 2012, and 2011 was $0.7 million, $0.2 million, $0.8 million, respectively.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2013 (in thousands, except year and per share data):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price Per Share	Number of Shares Exercisable	Weighted-Average Exercise Price Per Share
$1.20 — $6.80	453	7.3	$6.31	255	$6.12
6.95 — 8.38	183	8.2	7.67	61	7.47
8.41 — 8.41	467	9.1	8.41	95	8.41
8.55 — 10.71	436	8.0	10.45	216	10.35
10.85 — 18.86	508	7.2	15.58	351	15.74
19.40 — 4,401.93	513	6.4	24.42	387	25.40
$1.20 — $4,401.93	2,560	7.6	$12.96	1,365	$14.94

Restricted Stock Units, Performance Restricted Stock Units, and Restricted Stock Awards

The following table summarizes the activities of the Company's RSUs, PRSUs, and RSAs under the Company’s equity incentive plans (in thousands, except per share data):

RSUs		PRSUs		RSAs	
	Weighted-Average Grant Date		Weighted-Average Grant Date		Weighted-Average Grant Date

	Number of Shares	Fair Value Per Share	Number of Shares	Fair Value Per Share	Number of Shares	Fair Value Per Share
Outstanding at December 31, 2012	1,762	$ 11.67	183	$ 14.78	299	$ 21.67
Granted	705	9.20	230	11.24	—	—
Vested	(822)	11.07	—	—	(95)	21.67
Canceled	(139)	9.51	—	—	(15)	21.67
Outstanding at December 31, 2013	1,506	$ 11.04	413	$ 12.81	189	$ 21.67

Upon vesting of certain RSUs and RSAs, the Company withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The number of shares withheld was based on the value of the RSUs or RSAs on their vesting date as determined by the Company's closing stock price. The withheld shares are reserved for future grant and issuance under the 2010 Plan.

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Modification of Stock Awards

In February 2013, the Company entered into a Transition and Separation Agreement ("Agreement") with Roger Weingarth, the Company's former Executive Vice President and Chief Operating Officer. Under the Agreement, Mr. Weingarth transitioned to the role of advisor to the Chief Executive Officer of the Company effective as of April 1, 2013, and would terminate his employment with the Company on March 31, 2014 ("Termination Date"). Upon his termination, the Agreement provides for, among other things, the acceleration of the vesting of his unvested stock options, RSAs and RSUs held by him as of the Termination Date. In accordance with ASC Topic 718, total fair value of the accelerated stock awards after the modification is $0.6 million, which is being recognized on a straight-line basis over the remaining service period through the Termination Date. During the year ended December 31, 2013, $0.5 million of the total fair value has been recognized in general and administrative expenses of the Consolidated Statement of Comprehensive Loss in this Form 10-K.

Employee Stock Purchase Plan

The Company’s 2010 Employee Stock Purchase Plan, as amended (“2010 ESPP”) allows employees to purchase shares of the Company’s common stock through payroll deductions of up to 15 percent of their annual compensation subject to certain Internal Revenue Code limitations. In addition, no participant may purchase more than 2,000 shares of common stock in each offering period.

The offering periods under the 2010 ESPP are six-month periods commencing on June 1 and December 1 of each year. The price of common stock purchased under the plan is 85 percent of the lower of the fair market value of the common stock on the commencement date and exercise date of each six-month offering period.

The 2010 ESPP, as amended in 2012, provides for the issuance of a maximum of 4.3 million shares of common stock. During the twelve months ended December 31, 2013, 685,781 shares were purchased and issued. As of December 31, 2013, there were 2.6 million shares available for issuance.

Stock Based Compensation

In accordance with ASC Topic 718, stock-based compensation expense associated with stock options, RSUs, PRSUs, RSAs, and purchase rights under the 2010 ESPP is measured at the grant date based on the fair value of the award, and is recognized, net of forfeitures, as expense over the remaining requisite service period on a straight-line basis. During the years ended December 31, 2013, 2012, and 2011, the Company recorded stock-based compensation expense of $19.9 million, $17.4 million and $21.6 million, respectively.

The following table summarizes the weighted-average grant date fair values of the Company's stock-based awards granted in the periods indicated:

	Years Ended December 31,		
	2013	2012	2011
Stock options	$4.89	$4.68	$9.77

RSUs	$9.20	$6.55	$21.33
PRSUs	$11.24	$14.81	N/A
RSAs	N/A	N/A	$21.67
ESPP	$2.94	$2.34	$3.48

The Company values the RSUs and RSAs at the closing market price of the Company’s common stock on the date of grant.

The fair value of the PRSU with a market condition is estimated on the date of award, using a Monte Carlo simulation model to estimate the TSR of the Company's stock in relation to the peer group over each performance period. Compensation cost on PRSUs with a market condition is not adjusted for subsequent changes in the Company's stock performance or the level of ultimate vesting.

The Company estimates the fair value of stock options and purchase rights under the 2010 ESPP at the grant date using the Black-Scholes option-pricing model. This model requires the use of the following assumptions:

(i) Expected volatility of the Company's common stock - Starting in the fourth quarter of 2012, the Company computed its expected volatility assumption based on a blended volatility (50% historical volatility and 50% implied volatility from traded options on the Company's common stock). This change of the method was made as the Company's common stock has now been publicly traded for more than two years, a sufficient history of stock prices had been developed. The selection of a blended volatility assumption was based upon the Company's assessment that a blended volatility is more representative of the Company's future stock price trend as it weighs the historical volatility with the future implied volatility. Expected volatilities computed using this new method for stock options granted in the fourth quarter of 2012 was 66%. Prior to the fourth quarter of 2012, the Company’s computation of expected volatility was based on the Company’s peer group in the industry in which the Company does business. Expected volatilities computed using the old method for stock options granted in the first three quarters of 2012 ranged from 55% to 56%.

