MACOM Technology Solutions Holdings, Inc.
Form 10-Q
August 01, 2018

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 29, 2018
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: 001-35451

MACOM Technology Solutions Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware	27-0306875
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Chelmsford Street
Lowell, MA 01851
(Address of principal executive offices and zip code)
(978) 656-2500
(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 Website, 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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.¨

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 July 27, 2018, there were 65,162,822 shares of the registrant's common stock outstanding.

MACOM TECHNOLOGY SOLUTIONS HOLDINGS, INC.
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ITEM 1. FINANCIAL STATEMENTS
MACOM TECHNOLOGY SOLUTIONS HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	June 29, 2018	September 29, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$85,268	$ 130,104
Short-term investments	97,723	84,121
Accounts receivable (less allowances of $7,643 and $9,410, respectively)	101,285	136,096
Inventories	122,866	136,074
Income tax receivable	19,945	18,493
Assets held for sale	4,971	35,571
Prepaid and other current assets	22,335	22,438
Total current assets	$454,393	$ 562,897
Property and equipment, net	139,415	131,019
Goodwill	314,401	313,765
Intangible assets, net	533,876	621,092
Deferred income taxes	1,662	948
Other investments	34,259	—
Other long-term assets	7,709	7,402
TOTAL ASSETS	$1,485,715	$ 1,637,123
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of lease payable	$499	$ 815
Current portion of long-term debt	6,885	6,885
Accounts payable	29,370	47,038
Accrued liabilities	46,446	58,243
Liabilities held for sale	—	2,144
Deferred revenue	8,279	1,994
Total current liabilities	$91,479	$ 117,119
Lease payable, less current portion	26,658	17,275
Long-term debt, less current portion	659,146	661,471
Warrant liability	15,880	40,775
Deferred income taxes	7,791	15,172
Other long-term liabilities	5,724	7,937
Total liabilities	$806,678	$ 859,749
Stockholders’ equity:		
Common stock	65	64
Treasury stock, at cost	(330)	(330)
Accumulated other comprehensive income	3,757	2,977
Additional paid-in capital	1,067,028	1,041,644
Accumulated deficit	(391,483)	(266,981)
Total stockholders’ equity	$679,037	$ 777,374
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,485,715	$ 1,637,123

See notes to condensed consolidated financial statements.

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MACOM TECHNOLOGY SOLUTIONS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Revenue	$137,872	$194,555	$419,210	$532,391
Cost of revenue	89,703	101,926	244,486	292,403
Gross profit	48,169	92,629	174,724	239,988
Operating expenses:				
Research and development	48,240	38,729	131,487	108,588
Selling, general and administrative	42,471	46,666	119,393	145,488
Impairment charges	—	—	6,575	—
Restructuring charges	102	586	6,302	2,342
Total operating expenses	90,813	85,981	263,757	256,418
(Loss) income from operations	(42,644)	6,648	(89,033)	(16,430)
Other (expense) income				
Warrant liability (expense) gain	(6,728)	(9,085)	24,895	(16,481)
Interest expense, net	(8,039)	(7,178)	(23,249)	(21,902)
Other expense	(37,281)	(1,139)	(41,413)	(2,042)
Total other expense, net	(52,048)	(17,402)	(39,767)	(40,425)
Loss before income taxes	(94,692)	(10,754)	(128,800)	(56,855)
Income tax (benefit) expense	(9,482)	3,223	(11,153)	93,559
Loss from continuing operations	(85,210)	(13,977)	(117,647)	(150,414)
Loss from discontinued operations	(220)	(13,700)	(5,837)	(8,358)
Net loss	$(85,430)	$(27,677)	$(123,484)	$(158,772)
Net loss per share:				
Basic loss per share:				
Loss from continuing operations	$(1.31)	$(0.22)	$(1.82)	$(2.53)
Loss from discontinued operations	0.00	(0.21)	(0.09)	(0.14)
Loss per share - basic	$(1.32)	$(0.43)	$(1.91)	$(2.67)
Diluted loss per share:				
Loss from continuing operations	$(1.31)	$(0.22)	$(2.19)	$(2.53)
Loss from discontinued operations	0.00	(0.21)	(0.09)	(0.14)
Loss per share - diluted	$(1.32)	$(0.43)	$(2.28)	$(2.67)
Shares used:				
Basic	64,920	64,019	64,598	59,524
Diluted	64,920	64,019	65,198	59,524

See notes to condensed consolidated financial statements.

MACOM TECHNOLOGY SOLUTIONS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Net loss	$(85,430)	$(27,677)	$(123,484)	$(158,772)
Unrealized gain (loss) on short-term investments, net of tax	59	(77)	(455)	(71)
Foreign currency translation (loss) gain, net of tax	(3,475)	(307)	1,235	(6,358)
Other comprehensive (loss) income, net of tax	(3,416)	(384)	780	(6,429)
Total comprehensive loss	$(88,846)	$(28,061)	$(122,704)	$(165,201)

See notes to condensed consolidated financial statements.

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MACOM TECHNOLOGY SOLUTIONS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY
(In thousands)
(Unaudited)

	Common Stock		Treasury Stock		Accumulated Other Comprehensive Income	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders’ Equity
	Shares	Amount	Shares	Amount				
Balance at September 29, 2017	64,279	$ 64	(23)	$ (330)	$ 2,977	$ 1,041,644	$ (266,981)	$ 777,374
Cumulative effect of ASU 2016-09	—	—	—	—	—	1,018	(1,018)	—
Stock options exercises	22	—	—	—	—	65	—	65
Vesting of restricted common stock and units	883	1	—	—	—	—	—	1
Issuance of common stock pursuant to employee stock purchase plan	305	—	—	—	—	6,879	—	6,879
Shares repurchased for stock withholdings on restricted stock awards	(307)	—	—	—	—	(6,673)	—	(6,673)
Share-based compensation	—	—	—	—	—	24,095	—	24,095
Other comprehensive income, net of tax	—	—	—	—	780	—	—	780
Net loss	—	—	—	—	—	—	(123,484)	(123,484)
Balance at June 29, 2018	65,182	$ 65	(23)	$ (330)	$ 3,757	$ 1,067,028	$ (391,483)	$ 679,037

See notes to condensed consolidated financial statements.

