INFINERA CORP
Form 10-Q
April 30, 2014
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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 29, 2014
OR

o 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	77-0560433
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

140 Caspian Court
Sunnyvale, CA 94089
(Address of principal executive offices, including zip code)
(408) 572-5200
(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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of April 23, 2014, 122,490,560 shares of the registrant’s Common Stock, $0.001 par value, were issued and outstanding.

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INFINERA CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE FISCAL QUARTER ENDED MARCH 29, 2014
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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements
INFINERA CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par values)
(Unaudited)

	March 29, 2014	December 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$85,249	$124,330
Short-term investments	226,705	172,660
Accounts receivable, net of allowance for doubtful accounts of $41 in 2014 and $43 in 2013	107,405	100,643
Inventory	126,465	123,685
Prepaid expenses and other current assets	20,537	17,752
Total current assets	566,361	539,070
Property, plant and equipment, net	78,801	79,668
Long-term investments	32,756	64,419
Cost-method investment	9,000	9,000
Long-term restricted cash	4,392	3,904
Other non-current assets	5,776	4,865
Total assets	$697,086	$700,926
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$37,843	$39,843
Accrued expenses	20,244	22,431
Accrued compensation and related benefits	21,377	33,899
Accrued warranty	14,351	12,374
Deferred revenue	31,496	32,402
Total current liabilities	125,311	140,949
Long-term debt, net	111,024	109,164
Accrued warranty, non-current	12,034	10,534
Deferred revenue, non-current	4,886	4,888
Other long-term liabilities	17,563	17,581
Commitments and contingencies (Note 14)		
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 29, 2014 and December 28, 2013 Issued and outstanding shares – 122,485 as of March 29, 2014 and 119,887 as of December 28, 2013	123	120
Additional paid-in capital	1,038,216	1,025,661
Accumulated other comprehensive loss	(3,212)	(3,486)
Accumulated deficit	(608,859)	(604,485)
Total stockholders' equity	426,268	417,810

Total liabilities and stockholders’ equity	$697,086	$700,926

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 29, 2014	March 30, 2013
Revenue:		
Product	$124,242	$108,343
Services	18,573	16,282
Total revenue	142,815	124,625
Cost of revenue:		
Cost of product	78,438	75,447
Cost of services	5,971	6,476
Total cost of revenue	84,409	81,923
Gross profit	58,406	42,702
Operating expenses:		
Research and development	29,346	29,726
Sales and marketing	17,862	18,046
General and administrative	12,254	9,872
Total operating expenses	59,462	57,644
Loss from operations	(1,056)	(14,942)
Other income (expense), net:		
Interest income	336	197
Interest expense	(2,677)	—
Other gain (loss), net:	(729)	(203)
Total other income (expense), net	(3,070)	(6)
Loss before income taxes	(4,126)	(14,948)
Provision for income taxes	248	331
Net loss	$(4,374)	$(15,279)
Net loss per common share		
Basic	$(0.04)	$(0.13)
Diluted	$(0.04)	$(0.13)
Weighted average shares used in computing net loss per common share		
Basic	121,352	114,308
Diluted	121,352	114,308

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

INFINERA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended	
	March 29, 2014	March 30, 2013
Net loss	$(4,374)	$(15,279)
Other comprehensive loss:		
Reclassification of realized gain on auction rate securities	—	(166)
Unrealized gain (loss) on all other available-for-sale investments	50	(9)
Foreign currency translation adjustment	244	(117)
Tax related to available-for-sale investment	(20)	—
Net change in accumulated other comprehensive loss	274	(292)
Comprehensive loss	$(4,100)	$(15,571)

