NEOPHOTONICS CORP
Form 10-Q
May 11, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015

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: 001-35061

NeoPhotonics Corporation

(Exact name of registrant as specified in its charter)

Delaware	94-3253730
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2911 Zanker Road

San Jose, California 95134

(Address of principal executive offices, zip code)

(408) 232-9200

(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 (“Exchange Act”) 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 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:

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

As of April 30, 2015, there were 32,900,509 shares of the registrant’s Common Stock outstanding.

NEOPHOTONICS CORPORATION

For the Quarter Ended March 31, 2015

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NEOPHOTONICS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share data)	As of March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$62,002	$ 43,035
Short-term investments	8,296	—
Restricted cash and investments	4,006	5,504
Accounts receivable, net of allowance for doubtful accounts	85,803	77,597
Inventories, net	64,729	57,347
Prepaid expenses and other current assets	14,088	15,540
Total current assets	238,924	199,023
Property, plant and equipment, net	61,853	57,657
Restricted cash and investments, non-current	—	15,750
Purchased intangible assets, net	13,787	10,263
Goodwill	1,141	—
Other long-term assets	2,145	3,591
Total assets	$317,850	$ 286,284
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$55,664	$ 48,949
Notes payable and short-term borrowing	22,921	22,771
Current portion of long-term debt	16,138	2,445
Accrued and other current liabilities	23,927	22,728
Total current liabilities	118,650	96,893
Long-term debt, net of current portion	27,115	20,891
Deferred income tax liabilities	1,823	1,818
Other noncurrent liabilities	7,627	7,226
Total liabilities	155,215	126,828
Commitments and contingencies (Note 10)		

Stockholders' equity:		
Preferred stock, $0.0025 par value		
At March 31, 2015 and December 31, 2014: 10,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.0025 par value		
At March 31, 2015: 100,000 shares authorized, 32,897 shares issued and outstanding;		
At December 31, 2014: 100,000 shares authorized, 32,752 shares issued and outstanding	82	82
Additional paid-in capital	458,583	456,189
Accumulated other comprehensive income	6,011	5,326
Accumulated deficit	(302,041)	(302,141)
Total stockholders' equity	162,635	159,456
Total liabilities and stockholders' equity	$317,850	$ 286,284

See accompanying Notes to Condensed Consolidated Financial Statements.

NEOPHOTONICS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)	Three Months Ended March 31, 2015	2014
Revenue	$ 81,384	$ 68,168
Cost of goods sold	57,331	54,368
Gross profit	24,053	13,800
Operating expenses:		
Research and development	10,482	12,056
Sales and marketing	3,744	3,411
General and administrative	8,196	8,987
Amortization of purchased intangible assets	449	379
Acquisition-related transaction costs	140	—
Restructuring charges	6	—
Total operating expenses	23,017	24,833
Income (loss) from operations	1,036	(11,033)
Interest income	30	65
Interest expense	(506)	(251)
Other expense, net	(46)	(607)
Total interest and other expense, net	(522)	(793)
Income (loss) before income taxes	514	(11,826)
Income tax provision	(414)	(762)
Net income (loss)	$ 100	$ (12,588)
Net income (loss) per share:		
Basic	$ —	$ (0.40)
Diluted	$ —	$ (0.40)
Weighted average shares used in computing per share amounts:		
Basic	32,780	31,610
Diluted	33,031	31,610

See accompanying Notes to Condensed Consolidated Financial Statements.

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NEOPHOTONICS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)	Three months ended March 31, 2015	2014
Net income (loss)	$ 100	$ (12,588)
Foreign currency translation adjustments, net of tax of zero	688	(1,599)
Defined benefit pension plans adjustment, net of tax of zero and $73, respectively	—	118
Unrealized (loss) gain on investments, net of tax of zero	(3)	3
Comprehensive income (loss)	$ 785	$ (14,066)

See accompanying Notes to Condensed Consolidated Financial Statements.

