INFINERA CORP
Form 10-Q
November 01, 2013
Table of Contents

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 September 28, 2013

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	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 October 28, 2013, 119,560,318 shares of the registrant's Common Stock, $0.001 par value, were issued and outstanding.

Table of Contents

INFINERA CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE FISCAL QUARTER ENDED SEPTEMBER 28, 2013
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

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

	September 28, 2013	December 29, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$137,629	$104,666
Short-term investments	151,821	76,146
Accounts receivable, net of allowance for doubtful accounts of $147 in 2013 and $94 in 2012	87,180	107,039
Other receivables	616	2,909
Inventory	123,505	127,809
Deferred inventory costs	1,244	1,029
Prepaid expenses and other current assets	18,924	9,899
Total current assets	520,919	429,497
Property, plant and equipment, net	79,062	80,343
Deferred inventory costs, non-current	19	100
Long-term investments	52,871	2,874
Cost-method investment	9,000	9,000
Long-term restricted cash	3,724	3,868
Deferred tax asset	—	805
Other non-current assets	5,238	1,683
Total assets	$670,833	$528,170
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$29,218	$61,428
Accrued expenses	21,290	25,483
Accrued compensation and related benefits	24,621	22,325
Accrued warranty	12,854	7,262
Deferred revenue	25,202	26,744
Deferred tax liability	—	805
Total current liabilities	113,185	144,047
Long-term debt, net	107,350	—
Accrued warranty, non-current	10,308	9,220
Deferred revenue, non-current	3,097	3,210
Other long-term liabilities	18,158	15,557
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	119	112
Authorized shares – 500,000 as of September 28, 2013 and December 29, 2012		
Issued and outstanding shares – 119,491 as of September 28, 2013 and 112,461 as of		

December 29, 2012		
Additional paid-in capital	1,016,397	930,618
Accumulated other comprehensive loss	(3,474)	(2,228)
Accumulated deficit	(594,307)	(572,366)
Total stockholders’ equity	418,735	356,136
Total liabilities and stockholders’ equity	$670,833	$528,170

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

3

Table of Contents

INFINERA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Revenue:				
Product	$120,807	$98,853	$348,769	$269,087
Ratable product and related support and services	525	450	1,553	1,504
Services	20,688	12,911	54,708	39,782
Total revenue	142,020	112,214	405,030	310,373
Cost of revenue:				
Cost of product	66,645	66,510	222,126	181,851
Cost of ratable product and related support and services	40	102	204	459
Cost of services	6,964	4,102	19,973	13,762
Total cost of revenue	73,649	70,714	242,303	196,072
Gross profit	68,371	41,500	162,727	114,301
Operating expenses:				
Research and development	32,528	27,912	93,935	90,573
Sales and marketing	17,720	19,285	52,921	55,304
General and administrative	11,678	12,508	32,976	35,912
Total operating expenses	61,926	59,705	179,832	181,789
Income (loss) from operations	6,445	(18,205)	(17,105)	(67,488)
Other income (expense), net:				
Interest income	232	175	636	678
Interest expense	(2,578)	—	(3,427)	—
Other gain (loss), net:	(444)	(617)	(805)	(892)
Total other income (expense), net	(2,790)	(442)	(3,596)	(214)
Income (loss) before income taxes	3,655	(18,647)	(20,701)	(67,702)
Provision for income taxes	308	434	1,240	1,540
Net income (loss)	$3,347	$(19,081)	$(21,941)	$(69,242)
Net income (loss) per common share				
Basic	$0.03	$(0.17)	$(0.19)	$(0.63)
Diluted	$0.03	$(0.17)	$(0.19)	$(0.63)
Weighted average shares used in computing net income (loss) per common share				
Basic	118,740	111,579	116,653	110,216
Diluted	124,679	111,579	116,653	110,216

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

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Net income (loss)	$3,347	$(19,081)	$(21,941)	$(69,242)
Other comprehensive income (loss):				
Unrealized gain (loss) on auction rate securities classified as available-for-sale investments	—	82	—	(143)
Reclassification of realized gain on auction rate securities	—	—	(166)	—
Unrealized gain (loss) on all other available-for-sale investments	44	69	(64)	189
Foreign currency translation adjustment	(98)	614	(1,016)	352
Tax related to available-for-sale investment	—	(18)	—	(19)
Net change in accumulated other comprehensive income (loss)	(54)	747	(1,246)	379
Comprehensive income (loss)	$3,293	$(18,334)	$(23,187)	$(68,863)

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)

