ALIGN TECHNOLOGY INC
Form 10-Q
August 03, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
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: 0-32259

ALIGN TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-3267295
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2560 Orchard Parkway
San Jose, California 95131
(Address of principal executive offices)
(408) 470-1000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller 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 7(a)(2)(B) of the Securities Act. ¨

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

The number of shares outstanding of the registrant's Common Stock, $0.0001 par value, as of July 28, 2017 was 80,150,594.

1

Table of Contents

ALIGN TECHNOLOGY, INC.
INDEX

Table of Contents

PART I—FINANCIAL INFORMATION
ITEM 1 FINANCIAL STATEMENTS
ALIGN TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net revenues	$356,482	$269,362	$666,823	$508,082
Cost of net revenues	85,565	64,146	160,281	122,239
Gross profit	270,917	205,216	506,542	385,843
Operating expenses:				
Selling, general and administrative	162,964	121,467	314,112	233,677
Research and development	24,384	18,613	47,188	33,696
Total operating expenses	187,348	140,080	361,300	267,373
Income from operations	83,569	65,136	145,242	118,470
Interest and other income (expense), net	3,212	125	4,857	(302)
Net income before provision for income taxes and equity in losses of investee	86,781	65,261	150,099	118,168
Provision for income taxes	15,387	15,113	8,164	27,474
Equity in losses of investee, net of tax	2,215	—	3,336	—
Net income	$69,179	$50,148	$138,599	$90,694
Net income per share:				
Basic	$0.86	$0.63	$1.73	$1.14
Diluted	$0.85	$0.62	$1.70	$1.11
Shares used in computing net income per share:				
Basic	80,188	79,951	80,047	79,891
Diluted	81,631	81,281	81,668	81,440

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

ALIGN TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$69,179	$50,148	$138,599	$90,694
Net change in foreign currency translation adjustment	1,199	83	740	(67)
Change in unrealized gains on investments, net of tax	27	323	42	1,475
Other comprehensive income	1,226	406	782	1,408
Comprehensive income	$70,405	$50,554	$139,381	$92,102

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

ALIGN TECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$358,182	$389,275
Marketable securities, short-term	243,786	250,981
Accounts receivable, net of allowance for doubtful accounts and returns of $5,452 and $4,310, respectively	291,694	247,415
Inventories	35,133	27,131
Prepaid expenses and other current assets	74,427	38,176
Total current assets	1,003,222	952,978
Marketable securities, long-term	74,619	59,783
Property, plant and equipment, net	255,539	175,167
Equity method investments	41,724	45,061
Goodwill and intangible assets, net	91,308	81,998
Deferred tax assets	61,783	67,844
Other assets	22,992	13,320
Total assets	$1,551,187	$1,396,151
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$45,953	$28,596
Accrued liabilities	158,838	134,332
Deferred revenues	220,005	191,407
Total current liabilities	424,796	354,335
Income tax payable	44,581	45,133
Other long-term liabilities	3,522	1,294
Total liabilities	472,899	400,762
Commitments and contingencies (Note 8 and 9)		
Stockholders' equity:		
Preferred stock, $0.0001 par value (5,000 shares authorized; none issued)	—	—
Common stock, $0.0001 par value (200,000 shares authorized; 80,144 and 79,553 issued and outstanding, respectively)	8	8
Additional paid-in capital	845,560	864,871
Accumulated other comprehensive income (loss), net	(156)	(938)
Retained earnings	232,876	131,448
Total stockholders' equity	1,078,288	995,389
Total liabilities and stockholders' equity	$1,551,187	$1,396,151

