ADTRAN INC
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

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

For the transition period from _______ to _______

Commission File Number: 000-24612

ADTRAN, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	63-0918200
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
901 Explorer Boulevard	35806-2807

Huntsville, Alabama
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code: (256) 963-8000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Small reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 24, 2018, the registrant had 47,914,242 shares of common stock, $0.01 par value per share, outstanding.

Explanatory Note

On April 17, 2018, ADTRAN, Inc. released earnings that did not adequately reflect the adoption of ASU 2016-01. The financial statements included in this Form 10-Q fully reflect the adoption of ASU 2016-01 and the treatment under that standard of net unrecognized investment gain of $3.2 million at January 1,2018. The primary impact of this change was a decrease in investment income of $2.1 million, an increase in tax benefit of $0.4 million and an increase in loss per share of $(0.03) when compared to the original earnings release.

ADTRAN, Inc.

Quarterly Report on Form 10-Q

For the three months ended March 31, 2018

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FORWARD LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of ADTRAN. ADTRAN and its representatives may from time to time make written or oral forward-looking statements, including statements contained in this report, our other filings with the Securities and Exchange Commission (SEC) and other communications with our stockholders. Generally, the words, "believe," "expect," "intend," "estimate," "anticipate," "will," "may," "could" and similar expressions identify forward-looking statements. We cau you that any forward-looking statements made by us or on our behalf are subject to uncertainties and other factors that could cause such statements to be wrong. A list of factors that could materially affect our business, financial condition or operating results is included under "Factors that Could Affect Our Future Results" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 2 of Part I of this report. They have also been discussed in Item 1A of Part I in our most recent Annual Report on Form 10-K for the year ended December 31, 2017 filed on February 23, 2018 with the SEC. Though we have attempted to list comprehensively these important factors, we caution investors that other factors may prove to be important in the future in affecting our operating results. New factors emerge from time to time, and it is not possible for us to predict all of these factors, nor can we assess the impact each factor or a combination of factors may have on our business.

You are further cautioned not to place undue reliance on these forward-looking statements because they speak only of our views as of the date that the statements were made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ADTRAN, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share amounts)

	March 31, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$82,623	$ 86,433
Short-term investments	16,402	16,129
Accounts receivable, less allowance for doubtful accounts of $— at March 31, 2018 and December 31, 2017	80,883	144,150
Other receivables	35,124	26,578
Inventory, net	120,021	122,542
Prepaid expenses and other current assets	9,693	17,282
Total Current Assets	344,746	413,114
Property, plant and equipment, net	83,875	85,079
Deferred tax assets, net	21,427	23,428
Goodwill	3,492	3,492
Other assets	32,635	13,725
Long-term investments	156,472	130,256
Total Assets	$642,647	$ 669,094
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$50,653	$ 60,632
Unearned revenue	13,948	13,070
Accrued expenses	13,826	13,232
Accrued wages and benefits	15,863	15,948
Income tax payable	8,277	3,936
Total Current Liabilities	102,567	106,818
Non-current unearned revenue	4,154	4,556
Other non-current liabilities	34,590	34,209
Bonds payable	25,600	25,600
Total Liabilities	166,911	171,183
Commitments and contingencies (see Note 15)		
Stockholders' Equity		
Common stock, par value $0.01 per share; 200,000 shares authorized; 79,652 shares issued and 47,914 shares outstanding at March 31, 2018 and 79,652 shares issued and 48,485 shares outstanding at December 31, 2017	797	797

Additional paid-in capital	262,333	260,515
Accumulated other comprehensive loss	(5,803)	(3,295)
Retained earnings	909,611	922,178
Less treasury stock at cost: 31,738 and 31,167 shares at March 31, 2018 and December 31, 2017, respectively	(691,202)	(682,284)
Total Stockholders’ Equity	475,736	497,911
Total Liabilities and Stockholders’ Equity	$642,647	$ 669,094

See notes to consolidated financial statements

ADTRAN, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended March 31, 2018	2017
Sales		
Products	$105,253	$143,597
Services	15,553	26,682
Total Sales	120,806	170,279
Cost of Sales		
Products	68,612	76,664
Services	12,461	19,906
Total Cost of Sales	81,073	96,570
Gross Profit	39,733	73,709
Selling, general and administrative expenses	33,531	34,789
Research and development expenses	32,849	31,971
Operating Income (Loss)	(26,647)	6,949
Interest and dividend income	866	933
Interest expense	(132)	(141)
Net realized investment gain	(97)	470
Other income (expense), net	(57)	134
Gain on bargain purchase of a business	11,322	—
Income (loss) before provision for income taxes	(14,745)	8,345
(Provision) benefit for income taxes	3,931	(1,694)
Net Income (Loss)	$(10,814)	$6,651
Weighted average shares outstanding – basic	48,232	48,430
Weighted average shares outstanding – diluted	48,292	48,939
Earnings (loss) per common share – basic	$(0.22)	$0.14
Earnings (loss) per common share – diluted	$(0.22)	$0.14
Dividend per share	$0.09	$0.09