	Nine Months Ended	
	September 28, 2013	September 29, 2012
Cash Flows from Operating Activities:		
Net loss	$(21,941)	$(69,242)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	18,574	17,274
(Recovery of) provision for other receivables	(88)	—
Provision for doubtful accounts	53	94
Amortization of debt discount and issuance costs	2,552	—
Amortization of premium on investments	870	1,610
Stock-based compensation expense	23,802	31,684
Non-cash tax benefit	—	(18)
Other gain	(243)	(479)
Changes in assets and liabilities:		
Accounts receivable	19,805	(11,021)
Other receivables	2,131	(2,228)
Inventory	(3,603)	(28,774)
Prepaid expenses and other assets	(8,398)	33
Deferred inventory costs	(160)	4,877
Accounts payable	(30,624)	(1,048)
Accrued liabilities and other expenses	1,640	3,690
Deferred revenue	(1,655)	(6,683)
Accrued warranty	6,680	2,434
Net provided by (cash used) in operating activities	9,395	(57,797)
Cash Flows from Investing Activities:		
Purchase of available-for-sale investments	(206,528)	(50,134)
Proceeds from sale of available-for-sale investments	2,850	6,694
Proceeds from maturities and calls of investments	77,143	95,368
Purchase of property and equipment	(13,605)	(22,238)
Reimbursement of manufacturing capacity advance	—	50
Change in restricted cash	110	(564)
Net cash provided by (used in) investing activities	(140,030)	29,176
Cash Flows from Financing Activities:		
Proceeds from issuance of debt, net	144,469	—
Proceeds from issuance of common stock	21,551	11,280
Repurchase of common stock	(1,541)	(875)
Net cash provided by financing activities	164,479	10,405
Effect of exchange rate changes on cash	(881)	358
Net change in cash and cash equivalents	32,963	(17,858)
Cash and cash equivalents at beginning of period	104,666	94,458
Cash and cash equivalents at end of period	$137,629	$76,600
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$1,536	$755

Supplemental schedule of non-cash financing activities:		
Non-cash settlement for manufacturing capacity advance	$—	$275
Transfer of inventory to fixed assets	$6,672	$738

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

Table of Contents

INFINERA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Infinera Corporation ("Infinera" or 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 29, 2012.

The Company has made estimates and judgments affecting the amounts reported in its condensed consolidated financial statements and the accompanying notes. The Company's actual results may differ materially from these estimates. The accounting estimates that require most significant, difficult, and subjective judgment 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, cash equivalents, fair value measurement of investments, other-than-temporary impairments, derivative instruments and accounting for income taxes.

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 29, 2012.

There have been no material changes in the Company's significant accounting policies for the nine months ended September 28, 2013 as compared to those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

2. Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2013-02, Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"). ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The Company adopted the guidance for ASU 2013-02 beginning in its fiscal quarter ended March 30, 2013. Other than requiring additional disclosures, the Company's adoption of ASU 2013-02 did not have an impact on the Company's financial position, results of operations or cash flow.

In July 2013, the FASB 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 liability and not combine it with deferred tax assets to the extent a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward 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 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 is currently evaluating ASU 2013-11 and does not expect its adoption to have an 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.

Table of Contents

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 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, and result in the classification of these securities as Level 2 of the fair value hierarchy.

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, and result in the classification of these securities as Level 2 of the fair value hierarchy.

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. Since 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. As a result, the Company classifies its corporate bonds as Level 2 of the fair value hierarchy.

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 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 a result, the Company classifies its derivative instruments as Level 2 of the fair value hierarchy.

Table of Contents

The Company classified its auction rate securities ("ARS") within Level 3 of the fair value hierarchy. The Company's ARS were classified within Level 3 because they were valued, in part, by using inputs that were unobservable in the market and were significant to the valuation. During the first quarter of 2013, the Company disposed of its remaining $3.1 million (par value) ARS, with $0.1 million of ARS called at par value and $3.0 million of ARS tendered at 95% of par value. As of September 28, 2013, 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 September 28, 2013 Fair Value Measured Using				As of December 29, 2012 Fair Value Measured Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Money market funds	$72,386	$—	$ —	$72,386	$25,560	$ —	$ —	$25,560
Certificates of deposit	—	2,640	—	2,640	—	2,160	—	2,160
Commercial paper	—	88,720	—	88,720	—	14,843	—	14,843
Corporate bonds	—	109,540	—	109,540	—	57,467	—	57,467
U.S. treasuries	7,806	—	—	7,806	15,020	—	—	15,020
ARS	—	—	—	—	—	—	2,873	2,873
Total assets	$80,192	$200,900	$ —	$281,092	$40,580	$ 74,470	$ 2,873	$117,923
Liabilities								
Foreign currency exchange forward contracts	$—	$64	$ —	$64	$—	$ 112	$ —	$112

During the three and nine months ended September 28, 2013, there were no transfers of assets or liabilities between Level 1 and Level 2 financial assets.