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

ALIGN TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$138,599	$90,694
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	6,145	(8,608)
Depreciation and amortization	16,743	9,885
Stock-based compensation	29,057	26,223
Net tax benefits from stock-based awards	—	9,811
Excess tax benefit from share-based payment arrangements	—	(10,697)
Equity in losses of investee	3,336	—
Other non-cash operating activities	5,837	7,041
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(52,038)	(38,433)
Inventories	(8,616)	(3,524)
Prepaid expenses and other assets	388	(5,025)
Accounts payable	4,410	(4,753)
Accrued and other long-term liabilities	(15,353)	4,446
Deferred revenues	29,580	29,787
Net cash provided by operating activities	158,088	106,847
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	(8,953)	—
Purchase of property, plant and equipment	(78,045)	(39,025)
Purchase of marketable securities	(212,226)	(241,364)
Proceeds from maturities of marketable securities	173,094	210,693
Proceeds from sales of marketable securities	32,352	24,224
Loan advance to equity investee	(15,000)	—
Other investing activities	224	(6,031)
Net cash used in investing activities	(108,554)	(51,503)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	7,521	7,002
Common stock repurchases	(38,793)	(35,000)
Equity forward contract related to accelerated share repurchase	(15,000)	(15,000)
Excess tax benefit from share-based payment arrangements	—	10,697
Employees’ taxes paid upon the vesting of restricted stock units	(37,968)	(23,207)
Net cash used in financing activities	(84,240)	(55,508)
Effect of foreign exchange rate changes on cash and cash equivalents	3,613	156
Net decrease in cash and cash equivalents	(31,093)	(8)
Cash and cash equivalents, beginning of the period	389,275	167,714
Cash and cash equivalents, end of the period	$358,182	$167,706
SUPPLEMENTAL CASH FLOW INFORMATION:		
Accounts payable or accrued liabilities related to property, plant and equipment	20,291	10,009

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

ALIGN TECHNOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by Align Technology, Inc. (“we”, “our”, or “Align”) in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and contain all adjustments, including normal recurring adjustments, necessary to state fairly our results of operations for the three and six months ended June 30, 2017 and 2016, our comprehensive income for the three and six months ended June 30, 2017 and 2016, our financial position as of June 30, 2017 and our cash flows for the six months ended June 30, 2017 and 2016. The Condensed Consolidated Balance Sheet as of December 31, 2016 was derived from the December 31, 2016 audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or any other future period, and we make no representations related thereto. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Quantitative and Qualitative Disclosures About Market Risk” and the Consolidated Financial Statements and notes thereto included in Items 7, 7A and 8, respectively, in our Annual Report on Form 10-K for the year ended December 31, 2016.

Out of Period Adjustment

During the second quarter of 2017, we recorded an out of period adjustment that resulted in decrease in interest and other income (expense), net of $1.9 million and increase in accrued liabilities of $1.9 million. We do not believe the decrease of $1.9 million to net income related to the out of period adjustment is material to the Consolidated Financial Statements for the three and six months ended June 30, 2017 or to prior period's Consolidated Financial Statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States of America (“U.S.”) requires our management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, we evaluate our estimates, including those related to the fair values of financial instruments, long-lived assets and goodwill, equity method investments, useful lives of intangible assets and property and equipment, revenue recognition, stock-based compensation, equity losses of investee, income taxes and contingent liabilities, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Recent Accounting Pronouncements

(i) New Accounting Updates Recently Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Improvements to Employee Share-Based Payment Accounting" (Topic 718). We adopted the standard in the first quarter of fiscal year 2017. With this adoption, excess tax benefits related to stock-based compensation expense are reflected in our condensed consolidated statement of operations as a component of the provision for income taxes instead of additional paid-in capital in our condensed consolidated balance sheet. During the six months ended June 30, 2017, we recognized excess tax benefits of $22.4 million in our provision for income taxes. Excess tax benefits from share-based payment arrangements are classified as an operating activity in our condensed consolidated statement of cash flows in the same manner as other cash flows related to income taxes. We have elected to apply the standard on a prospective basis. In addition, we elected to continue to estimate expected forfeitures rather than as they occur to determine the amount of compensation cost to be recognized in each period.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory," (Topic 740) which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. We early adopted the standard in the first quarter of fiscal year 2017 by applying the modified retrospective approach. During the first quarter of fiscal year 2017, we recognized a $1.3 million decrease to retained earnings as a cumulative-effect adjustment.