(ii) Expected life of the option award - Represents the weighted-average period that the stock options are expected to remain outstanding. The Company’s computation of expected life utilizes the simplified method in accordance with Staff Accounting Bulletin No. 110 ("SAB 110") due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. The mid-point between the vesting date and the expiration date is used as the expected term under this method.

(iii) Expected dividend yield - Assumption is based on the Company's history of not paying dividends and no future expectations of dividend payouts.

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(iv) Risk-free interest rate - Based on the U.S. Treasury yield curve in effect at the time of grant with maturities approximating the grant’s expected life.

The following table summarizes the weighted-average assumptions used in estimating the grant-date fair value of stock options and of each employee’s purchase right under the 2010 ESPP in the periods indicated:

	Years Ended December 31,					
Stock Options	2013		2012		2011	
Expected volatility	62	%	56	%	52	%
Expected life (years)	6.05		6.25		6.25	
Expected dividend yield	—		—		—	
Risk-free interest rate	1.14	%	1.06	%	2.11	%

	Years Ended December 31,					
ESPP	2013		2012		2011	
Expected volatility	50	%	63	%	52	%
Expected life (years)	0.50		0.50		0.50	
Expected dividend yield	—		—		—	
Risk-free interest rate	0.09	%	0.13	%	0.66	%

In addition, the Company applies an estimated forfeiture rate to awards granted and records stock-based compensation expense only for those awards that are expected to vest. Forfeiture rates are estimated at the time of grant based on the Company's historical experience. Further, to the extent the Company's actual forfeiture rate is different from management's estimate, stock-based compensation is adjusted accordingly.

On February 22, 2011, in connection with the acquisition of Occam (see Note 2, "Business Combinations" of these Notes to Consolidated Financial Statements), the Company issued 536,190 stock options and 42,654 RSUs to certain Occam employees. The grants were in exchange for certain options and RSUs that were held by Occam employees prior to the acquisition which retained the original vesting schedule of the initial Occam grants, except for certain equity awards held by Occam executives that were accelerated in association with their severance agreements. The Company estimated the fair value of $5.8 million of the options and RSUs in accordance with ASC Topic 718. In accordance with ASC Topic 805, the Company allocated the value of $1.4 million of certain options and RSUs to consideration in the business combination with the remaining value of $4.5 million allocated to post-combination expense to be recognized over the remaining service period of the grants.

As of December 31, 2013, unrecognized stock-based compensation expenses by award type, net of estimated forfeitures, and their expected weighted-average recognition periods are summarized in the following table (in thousands).

	As of December 31, 2013				
	Stock Option	RSU	PRSU	RSA	ESPP
Unrecognized stock-based compensation expense	$6,391	$10,861	$1,801	$2,392	$662

Weighted-average amortization period (in years)	2.2	2.3	1.3	1.5	0.4

Common Stock Warrants

Warrants to purchase convertible preferred stock that did not expire at the close of the Company's initial public offering, in March 2010, converted to warrants to purchase common stock at the applicable conversion rate for the related preferred stock. As of December 31, 2013, the following warrants to purchase common stock were outstanding (in thousands, except per share data):

Expiration Date	Exercise Price Per Share	Number of Warrants Outstanding
August 16, 2014	$10.26	8
September 4, 2017	$19.56	15
		23

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Shares Reserved for Future Issuance

The Company had common shares reserved for future issuance as follows (in thousands):

	As of December 31,		
	2013	2012	2011
Stock options outstanding	2,560	2,213	1,661
Restricted stock units outstanding	1,506	1,762	1,775
Performance restricted stock units outstanding	413	183	—
Shares available for future grant under 2010 Plan	3,652	3,959	4,508
Shares available for future issuance under ESPP	2,574	3,260	579
Common stock warrants	23	23	23
Total	10,728	11,400	8,546

9. Employee Benefit Plan

The Company sponsors a 401(k) tax-deferred savings plan for all employees who meet certain eligibility requirements. Participants may contribute, on a pre-tax basis, a percentage of their annual compensation, but not to exceed a maximum contribution amount pursuant to Section 401(k) of the Internal Revenue Code. The Company, at the discretion of the board of directors, may make additional matching contributions on behalf of the participants. The Company made matching contributions totaling $1.5 million, $1.4 million, and $1.3 million in 2013, 2012 and 2011, respectively.

10. Credit Facility

The Company had a revolving credit facility ("Prior Credit Facility") of $30.0 million with Silicon Valley Bank based upon a percentage of eligible accounts receivable, which matured on June 30, 2013. After the Prior Credit Facility matured on June 30, 2013, the Company cash collateralized the outstanding letters of credit with Silicon Valley Bank. As of December 31, 2013, the Company had $0.3 million cash restricted for collateralizing the outstanding letters of credit with Silicon Valley Bank.

On July 29, 2013, the Company entered into a credit agreement with Bank of America, N.A. The credit agreement is structured such that other financial institutions can at a later time become party to the credit agreement through an amendment via a syndication process (collectively, together with Bank of America, N.A., the "Lenders"). The credit agreement provides for a revolving facility in the aggregate principal amount of up to $50.0 million, which includes a $20.0 million sublimit for the issuance of letters of credit and a $10.0 million sublimit for a swingline facility. Subject to customary conditions, up to $25.0 million of the revolving facility may be converted to a term loan facility at any time prior to the maturity of the revolving facility. The revolving facility matures on July 29, 2016, but may be extended up to two times (each extension for an additional one-year period) upon mutual agreement of the Company and the Lenders. The credit facility is secured by substantially all of the Company's assets, including its intellectual property. Proceeds of the credit facility may be used for general corporate purposes and permitted acquisitions.

Loans under the credit facility bear interest at an annual rate equal to the base rate plus 0.75% to 1.25% or LIBOR plus 2.00% to 2.50% based on a leverage ratio of consolidated funded indebtedness to consolidated Adjusted EBITDA (customarily defined). Interest on the revolving facility is due quarterly, and any outstanding interest and principal is due on the maturity date of the revolving facility. The Company is required to repay principal on a term loan in twenty equal quarterly payments from the date the Company enters into a term loan, and all outstanding principal and accrued interest is due on the revolving facility maturity date. Swingline loans must be repaid on the earlier of (i) ten business days after a loan is made and (ii) the revolving facility maturity date. The Company is also required to pay commitment fees of 0.25% per year on any unused portions of this facility.