NEOPHOTONICS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Three Months Ended March 31, 2015	2014
Cash flows from operating activities		
Net income (loss)	$ 100	$ (12,588)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,306	5,528
Stock-based compensation expense	2,056	1,901
Deferred taxes	3	76
Investment and debt related amortization	28	56
(Gain) loss on disposal of property and equipment	(118)	15
Adjustment to fair value of penalty payment derivative	—	186
Allowance for doubtful accounts	51	(84)
Write-down of inventories	1,317	567
Other, net	288	(333)
Change in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	1,228	(6,643)
Inventories	(6,883)	(4,413)
Prepaid expenses and other assets	2,041	(2,512)
Accounts payable	(624)	9,168
Accrued and other liabilities	2,032	1,719
Acquisition related transaction costs	(379)	—
Net cash provided by (used in) operating activities	7,446	(7,357)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,160)	(2,070)
Proceeds from sale of property, plant and equipment	103	—
Purchase of marketable securities	—	(5,072)
Proceeds from sale of marketable securities	—	9,644
Proceeds from maturity of securities	—	5,007
Decrease (increase) in restricted cash	8,968	(879)
Acquisition, net of notes payable	—	—
Net cash provided by investing activities	6,911	6,630
Cash flows from financing activities		
Proceeds from exercise of stock options	20	303
Tax withholding on restricted stock units	(185)	(80)
Payments of deferred offering costs	(233)	—
Proceeds from bank loans	12,134	—
Repayment of bank and acquisition-related loans	(7,695)	(5,157)

Proceeds from issuance of notes payable	5,575	6,178
Repayment of notes payable	(5,478)	(4,448)
Net cash provided by (used in) financing activities	4,138	(3,204)
Effect of exchange rates on cash and cash equivalents	472	(114)
Net increase (decrease) in cash and cash equivalents	18,967	(4,045)
Cash and cash equivalents at the beginning of the period	43,035	57,101
Cash and cash equivalents at the end of the period	$62,002	$53,056
Supplemental disclosure of noncash investing and financing activities:		
Issuance of notes to the seller of acquired business	$15,482	$—
Modification of bank loan	$15,786	$—
Transfer of restricted investments to short-term investments	$8,296	$—

See accompanying Notes to Condensed Consolidated Financial Statements.

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NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Basis of presentation and significant accounting policies

Basis of Presentation and Consolidation

The condensed consolidated financial statements of NeoPhotonics Corporation ("NeoPhotonics" or the "Company") as of March 31, 2015 and for the three months ended March 31, 2015 and 2014, have been prepared in accordance with the instructions on Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In accordance with those rules and regulations, the Company has omitted certain information and notes normally provided in the Company's annual consolidated financial statements. In the opinion of management, the condensed consolidated financial statements contain all adjustments, consisting only of normal recurring items, except as otherwise noted, necessary for the fair presentation of the Company's financial position and results of operations for the interim periods. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles ("U.S. GAAP"). These condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results expected for the entire fiscal year. All significant intercompany accounts and transactions have been eliminated.

Certain Significant Risks and Uncertainties

The Company operates in a dynamic industry and, accordingly, can be affected by a variety of factors. For example, any of the following areas could have a negative effect on the Company in terms of its future financial position, results of operations or cash flows: the general state of the U.S., China and world economies, the highly cyclical nature of the industries the Company serves; the loss of any of a small number of its larger customers; ability to obtain additional financing; inability to meet certain debt covenants; failure to successfully integrate completed acquisitions; fundamental changes in the technology underlying the Company's products; the hiring, training and retention of key employees; successful and timely completion of product design efforts; and new product design introductions by competitors.

Concentration

In the three months ended March 31, 2015, Huawei Technologies and their affiliate HiSilicon Technologies ("Huawei") and Ciena Corporation ("Ciena") accounted for 40% and 23% of the Company's total revenue, respectively, and the Company's top ten customers represented 90% of its total revenue. In the three months ended March 31, 2014, Huawei, Ciena and Alcatel-Lucent SA each accounted for 35%, 14% and 13% of the Company's total revenue, respectively, and the top ten customers represented 88% of its total revenue.

As of March 31, 2015, two customers accounted for 44% and 16% of the Company's total accounts receivable. As of December 31, 2014, two customers accounted for 45% and 10% of the Company's total accounts receivable.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenue and expenses during the reporting period. Significant estimates made by management include: the useful lives of property, plant and equipment and intangible assets as well as future cash flows to be generated by those assets; fair values of identifiable assets acquired and liabilities assumed in business combinations; allowances for doubtful accounts; valuation allowances for deferred tax assets; valuation of excess and obsolete inventories; warranty reserves; and recognition of stock-based compensation, among others. Actual results could differ from these estimates.