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

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INFINERA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	March 29, 2014	March 30, 2013
Cash Flows from Operating Activities:		
Net loss	$(4,374)	$(15,279)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,314	6,334
(Recovery of) provision for other receivables	—	(88)
Amortization of debt discount and issuance costs	2,020	—
Amortization of premium on investments	828	314
Stock-based compensation expense	6,672	7,975
Other gain	(20)	(243)
Changes in assets and liabilities:		
Accounts receivable	(6,762)	(5,094)
Inventory	(3,354)	(5,041)
Prepaid expenses and other assets	(3,797)	(361)
Accounts payable	(2,080)	(8,045)
Accrued liabilities and other expenses	(13,448)	(6,301)
Deferred revenue	(909)	4,340
Accrued warranty	3,477	190
Net cash used in operating activities	(15,433)	(21,299)
Cash Flows from Investing Activities:		
Purchase of available-for-sale investments	(80,223)	(20,023)
Proceeds from sale of available-for-sale investments	—	2,850
Proceeds from maturities and calls of investments	57,063	33,835
Purchase of property and equipment	(5,608)	(4,936)
Change in restricted cash	(479)	44
Net cash provided by (used in) investing activities	(29,247)	11,770
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	7,054	5,560
Minimum tax withholding paid on behalf of employees for net share settlement	(1,619)	(1,493)
Net cash provided by financing activities	5,435	4,067
Effect of exchange rate changes on cash	164	(206)
Net change in cash and cash equivalents	(39,081)	(5,668)
Cash and cash equivalents at beginning of period	124,330	104,666
Cash and cash equivalents at end of period	$85,249	$98,998
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net of refunds	$303	$210
Supplemental schedule of non-cash financing activities:		
Transfer of inventory to fixed assets	$603	$1,522

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. Basis of Presentation and Significant Accounting Policies

Infinera Corporation (the “Company”) prepared its interim condensed consolidated financial statements that accompany these notes in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”), consistent in all material respects with those applied in the Company’s Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

The Company has made 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 condensed 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 sales returns, allowances for doubtful accounts, accrued warranty, fair value measurement of the liability component of the convertible senior notes, fair value measurement of cash equivalents, investments and derivative instruments, other-than-temporary impairments 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 consolidated financial statements will be affected.

The interim financial information is unaudited, but reflects all adjustments that are, in management’s opinion, necessary to provide a fair presentation of results for the interim periods presented. All adjustments are of a normal recurring nature. The Company reclassified certain amounts reported in previous periods to conform to the current presentation. This interim information should be read in conjunction with the consolidated financial statements in the Company’s Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

There have been no material changes in the Company’s significant accounting policies for the three months ended March 29, 2014 as compared to those disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

2. Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update 2013-11, "Income Taxes - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry Forward, a Similar Tax Loss, or a Tax Credit Carry Forwards Exists" (“ASU 2013-11”). ASU 2013-11 requires entities to present the unrecognized tax benefits in the 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, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. ASU 2013-11 is effective for annual and interim periods for fiscal years beginning on or after December 15, 2013. The Company's adoption of ASU 2013-11 during the first quarter of 2014 had no impact on the Company’s financial position, results of operations or cash flow.

3. Fair Value Measurements and Other-Than-Temporary Impairments

Fair Value Measurements

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined 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. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or

most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Valuation techniques used by the Company are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about market participant assumptions based on the best information available. Observable inputs are the preferred source of values. These two types of inputs create the following fair value hierarchy:

Level 1	–	Quoted prices in active markets for identical assets or liabilities.
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-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	–	Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

The Company measures its cash equivalents, derivative instruments and debt securities at fair value and classifies its securities in accordance with the fair value hierarchy. The Company's money market funds and U.S. treasuries are classified within Level 1 of the fair value hierarchy and are valued based on quoted prices in active markets for identical securities.

The Company classifies its certificates of deposit, commercial paper, corporate bonds and foreign currency exchange forward contracts within Level 2 of the fair value hierarchy as follows:

Certificates of Deposit

The Company reviews market pricing and other observable market inputs for the same or similar securities obtained from a number of industry standard data providers. In the event that a transaction is observed for the same or similar security in the marketplace, the price on that transaction reflects the market price and fair value on that day. In the absence of any observable market transactions for a particular security, the fair market value at period end would be equal to the par value. These inputs represent quoted prices for similar assets or these inputs have been derived from observable market data.

Commercial Paper

The Company reviews market pricing and other observable market inputs for the same or similar securities obtained from a number of industry standard data providers. In the event that a transaction is observed for the same or similar security in the marketplace, the price on that transaction reflects the market price and fair value on that day and then follows a revised accretion schedule to determine the fair market value at period end. In the absence of any observable market transactions for a particular security, the fair market value at period end is derived by accreting from the last observable market price. These inputs represent quoted prices for similar assets or these inputs have been derived from observable market data accreted mathematically to par.

