

INFINERA CORP
Form 10-Q
November 09, 2007
Table of Contents

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

Form 10-Q

b QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 29, 2007

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)

77-0560433
(IRS Employer
Identification No.)

169 Java Drive
Sunnyvale, CA 94089

(Address of principal executive offices, including zip code)

(408) 572-5200

(Registrant's telephone number, including area code)

Edgar Filing: INFINERA CORP - Form 10-Q

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 October 26, 2007, 85,674,360 shares of the registrant's Common Stock, \$0.001 par value, were issued and outstanding.

Table of Contents

Infinera Corporation

INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Condensed Consolidated Financial Statements (Unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets</u> as of September 29, 2007 and December 31, 2006	3
<u>Condensed Consolidated Statements of Operations</u> Three and nine months ended September 29, 2007 and September 30, 2006	4
<u>Condensed Consolidated Statements of Cash Flows</u> Nine months ended September 29, 2007 and September 30, 2006	5
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	40
Item 4. <u>Controls and Procedures</u>	41
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	42
Item 1A. <u>Risk Factors</u>	42
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Item 6. <u>Exhibits</u>	58
<u>Signature Page</u>	59

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

	September 29, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 88,823	\$ 28,884
Short-term investments	86,003	688
Short-term restricted cash	410	
Accounts receivable	38,608	41,635
Other receivables	2,635	513
Inventory	57,116	58,269
Deferred inventory costs	76,052	62,936
Prepaid expenses and other current assets	3,715	3,115
Total current assets	353,362	196,040
Property, plant and equipment, net	31,216	26,665
Intangible assets	1,607	1,806
Deferred inventory costs, non-current	3,835	4,317
Long-term investments	14,247	
Long-term restricted cash	1,871	
Other non-current assets	431	1,638
Total assets	\$ 406,569	\$ 230,466
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 27,032	\$ 41,767
Accrued expenses	5,712	16,574
Accrued compensation and related benefits	13,327	7,628
Accrued warranty	4,283	1,339
Deferred revenue	148,752	101,080
Preferred stock warrant liability		5,409
Current portion of debt		20,025
Total current liabilities	199,106	193,822
Long-term portion of debt		8,357
Accrued warranty, non-current	5,088	1,378
Deferred revenue, non-current	8,398	9,873
Long-term exercised unvested options	1,041	996
Other long-term liabilities	4,710	1,811
Commitments and contingencies (Note 6)		320,550

Edgar Filing: INFINERA CORP - Form 10-Q

Convertible preferred stock, \$0.001 par value; Authorized shares - none as of September 29, 2007 and 62,000 as of December 31, 2006; issued and outstanding shares - none as of September 29, 2007 and 58,806 as of December 31, 2006		
Stockholders' equity (deficit):		
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 and 79,500 as of September 29, 2007 and December 31, 2006, respectively		
Issued and outstanding shares	86	9
respectively		
Additional paid-in capital	553,714	7,911
Accumulated other comprehensive loss	(51)	(153)
Accumulated deficit	(365,523)	(314,088)
Total stockholders' equity (deficit)	188,226	(306,321)
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	\$ 406,569	\$ 230,466

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

Table of Contents

INFINERA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Revenue:				
Ratable product and related support and services	\$ 62,130	\$ 6,118	\$ 162,488	\$ 12,825
Product	25	1,578	7,275	1,578
Total revenue	62,155	7,696	169,763	14,403
Cost of revenue:				
Cost of ratable product and related support and services	37,620	7,967	109,992	17,940
Lower of cost or market adjustment	3,184	4,172	6,470	12,154
Cost of product	18	311	3,869	311
Total cost of revenue	40,822	12,450	120,331	30,405
Gross profit (loss)	21,333	(4,754)	49,432	(16,002)
Operating expenses:				
Sales and marketing	7,995	4,914	22,032	11,777
Research and development	14,621	14,034	44,758	27,752
General and administrative	7,069	3,960	17,984	7,624
Amortization of intangible assets	37	19	111	19
Total operating expenses	29,722	22,927	84,885	47,172
Loss from operations	(8,389)	(27,681)	(35,453)	(63,174)
Other income (expense), net:				
Interest income	2,459	849	3,373	1,644
Interest expense	(67)	(1,152)	(2,249)	(3,541)
Other gain (loss)	533	(589)	(16,982)	139
Total other income (expense), net	2,925	(892)	(15,858)	(1,758)
Loss before provision of income taxes	(5,464)	(28,573)	(51,311)	(64,932)
Provision for income taxes	62	23	124	53
Net loss	\$ (5,526)	\$ (28,596)	\$ (51,435)	\$ (64,985)
Net loss per common share, basic and diluted	\$ (0.07)	\$ (4.42)	\$ (1.34)	\$ (11.40)
Weighted average shares used in computing basic and diluted net loss per common share	84,017	6,465	38,419	5,701

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)**

	September 29, 2007	September 30, 2006
	(Unaudited)	
Cash Flows from Operating Activities:		
Net loss	\$ (51,435)	\$ (64,985)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,150	5,482
Amortization of debt discount	282	156
Issuance of warrants		189
In-process research and development		4,474
Asset impairment charges	393	
Stock-based compensation expense	5,973	625
Revaluation of warrant liabilities	19,761	147
Gain on disposal of fixed assets	(46)	
Gain on sale of assets held for sale	(2,363)	
Other gain	(73)	
Changes in assets and liabilities:		
Accounts receivable	3,196	(18,250)
Other receivables	(2,049)	(1,001)
Inventory	3,215	(25,511)
Prepaid expenses and other current assets	(1,234)	(849)
Deferred inventory costs	(12,764)	(38,926)
Other non-current assets	(1,266)	(411)
Accounts payable	(14,692)	14,459
Accrued liabilities and other expenses	(2,694)	9,710
Deferred revenue	46,197	61,084
Accrued warranty	6,653	855
Net cash provided by (used in) operating activities	4,204	(52,752)
Cash Flows from Investing Activities:		
Purchases of available-for-sale investments	(111,294)	(5,762)
Proceeds from maturities and sales of investments	12,000	1,099
Proceeds from disposition of acquired assets		1,450
Proceeds from disposal of fixed assets	60	
Proceeds from sales of assets held for sale	2,721	
Purchase of property and equipment	(11,710)	(11,171)
Acquisition of certain assets, net		(4,675)
Net cash used in investing activities	(108,223)	(19,059)

The accompanying notes are an integral part of these condensa