The credit facility includes affirmative and negative covenants applicable to the Company that are typical for credit facilities of this type. Furthermore, the credit agreement requires us to maintain certain financial covenants, including a maximum consolidated leverage ratio, and a minimum consolidated liquidity ratio of cash, cash equivalents and accounts receivable to consolidated funded indebtedness. As of December 31, 2013, the Company was in compliance with these requirements. The credit facility also includes customary events of default, the occurrence and continuation of which would provide the Lenders with the right to demand immediate repayment of any principal and unpaid interest under the credit facility, and to exercise remedies against us and the collateral securing the loans under the credit facility. As of December 31, 2013, there was $50.0 million available for borrowing under this credit facility.

The Company incurred $0.3 million of debt issuance costs that were directly attributable to the issuance of this credit facility. These costs will be amortized over three years starting from the effective date of the credit facility. As of December 31, 2013, the unamortized debt issuance costs of $0.3 million were included within "Other assets" in the Company's Consolidated Balance Sheets.

11. Income Taxes

The Company recorded a provision for/(benefit from) income taxes of $(14) thousand, $0.2 million, and $0.2 million, in 2013, 2012 and 2011, respectively. The income tax benefit for 2013 primarily consisted of state alternative minimum tax (AMT) and state and foreign income taxes, net of the tax benefit recorded from the utilization of a portion of the AMT net operation loss (NOL) acquired from Occam. The remainder of the AMT NOL, which was approximately $5.3 million as of December 31, 2013, will be carried forward by the Company to offset future AMT income.

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Provision for (benefit from) income taxes consisted of the following for the periods indicated (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Federal current income tax (benefit)	$(274)	$152	$—
State current income tax	41	73	114
Foreign current income tax	315	440	228
Federal deferred income tax (benefit)	—	(474)	—
State deferred income tax (benefit)	—	(89)	—
Foreign deferred income tax (benefit)	(96)	56	(118)
Provision for (benefit from) income taxes	$(14)	$158	$224

The differences between the statutory tax rate and the effective tax rate, expressed as a percentage of loss before income taxes, were as follows:

	Years Ended December 31,		
	2013	2012	2011
Federal statutory rate	34.0 %	34.0 %	34.0 %
State statutory rate	3.4 %	5.2 %	5.2 %
Foreign operations	1.4 %	0.1 %	0.2 %
Release of FIN 48 liability and interest	0.7 %	— %	— %
R&D tax credits	13.1 %	2.5 %	2.1 %
Release of valuation allowance related to EFAA acquisition	— %	2.0 %	— %
Acquisition-related costs	— %	1.2 %	(1.5)%
Other permanent items	(4.5)%	0.1 %	(1.6)%
2012 tax true-up	1.0 %	— %	— %
Valuation allowance	(49.0)%	(45.7)%	(38.8)%
Effective tax rate	0.1 %	(0.6)%	(0.4)%

The significant components of the Company's deferred tax assets and liabilities were as follows (in thousands):

	As of December 31,	
	2013	2012
Deferred tax assets:		
Net operating loss carryforwards	$168,431	$180,005
Tax credit carryforwards	22,507	20,154
Depreciation and amortization	2,996	2,858
Accruals and reserves	11,479	11,353
Deferred revenue	12,037	13,367
Stock-based compensation	5,570	3,592
Other	450	294
Gross deferred tax assets	223,470	231,623
Valuation allowance	(207,315)	(207,441)
Net deferred tax assets	16,155	24,182
Deferred tax liabilities:		
Intangible assets	(15,988)	(24,120)

Net deferred tax assets reflected in balance sheet	$167	$62

Management reviews the recognition of deferred tax assets to determine if realization of such assets is more likely than not. The realization of the Company's deferred tax assets is dependent upon future earnings. The Company has been in a cumulative loss position since inception, which represents a significant piece of negative evidence. Using the more likely than not criteria specified in the applicable accounting guidance, this negative evidence cannot be overcome by positive evidence currently available to the Company and as a result the Company has established a full valuation allowance against its deferred tax assets with the exception of certain foreign deferred tax assets. The Company's valuation allowance decreased by $0.1 million in 2013 and increased by $5.4 million in 2012. As of December 31, 2013 and 2012, respectively, the valuation allowance included $0.1 million related to excess tax benefits of stock option deductions prior to the adoption of ASC Topic 718. The benefits will increase additional paid-in capital when realized.

As of December 31, 2013, the Company had U.S. federal and state net operating losses of approximately $550.1 million and $174.2 million, respectively. The U.S. federal net operation loss carryforwards will expire at various dates beginning in 2018 and through 2031 if not utilized. The state net operation loss carryforwards will expire at various dates beginning in 2014 and through 2031, if not utilized. As of December 31, 2013 and 2012, the Company had $37.2 million and $36.3 million in federal deductions, respectively, and $34.0 million and $33.3 million in state deductions, respectively, related to excess tax benefits from stock options which are not included in the net operation loss carryforward amounts in the table above since they have not met the realization criteria of ASC Topic 718. The tax benefits from these deductions will increase additional paid-in capital when realized. Additionally, the Company has U.S. federal, California and other various U.S. states research and development credits of approximately $18.5 million, $22.0 million and $1.8 million as of December 31, 2013, respectively. The U.S. federal research and development credits will begin to expire in 2020 and through 2033, and the California research and development credits have no expiration date. The credits related to other various U.S. states will begin to expire in 2015 and through 2028. During 2013, the Company performed a Section 382 study of the Internal Revenue Code (and similar state provisions) through December 31, 2012, which resulted in no adjustment of the Company’s net operation loss carryforwards.