MACOM TECHNOLOGY SOLUTIONS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended	
	June 29, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(123,484)	$(158,772)
Adjustments to reconcile net loss to net cash provided by operating activities (net of acquisitions):		
Depreciation and intangibles amortization	83,695	65,823
Share-based compensation	24,095	27,666
Warrant liability (gain) expense	(24,895)	16,481
Acquired inventory step-up amortization	224	43,985
Deferred financing cost amortization	3,572	2,545
Acquisition prepaid compensation amortization	—	506
Loss on extinguishment of debt	—	2,008
Loss (gain) on disposition of business	34,046	(23,645)
Deferred income taxes	(8,502)	87,608
Impairment related charges	9,143	—
Loss on minority equity investment	7,241	—
Changes in assets held for sale from discontinued operations	(6,266)	6,329
Other adjustments, net	936	285
Change in operating assets and liabilities (net of acquisitions):		
Accounts receivable	34,769	(12,755)
Inventories	(1,617)	7,997
Prepaid expenses and other assets	(3,682)	1,104
Accounts payable	(11,049)	(4,718)
Accrued and other liabilities	(1,952)	(17,821)
Income taxes	(5,058)	4,063
Net cash provided by operating activities	11,216	48,689
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of businesses, net	—	(231,712)
Purchases of property and equipment	(39,443)	(24,496)
Sale of businesses and assets	5,000	215
Proceeds from sales and maturities of short-term investments	85,422	32,420
Purchases of short-term investments	(99,363)	(90,508)
Purchases of other investments	(5,000)	—
Proceeds associated with discontinued operations	(263)	23,645
Net cash used in investing activities	(53,647)	(290,436)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	—	96,558
Payments of financing costs	(505)	(9,077)
Proceeds from stock option exercises and employee stock purchases	6,944	8,162
Payments on notes payable	(5,163)	(3,026)
Payments of capital leases and assumed debt	(571)	(928)
Repurchase of common stock	(6,673)	(18,092)
Proceeds from corporate facility financing obligation	4,000	4,250

Payments of contingent consideration and other	(478)	(1,296)
Net cash (used in) provided by financing activities	(2,446)	76,551
Foreign currency effect on cash	41	(175)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(44,836)	(165,371)
CASH AND CASH EQUIVALENTS — Beginning of period	$130,104	$332,977
CASH AND CASH EQUIVALENTS — End of period	$85,268	$167,606
Supplemental disclosure of non-cash activities		
Issuance of common stock in connection with the AppliedMicro Acquisition (See Note 2 - Acquisitions)	$—	$465,082

See notes to condensed consolidated financial statements.

MACOM TECHNOLOGY SOLUTIONS HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Information—The accompanying unaudited, condensed consolidated financial statements have been prepared according to the rules and regulations of the United States (the “U.S.”) Securities and Exchange Commission (“SEC”) and, in the opinion of management, reflect all adjustments, which include normal recurring adjustments, necessary for a fair statement of the condensed consolidated balance sheets, condensed consolidated statements of operations, condensed consolidated statement of comprehensive loss, condensed consolidated statements of stockholders' equity and condensed consolidated statements of cash flows of MACOM Technology Solutions Holdings, Inc. (“MACOM”, the “Company”, “us”, “we” or “our”) for the periods presented. We prepare our interim financial information using the same accounting principles we use for our annual audited consolidated financial statements. Certain information and note disclosures normally included in the annual audited consolidated financial statements have been condensed or omitted in accordance with prescribed SEC rules. We believe that the disclosures made in our condensed consolidated financial statements and the accompanying notes are adequate to make the information presented not misleading.

The consolidated balance sheet at September 29, 2017 is as reported in our audited consolidated financial statements as of that date. Our accounting policies are described in the notes to our September 29, 2017 consolidated financial statements, which were included in our Annual Report on Form 10-K for our fiscal year ended September 29, 2017 filed with the SEC on November 15, 2017, our Quarterly Report on Form 10-Q for the fiscal quarter ended December 29, 2017 filed with the SEC on February 7, 2018 and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2018 filed with the SEC on May 3, 2018. We recommend that the financial statements included in this Quarterly Report on Form 10-Q be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for our fiscal year ended September 29, 2017.

Principles of Consolidation—We have one reportable segment, semiconductors and modules. The accompanying consolidated financial statements include our accounts and the accounts of our majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

We have a 52- or 53-week fiscal year ending on the Friday closest to the last day of September. The fiscal years 2018 and 2017 include 52 weeks. To offset the effect of holidays, for fiscal years in which there are 53 weeks, we typically include the extra week arising in such fiscal years in the first quarter.

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities during the reporting periods, the reported amounts of revenue and expenses during the reporting periods, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, we base estimates and assumptions on historical experience, currently available information and various other factors that management believes to be reasonable under the circumstances. Actual results may differ materially from these estimates and assumptions.