(ii) Recent Accounting Updates Not Yet Effective

In May 2014, the FASB released ASU 2014-9, "Revenue from Contracts with Customers," (Topic 606) to supersede nearly all existing revenue recognition guidance under GAAP. The core principle of the standard 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 the goods or services. The new standard defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In addition, the new standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. We plan to adopt the standard in the first quarter of fiscal year 2018 by applying the full retrospective method. Our ability to adopt using the full retrospective method is dependent on the completion of our analysis of information necessary to restate prior period financial statements. We are continuing to evaluate the accounting, transition and disclosure requirements of the standard and are in process of assessing the financial statement impact of adoption.

In April 2016, the FASB released ASU 2016-10, "Revenue from Contracts with Customers," to clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the principles for those areas of the ASU 2014-9 issued in May 2014. The effective date and the transition requirement of the amendments in this update are the same as the effective date and transition requirements of Topic 606.

In May 2016, the FASB released ASU 2016-12, "Revenue from Contracts with Customers," to address certain issues in the Topic 606 guidance on assessing the collectability, presentation of sales taxes, non-cash consideration, and completed contracts and contract modifications at transition. The ASU provides narrow-scope improvements and practical expedients to the ASU 2014-9 issued in May 2014. The effective date and the transition requirement of the amendments in this update are the same as the effective date and transition requirements of Topic 606.

In December 2016, the FASB released ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," to clarify certain aspects of guidance in the Topic 606 including its scope, disclosure requirements and contract cost accounting, while retaining the principles for those areas of the ASU 2014-9 issued in May 2014. The effective date and the transition requirement of the amendments in this update are the same as the effective date and transition requirements of Topic 606.

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the standard is permitted. We plan to adopt the standard in the first quarter of fiscal year 2019 by electing practical expedients available in the standard. While we are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements, we expect the adoption will have a material increase to the assets and liabilities of our consolidated balance sheet.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses” (Topic 326). The FASB issued this update to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this update replace the existing guidance of incurred loss impairment methodology with an approach that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption of the update is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact of this guidance on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments" (Topic 230). This FASB clarifies the presentation and classification of certain cash receipts and cash payments in the statements of cash flows. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements and related disclosures.

Table of Contents

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows - Restricted Cash," which provides guidance to address the classification and presentation of changes in restricted cash in the statements of cash flows. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2017 on a retrospective basis, and early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements and related disclosures.
In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," to clarify the definition of a business when evaluating whether transactions should be accounted for as acquisitions of assets or businesses. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2017 on a retrospective basis, and early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements and related disclosures.
In January 2017, the FASB issued ASU 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," to simplify the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. Under the amendments, an entity will recognize an impairment charge for the amount by which the carrying value exceeds the fair value. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2019 on a prospective basis, and early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting," to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2017 on a prospective basis, and early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements and related disclosures.

Note 2. Marketable Securities and Fair Value Measurements

As of June 30, 2017 and December 31, 2016, the estimated fair value of our short-term and long-term marketable securities, classified as available for sale, are as follows (in thousands):

Short-term

June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	$ 32,965	$ —	$ —	$ 32,965
Corporate bonds	146,853	21	(97)	146,777
Municipal securities	3,286	—	—	3,286
U.S. government agency bonds	6,763	—	(7)	6,756
U.S. government treasury bonds	48,261	—	(50)	48,211
Certificates of deposit	5,791	—	—	5,791
Total marketable securities, short-term	$ 243,919	$ 21	$ (154)	$ 243,786

Long-term

June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency bonds	$ 10,026	$ 13	$ (6)	$ 10,033
Corporate bonds	57,558	49	(20)	57,587
U.S. government treasury bonds	7,019	—	(20)	6,999
Total marketable securities, long-term	$ 74,603	$ 62	$ (46)	$ 74,619