Summary of Significant Accounting Policies

There have been no changes in the Company’s significant accounting policies for the three months ended March 31, 2015, as compared to the significant accounting policies described in its Annual Report on Form 10-K for the year ended December 31, 2014.

Recent accounting pronouncements

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for the Company’s annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement – Extraordinary and Unusual Items (“ASU 2015-01”), which eliminates from U.S. GAAP the concept of extraordinary items. The guidance eliminates the separate presentation of extraordinary items on the income statement, net of tax and the related earnings per share, but does not affect the requirement to disclose material items that are unusual in nature or occurring infrequently. The new standard may be applied prospectively or retrospectively and is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual periods, with early adoption permitted. The Company does not expect the adoption of this standard to have an impact on its consolidated financial statements.

In November 2014, the FASB issued ASU 2014-16, Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity (“ASU 2014-16”). ASU 2014-16 requires entities to determine the nature of the host contract by considering all stated and implied substantive terms and features of the hybrid financial instrument, weighing each term and feature on the basis of the relevant facts and circumstances. This ASU is effective for the Company’s annual and interim reporting periods after December 31, 2015, with early adoption permitted. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”), which requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures in its financial statements if conditions or events raise substantial doubt about its ability to continue as a going concern. ASU 2014-15 is effective for the Company’s annual reporting period ending December 31, 2016, and interim periods thereafter, with early adoption permitted. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016. Early adoption is not permitted. In April 2015, the FASB issued a proposed ASU to defer for one year the effective date of the ASU 2014-09 to annual and interim periods beginning after December 15, 2017 and permits entities to early adopt the standard as of ASU 2014-09’s original effective date. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08") which raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014. The Company's adoption of this guidance on January 1, 2015 did not impact its consolidated financial statements.

Note 2. Net income (loss) per share

The following table sets forth the computation of the basic and diluted net income (loss) per share for the periods indicated (in thousands, except per share amounts):

	Three months ended March 31,	
	2015	2014
Numerator:		
Net income (loss)	$100	$(12,588)
Denominator:		
Weighted average shares used in computing per share amount:		
Basic	32,780	31,610
Dilutive effect of employee stock awards	251	—
Diluted	33,031	31,610
Net income (loss) per share – Basic and Diluted	$—	$(0.40)

The Company has excluded the impact of following outstanding employee stock options, restricted stock units, common stock warrants and shares expected to be issued under its employee stock purchase plan from the computation of diluted net loss per share as their effect would have been antidilutive (in thousands):

	March 31,	
	2015	2014
Employee stock options	4,930	3,952
Restricted stock units	400	1,134
Employee stock purchase plan	—	469
Common stock warrants	—	4
	5,330	5,559

Note 3. Cash, cash equivalents, short-term investments and restricted cash and investments

The following table summarizes the Company’s cash, cash equivalents, short-term investments, and restricted cash and investments at March 31, 2015 and December 31, 2014 (in thousands):

	March 31,	December 31,

	2015	2014
Cash and cash equivalents:		
Cash	$54,553	$ 43,035
Cash equivalents	7,449	—
Cash and cash equivalents	$62,002	$ 43,035
Short-term investments	$8,296	$ —
Restricted cash and investments:		
Restricted cash and investments, current	$4,006	$ 5,504
Restricted cash and investments, non-current	—	15,750
Total restricted cash and investments	$4,006	$ 21,254

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The following table summarizes the Company's unrealized gains and losses related to the cash equivalents, short-term investments and restricted investments in marketable securities designated as available-for-sale (in thousands):

	As of March 31, 2015				As of December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash equivalents								
Money market funds	$ —	$ —	$ —	$—	$ —	$ —	$ —	$ —
Time deposits	—	—	—	—	—	—	—	—
Total	$ —	$ —	$ —	$—	$ —	$ —	$ —	$ —
Short-term investments and restricted investments								
Money market funds	$ 4,585	$ —	$ —	$4,585	$ 4,587	$ —	$ —	$ 4,587
Corporate bonds	2,008	3	—	2,011	2,004	6	—	2,010
Variable rate demand notes	1,700	—	—	1,700	1,700	—	—	1,700
Total short-term investments and restricted investments	$ 8,293	$ 3	$ —	$8,296	$ 8,291	$ 6	$ —	$ 8,297
Reported within:								
Short-term investments	$ 8,293	$ 3	$ —	$8,296	$ —	$ —	$ —	$ —
Restricted cash and investments, non-current	—	—	—	—	8,291	6	$ —	$ 8,297
Total	$ 8,293	$ 3	$ —	$8,296	$ 8,291	$ 6	$ —	$ 8,297

