

INFINERA CORP
Form 10-Q
May 07, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 28, 2009

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: 001-33486

Infinera Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

169 Java Drive

77-0560433
(IRS Employer
Identification No.)

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Sunnyvale, CA 94089

(Address of principal executive offices, including zip code)

(408) 572-5200

(Registrant's telephone number, including area code)

Indicate by checkmark 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, or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller

Smaller reporting company

reporting company)

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 May 1, 2009, 95.4 million shares of the registrant's Common Stock, \$0.001 par value, were issued and outstanding.

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QUARTERLY REPORT ON FORM 10-Q
FOR THE FISCAL QUARTER ENDED MARCH 28, 2009

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****INFINERA CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except par value)****(Unaudited)**

	March 28, 2009	December 27, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 153,371	\$ 166,770
Short-term investments	79,927	68,232
Short-term restricted cash	31	720
Accounts receivable, net of allowance for doubtful accounts of \$1,700 as of March 28, 2009 and December 27, 2008	44,837	69,354
Other receivables	952	1,085
Inventories, net	64,481	58,986
Deferred inventory costs	1,321	1,744
Prepaid expenses and other current assets	6,751	6,311
Total current assets	351,671	373,202
Property, plant and equipment, net	48,583	46,820
Intangible assets	1,209	1,276
Deferred inventory costs, non-current	2,181	2,493
Long-term investments	70,651	74,684
Long-term restricted cash	2,483	2,179
Other non-current assets	6,341	6,413
Total assets	\$ 483,119	\$ 507,067
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 28,258	\$ 34,048
Accrued expenses	16,275	16,092
Accrued compensation and related benefits	9,453	13,472
Accrued warranty	5,392	5,205
Deferred revenue	13,708	14,683
Total current liabilities	73,086	83,500
Accrued warranty, non-current	4,310	4,735
Deferred revenue, non-current	6,886	7,724
Other long-term liabilities	6,551	5,645
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.001 par value		
Authorized shares - 25,000 and no shares issued and outstanding		
Common stock, \$0.001 par value		
Authorized shares 500,000 as of March 28, 2009 and December 27, 2008	95	94

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Issued and outstanding shares	95,077 as of March 28, 2009 and 94,163 as of December 27, 2008		
Additional paid-in capital		711,510	699,705
Accumulated other comprehensive loss		(4,253)	(3,598)
Accumulated deficit		(315,066)	(290,738)
Total stockholders' equity		392,286	405,463
Total liabilities and stockholders' equity		\$ 483,119	\$ 507,067

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

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INFINERA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended	
	March 28, 2009	March 29, 2008
Revenue:		
Product	\$ 59,148	\$ 64,128
Ratable product and related support and services	1,469	72,386
Services	5,963	1,739
Total revenue	66,580	138,253
Cost of revenue:		
Cost of product	43,865	39,665
Cost of ratable product and related support and services	730	35,831
Cost of services	2,015	1,190
Total cost of revenue	46,610	76,686
Gross profit	19,970	61,567
Operating expenses:		
Sales and marketing	11,123	10,246
Research and development	21,997	18,293
General and administrative	10,127	8,417
Amortization of intangible assets	37	37
Total operating expenses	43,284	36,993
Income (loss) from operations	(23,314)	24,574
Other income (expense), net:		
Interest income	918	3,303
Interest expense		(3)
Other gain (loss), net	(1,814)	880
Total other income (expense), net	(896)	4,180
Income (loss) before income taxes	(24,210)	28,754
Provision for income taxes	118	1,160
Net income (loss)	\$ (24,328)	\$ 27,594
Net income (loss) per common share:		
Basic	\$ (0.26)	\$ 0.30
Diluted	\$ (0.26)	\$ 0.29

Weighted average shares used in computing net income (loss) per common share:

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Basic	94,275	91,250
Diluted	94,275	96,692