Uncertain Tax Positions

ASC Topic 740, “Income Taxes,” prescribes a recognition threshold and measurement attribute to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also provides guidance on derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The standard requires the Company to recognize the financial statement effects of an uncertain tax position when it is more likely than not that such position will be sustained upon audit. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as interest expense and income tax expense, respectively, in statements of operations.

The following table reconciles the Company's unrecognized tax benefits for the years ended December 31, 2013 and 2012 (in thousands):

	Years Ended December 31,	
	2013	2012
Balance at beginning of period	$13,238	$12,543
Additions for tax positions related to prior year	317	228
Reductions for tax positions related to prior year	(48)	(37)
Additions for tax positions related to current year	990	504
Reductions from a lapse of applicable statute of limitations	(115)	—
Balance at end of period	$14,382	$13,238

The total amount of unrecognized tax benefits that would affect the Company’s effective tax rate is none and $0.1 million as of December 31, 2013 and December 31, 2012, respectively. There were no accrued interest or penalties for uncertain income tax as of December 31, 2013. The Company files tax returns in the United State and various state jurisdictions, the United Kingdom and China. The tax years 1999 through 2013 remain open and subject to examination by the appropriate governmental agencies in the U.S. due to tax attribute carryforwards.

12. Segment Information

The Company develops, markets and sells communications access systems and software, and there are no segment managers who are held accountable for operations, operating results and plans for levels or components below the Company unit level. Accordingly, the Company is considered to be in a single reporting segment and operating unit structure. The Company's chief operating decision maker is the Company's Chief Executive Officer, who reviews financial information presented on a Company-wide basis, accompanied by disaggregated information about revenues by geographic region for purposes of allocating resources and evaluating financial performance.

Geographic Information:

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

	Years Ended December 31,		
	2013	2012	2011
United States	$333,403	$306,003	$323,070
Caribbean	17,466	9,343	12,837
Europe	17,397	268	211
Canada	10,231	10,894	6,691
Other	4,121	3,710	1,860
Total	$382,618	$330,218	$344,669

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The Company's property and equipment, net of accumulated depreciation, are located in the following geographical areas (in thousands):

	As of December 31,		
	2013	2012	2011
United States	$14,969	$18,390	$14,339
China	2,504	2,693	1,791
Total	$17,473	$21,083	$16,130

13. Quarterly Financial Data—Unaudited

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 two fewer days in the first quarter of 2013 and one more day in the fourth quarter of 2013 than in the respective 2012 periods.

The following table presents selected unaudited quarterly financial data of the Company (in thousands, except per share data). The Company’s quarterly results of operations for these periods are not necessarily indicative of future results of operations.

	Fiscal Year 2013 Quarter Ended			
	March 30	June 29	September 28	December 31 [1]
Revenue	$90,548	$94,439	$103,628	$94,003
Gross profit	41,115	42,505	47,407	40,047
Operating loss	(5,540)	(4,845)	(12)	(8,056)
Net income (loss)	(6,203)	(5,153)	544	(6,453)
Net income (loss) per common share, basic	$(0.13)	$(0.10)	$0.01	$(0.13)
Net income (loss) per common share, diluted	$(0.13)	$(0.10)	$0.01	$(0.13)

	Fiscal Year 2012 Quarter Ended			
	March 31	June 30	September 29	December 31 [2]
Revenue	$78,565	$78,928	$81,301	$91,424
Gross profit	33,819	33,221	33,506	37,030
Operating loss	(7,369)	(6,830)	(7,077)	(7,748)
Net loss	(7,521)	(7,091)	(7,140)	(6,574)
Net loss per common share, basic and diluted	$(0.16)	$(0.15)	$(0.15)	$(0.14)

(1) For the fourth quarter of 2013, net loss included $1.7 million of gain from utilization of inventory credit from Ericsson. See Note 2, "Business Combinations" of these Notes to the Consolidated Financial Statements for details of the Ericsson Credit.

(2) The Company acquired Ericsson's fiber access assets in November 2012. The quarterly financial data included the results of this acquisition only for periods subsequent to the acquisition date. See Note 2, “Business

Combinations" of these Notes to the Consolidated Financial Statements for details of this acquisition. For the fourth quarter of 2012, operating loss included $1.4 million of acquisition-related expenses and net loss included $1.0 million of gain from bargain purchase of Ericsson's fiber access assets.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

During the fiscal years ended December 31, 2013, 2012 and 2011, there were no changes in accountants nor any disagreements with accountants on accounting and financial disclosure.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, which we refer to as the evaluation date, we carried out an evaluation under the supervision and with the participation of management, including our principle executive officer and principle financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended).

The purpose of this evaluation was to determine whether as of the evaluation date our disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to disclose in our filings with the Securities and Exchange Commission, (i) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based upon this evaluation, our principal executive officer and our

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principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management has evaluated the effectiveness of our internal control over financial reporting as of December 31, 2013 using the criteria set forth in the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) ("COSO"). Based on our evaluation, management has concluded that we maintained effective control over financial reporting as of December 31, 2013 based on the COSO criteria. The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report included in this Annual Report on Form 10-K.

Limitations on the Effectiveness of Controls

Our disclosure controls and procedures provide our principal executive officer and our principal financial officer reasonable assurances that our disclosure controls and procedures will achieve their objectives. However, our management, including our principal executive officer and our principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting can or will prevent all human error. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, the design of a control system must reflect the fact that there are internal resource constraints, and the benefit of controls must be weighed relative to their corresponding costs. Because of the limitations in all control systems, no evaluation of controls can provide complete assurance that all control issues and instances of error, if any, within our company are detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur due to human error or mistake. Additionally, controls, no matter how well designed, could be circumvented by the individual acts of specific persons within the organization. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all potential future

conditions.
Changes in Internal Control over Financial Reporting
There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Calix Inc.

We have audited Calix, Inc.’s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Calix, Inc.’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Calix, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Calix, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013, and its financial statement schedule listed in the Index at Item 15(a), and our report dated February 20, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, California
February 20, 2014

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ITEM 9B. Other Information.
None.