As of March 31, 2015 and December 31, 2014, maturities of marketable securities were as follows (in thousands):

	March 31, 2015	December 31, 2014
Less than 1 year	$ 6,596	$ 6,597
Due in 1 to 2 years	—	—
Due in 2 to 5 years	—	—
Due after 5 years	1,700	1,700
Total	$ 8,296	$ 8,297

The Company may sell its investments in the future to fund future operating needs. As a result, the Company recorded all its marketable securities in short-term investments as of March 31, 2015 and December 31, 2014, regardless of the contractual maturity date of the securities. Variable rate demand notes ("VRDNs") are floating rate municipal bonds with embedded put options that allow the bondholder to sell the security at par plus accrued interest. All of the put options are secured by a pledged liquidity source. While they are classified as short-term investments, the put option allows the VRDNs to be liquidated at par on a seven-day settlement basis.

Realized gains and losses on the sale of marketable securities during the three months ended March 31, 2015 and 2014 were immaterial. The Company did not recognize any impairment losses on its marketable securities during the three months ended March 31, 2015 or 2014. As of March 31, 2015, the Company did not have any investments in marketable securities that were in an unrealized loss position for a period in excess of 12 months.

Note 4. Fair value measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets that are measured at fair value on a recurring basis (in thousands):

	As of March 31, 2015				As of December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Short-term investments and restricted investments:								
Money market funds	$4,585	$—	$ —	$4,585	$4,587	$—	$ —	$4,587
Corporate bonds	—	2,011	—	2,011	—	2,010	—	2,010
Variable rate demand notes	—	1,700	—	1,700	—	1,700	—	1,700
Total	$4,585	$3,711	$	$8,296	$4,587	$3,710	$ —	$8,297
Mutual funds held in Rabbi Trust, recorded in other long-term assets	$450	$—	$ —	$450	$424	$—	$ —	$424

The Company offers a Non-Qualified Deferred Compensation Plan (“NQDC Plan”) to a select group of its highly compensated employees. The NQDC Plan provides participants the opportunity to defer payment of certain compensation as defined in the NQDC Plan. A Rabbi Trust has been established to fund the NQDC Plan obligation, which was fully funded at March 31, 2015. The assets held by the Rabbi Trust are substantially in the form of exchange traded mutual funds and are included in the Company’s other long-term assets on its condensed consolidated balance sheets as of March 31, 2015 and December 31, 2014.

The following table presents the Company's liabilities that are measured at fair value on a recurring basis (in thousands):

	As of March 31, 2015				As of December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Penalty payment derivative (Note 10)	$—	$ —	$ 530	$530	$—	$ —	$ 530	$530

There were no transfers between levels of the fair value hierarchy during the periods presented.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

There were no assets or liabilities measured at fair value on a nonrecurring basis as of March 31, 2015 or December 31, 2014.

Assets and Liabilities Not Measured at Fair Value

The carrying values of cash, restricted cash, accounts receivable, accounts payable, notes payable and short-term borrowings approximate their fair values due to the short-term nature and liquidity of these financial instruments.

The fair values of the Company’s long-term debt have been calculated using an estimate of the interest rate the Company would have had to pay on the issuance of liabilities with a similar maturity and discounting the cash flows at that rate which it considers to be a level 2 fair value measurement. The fair values do not necessarily give an indication of the amount that the Company would currently have to pay to extinguish any of this debt.

The fair value of the Company’s variable rate bank borrowings was not materially different than its carrying value as of March 31, 2015 and December 31, 2014 as the interest rates approximated rates available to the Company and the fair value of the Company’s acquisition-related debt approximated its carrying value.