Recent Accounting Pronouncements—Our Recent Accounting Pronouncements are described in the notes to our September 29, 2017 consolidated financial statements, which were included in our Annual Report on Form 10-K for our fiscal year ended September 29, 2017.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("Topic 606"). In March, April, May and December 2016, the FASB issued additional guidance related to Topic 606. The new standard superseded nearly all existing revenue recognition guidance. Under Topic 606, an entity is required to recognize revenue upon transfer of promised goods or services to customers in an amount that reflects the expected consideration to be received in exchange for those goods or services. Topic 606 defines a five-step process in order to achieve this core principle, which may require the use of judgment and estimates, and also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used. The new standard also defines accounting for certain costs related to origination and fulfillment of contracts with customers, including whether such costs should be capitalized. The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach where the new standard is applied in the financial statements starting with the year of adoption. Under both approaches, cumulative impact of the adoption is reflected as an adjustment to retained earnings (accumulated equity (deficit)) as of the earliest date presented in accordance with the new standard. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which delayed the effective date of the new standard from January 1, 2017 to January 1, 2018. We plan to implement the new guidance on September 29, 2018, the beginning of our next fiscal year, using the modified retrospective approach, applied to those contracts that were not completed as of that date. We developed a project plan for the implementation of the guidance, including a review of all revenue streams to identify any differences in the timing, measurement or presentation of revenue recognition and costs to obtain or fulfill the contracts. We have made progress in completing the assessment of the potential impacts of the standard, including any impacts from issued amendments. We do not expect the adoption of Topic 606 to have a material impact on our financial position and results of operations. As we continue our evaluation, we are also assessing any disclosure requirements and preparing to implement changes to accounting policies, business processes and internal controls to support the new standard.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation ("ASU 2016-09"), which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities. We adopted this ASU as of September 30, 2017. Prior to ASU 2016-09, the accounting for share-based compensation required forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. ASU 2016-09 allows an entity to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. ASU 2016-09 requires an entity that elects to account for forfeitures when they occur to apply the accounting change on a modified retrospective basis as a cumulative-effect adjustment to retained earnings as of the date of adoption. We elected to account for forfeitures when they occur, and recorded a $1.0 million cumulative-effect adjustment to beginning retained earnings as of September 30, 2017. We did not record any adjustments to retained earnings for the tax effect of the adoption of ASU 2016-09 as we are in a full valuation allowance position against our U.S. deferred tax asset. ASU 2016-09 requires all excess tax benefits and tax deficiencies to be recorded in the consolidated income statement on a prospective basis when the awards vest or are settled. Due to our full U.S. valuation allowance, ASU 2016-09 had no impact to our tax expense for the three and nine months ended June 29, 2018.

2. ACQUISITIONS

Acquisition of Applied Micro Circuits Corporation— On January 26, 2017, we completed the acquisition of Applied Micro Circuits Corporation (“AppliedMicro”), a global provider of silicon solutions for next-generation cloud infrastructure and Cloud Data Centers, as well as connectivity products for edge, metro and long-haul communications equipment (the “AppliedMicro Acquisition”). We acquired AppliedMicro in order to expand our business in enterprise and Cloud Data Center applications. In connection with the AppliedMicro Acquisition, we acquired all of the outstanding common stock of AppliedMicro for total consideration of $695.4 million, which included cash paid of $287.1 million, less $56.8 million of cash acquired, and equity issued at a fair value of $465.1 million. In conjunction with the equity issued, we granted vested out-of-money stock options and unvested restricted stock units to replace outstanding vested out-of-money stock options and unvested restricted stock units of AppliedMicro. The total fair value of granted vested out-of-money stock options and unvested restricted stock units was $14.5 million, of which $9.3 million was attributable to pre-combination service and was included in the total consideration transferred. We funded the AppliedMicro Acquisition with cash on-hand and short-term investments. We recorded transaction costs related to the acquisition in selling, general and administrative expense. For the three and nine months ended June 29, 2018, we recorded no transaction costs. For the three and nine months ended June 30, 2017, we recorded transaction costs of $0.1 million and $11.9 million, respectively. The AppliedMicro Acquisition was accounted for as a stock purchase and the operations of AppliedMicro have been included in our consolidated financial statements since the date of acquisition.

We recognized the AppliedMicro assets acquired and liabilities assumed based upon the fair value of such assets and liabilities measured as of the date of acquisition. The aggregate purchase price for AppliedMicro has been allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. The excess of the purchase price over the fair value of the acquired net assets represents cost and revenue synergies specific to the Company, as well as non-capitalizable intangible assets, such as the employee workforce acquired, and has been allocated to goodwill, none of which will be tax deductible.

In connection with the acquisition of AppliedMicro, we entered into a plan to divest a portion of AppliedMicro's business specifically related to its compute business (the "Compute business"). The divestiture of the Compute business was completed on October 27, 2017. See Note 3 - Divested Business and Discontinued Operations for further details of the divestiture.

The following table summarizes the total estimated acquisition consideration (in thousands):

Cash consideration paid to AppliedMicro common stockholders	$287,060
Common stock issued (9,544,125 shares of our common stock at $47.53 per share)	453,632
Equity consideration for vested "in the money" stock options and unvested restricted stock units	2,143
Fair value of the replacement equity awards attributable to pre-acquisition service	9,307
Total consideration paid, excluding cash acquired	$752,142

We finalized the purchase accounting during the fiscal quarter ended December 29, 2017. The final purchase price allocation is as follows (in thousands):

	Preliminary Allocation as of September 29, 2017	Allocation Adjustments	Adjusted Allocation December 29, 2017
Current assets	$ 70,434	$ (553)	$ 69,881
Intangible assets	412,848	—	412,848
Assets held for sale	40,944	—	40,944
Other assets	9,800	—	9,800
Total assets acquired	534,026	(553)	533,473
Liabilities assumed:			
Liabilities held for sale	4,444	—	4,444
Other liabilities	17,627	651	18,278
Total liabilities assumed	22,071	651	22,722
Net assets acquired	511,955	(1,204)	510,751
Consideration:			
Cash paid upon closing	230,298	—	230,298
Common stock issued	455,775	—	455,775
Equity instruments issued	9,307	—	9,307
Total consideration	$ 695,380	$ —	$ 695,380
Goodwill	$ 183,425	$ 1,204	$ 184,629

The components of the acquired intangible assets were as follows (in thousands):

	Included In Assets Held For Sale	Included in Retained Business	Useful Lives (Years)
Developed technology	$ 9,600	$ 78,448	7 years
Customer relationships	—	334,400	14 years
Total acquired intangible assets	$ 9,600	$ 412,848	

The overall weighted-average life of the identified intangible assets acquired in the AppliedMicro Acquisition is estimated to be 12.7 years and the assets are being amortized over their estimated useful lives based upon the pattern over which we expect to receive the economic benefit from these assets.