Corporate Bonds

The Company reviews trading activity and pricing for each of the corporate bond securities in its portfolio as of the measurement date and determines if pricing data of sufficient frequency and volume in an active market exists in order to support Level 1 classification of these securities. If sufficient quoted pricing for identical securities is not available, the Company obtains market pricing and other observable market inputs for similar securities from a number of industry standard data providers. In instances where multiple prices exist for similar securities, these prices are used as inputs into a distribution-curve to determine the fair market value at period end.

Foreign Currency Exchange Forward Contracts

As discussed in Note 5, "Derivative Instruments," to the Notes to Condensed Consolidated Financial Statements, the Company mainly holds non-speculative foreign exchange forward contracts to hedge certain foreign currency exchange exposures. The Company estimates the fair values of derivatives based on quoted market prices or pricing models using current market rates. Where applicable, these models project future cash

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flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies.

As of March 29, 2014, none of the Company's existing securities were classified as Level 3 securities.
The following tables represent the Company's fair value hierarchy for its assets and liabilities measured at fair value on a recurring basis (in thousands):

	As of March 29, 2014				As of December 28, 2013			
	Fair Value Measured Using				Fair Value Measured Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Money market funds	$33,005	$—	$ —	$33,005	$51,749	$—	$ —	$51,749
Certificates of deposit	—	3,600	—	3,600	—	3,840	—	3,840
Commercial paper	—	77,640	—	77,640	—	85,860	—	85,860
Corporate bonds	—	178,908	—	178,908	—	150,595	—	150,595
U.S. treasuries	4,805	—	—	4,805	4,804	—	—	4,804
Foreign currency exchange forward contracts	—	—	—	—	—	29	—	29
Total assets	$37,810	$260,148	$ —	$297,958	$56,553	$240,324	$ —	$296,877
Liabilities								
Foreign currency exchange forward contracts	$—	$80	$ —	$80	$—	$26	$ —	$26

During the first quarter of 2014, there were no transfers of assets or liabilities between Level 1 and Level 2.

Investments at fair value were as follows (in thousands):

	March 29, 2014			
	Adjusted Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$33,005	$—	$—	$33,005
Certificates of deposit	3,600	—	—	3,600
Commercial paper	77,645	3	(8)	77,640
Corporate bonds	178,981	44	(117)	178,908
U.S. treasuries	4,801	4	—	4,805
Total available-for-sale investments	$298,032	$51	$(125)	$297,958

	December 28, 2013			
	Adjusted Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$51,749	$—	$—	$51,749
Certificates of deposit	3,840	—	—	3,840
Commercial paper	85,870	2	(12)	85,860
Corporate bonds	150,711	27	(143)	150,595
U.S. treasuries	4,802	2	—	4,804
Total available-for-sale investments	$296,972	$31	$(155)	$296,848

As of March 29, 2014, the Company's available-for-sale investments in certificates of deposit, commercial paper, corporate bonds, and U.S. treasuries have a contractual maturity term of no more than 16 months. Proceeds from sales and maturities of available-for-sale investments were $57.1 million for the first quarter of 2014. The Company had no net realized gains (losses) on short-term and long-term investments for the first quarter of 2014. The specific identification method is used to account for gains and losses on available-for-sale investments.

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As of March 29, 2014 and December 28, 2013, the Company held $46.8 million and $64.6 million of cash in banks, respectively.

Other-Than-Temporary Impairments

As a result of the Company’s disposal of $3.1 million auction rate securities (par value) during the three months ended March 30, 2013, it recorded an approximately $0.2 million gain, which was recognized as Other gain (loss) in the Company’s condensed consolidated statements of operations.

A roll-forward of amortized cost, cumulative other-than-temporary impairments ("OTTI") recognized in earnings and Accumulated other comprehensive loss is as follows (in thousands):

	Amortized Cost	Cumulative OTTI in Earnings	Unrealized Gain	OTTI Loss in Accumulated Other Comprehensive Loss	Accumulated Other Comprehensive Income (Loss)
Balance at December 29, 2012	$2,707	$(394)	$784	$(618)	$166
Call on investments	(87)	13	(25)	20	(5)
Investments sold	(2,620)	381	(759)	598	(161)
Balance at March 30, 2013	$—	$—	$—	$—	$—