Note 5. Business combination

On January 2, 2015, the Company closed an acquisition of the tunable laser product lines of EMCORE Corporation (“EMCORE”) for an original purchase price of $17.5 million. Consideration for the transaction consisted of $1.5 million in cash and a promissory note (the “EMCORE Note”) of approximately $16.0 million, which was subject to certain adjustments for inventory, net accounts receivable and pre-closing revenues, and was subsequently adjusted to $15.5 million in connection with a True-Up Confirmation Agreement (the “True-Up Agreement”) executed by and between the Company and EMCORE on April 16, 2015 (see Note 14). The adjusted purchase price for the acquisition was approximately $17.0 million.

The Company accounted for this acquisition as a business combination. With this acquisition, the Company aims to strengthen its narrow line width tunable laser product portfolio.

In connection with the acquisition, the Company incurred approximately $0.8 million in total acquisition-related costs related to legal, accounting and other professional services. The acquisition costs were expensed as incurred and included in operating expenses in the Company's condensed consolidated statement of operations.

The Company allocated the purchase price of this acquisition to tangible and identifiable intangible assets acquired and liabilities assumed, based on their estimated fair values as of the close of the acquisition. These estimates were determined through established and generally accepted valuation techniques. The Company recorded $1.1 million in goodwill, which represented the excess of the purchase price over the aggregate net estimated fair values of the assets acquired and liabilities assumed in the acquisition.

The following table summarizes the allocation of the assets acquired and liabilities assumed as of the acquisition date and subsequent adjustments (in thousands):

Total purchase consideration:	
Cash paid	$1,500
Notes payable	15,482
	16,982
Fair value of assets acquired:	
Accounts receivable, net of allowance for doubtful accounts of $836	$9,433
Inventories, net of inventory reserves of $616	1,582
Prepaid expenses and other current assets	654
Property, plant and equipment	6,917
Intangible assets acquired:	
Developed technology	4,100
Customer relationships	700
	$23,386
Less: fair value of liabilities assumed:	
Accounts payable	$(7,427)
Accrued liabilities	(118)
	$(7,545)
Goodwill	$1,141

Purchased intangibles with finite lives will be amortized on a straight-line basis over their respective estimated useful lives. The following table presents details of the purchase price allocated to the acquired intangible assets at the acquisition date:

	Useful Life (In years)	Purchased intangible assets (In thousands)
Developed technology	7	$4,100

Customer relationships	2	700
Total purchased intangible assets		$4,800

The following unaudited supplemental pro forma information presents the combined results of operations of NeoPhotonics Corporation and the assets and liabilities for the three months ended March 31, 2015 and 2014 as though the companies had been combined as of the beginning of the period presented. The pro forma financial information consists of the adjustments of $0.1 million of transaction costs, and an immaterial amount of employee expense. Incremental intangible amortization, inventory and depreciation adjustments and transaction costs were also added to the 2014 period. There were no sales between EMCORE and the Company in the three months ended March 31, 2015 and 2014.

The unaudited pro forma results do not assume any operating efficiencies as a result of the consolidation of operations (in thousands, except per share data):

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Revenue	$ 81,384	$ 77,705
Net income (loss)	$ 191	$ (15,064)
Basic and diluted net income (loss) per share	$ 0.01	$ (0.48)

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The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved had the acquisition taken place at the beginning of the period presented, nor does it intend to be a projection of future results.

Note 6. Balance sheet components

Restricted cash and investments

Restricted cash and investments consist of the following (See Note 8) (in thousands):

	March 31, 2015	December 31, 2014
Restricted in connection with notes payable	$ 4,006	$ 3,754
Restricted in connection with Comerica Bank term loan	—	17,500
Total restricted cash and investments	$ 4,006	$ 21,254
Reported as:		
Restricted cash and investments	$ 4,006	$ 5,504
Restricted cash and investments, non-current	—	15,750
Total restricted cash and investments	$ 4,006	$ 21,254

Accounts receivable, net

Accounts receivable, net consists of the following (in thousands):

	March 31, 2015	December 31, 2014
Accounts receivable	$ 81,347	$ 69,839
Trade notes receivable	5,587	7,999
Allowance for doubtful accounts	(1,131)	(241)
	$ 85,803	$ 77,597

Inventories

Inventories consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Raw materials	$ 27,152	$ 23,804
Work in process	15,576	13,600
Finished goods (1)	22,001	19,943
	$ 64,729	$ 57,347

(1) Finished goods inventory at customers’ vendor managed inventory locations was $8.3 million and $6.4 million as of March 31, 2015 and December 31, 2014, respectively.