PART III
ITEM 10. Directors, Executive Officers and Corporate Governance.
Information required by this Item 10 relating to our directors is incorporated herein by reference to the information set forth under the captions “Proposal No. 1—Election of Directors” and “Director Compensation” and in other applicable sections of the Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act, or the Proxy Statement, to be filed within 120 days of the end of the fiscal year covered by this Report. Information required by this Item 10 relating to our officers is incorporated herein by reference to the information set forth under the captions “Executive Officers” and “Executive Compensation” and in other applicable sections of the Proxy Statement. Information regarding our Section 16 reporting compliance is incorporated herein by reference to the information set forth under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Section 16(a) Beneficial Ownership Reporting Compliance” of the Proxy Statement.
We have adopted a code of ethics, which applies to all employees, officers and directors of Calix. The Code of Business Conduct and Ethics meets the requirements of a “code of ethics” as defined by Item 406 of Regulation S-K, and applies to our Chief Executive Officer, Chief Accounting Officer (who is both our principal financial and principal accounting officer), as well as all other employees, as indicated above. The Code of Business Conduct and Ethics also meets the requirements of a code of conduct under NYSE listing standards. The Code of Business Conduct and Ethics is posted on our website at www.calix.com under the links “About Calix—Investor Relations—Corporate Governance—Code of Conduct". We intend to disclose any amendments to the Code of Business Conduct and Ethics, as well as any waivers for executive officers or directors, on our website at www.calix.com.
ITEM 11. Executive Compensation.
Information required by this Item 11 relating to executive compensation and other matters is incorporated herein by reference to the information set forth under the caption “Compensation Discussion and Analysis” and in other applicable sections of the Proxy Statement.
ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.
Information required by this Item 12 relating to security ownership of certain beneficial owners and management and related stockholder matters is incorporated herein by reference to the information set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” and in other applicable sections of the Proxy Statement.
Information regarding securities authorized for issuance under our equity compensation plans is incorporated herein by reference to the information set forth under the caption “Equity Compensation Plan

Information" of the Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item 13 relating to certain relationships and related transactions and director independence is incorporated herein by reference to the information set forth under the caption "Certain Relationships and Related Transactions" and in other applicable sections of the Proxy Statement.

ITEM 14. Principal Accountant Fees and Services.

Information required by this Item 14 relating to principal account fees and services is incorporated herein by reference to the information set forth under the caption "Principal Accountant Fees and Services" of the Proxy Statement.

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PART IV

ITEM 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this Report:

1. Consolidated Financial Statements

The consolidated financial statements of Calix and the report of independent registered public accounting firm thereon are set forth under Part II, Item 8 of this report.

2. Consolidated Financial Statement Schedules

The following Financial Statement Schedule is filed as part of this Report:

Schedules not listed above have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the consolidated financial statements and notes thereto.

3. Exhibits.

The following exhibits are filed with or incorporated by reference in this report. Where such filing is made by incorporation by reference to a previously filed registration statement or report, such registration statement or report is identified in parentheses. We will furnish any exhibit upon request to: Calix Investor Relations, David Allen at david.allen@calix.com.

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization, dated as of September 16, 2010, by and among Calix, Inc., Ocean Sub I, Inc., Ocean Sub II, LLC, Occam Networks, Inc. (filed as Exhibit 2.1 to Calix's Registration Statement on Form S-4 originally filed with the Securities and Exchange Commission on November 2, 2010 (File No. 333-170282), as amended by Amendment No. 1 filed December 14, 2010, as amended by Post-Effective Amendment No. 1, filed December 14, 2010 and as amended by Post-Effective Amendment No. 2, filed February 7, 2011 and incorporated by reference herein).
2.2	Support Agreement, dated September 16, 2010, by and among Calix, Inc., Ocean Sub I, Inc., Ocean Sub II, LLC and certain stockholders of Occam Networks, Inc. (filed as Exhibit 2.2 to Calix's Registration Statement on Form S-4 originally filed with

	the Securities and Exchange Commission on November 2, 2010 (File No. 333-170282), as amended by Amendment No. 1 filed December 14, 2010, as amended by Post-Effective Amendment No. 1, filed December 14, 2010 and as amended by Post-Effective Amendment No. 2, filed February 7, 2011 and incorporated by reference herein).
3.1	Amended and Restated Certificate of Incorporation of Calix, Inc. (filed as Exhibit 3.3 to Amendment No. 7 to Calix's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 23, 2010 (File No. 333-163252) and incorporated by reference herein).
3.2	Amended and Restated Bylaws of Calix, Inc. (filed as Exhibit 3.5 to Amendment No. 7 to Calix's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 23, 2010 (File No. 333-163252) and incorporated by reference herein).
4.1	Form of Calix, Inc.'s Common Stock Certificate (filed as Exhibit 4.1 to Amendment No. 7 to Calix's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 23, 2010 (File No. 333-163252) and incorporated by reference herein).
4.2	Amended and Restated Investors' Rights Agreement, by and between Calix, Inc. and the investors listed on Exhibit A thereto, dated May 29, 2009 (filed as Exhibit 4.2 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).
4.3	Warrant to Purchase Stock, between Optical Solutions, Inc. and Silicon Valley Bank, dated August 16, 2004 (filed as Exhibit 4.22 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).
4.4	Assignment, between Silicon Valley Bank and Silicon Valley Bancshares, dated August 19, 2004 (filed as Exhibit 4.23 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).