The following is a summary of AppliedMicro revenue and earnings included in our accompanying condensed consolidated statements of operations for the three and nine months ended June 30, 2017 (in thousands):

	Three Months Ended June 30, 2017	Nine Months Ended June 30, 2017
Revenue	$ 42,019	$ 78,464
Loss from continuing operations	(3,744)	(34,049)
Loss from discontinued operations	(15,574)	(32,004)

The pro forma statement of operations data for the nine months ended June 30, 2017, below, gives effect to the AppliedMicro Acquisition, described above, as if it had occurred at October 2, 2015. These amounts have been calculated after applying our accounting policies and adjusting the results of AppliedMicro to reflect transaction costs, retention compensation expense, the impact of the step-up to the value of acquired inventory, as well as the additional intangible amortization that would have been charged assuming the fair value adjustments had been applied and incurred since October 2, 2015. This pro forma data is presented for informational purposes only and does not purport to be indicative of our future results of operations.

	Nine Months Ended June 30, 2017
Revenue	$589,347
Income from continuing operations	(90,809)
Loss from discontinued operations	(33,015)

Acquisition of Picometrix LLC— On August 9, 2017, we completed the acquisition of Picometrix LLC ("Picometrix"), a supplier of optical-to-electrical converters for Cloud Data Center infrastructure (the "Picometrix Acquisition"). We acquired Picometrix in order to expand our business in enterprise and Cloud Data Center applications. The purchase consideration was $33.5 million, comprised of an upfront cash payment of $29.5 million, and $4.0 million placed in escrow for potential satisfaction of certain indemnification obligations that may arise from the closing date through December 15, 2018. For the three and nine months ended June 29, 2018, we recorded no transaction costs. The Picometrix Acquisition was accounted for as a business acquisition, and the operations of Picometrix have been included in our consolidated financial statements since the date of acquisition.

We recognized the Picometrix assets acquired and liabilities assumed based upon the fair value of such assets measured as of the date of acquisition. The aggregate purchase price for the Picometrix assets and liabilities has been allocated to the tangible and identifiable intangible assets acquired based on their estimated fair value at the date of acquisition. The excess of the purchase price over the fair value of the acquired assets represents cost and revenue synergies specific to the Company, as well as non-capitalizable intangible assets, such as the employee workforce acquired, and has been allocated to goodwill, all of which will be tax deductible.

We finalized the purchase accounting during the fiscal quarter ended June 29, 2018. The final purchase price allocation is as follows (in thousands):

	Preliminary Allocation as of September 29, 2017	Allocation Adjustments	Adjusted Allocation June 29, 2018
Current assets	$ 7,375	$ (1,088)	$ 6,287
Intangible assets	19,000	—	19,000
Other assets	3,301	(81)	3,220
Total assets acquired	29,676	(1,169)	28,507
Current liabilities	2,169	142	2,311
Other liabilities	190	275	465
Total liabilities assumed	2,359	417	2,776
Net assets acquired	27,317	(1,586)	25,731
Consideration:			
Cash paid upon closing, net of cash acquired	33,500	—	33,500
Goodwill	$ 6,183	$ 1,586	$ 7,769

The pro forma financial information for fiscal year 2017, including revenue and net income, is immaterial, and has not been separately presented.

3. DIVESTED BUSINESS AND DISCONTINUED OPERATIONS

Divested Business

On May 10, 2018, we completed the sale and transfer of certain assets associated with our Japan-based long-range optical subassembly business (the “LR4 business”), pursuant to an Asset Purchase and Intellectual Property License Agreement, dated April 30, 2018 (the “LR4 Agreement”). The LR4 Agreement provided that the buyer would pay us $5.0 million within 30 days following the closing of the transactions contemplated by the LR4 Agreement, provide us with the opportunity to supply components, and would pay us further amounts to be determined for inventory and fixed assets within 60 days of receipt of required government approvals. As of June 29, 2018, we have received $5.0 million of consideration and expect additional consideration before the end of calendar 2018 of $12.3 million of which $7.3 million has been recorded as other current assets and $5.0 million has been recorded as assets held for sale.

As a result of the transaction, during our third fiscal quarter we recorded a loss on disposal of $34.0 million associated with LR4 business as other expense, comprised of expected proceeds of $17.3 million, subject to receipt of required government approvals, less the carrying value of assets sold, primarily including customer relationship intangible assets of $27.7 million, inventory of $13.1 million, fixed assets of $7.6 million and goodwill of $2.6 million. The transaction did not meet the criteria of discontinued operations. We also entered into a Transition Services Agreement (the "LR4 TSA") with the buyer, pursuant to which we agreed to incur up to $2.0 million of operating expenses for certain ongoing administrative services to support the buyer for up to six months after the closing of the transaction. During the three and nine months ended June 29, 2018, we have incurred $0.4 million of expenses associated with the LR4 TSA.

Discontinued Operations

On October 27, 2017, we entered into a purchase agreement to sell the Compute business. In consideration for the transfer and sale of the Compute business, we received an equity interest in the buyer valued at approximately $36.5 million, and representing less than 20.0% of the buyer's total outstanding equity. The operations of the Compute business were accounted for as discontinued operations through the date of divestiture.