Purchased intangible assets

Purchased intangible assets consist of the following (in thousands):

	March 31, 2015			December 31, 2014		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Technology and patents	$38,181	$ (29,295)	$8,886	$34,023	$ (28,402)	$5,621
Customer relationships	15,456	(11,644)	3,812	14,725	(11,176)	3,549
Leasehold interest	1,391	(302)	1,089	1,386	(293)	1,093
Noncompete agreements	862	(862)	—	862	(862)	—
	$55,890	$ (42,103)	$13,787	$50,996	$ (40,733)	$10,263

Amortization expense relating to technology and patents and the leasehold interest intangible assets is included within cost of goods sold, and customer relationships and the non-compete agreements within operating expenses. The following table presents details of the amortization expense of the Company's purchased intangible assets as reported in the condensed consolidated statements of operations (in thousands):

	Three Months Ended March 31,	
	2015	2014
Cost of goods sold	$ 839	$ 714
Operating expenses	449	379
Total	$ 1,288	$ 1,093

The estimated future amortization expense of purchased intangible assets as of March 31, 2015, is as follows (in thousands):

2015 (remaining nine months)	$3,862
2016	4,465
2017	1,328
2018	1,151
2019	795
Thereafter	2,186
	$13,787

Accrued and other current liabilities

Accrued and other current liabilities consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Employee-related	$ 16,216	$ 13,635
Accrued warranty	1,647	1,751
Penalty payment derivative	530	530
Deferred income tax liabilities	181	181
Other	5,353	6,631
	$ 23,927	$ 22,728

Warranty Accrual

The table below summarizes the movement in the warranty accrual, which is included in accrued and other current liabilities (in thousands):

	Three Months Ended March 31,	
	2015	2014
Beginning balance	$ 1,751	$ 1,737

Warranty accruals	68	289
Settlements and adjustments	(172)	(357)
Ending balance	$ 1,647	$ 1,669

Other noncurrent liabilities

Other noncurrent liabilities consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Pension and other employee-related	$ 5,407	$ 5,355
Other	2,220	1,871
	$ 7,627	$ 7,226

Note 7. Restructuring

In 2014, the Company initiated a restructuring plan (the "2014 Restructuring Plan") to refocus on its strategy execution, optimize its structure, and improve operational efficiencies. The 2014 Restructuring Plan consisted of workforce reductions primarily in the U.S. and in China. Restructuring charges recorded in the three months ended March 31, 2015 was immaterial and was included within operating expenses. The remaining restructuring liability is expected to be paid through October 2015.

The following table summarizes activity associated with restructuring obligations during the three months ended March 31, 2015 (in thousands):

	Workforce Reduction	Facilities	Contract Termination	Total
Restructuring obligations, December 31, 2014	$ 54	$ 100	$ —	$154
Restructuring costs incurred	6	—	—	6
Cash payments	(60)	(30)	—	(90)
Non-cash settlements and other	—	—	—	—
Restructuring obligations, March 31, 2015	$ —	$ 70	$ —	$70

Note 8. Debt

The table below summarizes the carrying amount and weighted average interest rate of the Company's notes payable and long-term debt (in thousands, except percentages):

	March 31, 2015		December 31, 2014	
	Carrying Amount	Weighted Average Interest Rate	Carrying Amount	Weighted Average Interest Rate
Notes payable	$12,921	—	$12,771	—
Short-term borrowing	10,000	3.18 %	10,000	3.18 %
Total notes payable and short-term borrowing	$22,921		$22,771	
Long-term debt, current and non-current:				
Bank borrowings-Comerica Bank	$15,787	2.92 %	$17,500	3.16 %
Bank borrowings-Mitsubishi Bank	12,469	1.53 %	—	—
Acquisition-related	15,482	5.0 %	5,836	1.50 %
Total long-term debt, current and non-current	43,738		23,336	
Unaccreted discount within current portion of long-term debt	(180)		—	
Unaccreted discount within long-term debt, net of current portion	(305)		—	
Total long-term debt, net of unaccreted discount	$43,253		$23,336	
Reported as:				

Current portion of long-term debt	$16,138	$2,445
Long-term debt, net of current portion	27,115	20,891
Total long-term debt, net of unaccreted discount	$43,253	$23,336

Notes payable

The Company regularly issues notes payable to its suppliers in China in exchange for accounts payable. These notes are supported by non-interest bearing bank acceptance drafts issued under the Company's existing line of credit facility and are due three to six months after issuance. As a condition of the notes payable arrangements, the Company is required to keep a compensating balance at the issuing banks that is a percentage of the total notes payable balance until the amounts are settled.