See notes to consolidated financial statements

ADTRAN, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2018	2017
Net Income (Loss)	$(10,814)	$6,651
Other Comprehensive Income (Loss), net of tax		
Net unrealized gains (losses) on available-for-sale securities	(3,412)	1,335
Net unrealized gains (losses) on cash flow hedges	—	79
Defined benefit plan adjustments	62	55
Foreign currency translation	842	1,242
Other Comprehensive Income (Loss), net of tax	(2,508)	2,711
Comprehensive Income (Loss), net of tax	$(13,322)	$9,362

See notes to consolidated financial statements

ADTRAN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended March 31, 2018	2017
Cash flows from operating activities:		
Net income (loss)	$(10,814)	$6,651
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,614	4,323
Amortization of net premium on available-for-sale investments	42	124
Net realized (gain) loss on long-term investments	97	(470)
Net (gain) loss on disposal of property, plant and equipment	67	(16)
Gain on bargain purchase of a business	(11,322)	—
Stock-based compensation expense	1,819	1,883
Deferred income taxes	(1,877)	(1,947)
Changes in operating assets and liabilities:		
Accounts receivable, net	63,904	7,247
Other receivables	(6,598)	1,884
Inventory	3,368	(7,399)
Prepaid expenses and other assets	10,583	(2,413)
Accounts payable	(10,233)	(1,713)
Accrued expenses and other liabilities	826	(3,166)
Income tax payable	2,753	4,049
Net cash provided by operating activities	46,229	9,037
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,950)	(3,872)
Proceeds from disposals of property, plant and equipment	—	16
Proceeds from sales and maturities of available-for-sale investments	49,074	24,471
Purchases of available-for-sale investments	(75,960)	(29,517)
Acquisition of business	(7,806)	—
Net cash used in investing activities	(36,642)	(8,902)
Cash flows from financing activities:		
Proceeds from stock option exercises	369	1,377
Purchases of treasury stock	(10,171)	(5,559)
Dividend payments	(4,367)	(4,369)
Net cash used in financing activities	(14,169)	(8,551)
Net decrease in cash and cash equivalents	(4,582)	(8,416)
Effect of exchange rate changes	772	1,079
Cash and cash equivalents, beginning of period	86,433	79,895

Cash and cash equivalents, end of period	$82,623	$72,558
Supplemental disclosure of non-cash investing activities:		
Purchases of property, plant and equipment included in accounts payable	$95	$509

See notes to consolidated financial statements

ADTRAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements of ADTRAN®, Inc. and its subsidiaries (ADTRAN) have been prepared pursuant to the rules and regulations for reporting on Quarterly Reports on Form 10-Q. Accordingly, certain information and notes required by generally accepted accounting principles for complete financial statements are not included herein. The December 31, 2017 Consolidated Balance Sheet is derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

In the opinion of management, all adjustments necessary to fairly state these interim statements have been recorded and are of a normal and recurring nature. The results of operations for an interim period are not necessarily indicative of the results for the full year. The interim statements should be read in conjunction with the financial statements and notes thereto included in ADTRAN's Annual Report on Form 10-K for the year ended December 31, 2017, filed on February 23, 2018 with the SEC.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Our more significant estimates include the obsolete and excess inventory reserves, warranty reserves, customer rebates, determination of the deferred revenue components of multiple element sales agreements, estimated costs to complete obligations associated with deferred revenues, estimated income tax provision and income tax contingencies, the fair value of stock-based compensation, impairment of goodwill, valuation and estimated lives of intangible assets, estimated pension liability, fair value of investments, and the evaluation of other-than-temporary declines in the value of investments. Actual amounts could differ significantly from these estimates.