4. Cost-method Investment

As of March 29, 2014, the Company’s investment in a privately-held company was $9.0 million. This investment is accounted for as a cost-method investment, as the Company owns less than 20% of the voting securities and does not have the ability to exercise significant influence over operating and financial policies of the entity. The Company’s cost-method investment is carried at historical cost in its condensed consolidated financial statements and measured at fair value on a nonrecurring basis. If the Company believes that the carrying value of the cost basis investment is in excess of estimated fair value, the Company’s policy is to record an impairment charge in Other income (expense), net in the accompanying condensed consolidated statements of operations to adjust the carrying value to estimated fair value, when the impairment is deemed other-than-temporary. The Company regularly evaluates the carrying value of this cost-method investment for impairment. As of March 29, 2014, no event had occurred that would adversely affect the carrying value of this investment, therefore, the fair value of the cost-method investment is not estimated. The Company did not record any impairment charges for this cost-method investment during the three months ended March 29, 2014 and March 30, 2013.

5. Derivative Instruments

Foreign Currency Exchange Forward Contracts

The Company enters into foreign currency exchange forward contracts to manage its exposure to fluctuations in foreign exchange rates that arise primarily from its euro and British pound denominated receivables and euro denominated restricted cash balance amounts that are pledged as collateral for certain stand-by and commercial letters of credit. Gains and losses on these contracts are intended to offset the impact of foreign exchange rate fluctuations on the underlying foreign currency denominated accounts receivables and restricted cash, and therefore, do not subject the Company to material balance sheet risk. The forward contracts are with one high-quality institution and the Company consistently monitors the creditworthiness of the counterparty. The forward contracts entered into during the first quarter of 2014 were denominated in euros and British pound, and had maturities of no more than 35 days. The contracts are settled for U.S. dollars at maturity at rates agreed to at inception of the contracts.

As of March 29, 2014, the Company did not designate foreign currency exchange forward contracts as hedges for accounting purposes, and accordingly changes in the fair value of these instruments are included in Other gain (loss), net in the accompanying condensed consolidated statements of operations. For the first quarter of 2014, the before-tax effect of foreign currency exchange forward contracts not designated as hedging instruments was a loss of $0.4 million included in Other gain (loss), net in the condensed consolidated statements of operations.

The fair value of derivative instruments not designated as hedging instruments in the Company’s condensed consolidated balance sheets was as follows (in thousands):

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	As of March 29, 2014			As of December 28, 2013		
	Gross Notional[(1)]	Prepaid Expenses and Other Assets	Other Accrued Liabilities	Gross Notional[(1)]	Prepaid Expenses and Other Assets	Other Accrued Liabilities
Foreign currency exchange forward contracts						
Related to euro denominated receivables	$20,609	—	$(72)	$16,867	27	$—
Related to British pound denominated receivables	912	—	(3)	—	—	(26)
Related to restricted cash	1,392	—	(5)	1,391	2	—
	$22,913	$—	$(80)	$18,258	$29	$(26)

(1) Represents the face amounts of forward contracts that were outstanding as of the period noted.

6. Balance Sheet Details

The following table provides details of selected balance sheet items (in thousands):

	March 29, 2014	December 28, 2013
Inventory:		
Raw materials	$13,199	$14,311
Work in process	47,746	49,172
Finished goods [(1)]	65,520	60,202
Total inventory	$126,465	$123,685
Property, plant and equipment, net:		
Computer hardware	$10,053	$9,692
Computer software[(2)]	17,236	16,988
Laboratory and manufacturing equipment	151,132	146,834
Furniture and fixtures	1,346	1,347
Leasehold improvements	36,006	35,913
Construction in progress	9,218	8,950
Subtotal	$224,991	$219,724
Less accumulated depreciation and amortization	(146,190)	(140,056)
Total property, plant and equipment, net	$78,801	$79,668
Accrued expenses:		
Loss contingency related to non-cancelable purchase commitments	$3,454	$5,120
Professional and other consulting fees	1,534	1,411
Taxes payable	2,693	2,372
Royalties	1,503	1,540
Accrued rebate and customer prepay liability	644	3,807
Accrued interest on convertible senior notes	875	219
Other accrued expenses	9,541	7,962
Total accrued expenses	$20,244	$22,431

(1) Included in finished goods inventory at March 29, 2014 and December 28, 2013 were $8.0 million and $9.2 million, respectively, of inventory at customer locations for which product acceptance had not occurred.