At March 31, 2015, the Company's subsidiary in China had a short-term line of credit facility with a banking institution which expires in June 2015. Under the agreement, RMB 160.0 million ($26.1 million) can be used for bank acceptance drafts (with a 25% to 30% compensating balance requirement) and up to RMB 120.0 million ($19.6 million) can be used for short-term loans, which will bear interest at varying rates. In September 2014, the Company's China subsidiary renewed its second short-term line of credit facility with a banking institution, under which RMB 150.0 million ($24.5 million) can be used for bank acceptance drafts (with a 30% compensating balance requirement) or short-term loans. This line of credit facility expires in September 2015. As of March 31, 2015, the non-interest bearing bank acceptance drafts issued in connection with the Company's notes payable to its suppliers in China, under these line of credit facilities, had an outstanding balance of $12.9 million.

As of March 31, 2015 and December 31, 2014, compensating balances relating to these bank acceptance drafts issued to suppliers and the Company's subsidiaries totaled $4.0 million and $3.8 million, respectively. Compensating balances are classified as restricted cash and investments on the Company's condensed consolidated balance sheets.

Short-term borrowing

In October 2014, the Company's subsidiary in China entered into a short-term advance financing agreement, under one of its line of credit facilities, to borrow $5.0 million against export sales to its parent company. This financing agreement bears interest at 4.02% per annum. Interest and the principal are due in April 2015. As of March 31, 2015, the outstanding principal balance was $5.0 million.

In November 2014, the Company's subsidiary in China entered into a second short-term advance financing agreement, under one of its line of credit facilities, to borrow $5.0 million against export sales to its parent company. This financing agreement bears interest at 2.33% per annum and service fees at 1.00% per annum. Interest, service fees and the principal are due in May 2015. As of March 31, 2015, the outstanding principal balance was $5.0 million.

Acquisition-related

In connection with the acquisition of NeoPhotonics Semiconductor on March 29, 2013, the Company was obligated to pay 1,050 million Japanese Yen ("JPY") in three equal installments on the first, second and third anniversaries of the closing date for the purchase of the real estate used by NeoPhotonics Semiconductor, of which 700 million JPY ($5.8 million) was outstanding as of December 31, 2014. The obligation bore interest at 1.5% per year, payable annually, and was secured by the acquired real estate property. This loan was repaid in full in February 2015.

As part of the purchase consideration to acquire the tunable laser products of EMCORE in January 2015 (See Note 5), the Company issued the EMCORE Note, as amended, of $15.5 million, which had a maturity of two years from the closing of the transaction and an interest rate of 5% per annum for the first year and 13% per annum for the second year. The interest was payable semi-annually in cash. In addition, the EMCORE Note was subject to prepayment under certain circumstances and was secured by certain of the assets to be sold pursuant to the asset purchase agreement with EMCORE. The EMCORE Note was subordinated to the Company's existing bank debt in the U.S . The EMCORE Note was repaid in full in April 2015 and, therefore, was classified within the current portion of long-term debt.

Bank borrowings

The Company has a credit agreement with Comerica Bank as lead bank in the U.S., which has been amended several times. In January 2015, the Company executed an amendment to its credit agreement with Comerica Bank to refinance the then-outstanding Comerica term loan. Under the Credit Amendment, the $20.0 million revolving credit facility was replaced with a $25.0 million senior secured revolving credit line with the maturity date on November 2, 2016. In March 2015, the senior secured revolving credit line was further amended to increase the borrowing capacity from $25.0 million to $30.0 million. Borrowings under the amended revolving credit facility bear interest at an interest rate option of a base rate as defined in the agreement plus 1.75% or LIBOR plus 2.75%. The Credit Amendment also modified the EBITDA and liquidity covenants and eliminated the need to maintain compensating balances (restricted cash). The credit agreement also restricts the Company's ability to incur certain additional debt or to engage in specified transactions, restricts the payment of dividends and is secured by substantially all of the Company's U.S. assets, other than intellectual property assets. The Company also repaid the remaining Comerica term loan balance and borrowed $15.8 million under the amended revolving credit facility.