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 requires an entity to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about the entity's leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. A modified retrospective approach is required. We anticipate the adoption of ASU 2016-02 will have a material impact on our financial position; however, we do not believe adoption will have a material impact on our results of operations. We believe the most significant impact relates to our accounting for operating leases for office space and equipment.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (ASU 2017-04). ASU 2017-04 simplifies the measurement of goodwill by eliminating step 2 of the goodwill impairment test. Under ASU 2017-04, entities will be required to compare the fair value of a reporting unit to its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. ASU 2017-04 is effective for annual or interim impairment tests performed in fiscal years beginning after December 15, 2019, with early adoption permitted for annual or interim impairment tests performed on testing dates after January 1, 2017. The amendments should be applied prospectively. We are currently evaluating whether to early adopt ASU 2017-04, but we do not expect it will have a material impact on our financial position, results of operations or cash flows.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). ASU 2017-12 expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. ASU 2017-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact ASU 2017-12 will have on our financial position, results of operations and cash flows.

During 2018, we adopted the following accounting standards, which had no material effect on our financial position, results of operations or cash flows:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 to fiscal years beginning after December 31, 2017, and interim periods within those fiscal years, with early adoption permitted for reporting periods beginning after December 15, 2016. Subsequently, the FASB issued ASUs in 2016 containing implementation guidance related to ASU 2014-09, including: ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations; ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which is intended to clarify two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance; ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which contains certain provisions and practical expedients in response to identified implementation issues; and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, which is intended to clarify the Codification or to correct unintended application of guidance. ASU 2014-09 allows for either full retrospective or modified retrospective adoption. We adopted ASU 2014-09 and the related ASUs on January 1, 2018 using the modified retrospective method, which was applied to all contracts on the date of initial adoption.

The two primary areas of impact of these ASUs were network implementation service revenue performance obligations and contract costs. The output method will be used to measure network implementation services progress. The primary impact will be accelerated revenue recognition for certain performance obligations related to service revenue arrangements that were previously deferred until customer acceptance and capitalization and amortization of incremental costs of obtaining a contract as described below.

In connection with the adoption of the new revenue standard, effective January 1, 2018, we adopted ASC 340-40, Other Assets and Deferred Costs - Contracts with Customers, with respect to capitalization and amortization of incremental costs of obtaining a contract. As a result, certain costs of obtaining a contract will need to be capitalized, including sales commissions, as the guidance requires the capitalization of all incremental costs incurred to obtain a contract with a customer that it would not have incurred if the contract had not been obtained, provided the costs are recoverable. The primary impact was capitalization of certain sales commissions for our extended maintenance and support contracts in excess of one year and amortization of those costs over the period that the related revenue is recognized.

The cumulative effect of the changes made to our Consolidated Balance Sheet on January 1, 2018 for the adoption of ASU 2014-09 and the related ASUs was as follows:

(In thousands)	Balance at December 31, 2017	Adjustments due to ASU 2014-09	Balance at January 1, 2018
Other receivables	$ 26,578	374	$26,952

Deferred tax assets, net	$ 23,428	(96)	$ 23,332
Retained earnings	$ 922,178	278	$ 922,456

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The impact of the adoption of ASU 2014-09 and the related ASUs on our financial statements was as follows:

(In thousands)	For the three months ended March 31, 2018 As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Sales			
Products	$105,253	105,439	$ (186)
Services	$15,553	14,700	$ 853
Cost of Sales			
Products	$68,612	68,723	$ (111)
Services	$12,461	11,925	$ 536
Loss before benefit for income taxes	$(14,745)	(14,987)	$ 242
Benefit for income taxes	$3,931	3,998	$ (67)
Net loss	$(10,814)	(10,989)	$ 175

(In thousands)	As of March 31, 2018 As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Assets			
Other receivables	$35,124	35,060	$ 64
Inventory	$120,021	119,910	$ 111
Equity			
Retained earnings	$909,611	909,436	$ 175

In January 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01) which addresses certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 was effective beginning January 1, 2018 and we are now recognizing any changes in the fair value of certain equity investments in net income as prescribed by the new standard rather than in other comprehensive income. We adopted ASU 2016-01 on January 1, 2018 using the modified retrospective method, which resulted in $3.2 million reclassification of net unrealized gains from accumulated other comprehensive income to opening retained earnings.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07). ASU 2017-07 amends ASC 715, Compensation — Retirement Benefits, to require employers that present a measure of operating income in their statements of earnings to include only the service cost component of net periodic pension cost and net periodic postretirement benefit cost in operating expenses (together with other employee compensation costs). The other components of net benefit cost, including amortization of prior service cost/credit, and settlement and curtailment effects, are to be included in non-operating expenses. We adopted ASU 2017-07 on January 1, 2018. We retrospectively adopted the presentation of service cost separate from other components of net periodic pension costs. As a result, $0.1 million was reclassified from cost of sales, selling, general and administrative expenses, and research and development expense to other income (expense), net for the three months ended March 31, 2017.