We also entered into a transition services agreement (the "Compute TSA"), pursuant to which we agreed to perform certain primarily general and administrative functions on the buyer's behalf during a migration period and for which we are reimbursed for costs incurred. During the three and nine months ended June 29, 2018, we received $1.0 million and $3.5 million, respectively, of reimbursements under the Compute TSA, which were recorded as a reduction of our general and administrative expenses.

In August 2015, we sold our automotive business (the "Automotive business"), as the Automotive business was not consistent with our long-term strategic vision from both a growth and profitability perspective. Additionally, we entered into a Consulting Agreement with the buyer (the "Consulting Agreement"), pursuant to which we were to provide the buyer with certain non-design advisory services for a period of two years following the closing of the transaction for up to $15.0 million. During the three and nine months ended June 30, 2017, we recognized $1.9 million and $5.6 million of income, respectively, from the Consulting Agreement with the buyer. During the fiscal quarter ended March 31, 2017, we also received $18.0 million, the full amount of the indemnification escrow. No income was recognized during the three and nine months ended June 29, 2018.

The accompanying consolidated statements of operations include the following operating results related to these discontinued operations (in thousands):

	Three Months Ended		Nine Months Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Revenue (1)	$—	$35	$—	$294
Cost of revenue (1)	—	(278)	(596)	1,342
Gross profit	—	313	596	(1,048)
Operating expenses:				
Research and development (1)	175	10,611	4,873	18,936
Selling, general and administrative (1)	45	5,277	1,560	12,021
Total operating expenses	220	15,888	6,433	30,957
Loss from operations	(220)	(15,575)	(5,837)	(32,005)
Other income (2)	—	1,875	—	5,625
Gain on sale (2)	—	—	—	18,022
Loss before income taxes	(220)	(13,700)	(5,837)	(8,358)
Income tax provision	—	—	—	—
Loss from discontinued operations	$(220)	$(13,700)	$(5,837)	$(8,358)
Cash flow from operating activities	(29)	(12,312)	(10,356)	(41,384)
Cash flow from investing activities	—	1,875	—	23,645

(1) Amounts are associated with the Compute business.

(2) Amounts are associated with the Automotive business.

4. INVESTMENTS

Our short-term investments are invested in corporate bonds and commercial paper, and are classified as available-for-sale. The amortized cost, gross unrealized holding gains or losses, and fair value of our investments by major investment type as of June 29, 2018 and September 29, 2017 are summarized in the tables below (in thousands):

	June 29, 2018			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
Corporate bonds	$28,726	$ —	$ (602)	$ 28,124
Commercial paper	69,641	—	(42)	69,599
Total short-term investments	$98,367	$ —	$ (644)	$ 97,723

	September 29, 2017			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
Corporate bonds	$26,366	$ 10	$ (166)	$ 26,210
Commercial paper	57,943	4	(36)	57,911
Total short-term investments	$84,309	$ 14	$ (202)	$ 84,121

The contractual maturities of investments were as follows (in thousands):

	June 29, 2018	September 29, 2017
Less than 1 year	$70,848	$ 60,433
Over 1 year	26,875	23,688

Total short-term investments	$97,723	$ 84,121

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Available-for-sale investments are reported at fair value and as such, their associated unrealized gains and losses are reported as a separate component of stockholders' equity within accumulated other comprehensive income.

Other Investments— As of June 29, 2018, we held two non-marketable equity investments classified as other long-term investments.

One of these is an investment in a Series B preferred stock ownership of a privately held manufacturing corporation with preferred liquidation rights over other equity shares. This investment had a value of $5.0 million at the date of purchase and approximates the current fair value. Since we do not have the ability to exercise significant influence or control over the investment we hold this investment at cost, which we evaluate for impairment at each balance sheet date and through June 29, 2018 no impairment has been recorded for this investment.

In addition, we have a minority investment of less than 20.0% of the outstanding equity of a privately held limited liability corporation ("Compute"). This investment was acquired in conjunction with the divestiture of the Compute business during the fiscal quarter ended December 29, 2017 and had an initial value of $36.5 million. We have no obligation to provide further funding to Compute. This investment value is updated quarterly based on our proportionate share of the losses or earnings of Compute utilizing the equity method. During the three and nine months ended June 29, 2018 we recorded a $3.1 million loss and a $7.2 million loss, respectively, associated with this investment as other expense in our consolidated statements of operations. As of June 29, 2018, the carrying value of this investment is $29.3 million.

5. FAIR VALUE

We group our financial assets and liabilities measured at fair value on a recurring basis in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-driven valuations in which all significant inputs are observable or can be derived principally from, or corroborated with, observable market data.

Level 3 - Fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including assumptions and judgments made by us.

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

We measure certain assets and liabilities at fair value on a recurring basis such as our financial instruments and derivatives. There have been no transfers between Level 1, 2 or 3 assets or liabilities during the three and nine months ended June 29, 2018.

Assets and liabilities measured at fair value on a recurring basis consist of the following (in thousands):

	June 29, 2018			
	Fair Value	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets				
Money market funds	$97	$ 97	$ —	$ —
Commercial paper	69,599	—	69,599	—
Corporate bonds	28,124	—	28,124	—
Total assets measured at fair value	$97,820	$ 97	$ 97,723	$ —
Liabilities				
Contingent consideration	$510	$ —	$ —	$ 510
Common stock warrant liability	15,880	—	—	15,880
Total liabilities measured at fair value	$16,390	$ —	$ —	$ 16,390

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	September 29, 2017			
	Fair Value	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets				
Money market funds	$36	$ 36	$ —	$ —
Commercial paper	57,911	—	57,911	—
Corporate bonds	26,210	—	26,210	—
Total assets measured at fair value	$84,157	$ 36	$ 84,121	$ —
Liabilities				
Contingent consideration	$1,679	$ —	$ —	$ 1,679
Common stock warrant liability	40,775	—	—	40,775
Total liabilities measured at fair value	$42,454	$ —	$ —	$ 42,454

As of June 29, 2018 and September 29, 2017, the fair value of the common stock warrants has been estimated using a Black-Scholes option pricing model.