The components of the credit facilities are as follows:

A $30.0 million revolving credit facility under which there was $15.8 million outstanding at March 31, 2015 and no outstanding borrowing as of December 31, 2014, subject to covenant requirements. Amounts borrowed, if any, are due on or before November 2, 2016 and bear interest at an interest rate option of a base rate as defined in the agreement plus 1.75% or LIBOR plus 2.75%. As of March 31, 2015 the rate on the LIBOR option was 2.92%.
Under the term loan facility, $17.5 million was outstanding at December 31, 2014 which was repaid in full in January 2015. Prior to the repayment, borrowings under the term loan bore interest at an interest rate option of a base rate as defined in the agreement plus 2.0% or LIBOR plus 3.0%.

The Company's original credit agreement with Comerica Bank required the maintenance of specified financial covenants, including a debt to EBITDA ratio and liquidity ratios. The Company was not in compliance with the debt to EBITDA covenant at March 31, 2014, which noncompliance was effectively waived in the amendment described below. During 2014, the Company executed an amendment to the credit agreement that waived the testing of certain covenants for compliance, provided that the Company maintained compensating balances equal to outstanding amounts under the credit agreement in accounts for which the bank had sole access. The Company's amended credit agreement with Comerica executed in January 2015 eliminated the compensating balance requirement and modified the financial covenants, including the maintenance of a modified EBITDA and certain liquidity covenants. As of March 31, 2015 and December 31, 2014, the amount of the Company's cash and investments in its compensating balance accounts for the term loan facility with Comerica Bank was zero and $17.5 million, respectively, which was classified as current and non-current restricted cash and investments on the Company's condensed consolidated balance sheet (see Note 6).

On February 25, 2015, the Company entered into certain loan agreements and related special agreements (collectively, the "Loan Arrangements") with the Bank of Tokyo-Mitsubishi UFJ, Ltd. (the "Mitsubishi Bank") that provided for (i) a term loan in the aggregate principal amount of 500 million JPY ($4.2 million) (the "Term Loan A") and (ii) a term loan in the aggregate principal amount of one billion JPY ($8.4 million) (the "Term Loan B" and together with the Term Loan A, the "Mitsubishi Bank Loans"). The Mitsubishi Bank Loans are secured by a mortgage on certain real property and buildings owned by our Japanese subsidiary. The full amount of each of the Mitsubishi Bank Loans was drawn on the closing date of February 25, 2015. Interest on the Mitsubishi Bank Loans accrues and is paid monthly based upon the annual rate of the monthly Tokyo Interbank Offer Rate (TIBOR) plus 1.40%. The Term Loan A requires interest only payments until the maturity date of February 23, 2018, with a lump sum payment of the aggregate principal amount on the maturity date. The Term Loan B requires equal monthly payments of principal equal to 8,333,000 JPY until the maturity date of February 25, 2025, with a lump sum payment of the balance of 8,373,000 JPY on the maturity date. Interest on the Term Loan B is accrued based upon monthly TIBOR plus 1.40% and is secured by real estate collateral. In conjunction with the execution of the Bank Loans, the Company paid a loan structuring fee, including consumption tax, of 40,500,000 JPY ($0.3 million).

The Mitsubishi Bank Loans contain customary representations and warranties and customary affirmative and negative covenants applicable to the Company's Japanese subsidiary, including, among other things, restrictions on cessation in business, management, mergers or acquisitions. The Mitsubishi Bank Loans contain financial covenants relating to minimum net assets, maximum ordinary loss and a dividends covenant. The Mitsubishi Bank Loans also include customary events of default, including but not limited to the nonpayment of principal or interest, violations of covenants, restraint on business, dissolution, bankruptcy, attachment and misrepresentations. In March 2015, the Company used a portion of the proceeds of the Mitsubishi Bank Loans to repay the then-outstanding loan related to the acquisition of NeoPhotonics Semiconductor, which had an outstanding principal and interest amount of approximately 710 million JPY ($6.0 million) and the remainder will be used for general working capital.

At March 31, 2015, maturities of long-term debt were as follows (in thousands):

2015 (remaining nine months)	$16,109
2016	16,623
2017	836
2018	5,015
2019	836
Thereafter	