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Exhibit Number	Description
4.5	Warrant to Purchase Stock, between Calix, Inc. and Greater Bay Venture Banking, a division of Greater Bay Bank N.A., dated September 4, 2007 (filed as Exhibit 4.27 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).
10.1*	Calix Networks, Inc. Amended and Restated 2000 Stock Plan and related documents (filed as Exhibit 10.1 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).
10.2*	Calix Networks, Inc. Amended and Restated 2002 Stock Plan and related documents (filed as Exhibit 10.2 to Amendment No. 6 to Calix's Registration Statement on Form S-1 filed with the SEC on March 8, 2010 (File No. 333-163252) and incorporated by reference herein).
10.3*	Optical Solutions, Inc. Amended and Restated 1997 Long-Term Incentive and Stock Option Plan and related documents (filed as Exhibit 10.3 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).
10.4*	Calix, Inc. 2010 Equity Incentive Award Plan and related documents (filed as Exhibit 10.2 to Amendment No. 6 to Calix's Registration Statement on Form S-1 filed with the SEC on March 8, 2010 (File No. 333-163252) and incorporated by reference herein).
10.5	Form of Indemnification Agreement made by and between Calix, Inc. and each of its directors, executive officers and some employees (filed as Exhibit 10.5 to Amendment No. 6 to Calix's Registration Statement on Form S-1 filed with the SEC on March 8, 2010 (File No. 333-163252) and incorporated by reference herein).
10.6	Lease, between RNM Lakeville, LLC and Calix, Inc., dated February 13, 2009 (filed as Exhibit 10.6 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).
10.7	Credit Agreement, among Calix, Inc., certain of its subsidiaries, Bank of America, N.A. and the other lenders party thereto, dated July 29, 2013 (filed as Exhibit 10.1 to Calix's Form 10-Q filed with the SEC on August 6, 2013 (File No. 001-34674) and incorporated by reference herein).
10.8*	Offer Letter, between Calix, Inc. and Carl Russo, dated November 1, 2006 (filed as Exhibit 10.8 to Amendment No. 1 to Calix's Registration Statement on Form S-1 filed with the SEC on December 31, 2009 (File No. 333-163252) and

	incorporated by reference herein).
10.9*	Offer Letter, between Calix, Inc. and Tony Banta, dated August 25, 2005 (filed as Exhibit 10.10 to Amendment No. 1 to Calix’s Registration Statement on Form S-1 filed with the SEC on December 31, 2009 (File No. 333-163252) and incorporated by reference herein).
10.10*	Offer Letter, between Calix, Inc. and John Colvin, dated March 3, 2004 (filed as Exhibit 10.11 to Amendment No. 1 to Calix’s Registration Statement on Form S-1 filed with the SEC on December 31, 2009 (File No. 333-163252) and incorporated by reference herein).
10.11*	Offer Letter, between Calix, Inc. and Kevin Pope, dated December 21, 2008 (filed as Exhibit 10.12 to Amendment No. 1 to Calix’s Registration Statement on Form S-1 filed with the SEC on December 31, 2009 (File No. 333-163252) and incorporated by reference herein).
10.12*	Offer Letter, between Calix, Inc. and Roger Weingarth, dated February 17, 2003, as amended April 13, 2004 (filed as Exhibit 10.13 to Amendment No. 1 to Calix’s Registration Statement on Form S-1 filed with the SEC on December 31, 2009 (File No. 333-163252) and incorporated by reference herein).
10.13*	Offer Letter, between Calix, Inc. and Michael Ashby, dated March 7, 2011 (filed as Exhibit 10.2 to Calix’s Form 8-K filed with the SEC on March 7, 2011 (File No. 001-34674) and incorporated by reference herein).
10.14*	Employment Agreement, between Calix, Inc. and Andrew Lockhart, dated February 2, 2011 (filed as Exhibit 10.20 to Calix's Form 10-Q filed with the SEC on May 3, 2012 (File No. 001-34674) and incorporated by reference herein).
10.15*	Offer Letter, between Calix, Inc. and William Atkins, dated December 21, 2013.
10.16*	Transition and Separation Agreement, by and between Michael Ashby and Calix, Inc., dated February 7, 2014.
10.17*	Transition and Separation Agreement, by and between Roger Weingarth and Calix, Inc., dated February 6, 2013 (filed as Exhibit 10.26 to Calix's Form 10-K filed with the SEC on February 22, 2013 (File No. 001-34674) and incorporated by reference herein).
10.18*	Calix, Inc. Amended And Restated Employee Stock Purchase Plan (Effective as of May 23, 2012) (filed as Exhibit 10.1 to Calix’s Form 10-Q filed with the SEC on August 7, 2012 (File No. 001-34674) and incorporated by reference herein).
10.19*	Calix, Inc. Non-Employee Director Equity Compensation Policy, as amended October 18, 2011 and July 25, 2012 (filed as Exhibit 10.2 to Calix’s Form 10-Q filed with the SEC on August 7, 2012 (File No. 001-34674) and incorporated by reference herein).
10.20†	Asset Purchase Agreement between Ericsson Inc. and Calix, Inc., dated August 20, 2012 (filed as Exhibit 10.1 to Calix’s Form 10-Q/A filed with the SEC on December 18, 2012 (File No. 001-34674) and incorporated by reference herein).

10.21*	Calix, Inc. Non-Employee Director Cash Compensation Policy, effective January 31, 2014.
10.22*	Calix, Inc. Non-Employee Director Restricted Stock Unit Deferred Compensation Plan, effective January 1, 2013 (filed as Exhibit 10.22 to Calix's Form 10-K filed with the SEC on February 22, 2013 (File No. 001-34674) and incorporated by reference herein).
10.23*	Calix, Inc. Management Bonus Program Under the 2010 Equity Incentive Award Plan (filed as Exhibit 10.1 to Calix's Form 8-K filed with the SEC on February 28, 2012 (File No. 001-34674) and incorporated by reference herein).

Exhibit Number	Description
10.24*	Calix, Inc. Long Term Incentive Program Under the 2010 Equity Incentive Award Plan (filed as Exhibit 10.2 to Calix's Form 8-K filed with the SEC on February 28, 2012 (File No. 001-34674) and incorporated by reference herein).
10.25	First Amendment to Lease, by and between 1031, 1035, 1039 North McDowell, LLC and Calix, Inc., effective January 28, 2013 (filed as Exhibit 10.25 to Calix's Form 10-K filed with the SEC on February 22, 2013 (File No. 001-34674) and incorporated by reference herein).
21.1	Subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm.
24.1	Power of Attorney (included on signature page to this Annual Report on Form 10-K).
31.1	Certification of Principle Executive Officer of Calix, Inc. Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Principle Financial Officer of Calix, Inc. Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Principle Executive Officer and Principle Financial Officer of Calix, Inc. Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Indicates management contract or compensatory plan or arrangement.