(2) Included in computer software at March 29, 2014 and December 28, 2013 were $7.9 million and $7.9 million, respectively, related to an enterprise resource planning ("ERP") system that the Company implemented

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during 2012. The unamortized ERP costs at March 29, 2014 and December 28, 2013 were $6.0 million and $6.3 million, respectively.

Restricted Cash

The Company’s long-term restricted cash balance is primarily comprised of certificates of deposit, of which the majority is not insured by the Federal Deposit Insurance Corporation. These amounts primarily collateralize the Company’s issuances of stand-by and commercial letters of credit. Additionally, the Company’s restricted cash balance includes a leave encashment fund for India employees and a corporate bank card deposit for employees in the United Kingdom.

The following table sets forth the Company's outstanding standby letters of credit (in thousands):

	March 29, 2014	December 28, 2013
Value added tax license	$1,463	$1,430
Customer proposal guarantee	1,876	1,446
Property leases	699	699
Total standby letters of credit	$4,038	$3,575

7. Comprehensive Loss

Other comprehensive loss includes certain changes in equity that are excluded from net loss. The following table sets forth the changes in accumulated other comprehensive loss by component for the first quarter of 2014 (in thousands):

	Unrealized Gain on Other Available-for-Sale Securities	Foreign Currency Translation	Accumulated Tax Effect	Total
Balance at December 28, 2013	$ (124)	$ (2,602)	$ (760)	$ (3,486)
Net current-period other comprehensive loss	50	244	(20)	274
Balance at March 29, 2014	$ (74)	$ (2,358)	$ (780)	$ (3,212)

8. Basic and Diluted Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed using net loss and the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the assumed exercise of outstanding stock options, assumed vesting of outstanding restricted stock units (“RSUs”) and performance stock units (“PSUs”), assumed conversion of convertible senior notes, and assumed issuance of stock under the Company’s employee stock purchase plan (“ESPP”) using the treasury stock method. The Company includes the common shares underlying PSUs in the calculation of diluted net income per share when they become contingently issuable and excludes such shares when they are not contingently issuable. In net loss periods, these potentially diluted common shares are anti-dilutive and therefore, excluded from the diluted net loss calculation.

The following table sets forth the computation of loss per common share – basic and diluted (in thousands, except per share amounts):

	Three Months Ended	
	March 29, 2014	March 30, 2013
Net loss	$(4,374)	$(15,279)
Weighted average common shares outstanding - basic and diluted	121,352	114,308
Net loss per common share - basic and diluted	$(0.04)	$(0.13)

The Company had the following equity awards outstanding that could potentially dilute basic net loss per common share in the future, but were excluded from the computation of diluted loss per common share in the periods presented as their effect would have been anti-dilutive under the treasury stock method (in thousands):

	Three Months Ended	
	March 29, 2014	March 30, 2013
Stock options	6,135	8,591
Restricted stock units	5,386	5,407
Performance stock units	763	553
Employee stock purchase plan shares	431	601
Total	12,715	15,152

In the first quarter of 2014, the Company excluded the potential shares issued upon early conversion of the convertible senior notes in the calculation of diluted earnings per share because the market price was below the conversion price. In the future, the Company would include these dilutive effects of the convertible senior notes in the calculation of diluted net income per common share if the market price is above the conversion price. Upon conversion of the convertible senior notes, it is the Company's intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the Notes being converted, therefore, only the conversion spread relating to the notes would be included in the Company's diluted earnings per share calculation unless their effect is anti-dilutive.

9. Convertible Senior Notes

In May 2013, the Company issued $150.0 million of 1.75% convertible senior notes due June 1, 2018 (the "Notes"). The Notes will mature on June 1, 2018, unless earlier purchased by the Company or converted. Interest is payable semi-annually in arrears on June 1 and December 1 of each year, commencing December 1, 2013. The net proceeds to the Company were approximately $144.5 million.

The Notes are governed by an indenture dated as of May 30, 2013 (the "Indenture"), between the Company, as issuer, and U.S. Bank National Association, as trustee. The Notes are unsecured and do not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of securities by the Company.

Upon conversion, it is the Company's intention to pay cash equal to the lesser of the aggregate principal amount and the conversion value of the Notes being converted and cash, shares of common stock or a combination of cash and shares of common stock, at the Company's election, for any remaining conversion obligation. The initial conversion rate is 79.4834 shares of common stock per $1,000 principal amount of Notes, subject to anti-dilution adjustments. The initial conversion price is approximately $12.58 per share of common stock.