9

Table of Contents

Short-term

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	$42,397	$ —	$ (6)	$42,391
Corporate bonds	122,788	22	(121)	122,689
Municipal securities	5,852	—	(5)	5,847
U.S. government agency bonds	28,903	9	(4)	28,908
U.S. government treasury bonds	45,146	7	(7)	45,146
Certificates of deposit	6,000	—	—	6,000
Total marketable securities, short-term	$251,086	$ 38	$ (143)	$250,981

Long-term

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency bonds	$ 6,805	$ —	$ (16)	$6,789
Corporate bonds	40,889	8	(85)	40,812
U.S. government treasury bonds	12,016	5	(16)	12,005
Asset-backed securities	177	—	—	177
Total marketable securities, long-term	$ 59,887	$ 13	$ (117)	$59,783

Cash equivalents are not included in the table above as the gross unrealized gains and losses are not material. We have no short-term or long-term investments that have been in a continuous material unrealized loss position for greater than twelve months as of June 30, 2017 and December 31, 2016. Amounts reclassified to earnings from accumulated other comprehensive income (loss), net related to unrealized gains or losses were not material for the three and six months ended June 30, 2017 and 2016. For the three and six months ended June 30, 2017 and 2016, realized gains or losses were not material.

Our fixed-income securities investment portfolio consists of investments that have a maximum effective maturity of 27 months. The securities that we invest in are generally deemed to be low risk based on their credit ratings from the major rating agencies. The longer the duration of these securities, the more susceptible they are to changes in market interest rates and bond yields. As interest rates increase, those securities purchased at a lower yield show a mark-to-market unrealized loss. The unrealized losses are due primarily to changes in credit spreads and interest rates. We expect to realize the full value of all these investments upon maturity or sale. The weighted average remaining duration of these securities was approximately 8 months and 7 months as of June 30, 2017 and December 31, 2016, respectively.

As the carrying value approximates the fair value for our short-term and long-term marketable securities shown in the tables above, the following table summarizes the fair value of our short-term and long-term marketable securities classified by maturity as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
One year or less	$243,786	$250,981
Due in greater than one year	74,619	59,783
Total available for sale short-term and long-term marketable securities	$318,405	$310,764

Fair Value Measurements

We measure the fair value of financial assets as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We use the GAAP fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value:

Level 1 — Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Table of Contents

Our Level 1 assets consist of money market funds and U.S. government treasury bonds. We did not hold any Level 1 liabilities as of June 30, 2017 and December 31, 2016.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Our Level 2 assets consist of commercial paper, corporate bonds, municipal securities, certificates of deposit, U.S. government agency bonds and our Israeli funds that are mainly invested in insurance policies. We obtain fair values for our Level 2 investments. Our custody bank and asset managers independently use professional pricing services to gather pricing data which may include quoted market prices for identical or comparable financial instruments, or inputs other than quoted prices that are observable either directly or indirectly, and we are ultimately responsible for these underlying estimates. We did not hold any Level 2 liabilities as of June 30, 2017 and December 31, 2016.

Level 3 — Unobservable inputs to the valuation methodology that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation. Certain investments in private companies contain embedded derivatives, which do not require bifurcation as we elected to measure these investments at fair value. Our Level 3 assets consist of long-term notes receivable. We did not hold any Level 3 liabilities as of June 30, 2017 and December 31, 2016.

The following table summarizes the reconciliation of assets measured and recorded at fair value on a recurring basis using significant unobservable inputs Level 3 (in thousands):

	Long-term Notes Receivable
Balance as of December 31, 2016	$ 2,047
Additional note receivable issued	2,000
Accrued interest receivable	28
Change in fair value recognized in earnings (losses)	(12)
Balance as of June 30, 2017	$ 4,063

Table of Contents

The following tables summarize our financial assets measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 (in thousands):

Description	Balance as of June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
Cash equivalents:				
Money market funds	$ 199,302	$ 199,302	$ —	$ —
Commercial paper	26,282	—	26,282	—
Corporate bonds	3,381	—	3,381	—
U.S. government treasury bonds	2,995	2,995	—	—
U.S. government agency bonds				