† Confidential treatment has been granted as to certain portions of this agreement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

			CALIX, INC. (Registrant)
Dated:	February 20, 2014	By:	/s/ Carl Russo Carl Russo Chief Executive Officer (Principal Executive Officer)
Dated:	February 20, 2014	By:	/s/ Michael Ashby Michael Ashby Chief Accounting Officer (Principal Financial and Accounting Officer)

POWER OF ATTORNEY

Each person whose individual signature appears below hereby authorizes and appoints Carl Russo and Michael Ashby, and each of them, with full power of substitution and re-substitution and full power to act without the other, as his true and lawful attorney-in-fact and agent to act in his name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 20, 2014.

Signature	Title	Date
/s/ Carl Russo Carl Russo	Chief Executive Officer and Director	February 20, 2014

	(Principal Executive Officer)	
/s/ Michael Ashby Michael Ashby	Chief Accounting Officer (Principal Financial and Accounting Officer)	February 20, 2014
/s/ Don Listwin Don Listwin	Chairman of the Board of Directors	February 20, 2014
/s/ Michael Everett Michael Everett	Director	February 20, 2014
/s/ Michael Flynn Michael Flynn	Director	February 20, 2014
/s/ Adam Grosser Adam Grosser	Director	February 20, 2014
/s/ Michael Matthews Michael Matthews	Director	February 20, 2014
/s/ Thomas Pardun Thomas Pardun	Director	February 20, 2014

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Schedule II. Valuation and Qualifying Accounts

	Balance At Beginning of Year	Additions Charged to Costs or Expenses or Revenue	Deductions and Write Offs	Balance At End of Year
	(In thousands)			
Year ended December 31, 2013				
Allowance for doubtful accounts	$421	$(13)	$ (50)	$358
Product return reserve	1,740	3,535	(4,511)	764
Year ended December 31, 2012				
Allowance for doubtful accounts	$402	$112	$ (93)	$421
Product return reserve	835	5,474	(4,569)	1,740
Year ended December 31, 2011				
Allowance for doubtful accounts	$617	$130	$ (345)	$402
Product return reserve	551	4,996	(4,712)	835

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EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization, dated as of September 16, 2010, by and among Calix, Inc., Ocean Sub I, Inc., Ocean Sub II, LLC, Occam Networks, Inc. (filed as Exhibit 2.1 to Calix's Registration Statement on Form S-4 originally filed with the Securities and Exchange Commission on November 2, 2010 (File No. 333-170282), as amended by Amendment No. 1 filed December 14, 2010, as amended by Post-Effective Amendment No. 1, filed December 14, 2010 and as amended by Post-Effective Amendment No. 2, filed February 7, 2011 and incorporated by reference herein).
2.2	Support Agreement, dated September 16, 2010, by and among Calix, Inc., Ocean Sub I, Inc., Ocean Sub II, LLC and certain stockholders of Occam Networks, Inc. (filed as Exhibit 2.2 to Calix's Registration Statement on Form S-4 originally filed with the Securities and Exchange Commission on November 2, 2010 (File No. 333-170282), as amended by Amendment No. 1 filed December 14, 2010, as amended by Post-Effective Amendment No. 1, filed December 14, 2010 and as amended by Post-Effective Amendment No. 2, filed February 7, 2011 and incorporated by reference herein).
3.1	Amended and Restated Certificate of Incorporation of Calix, Inc. (filed as Exhibit 3.3 to Amendment No. 7 to Calix's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 23, 2010 (File No. 333-163252) and incorporated by reference herein).
3.2	Amended and Restated Bylaws of Calix, Inc. (filed as Exhibit 3.5 to Amendment No. 7 to Calix's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 23, 2010 (File No. 333-163252) and incorporated by reference herein).
4.1	Form of Calix, Inc.'s Common Stock Certificate (filed as Exhibit 4.1 to Amendment No. 7 to Calix's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 23, 2010 (File No. 333-163252) and incorporated by reference herein).
4.2	Amended and Restated Investors' Rights Agreement, by and between Calix, Inc. and the investors listed on Exhibit A thereto, dated May 29, 2009 (filed as Exhibit 4.2 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).
4.3	Warrant to Purchase Stock, between Optical Solutions, Inc. and Silicon Valley Bank, dated August 16, 2004 (filed as Exhibit 4.22 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and

	incorporated by reference herein).
4.4	Assignment, between Silicon Valley Bank and Silicon Valley Bancshares, dated August 19, 2004 (filed as Exhibit 4.23 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).
4.5	Warrant to Purchase Stock, between Calix, Inc. and Greater Bay Venture Banking, a division of Greater Bay Bank N.A., dated September 4, 2007 (filed as Exhibit 4.27 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).
10.1*	Calix Networks, Inc. Amended and Restated 2000 Stock Plan and related documents (filed as Exhibit 10.1 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).
10.2*	Calix Networks, Inc. Amended and Restated 2002 Stock Plan and related documents (filed as Exhibit 10.2 to Amendment No. 6 to Calix's Registration Statement on Form S-1 filed with the SEC on March 8, 2010 (File No. 333-163252) and incorporated by reference herein).
10.3*	Optical Solutions, Inc. Amended and Restated 1997 Long-Term Incentive and Stock Option Plan and related documents (filed as Exhibit 10.3 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).
10.4*	Calix, Inc. 2010 Equity Incentive Award Plan and related documents (filed as Exhibit 10.2 to Amendment No. 6 to Calix's Registration Statement on Form S-1 filed with the SEC on March 8, 2010 (File No. 333-163252) and incorporated by reference herein).
10.5	Form of Indemnification Agreement made by and between Calix, Inc. and each of its directors, executive officers and some employees (filed as Exhibit 10.5 to Amendment No. 6 to Calix's Registration Statement on Form S-1 filed with the SEC on March 8, 2010 (File No. 333-163252) and incorporated by reference herein).
10.6	Lease, between RNM Lakeville, LLC and Calix, Inc., dated February 13, 2009 (filed as Exhibit 10.6 to Calix's Registration Statement on Form S-1 filed with the SEC on November 20, 2009 (File No. 333-163252) and incorporated by reference herein).
10.7	Credit Agreement, among Calix, Inc., certain of its subsidiaries, Bank of America, N.A. and the other lenders party thereto, dated July 29, 2013 (filed as Exhibit 10.1 to Calix's Form 10-Q filed with the SEC on August 6, 2013 (File No. 001-34674) and incorporated by reference herein).
10.8*	Offer Letter, between Calix, Inc. and Carl Russo, dated November 1, 2006 (filed as Exhibit 10.8 to Amendment No. 1 to Calix's Registration Statement on Form S-1 filed with the