Throughout the term of the Notes, the conversion rate may be adjusted upon the occurrence of certain events, including for any cash dividends. Holders of the Notes will not receive any cash payment representing accrued and unpaid interest upon conversion of a Note. Accrued but unpaid interest will be deemed to be paid in full upon conversion rather than canceled, extinguished or forfeited. Holders may convert their Notes under the following circumstances:

- during any fiscal quarter commencing after the fiscal quarter ending on September 28, 2013 (and only during such fiscal quarter) if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last

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trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

- during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day;

- upon the occurrence of specified corporate events described under the Indenture, such as a consolidation, merger or binding share exchange; or

- at any time on or after December 1, 2017 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time, regardless of the foregoing circumstances.

If the Company undergoes a fundamental change as defined in the Indenture governing the Notes, holders may require the Company to repurchase for cash all or any portion of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, upon the occurrence of a “make-whole fundamental change” (as defined in the Indenture), the Company will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its Notes in connection with such make-whole fundamental change.

The amounts recorded in connection with the issuance of the Notes consisted of the following (in thousands):

	Other Non-Current Assets	Long-term Debt	Additional Paid-in Capital
Principal amount	$—	$150,000	$—
Debt discount	—	(45,000)	—
Equity component	—	—	45,000
Debt issuance cost	3,872	—	(1,659)
Initial transaction amounts	$3,872	$105,000	$43,341
Amortization of debt issuance cost	(518)	—	—
Amortization of debt discount	—	6,024	—
Net carrying amount at March 29, 2014	$3,354	$111,024	$43,341

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount (“debt discount”) is amortized to interest expense over the term of the Notes. The remaining debt discount amount to be amortized over the remaining five years until maturity of the Notes was $39.0 million as of March 29, 2014.

In accounting for the issuance costs of $5.5 million related to the Notes, the Company allocated the total amount incurred to the liability and equity components of the Notes based on their relative values. Issuance costs attributable to the liability component were recorded as Other non-current assets and will be amortized to interest expense over the term of the Notes. The issuance costs attributable to the equity component were netted with the equity component in stockholders’ equity. Additionally, the Company initially recorded a deferred tax liability of $17.0 million in connection with the issuance of the Notes, and a corresponding reduction in valuation allowance. The impact of both was recorded to stockholders’ equity.

The Company determined that the embedded conversion option in the Notes does not require separate accounting treatment as a derivative instrument because it is both indexed to the Company’s own stock and would be classified in stockholder's equity if freestanding.

The following table sets forth total interest expense recognized related to the Notes (in thousands):

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	Three Months Ended March 29, 2014
Contractual interest expense	$657
Amortization of debt issuance costs	160
Amortization of debt discount	1,860
Total interest expense	$2,677

The effective interest rate of the liability component was 1.75%. The excess of the principal amount of the liability component over its carrying amount is amortized, using an effective interest rate of 5.12%, to interest expense over the term of the Notes.

As of March 29, 2014, the fair value of the Notes was $155.4 million. The fair value was determined based on the quoted bid price of the Notes in an over-the-counter market on March 28, 2014. The Notes are classified as Level 2 of the fair value hierarchy. Based on the closing price of the Company's common stock of $8.76 on March 28, 2014, the if-converted value of the Notes was less than their principal amount.

10. Stockholders' Equity

Stock-based Compensation Plans

The Company has stock-based compensation plans pursuant to which the Company has granted stock options, RSUs and PSUs. The Company also has an ESPP for all eligible employees. As of March 29, 2014, there were a total of 19.2 million shares of common stock available for grant under the Company's 2007 Equity Incentive Plan ("2007 Plan").

The following tables summarize the Company's equity award activity and related information (in thousands, except per share data):

	Number of Options	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value
Outstanding at December 28, 2013	6,367	$ 7.26	$17,452
Options granted	25	$ 9.02	
Options exercised	(227)	$ 5.85	$649
Options canceled	(30)	$ 10.30	
Outstanding at March 29, 2014	6,135	$ 7.30	$10,841
Vested and expected to vest as of March 29, 2014	6,130		$10,835
Exercisable at March 29, 2014	5,976	$ 7.29	$10,636