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

Table of Contents**INFINERA CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Three Months Ended	
	March 28,	March 29,
	2009	2008
Cash Flows from Operating Activities:		
Net income (loss)	\$ (24,328)	\$ 27,594
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,878	2,616
Accretion of investment discount	14	(461)
Stock-based compensation expense	6,736	4,933
Put Rights	1,967	
Unrealized holding gains for trading securities	(972)	
Excess tax benefit from stock option transactions		(71)
Tax benefit from stock option transactions		235
Gain on disposal of assets	(15)	(332)
Other gain		(33)
Changes in assets and liabilities:		
Accounts receivable	24,659	(3,989)
Inventories, net	(4,880)	(1,023)
Prepaid expenses and other current assets	(491)	410
Deferred inventory costs	668	22,805
Other non-current assets	59	(1,220)
Accounts payable	(5,276)	5,792
Accrued liabilities and other expenses	(2,899)	(9,529)
Deferred revenue	(1,813)	(38,943)
Accrued warranty	(238)	1,035
Net cash provided by (used in) operating activities	(2,931)	9,819
Cash Flows from Investing Activities:		
Purchases of available-for-sale investments	(31,629)	(78,300)
Proceeds from sales of available-for-sale investments		58,636
Proceeds from maturities of investments and restricted cash	22,804	36,600
Proceeds from disposal of assets	49	332
Purchase of property and equipment	(5,960)	(2,481)
Net cash provided by (used in) investing activities	(14,736)	14,787
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	4,335	6,044
Excess tax benefit from stock option transactions		71
Repurchase of common stock	(8)	(3)
Net cash provided by financing activities	4,327	6,112
Effect of exchange rate changes on cash	(59)	3
Net change in cash and cash equivalents	(13,399)	30,721
Cash and cash equivalents at beginning of period	166,770	91,209

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Cash and cash equivalents at end of period	\$ 153,371	\$ 121,930
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$	\$ 3
Cash paid for income taxes	\$ 942	\$ 63

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

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INFINERA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business

Infinera Corporation (Infinera or the Company), headquartered in Sunnyvale, California, was founded in December 2000 and incorporated in the State of Delaware. Infinera has developed a digital optical networking system (DTN System) and began commercial shipment of its DTN System in November 2004. Infinera's DTN System is unique in its use of a breakthrough semiconductor technology: the photonic integrated circuit (PIC). Infinera's DTN System and PIC technology are designed to provide optical networks with simpler and more flexible engineering and operations, faster time-to-service, and the ability to rapidly deliver differentiated services without reengineering their optical infrastructure.

2. Basis of Presentation

Basis of Financial Statements

The condensed consolidated financial statements include accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The accompanying condensed consolidated balance sheet as of March 28, 2009, the condensed consolidated statements of operations for the three months ended March 28, 2009 and March 29, 2008, and the condensed consolidated statements of cash flows for the three months ended March 28, 2009 and March 29, 2008 are unaudited. The condensed consolidated balance sheet as of December 27, 2008 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K (Form 10-K) for the year ended December 27, 2008. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in such Form 10-K filed with the U.S. Securities and Exchange Commission (SEC) on February 17, 2009.

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and pursuant to the rules and regulations of the SEC. Not all of the financial information and footnotes required for complete financial statements have been presented. Management believes the unaudited condensed consolidated financial statements have been prepared on a basis consistent with the audited consolidated financial statements and include all adjustments necessary of a normal and recurring nature for a fair presentation of the Company's condensed consolidated balance sheet as of March 28, 2009, the condensed consolidated statements of operations for the three months ended March 28, 2009 and March 29, 2008, and the condensed consolidated statements of cash flows for the three months ended March 28, 2009 and March 29, 2008.

Use of Estimates

The condensed consolidated financial statements are prepared in accordance with GAAP. These accounting principles require the Company to make certain estimates, assumptions and judgments that can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates, assumptions and judgments made by management include revenue recognition, stock-based compensation, inventory valuation, allowances for doubtful accounts, accrued warranty, fair value measurement and classification of investments, cash, cash equivalents and short and long-term investments and accounting for income taxes. Management believes that the estimates and judgments upon which they rely are reasonable based upon information available to them at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, the Company's condensed consolidated financial statements will be affected.

3. Accounting Changes

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 157-4 (FSP 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. FSP 157-4 amends FASB Statement No. 157, *Fair Value Measurement* to provide additional guidance on estimating fair value when

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the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset and liability. It also provided additional guidance on circumstances that may indicate that a transaction is not orderly, and required additional disclosure about fair value measurements in annual and interim reporting periods. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. The Company is currently evaluating the impact that FSP 157-4 will have on its financial statements and disclosures.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

In April 2009, FASB issued FASB Staff Position No. FAS 107-1 (FSP 107-1), *Interim Disclosures About Fair Value of Financial Instruments*. FSP 107-1 requires interim disclosures regarding the fair values of financial instruments that are within the scope of FASB Statement No. 107 (FAS 107), *Disclosure about Fair Value of Financial Instruments*. FSP 107-1 extends the disclosure requirements of FAS 107 to interim financial statements of publicly trade