The quantitative information utilized in the fair value calculation of our Level 3 liabilities is as follows:

			Inputs	
Liabilities	Valuation Technique	Unobservable Input	June 29, 2018	September 29, 2017
Contingent consideration	Discounted cash flow	Discount rate	9.2%	9.2%
		Probability of achievement	80%	70% - 100%
		Timing of cash flows	2 months	2 - 8 months
Warrant liability	Black-Scholes model	Volatility	58.6%	44.9%
		Discount rate	2.52%	1.62%
		Expected life	2.5 years	3.2 years
		Exercise price	$14.05	$14.05
		Stock price	$23.04	$44.61
		Dividend rate	—%	—%

The fair values of the contingent consideration liabilities were estimated based upon a risk-adjusted present value of the probability-weighted expected payments by us. Specifically, we considered base, upside and downside scenarios for the operating metrics upon which the contingent payments are to be based. Probabilities were assigned to each scenario and the probability weighted payments were discounted to present value using risk-adjusted discount rates.

The changes in liabilities with inputs classified within Level 3 of the fair value hierarchy consist of the following (in thousands):

	September 29, 2017	Net Realized/Unrealized Gains Included in Earnings	Purchases and Issuances	Sales and Settlements	June 29, 2018
Contingent consideration	$ 1,679	$ (469)	$ —	$ (700)	$510
Common stock warrant liability	$ 40,775	$ (24,895)	$ —	$ —	$15,880
	September 30, 2016	Net Realized/Unrealized Losses Included in	Purchases and Issuances	Sales and Settlements	June 30, 2017

		Earnings			
Contingent consideration	$ 848	$ 46	$ 1,701	$ (400)	$2,195
Common stock warrant liability	$ 38,253	$ 16,481	$ —	$ —	$54,734

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6. INVENTORIES

Inventories, net of reserves, consist of the following (in thousands):

	June 29, 2018	September 29, 2017
Raw materials	$69,803	$ 78,999
Work-in-process	13,976	13,962
Finished goods	39,087	43,113
Total inventory, net	$122,866	$ 136,074

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following (in thousands):

	June 29, 2018	September 29, 2017
Construction in process	$35,645	$ 22,195
Machinery and equipment	173,433	160,955
Leasehold improvements	13,358	13,809
Furniture and fixtures	2,513	2,078
Computer equipment and software	17,086	16,539
Capital lease assets	19,983	20,410
Total property and equipment	$262,018	$ 235,986
Less accumulated depreciation and amortization	(122,603)	(104,967)
Property and equipment, net	$139,415	$ 131,019

Depreciation and amortization expense related to property, plant and equipment for the three and nine months ended June 29, 2018 was $7.7 million and $23.0 million, respectively. Depreciation and amortization expense related to property, plant and equipment for the three and nine months ended June 30, 2017 was $6.5 million and $19.7 million, respectively.

8. DEBT

As of June 29, 2018, we are party to a credit agreement dated as of May 8, 2014 with a syndicate of lenders and Goldman Sachs Bank USA ("Goldman Sachs"), as administrative agent (as amended on February 13, 2015, August 31, 2016, March 10, 2017, May 19, 2017, May 2, 2018 and May 9, 2018, the “Credit Agreement”).

On May 2, 2018, we entered into an amendment to our Credit Agreement (the “May 2nd Amendment”) with the lenders party thereto and Goldman Sachs, as the administrative agent. The amendment extended the maturity of $130.0 million of borrowing availability under our existing revolving credit facility (“Revolving Facility”) until November 2021, with the remaining $30.0 million of borrowing availability maturing in May 2019. Prior to the amendment, the entire $160.0 million of the Revolving Facility borrowing availability was scheduled to mature in May 2019.

On May 9, 2018, we entered into another amendment to our Credit Agreement (the “May 9th Amendment”, together with the May 2nd Amendment, the "May 2018 Amendments") with the lenders party thereto and Goldman Sachs, as the administrative agent. The amendment extended the maturity of the remaining $30 million of commitments comprising the aggregate $160 million of borrowing availability under our existing Revolving Facility until November 2021.

As of June 29, 2018, the Credit Agreement consisted of term loans with an aggregate principal amount of $700.0 million (“Term Loans”) and a revolving credit facility with an aggregate borrowing capacity of $160.0 million. The Revolving Facility will mature in November 2021 and the Term Loans will mature in May 2024 and bear interest at: (i) for LIBOR loans for any interest period, a rate per annum equal to the LIBOR rate as determined by the administrative agent, plus an applicable margin of 2.25%; and (ii) for base rate loans, a rate per annum equal to the greater of (a) the prime rate quoted in the print edition of the Wall Street Journal, Money Rates Section, (b) the federal funds rate plus one-half of 1.00% and (c) the LIBOR rate applicable to a one-month interest period plus 1.00% (but, in each case, not less than 1.00%), plus an applicable margin of 1.25%.

All principal amounts outstanding and interest rate information as of June 29, 2018, for the Credit Agreement were as follows (in millions, except rate data):

	Principal Outstanding	LIBOR Rate	Margin	Effective Interest Rate
Term loans	$681.6	2.09%	2.25%	4.34%

We incurred $0.5 million in fees in connection with the May 2018 Amendments, which were recorded as deferred financing costs and are being amortized over the life of the Revolving Facility as interest expense. As of June 29, 2018, approximately $11.6 million of deferred financing costs remain unamortized, of which $10.6 million is related to the Term Loans and is recorded as a direct reduction of the recognized debt liabilities in our accompanying consolidated balance sheet, and $1.0 million is related to the Revolving Facility and is recorded in other long-term assets in our accompanying consolidated balance sheet.