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Outstanding at December 28, 2013	6,583	$7.72	$64,443
RSUs granted	490	$8.64	
RSUs released	(1,541)	$7.91	$12,981
RSUs canceled	(146)	$7.02	
Outstanding at March 29, 2014	5,386	$7.77	$47,181
Expected to vest at March 29, 2014	5,198		$45,539

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	Number of Performance Stock Units	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Outstanding at December 28, 2013	721	$7.04	$7,054
PSUs granted	338	$6.62	
PSUs released	(255)	$6.36	$2,097
PSUs canceled	(41)	$7.25	
Outstanding at March 29, 2014	763	$7.04	$6,684
Expected to vest at March 29, 2014	541		$4,738

The aggregate intrinsic value of unexercised options, unreleased RSUs and unreleased PSUs is calculated as the difference between the closing price of the Company's common stock of $8.76 at March 28, 2014 and the exercise prices of the underlying equity awards. The aggregate intrinsic value of the options that have been exercised and RSUs released is calculated as the difference between the fair market value of the common stock at the date of exercise or release and the exercise price of the underlying equity awards.

The following table presents total stock-based compensation cost for instruments granted but not yet amortized, net of estimated forfeitures, of the Company's equity compensation plans as of March 29, 2014. These costs are expected to be amortized on a straight-line basis over the following weighted-average periods (in thousands, except for weighted-average period):

	Unrecognized Compensation Expense, Net	Weighted-Average Period (in years)
Stock options	543	1.7
RSUs	28,289	2.3
PSUs	2,759	1.8

Employee Stock Options

The estimated values of stock options, as well as assumptions used in calculating these values were based on estimates as follows (expense amounts in thousands):

Employee and Director Stock Options	Three Months Ended March 29, 2014	March 30, 2013
Volatility	52%	N/A
Risk-free interest rate	1.30%	N/A
Expected life	4.3 years	N/A
Estimated fair value	$3.85	N/A
Total stock-based compensation expense	$388	$803

N/A Not applicable because the Company did not grant any options to employees for the periods presented.

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Employee Stock Purchase Plan

The fair value of the ESPP shares was estimated at the date of grant using the following assumptions (expense amounts in thousands):

	Three Months Ended	
Employee Stock Purchase Plan	March 29, 2014	March 30, 2013
Volatility	51%	46%
Risk-free interest rate	0.11%	0.14%
Expected life	0.5 years	0.5 years
Estimated fair value	$2.57	$1.87
Total stock-based compensation expense	$791	$708

Restricted Stock Units

During the first quarter of 2014, the Company granted RSUs to employees and members of the Company's board of directors to receive an aggregate of 0.5 million shares of the Company's common stock. The Company accounted for the fair value of the RSUs using the closing market price of the Company's common stock on the date of grant. Amortization of stock-based compensation related to RSUs in the three months ended March 29, 2014 and March 30, 2013 was approximately $5.1 million and $6.9 million, respectively.

Performance Stock Units

Pursuant to the Company's 2007 Plan, during fiscal 2012, the Company granted 0.5 million shares of PSUs to certain of its executive officers. These PSUs will only vest upon the achievement of certain specific revenue and operating profit criteria and are subject to each named executive officer's continued service to the Company. If the financial performance metrics are not met within the time limits specified in the award agreements, the PSUs will be canceled. During the first quarter of 2014, the Company did not release any shares subject to the PSUs upon achievement of the performance goals.

Pursuant to the Company's 2007 Plan, during fiscal 2013, the Company granted 0.6 million shares of PSUs to certain of its executive officers. The number of shares to be issued upon vesting of PSUs range from 0 to 1.5 times the number of PSUs granted depending on the relative performance of the Company's common stock price compared to the NASDAQ Telecom Composite Index over the span of one, two and three years of total shareholder returns. During the first quarter of 2014, the Company released 0.3 million shares of PSUs based on a payout of 1.5 times of the target number of PSUs.

The ranges of estimated values of the PSUs granted, as well as assumptions used in calculating these values were based on estimates as follows:

	Year Ended December 28, 2013
Infinera Volatility	55%
NASDAQ Telecom Composite Index Volatility	23%
Risk-free interest rate	0.42%
Correlation with NASDAQ Telecom Composite Index	0.56
Estimated fair value	$6.27 - $7.06

Pursuant to the Company's 2007 Plan, during the first quarter of 2014, the Company granted 0.3 million shares of PSUs to certain of its executive officers. The number of shares to be issued upon vesting of PSUs range from 0 to 1.5 times the number of PSUs granted depending on the relative performance of the Company's common stock price compared to the iShares North American Tech-Multimedia Networking ("IGN") Index over the span of one, two and three years of total shareholder returns.