The Company's remaining Level 3 financial assets were disposed during the first quarter of 2013. The following tables present a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable (Level 3) inputs (in thousands):

	Nine Months Ended				
	December 29, 2012	Total Net Gains Included in Other Comprehensive Loss	Calls	Sold	September 28, 2013
ARS – available-for-sale	$2,873	$ —	$(92) [(1)]	$(2,781) [(2)]	$—

	Three Months Ended			
	June 30, 2012	Total Net Gains Included in Other Comprehensive Loss	Calls	September 29, 2012
ARS – available-for-sale	$2,796	$ 83 [(3)]	$—	$2,879

	Nine Months Ended			
	December 31, 2011	Total Net Gains Included in Other Comprehensive Loss	Calls	September 29, 2012
ARS – available-for-sale	$7,675	$ 143 [(3)]	$(4,939) [(4)]	$2,879

(1) Amount represents the fair market value of the securities called at par value. Realized gains for the nine months ended September 28, 2013 were not significant.

(2) Amount represents the fair market value of the securities sold at 95% par value. Realized gains for the nine months ended September 28, 2013 were $0.2 million.

(3) Amount represents the change in the non-credit loss related other-than-temporary impairments (“OTTI”) recorded in Accumulated other comprehensive loss in the accompanying condensed consolidated balance sheets.

Table of Contents

(4) Amount represents the fair market value of the securities called. Realized gains on these calls for the nine months ended September 29, 2012 were $0.5 million.

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

	September 28, 2013			
	Adjusted Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$72,386	$—	$—	$72,386
Certificates of deposit	2,640	—	—	2,640
Commercial paper	88,713	13	(6)	88,720
Corporate bonds	109,598	36	(94)	109,540
U.S. treasuries	7,803	3	—	7,806
Total available-for-sale investments	$281,140	$52	$(100)	$281,092

	December 29, 2012			
	Adjusted Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$25,560	$ —	$—	$25,560
Certificates of deposit	2,160	—	—	2,160
Commercial paper	14,848	—	(5)	14,843
Corporate bonds	57,451	22	(6)	57,467
U.S. treasuries	15,015	5	—	15,020
ARS	2,707 (1)	166	—	2,873
Total available-for-sale investments	$117,741	$ 193	$(11)	$117,923

(1) Amount represents the par value less $0.4 million of credit-related OTTI recognized through earnings in prior years.

As of September 28, 2013, 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 18 months. Proceeds from sales, maturities and calls of available-for-sale investments were $80.0 million for the nine months ended September 28, 2013, and $102.1 million for the nine months ended September 29, 2012. Net realized gains (losses) on short-term and long-term investments were $0.2 million for the nine months ended September 28, 2013 and were $0.5 million for the nine months ended September 29, 2012. The specific identification method is used to account for gains and losses on available-for-sale investments.

Other-Than-Temporary Impairments

As a result of the Company’s disposal of $3.1 million ARS (par value) during the first quarter of 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 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	Accumulated Other Comprehensive

				Loss	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 September 28, 2013	$ —	$ —	$ —	$ —	$ —

10

Table of Contents

4. Cost-method Investment

As of September 28, 2013, the Company's investment in a privately-held company was $9.0 million. This investment is accounted for as a cost-basis 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 September 28, 2013, 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 and nine months ended September 28, 2013 and September 29, 2012.

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 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 changes 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. None of the Company's derivative instruments contain credit-risk related contingent features, any rights to reclaim cash collateral or any obligation to return cash collateral. The forward contracts entered into during the three and nine months ended September 28, 2013 were denominated in Euros and typically had maturities of no more than 30 days. The contracts are settled for U.S. dollars at maturity at rates agreed to at inception of the contracts.

As of September 28, 2013, the Company did not designate foreign currency exchange forward contracts related to Euro denominated receivables and restricted cash 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 three months ended September 28, 2013 and September 29, 2012, the before-tax effect of foreign currency exchange forward contracts for Euro denominated receivables and restricted cash not designated as hedging instruments was a loss of $1.2 million and a loss of $0.2 million, respectively, included in Other gain (loss), net in the condensed consolidated statements of operations. For the nine months ended September 28, 2013 and September 29, 2012, the before-tax effect of foreign currency exchange forward contracts for Euro denominated receivables and restricted cash not designated as hedging instruments was a loss of $1.4 million and a loss of $0.4 million, respectively, included in Other gain (loss), net in the condensed consolidated statement 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):

	As of September 28, 2013		As of December 29, 2012	
	Gross Notional[(1)]	Other Accrued Liabilities	Gross Notional[(1)]	Other Accrued Liabilities
Foreign currency exchange forward contracts				
Related to Euro denominated receivables	$23,255	$(60)	$22,882	$(105)
Related to restricted cash	1,363	(4)	1,495	(7)
	$24,618	$(64)	$24,377	$(112)

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

Table of Contents

6. Balance Sheet Details

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

	September 28, 2013	December 29, 2012
Inventory		
Raw materials	$12,154	$13,003
Work in process	45,681	57,281
Finished goods [1]	65,670	57,525
Total inventory	$123,505	$127,809
Property, plant and equipment, net:		
Computer hardware	$9,362	$9,024
Computer software	16,728	15,834
Laboratory and manufacturing equipment	143,680	120,543
Furniture and fixtures	1,348	1,285