	SEC on December 31, 2009 (File No. 333-163252) and incorporated by reference herein).
10.9*	Offer Letter, between Calix, Inc. and Tony Banta, dated August 25, 2005 (filed as Exhibit 10.10 to Amendment No. 1 to Calix's Registration Statement on Form S-1 filed with the SEC on December 31, 2009 (File No. 333-163252) and incorporated by reference herein).
10.10*	Offer Letter, between Calix, Inc. and John Colvin, dated March 3, 2004 (filed as Exhibit 10.11 to Amendment No. 1 to Calix's Registration Statement on Form S-1 filed with the SEC on December 31, 2009 (File No. 333-163252) and incorporated by reference herein).

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Exhibit Number	Description
10.11*	Offer Letter, between Calix, Inc. and Kevin Pope, dated December 21, 2008 (filed as Exhibit 10.12 to Amendment No. 1 to Calix's Registration Statement on Form S-1 filed with the SEC on December 31, 2009 (File No. 333-163252) and incorporated by reference herein).
10.12*	Offer Letter, between Calix, Inc. and Roger Weingarth, dated February 17, 2003, as amended April 13, 2004 (filed as Exhibit 10.13 to Amendment No. 1 to Calix's Registration Statement on Form S-1 filed with the SEC on December 31, 2009 (File No. 333-163252) and incorporated by reference herein).
10.13*	Offer Letter, between Calix, Inc. and Michael Ashby, dated March 7, 2011 (filed as Exhibit 10.2 to Calix's Form 8-K filed with the SEC on March 7, 2011 (File No. 001-34674) and incorporated by reference herein).
10.14*	Employment Agreement, between Calix, Inc. and Andrew Lockhart, dated February 2, 2011 (filed as Exhibit 10.20 to Calix's Form 10-Q filed with the SEC on May 3, 2012 (File No. 001-34674) and incorporated by reference herein).
10.15*	Offer Letter, between Calix, Inc. and William Atkins, dated December 21, 2013.
10.16*	Transition and Separation Agreement, by and between Michael Ashby and Calix, Inc., dated February 7, 2014.
10.17*	Transition and Separation Agreement, by and between Roger Weingarth and Calix, Inc., dated February 6, 2013 (filed as Exhibit 10.26 to Calix's Form 10-K filed with the SEC on February 22, 2013 (File No. 001-34674) and incorporated by reference herein).
10.18*	Calix, Inc. Amended And Restated Employee Stock Purchase Plan (Effective as of May 23, 2012) (filed as Exhibit 10.1 to Calix's Form 10-Q filed with the SEC on August 7, 2012 (File No. 001-34674) and incorporated by reference herein).
10.19*	Calix, Inc. Non-Employee Director Equity Compensation Policy, as amended October 18, 2011 and July 25, 2012 (filed as Exhibit 10.2 to Calix's Form 10-Q filed with the SEC on August 7, 2012 (File No. 001-34674) and incorporated by reference herein).
10.20†	Asset Purchase Agreement between Ericsson Inc. and Calix, Inc., dated August 20, 2012 (filed as Exhibit 10.1 to Calix's Form 10-Q/A filed with the SEC on December 18, 2012 (File No. 001-34674) and incorporated by reference herein).
10.21*	Calix, Inc. Non-Employee Director Cash Compensation Policy, effective January 31, 2014.
10.22*	Calix, Inc. Non-Employee Director Restricted Stock Unit Deferred Compensation Plan, effective January 1, 2013 (filed as Exhibit 10.22 to Calix's Form 10-K filed with the SEC on

	February 22, 2013 (File No. 001-34674) and incorporated by reference herein).
10.23*	Calix, Inc. Management Bonus Program Under the 2010 Equity Incentive Award Plan (filed as Exhibit 10.1 to Calix's Form 8-K filed with the SEC on February 28, 2012 (File No. 001-34674) and incorporated by reference herein).
10.24*	Calix, Inc. Long Term Incentive Program Under the 2010 Equity Incentive Award Plan (filed as Exhibit 10.2 to Calix's Form 8-K filed with the SEC on February 28, 2012 (File No. 001-34674) and incorporated by reference herein).
10.25	First Amendment to Lease, by and between 1031, 1035, 1039 North McDowell, LLC and Calix, Inc., effective January 28, 2013 (filed as Exhibit 10.25 to Calix's Form 10-K filed with the SEC on February 22, 2013 (File No. 001-34674) and incorporated by reference herein).
21.1	Subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm.
24.1	Power of Attorney (included on signature page to this Annual Report on Form 10-K).
31.1	Certification of Principle Executive Officer of Calix, Inc. Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Principle Financial Officer of Calix, Inc. Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Principle Executive Officer and Principle Financial Officer of Calix, Inc. Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Indicates management contract or compensatory plan or arrangement.

† Confidential treatment has been granted as to certain portions of this agreement.