2. BUSINESS COMBINATIONS

On March 19, 2018, we acquired Sumitomo Electric Lightwave Corp.'s (SEL) North American EPON business and entered into a technology license and OEM supply agreement with Sumitomo Electric Industries, Ltd. (SEI). This acquisition establishes ADTRAN as the North American market leader for EPON solutions for the cable MSO industry and will accelerate the MSO market's adoption of our open, programmable and scalable architectures. This transaction was accounted for as a business combination. We have included the financial results of this acquisition in our consolidated financial statements since the date of acquisition. These revenues are included in the Access & Aggregation and Customer Devices categories within the Network Solutions reportable segment.

We recorded a bargain purchase gain of $11.3 million during the first quarter of 2018, net of income taxes, which is subject to customary working capital adjustments between the parties. The bargain purchase gain of $11.3 million represents the difference between the fair value of the net assets acquired over the cash paid. SEI, an OEM supplier based in Japan, is a market leader in EPON. SEI's Broadband Networks Division through its SEL subsidiary operated a North American EPON business including sales, marketing, support, and region-specific engineering development. The North American EPON market is primarily driven by the Tier 1 cable MSO operators and has developed slower than anticipated. Through the transaction, SEI divested its North American EPON assets and established a relationship with ADTRAN. The transfer of these assets to ADTRAN, which included key customer relationships and required assumption by ADTRAN of relatively low incremental expenses, along with the value of the technology license and OEM supply agreement, resulted in the bargain purchase gain. We have assessed the recognition and measurement of the assets acquired and liabilities assumed based on historical and forecasted data for future periods and have concluded that our valuation procedures and resulting measures were appropriate.

The preliminary allocation of the purchase price to the estimated fair value of the assets acquired at the acquisition date is as follows:

(In Thousands)	
Assets	
Other receivables	$104
Inventory	510
Property, plant and equipment	392
Intangible assets	22,100
Total assets acquired	23,106
Liabilities	
Deferred income taxes	(3,978)
Total liabilities assumed	(3,978)
Total net assets	19,128
Gain on bargain purchase of a business, net of tax	(11,322)
Total purchase price	$7,806

The actual revenue and net loss included in our Consolidated Statements of Income for the period March 19, 2018 to March 31, 2018 are as follows:

(In thousands)	March 19 to March 31, 2018
Revenue	$ —
Net loss	$ (77)

The details of the acquired intangible assets are as follows:

In thousands	Value	Life (years)
Customer relationships	$13,400	12.0
Licensed technology	5,900	9.0
Supplier relationship	2,800	2.0
Total	$22,100	

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The following unaudited supplemental pro forma information presents the financial results as if the acquisition had occurred on January 1, 2017. This unaudited supplemental pro forma information does not purport to be indicative of what would have occurred had the acquisition been completed on January 1, 2017, nor is it indicative of any future results. Aside from revising the 2017 and 2018 net income for the effect of the bargain purchase gain, there were no material, non-recurring adjustments to this unaudited pro forma information.

	Three Months Ended March 31,	
(In thousands)	2018	2017
Pro forma revenue	$122,066	$170,692
Pro forma net income	$(22,720)	$17,201
Pro forma earnings per share - basic	$(0.47)	$0.36
Pro forma earnings per share - diluted	$(0.47)	$0.35

For the three months ended March 31, 2018, we incurred acquisition and integration related expenses and amortization of acquired intangibles of $0.2 million related to this acquisition.

3. REVENUE

Revenue is measured based on the consideration we expect to receive in exchange for transferring goods or providing services to a customer and as performance obligations under the terms of the contract are satisfied. Generally, this occurs with the transfer of control of a product or service to the customer. For transactions where there are multiple performance obligations, we account for individual products and services separately if they are distinct (if a product or service is separately identifiable from other items and if a customer can benefit from it on its own or with other resources that are readily available to the customer). The consideration, including any discounts, is allocated between separate products and services based on their stand-alone selling prices using the most likely amount. The stand-alone selling prices are determined based on the prices at which we sell the separate products and services. For items that are not sold separately, we estimate stand-alone selling prices primarily using reasonable internal analysis. Shipping fees are recorded as revenue and the related cost is included in cost of sales. Sales, value added, and other taxes collected concurrent with revenue-producing activities are excluded from revenue. Costs of obtaining a contract are capitalized and amortized over the period that the related revenue is recognized. We have elected to apply the practical expedient related to the incremental costs of obtaining contracts and recognize those costs as expense when incurred if the amortization period of the assets is one year or less. These costs are included in selling, general and administrative expenses. Capitalized costs with an amortization period greater than one year were immaterial.