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The ranges of estimated values of the PSUs granted, as well as assumptions used in calculating these values were based on estimates as follows:

	Three Months Ended March 29, 2014
Infinera Volatility	49%
IGN Index Volatility	25%
Risk-free interest rate	0.66%
Correlation with IGN Index	0.60
Estimated fair value	$6.61 - $7.60

Amortization of stock-based compensation related to PSUs in the first quarter of 2014 was approximately $0.4 million. Amortization of stock-based compensation related to PSUs in the first quarter of 2013 was a credit of approximately $0.8 million, including $0.6 million of expense offset by a $1.4 million decrease in fair value for one award classified as a liability award, in accordance with Accounting Standard Codification 718, "Compensation - Stock Compensation."

Stock-Based Compensation

The following tables summarize the effects of stock-based compensation on the Company's condensed consolidated balance sheets and statements of operations for the periods presented (in thousands):

	March 29, 2014	December 28, 2013
Stock-based compensation effects in inventory	$3,219	$3,189
Stock-based compensation effects in deferred inventory cost	$14	$15
Stock-based compensation effects in fixed assets	$139	$145

	Three Months Ended	
	March 29, 2014	March 30, 2013
Stock-based compensation effects included in net loss before income taxes		
Cost of revenue	$452	$486
Research and development	2,138	3,119
Sales and marketing	1,720	1,999
General and administration	1,530	769
	5,840	6,373
Cost of revenue – amortization from balance sheet[1]	832	1,602
Total stock-based compensation expense	$6,672	$7,975

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(1) Stock-based compensation expense deferred to inventory and deferred inventory costs in prior periods and recognized in the current period.

11. Income Taxes

Provision for income taxes for the three months ended March 29, 2014 was $0.2 million, or negative 6.0%, on a pre-tax loss of $4.1 million. This compared to a tax provision of $0.3 million, or negative 2.2%, on a pre-tax loss of $14.9 million for the three months ended March 30, 2013. The difference between the Company's effective tax rates and the federal statutory rate of 35% is primarily attributable to U.S. losses, foreign taxes provided on the income of the Company's foreign subsidiaries, non-deductible stock-based compensation expense and various discrete items. The release of transfer pricing reserves in the future will have a beneficial impact to tax expense, but the timing of the impact depends on factors such as expiration of the statute of limitations or settlements with tax authorities. No significant releases are expected in the near future based on information available at this time.

The realization of tax benefits of deferred tax assets is dependent upon future levels of taxable income, of an appropriate character, in the periods the items are scheduled to be deductible or taxable. Based on the available objective evidence, management believes it is more likely than not that the domestic net deferred tax assets will not be realizable. Accordingly, the Company has provided a full valuation allowance against its domestic deferred tax assets, net of deferred tax liabilities, as of March 29, 2014 and December 28, 2013. In determining future taxable income, the Company makes assumptions to forecast federal, state and international operating income, the reversal of taxable temporary differences, and the implementation of any feasible and prudent tax planning strategies. The assumptions require judgment regarding the forecasts of future taxable income and are consistent with the Company’s forecasts used to manage its business. The Company intends to maintain the remaining valuation allowance until sufficient positive evidence exists to support a reversal of, or decrease, in the valuation allowance.

12. Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company’s chief operating decision maker is the Company’s Chief Executive Officer ("CEO"). The Company’s CEO reviews financial information presented on a consolidated basis, accompanied by information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. The Company has one business activity, and there are no segment managers who are held accountable for operations, operating results and plans for levels or components below the consolidated unit level. Accordingly, the Company is considered to be in a single reporting segment and operating unit structure.

Revenue by geographic region is based on the shipping address of the customer. The following tables set forth revenue and long-lived assets by geographic region (in thousands):

Revenue

	Three Months Ended	
	March 29, 2014	March 30, 2013
Americas:		
United States	$110,691	$79,073
Other Americas	3,536	718
	114,227	79,791
Europe, Middle East and Africa	25,613	38,806
Asia Pacific and Japan	2,975	6,028
Total revenue	$142,815	$124,625

Property, plant and equipment, net

	March 29, 2014	December 28, 2013
United States	$76,029	