The Term Loans and Revolving Facility are secured by a first priority lien on substantially all of our assets and provide that we must comply with certain financial and non-financial covenants.

As of June 29, 2018, we had $160.0 million of borrowing capacity under our Revolving Facility.

As of June 29, 2018, the following remained outstanding on the Term Loans (in thousands):

Principal balance	$681,577
Unamortized discount	(4,927)
Unamortized deferred financing costs	(10,619)
Total term loans	$666,031
Current portion	6,885
Long-term, less current portion	$659,146

As of June 29, 2018, the minimum principal payments under the Term Loans in future fiscal years were as follows (in thousands):

2018 (rest of fiscal year)	$1,721
2019	6,885
2020	6,885
2021	6,885
2022	6,885
Thereafter	652,316
Total	$681,577

The fair value of the Term Loans was estimated to be approximately $690.9 million as of June 29, 2018 and was determined using Level 2 inputs, including a quoted rate from a bank.

9. CAPITAL LEASE AND FINANCING OBLIGATIONS

Corporate Facility Financing Obligation

On May 26, 2016, we entered into a Purchase and Sale Agreement (the “Purchase and Sale Agreement”) with Calare Properties, Inc. (together with its affiliates, “Calare”), for the sale and subsequent leaseback of our corporate headquarters, located at 100 Chelmsford Street, Lowell, Massachusetts. The transactions contemplated by the Purchase and Sale Agreement closed on December 28, 2016, at which time we also entered into three lease agreements with Calare including: (1) a 20 year leaseback of the facility located at 100 Chelmsford Street (the “100 Chelmsford Lease”), (2) a 20 year build-to-suit lease arrangement for the construction and subsequent lease back of a new facility to be located at 144 Chelmsford Street (the “144 Chelmsford Lease”), and (3) a 14 year building lease renewal of an adjacent facility at 121 Hale Street (the “121 Hale Lease”, and together with the 100 Chelmsford Lease and the 144 Chelmsford Lease, the “Leases”).

Because the transactions contemplated by the Purchase and Sale Agreement and the related Leases were negotiated and consummated at the same time and in contemplation of one another to achieve the same commercial objective, the transactions are accounted for by us as a single unit of accounting. In addition, the Leases were determined to represent a failed sale-leaseback due to our continuing involvement in the properties in the form of non-recourse financing. As a result, the Leases are accounted for under the financing method and we will be deemed the accounting owner under the arrangement, including the assets to be constructed under the 144 Chelmsford Lease. We will continue to recognize the existing building and improvements sold under the Purchase and Sale Agreement, capitalize the 121 Hale Street building as well as the assets constructed under the Leases, and depreciate the assets over the shorter of their estimated useful lives or the lease terms. The sale proceeds from the Purchase and Sale Agreement of $8.2 million (which includes $4.2 million in cash and $4.0 million in construction allowances) and the fair value of the 121 Hale Street building of $4.0 million were recognized as a financing obligation, which is included in lease payable on our consolidated balance sheet, and are being amortized over the 20 year lease term based on the minimum lease payments required under the Leases and our incremental borrowing rate. Future construction costs funded by Calare under the 144 Chelmsford Lease will be recognized as additional financing obligations on our consolidated balance sheet as incurred, and will be amortized over the 20 year lease term based on the minimum lease payments required under the Leases and our incremental borrowing rate when the building is placed into service.

As a result of the failed sale-leaseback accounting, we calculated a financing obligation based on the future minimum lease payments discounted at 8.6% as of June 29, 2018. The discount rate represents the estimated incremental borrowing rate over the lease term of 20 years. The minimum lease payments are recorded as interest expense and in part as a payment of principal reducing the financing obligation. The real property assets in the transaction remain on the consolidated balance sheets and continue to be depreciated over the remaining useful lives. As of June 29, 2018, approximately $26.0 million of the financing obligation was outstanding associated with the Leases, of which $13.9 million was associated with the 144 Chelmsford Lease that has not yet been placed in service.

Additionally, we have certain capital equipment lease obligations, of which approximately $1.1 million was outstanding as of June 29, 2018.

As of June 29, 2018, future minimum payments under capital lease obligations and financing obligations related to the Leases were as follows (in thousands):

Fiscal year ending:	Amount
2018 (rest of fiscal year)	$399
2019	1,529
2020	1,471
2021	1,374
2022	1,211
Thereafter	20,457
Total minimum capital lease payments	26,441
Less amount representing interest	(14,970)
Present value of net minimum capital lease payments (1)	$11,471

(1) Excludes $13.9 million associated with the 144 Chelmsford Lease that has not yet been placed in service.