The following is a description of the principal activities from which we generate our revenue by reportable segment.

Network Solutions Segment

Network Solutions includes hardware products and next-generation virtualized solutions used in service provider or business networks, as well as prior generation products.

Hardware

The majority of the revenue from this segment is from hardware sales and is recognized when control is transferred to our customers, which is generally when we ship the products. Shipping terms are generally FOB shipping point.

Revenue is recorded net of discounts and rebates using the most likely amount. Customers are typically invoiced when control is transferred and revenue is recognized. Our products generally include assurance-based warranties of 90 days to five years for product defects, which are accrued at the time revenue is recognized.

In certain transactions, we are also the lessor in sales-type lease arrangements for network equipment, which have terms of 18 months to five years. These arrangements typically include network equipment, network implementation services and maintenance services. Product revenue for these leases is generally recorded when we transfer control of the product to our customers. Revenue for network implementation and maintenance services is recognized as described below. Customers are typically invoiced and pay in equal installments over the lease term.

Services & Support Segment

To complement our Network Solutions segment, we offer a complete portfolio of maintenance, network implementation, solutions integration and managed services, which include hosted, cloud services and subscription services.

Maintenance

Our maintenance service periods range from one month to five years. Customers are typically invoiced and pay for maintenance services at the beginning of the maintenance period, which is recorded in current or non-current unearned revenue depending on the length of the service period. Maintenance services are provided on an as-needed basis and our customers benefit evenly throughout the contract term. Accordingly, we recognize revenue for maintenance services on a straight-line basis over the maintenance period in services revenue.

Network Implementation

We recognize revenue for network implementation, which primarily consists of engineering, execution and enablement services, when performance obligations are complete at a point in time. If we have recognized revenue, but not billed the customer, the right to consideration is recognized as a contract asset, which is included in other receivables in the Consolidated Balance Sheet. The contract asset is transferred to accounts receivable when the right to consideration to payment becomes unconditional.

As of March 31, 2018, we did not have any remaining performance obligations related to customer contracts that had an original expected duration of one year or more, other than maintenance services, which are satisfied over time.

The following table provides information about receivables, contract assets, and unearned revenue from contracts with customers:

(In thousands)	March 31, 2018	December 31, 2017
Accounts receivable	$ 80,883	$ 144,150
Contract assets	1,442	—
Unearned revenue	13,948	13,070
Non-current unearned revenue	4,154	4,556

During the three months ended March 31, 2018, we recognized $3.5 million of revenue that was included in unearned revenue at the beginning of the period.

The following table disaggregates our revenue by major source:

(In thousands)	Network Solutions	Services & Support	Total
Access & Aggregation	$ 69,385	$ 12,295	$ 81,680
Customer Devices	28,777	1,324	30,101
Traditional & Other Products	7,091	1,934	9,025

Total	$105,253	$15,553	$120,806

4. INCOME TAXES

Our effective tax rate decreased from 20.3% in the three months ended March 31, 2017, to 15.1%, excluding the tax impact of the bargain purchase gain, in the three months ended March 31, 2018. The decrease in the effective tax rate between the two periods is primarily attributable to the impact of the Tax Cuts and Jobs Act, which was signed into law on December 22, 2017.

5. PENSION BENEFIT PLAN

We maintain a defined benefit pension plan covering employees in certain foreign countries.

The following table summarizes the components of net periodic pension cost for the three months ended March 31, 2018 and 2017:

(In thousands)	Three Months Ended March 31, 2018	2017
Service cost	$308	$297
Interest cost	187	143
Expected return on plan assets	(399)	(299)
Amortization of actuarial losses	64	73
Net periodic pension cost	$160	$214

The components of net periodic pension cost other than the service cost component are included in the line item “Other income (expense), net” in the Consolidated Statements of Income.

6. STOCK-BASED COMPENSATION

The following table summarizes the stock-based compensation expense related to stock options, performance stock units (PSUs), restricted stock units (RSUs) and restricted stock for the three months ended March 31, 2018 and 2017, which was recognized as follows:

(In thousands)	Three Months Ended March 31, 2018	2017
Stock-based compensation expense included in cost of sales	$95	$91
Selling, general and administrative expense	1,035	1,016
Research and development expense	689	776