10. INTANGIBLE ASSETS

Amortization expense related to intangible assets is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Cost of revenue	$ 8,594	$ 8,416	$24,913	$21,694
Selling, general and administrative	13,081	10,833	35,827	24,463
Total	$ 21,675	$ 19,249	$60,740	$46,157

Intangible assets consist of the following (in thousands):

	June 29, 2018	September 29, 2017
Acquired technology	$251,811	$ 251,655
Customer relationships	518,233	556,648
Trade name	3,400	3,400
Total	$773,444	$ 811,703
Less accumulated amortization	(239,568)	(190,611)
Intangible assets — net	$533,876	$ 621,092

Our trade name is an indefinite-lived intangible asset. A summary of the activity in intangible assets and goodwill follows (in thousands):

	Intangible Assets				
	Total Intangible Assets	Acquired Technology	Customer Relationships	Trade Name	Goodwill
Balance at September 29, 2017	$811,703	$ 251,655	$ 556,648	$3,400	$313,765
Allocation to divested business	(39,285)	—	(39,285)	—	(2,560)
Fair value adjustment	—	—	—	—	2,790
Currency translation adjustment	1,026	156	870	—	406
Balance at June 29, 2018	$773,444	$ 251,811	$ 518,233	$3,400	$314,401

As of June 29, 2018, our estimated amortization of our intangible assets in future fiscal years was as follows (in thousands):

	2018 Remaining	2019	2020	2021	2022	Thereafter	Total
Amortization expense	$ 20,953	83,796	81,706	74,089	61,851	208,081	$530,476

Accumulated amortization for acquired technology and customer relationships were $131.5 million and $108.1 million, respectively, as of June 29, 2018, and $106.8 million and $83.9 million, respectively, as of September 29, 2017.

11. STOCKHOLDERS' EQUITY

We have authorized 10 million shares of $0.001 par value preferred stock and 300 million shares of $0.001 par value common stock as of June 29, 2018 and September 29, 2017.

Common Stock Warrants—In March 2012, we issued warrants to purchase 1,281,358 shares of common stock for $14.05 per share. The warrants expire December 21, 2020, or earlier as per the terms of the agreement, including immediately following consummation of a sale of all or substantially all assets or capital stock or other equity securities, including by merger, consolidation, recapitalization or similar transactions. We do not currently have sufficient registered and available shares to immediately satisfy a request for registration, if such a request were made. As of June 29, 2018, no exercise of the warrants had occurred, and no request had been made to register the warrants or any underlying securities for resale by the holders.

We are recording the estimated fair values of the warrants as a long-term liability in the accompanying consolidated financial statements with changes in the estimated fair value being recorded in the accompanying statements of operations. See Note 5 - Fair Value for additional information related to the fair value of our warrant liability.

12. EARNINGS (LOSS) PER SHARE

The following table sets forth the computation for basic and diluted net loss per share of common stock (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Numerator:				
Loss from continuing operations	$(85,210)	$(13,977)	$(117,647)	$(150,414)
Loss from discontinued operations	(220)	(13,700)	(5,837)	(8,358)
Net loss	$(85,430)	$(27,677)	$(123,484)	$(158,772)
Warrant liability gain	—	—	(24,895)	—
Net loss attributable to common stockholders	$(85,430)	$(27,677)	$(148,379)	$(158,772)
Denominator:				
Weighted average common shares outstanding-basic	64,920	64,019	64,598	59,524
Dilutive effect of warrants	—	—	600	—
Weighted average common shares outstanding-diluted	64,920	$64,019	$65,198	$59,524
Loss per share-basic:				
Continuing operations	$(1.31)	$(0.22)	$(1.82)	$(2.53)
Discontinued operations	0.00	(0.21)	(0.09)	(0.14)
Net loss to common stock holders per share-basic	$(1.32)	$(0.43)	$(1.91)	$(2.67)
Loss per share-diluted:				
Continuing operations	$(1.31)	$(0.22)	$(2.19)	$(2.53)
Discontinued operations	0.00	(0.21)	(0.09)	(0.14)
Net loss to common stock holders per share-diluted	$(1.32)	$(0.43)	$(2.28)	$(2.67)

As of June 29, 2018, we had warrants outstanding which were reported as a liability on the consolidated balance sheet. During the nine months ended June 29, 2018, we recorded a $24.9 million gain associated with adjusting the fair value of the warrants, in the consolidated statements of operations primarily as a result of changes in our stock price. When calculating earnings per share we are required to adjust for any changes in income or loss to show the maximum dilution possible, and therefore during the nine months ended June 29, 2018 we adjusted the numerator by the warrant gains of $24.9 million and denominator by the incremental shares of 600,192 under the treasury stock method. The table above excludes the effects of 724,885 shares for the three months ended June 29, 2018 of potential shares of common stock issuable upon exercise of stock options, warrants, restricted stock and restricted stock units as the inclusion would be antidilutive. The table also excludes the effects of 422,584 shares for the nine months ended June 29, 2018 of potential shares of common stock issuable upon exercise of stock options, restricted stock and restricted stock units as the inclusion would be antidilutive. The table above excludes the effects of 1,916,434 and 1,940,834 shares, respectively, for the three and nine months ended June 30, 2017, of potential shares of common stock issuable upon exercise of stock options, warrants, restricted stock and restricted stock units as the inclusion would be antidilutive.

13. COMMITMENTS AND CONTINGENCIES

From time to time, we may be subject to commercial disputes, employment issues, claims by other companies in the industry that we have infringed their intellectual property rights and other similar claims and litigations. Any such claims may lead to future litigation and material damages and defense costs. Other than as set forth below, we were not involved in any material pending legal proceedings during the fiscal quarter ended June 29, 2018.

GaN Lawsuit Against Infineon. On April 26, 2016, we and our wholly-owned subsidiary Nitronex, LLC brought suit against Infineon Technologies Americas Corporation ("Infineon Americas") and Infineon Technologies AG ("Infineon AG" and collectively, with Infineon Americas, "Infineon") in the Federal District Court for the Central District of California, seeking injunctive relief, monetary damages, and specific performance of certain contractual obligations. On July 19, 2016, we filed a first amended complaint, and, on November 21, 2016, we filed a second amended complaint. After motions to dismiss certain claims from MACOM’s second amended complaint were denied on

February 28, 2017, Infineon AG answered on March 24, 2017, asserting no counterclaims. Infineon Americas also answered and counterclaimed on March 24, 2017 and then submitted amended counterclaims on April 14, 2017. The district court dismissed one of the counterclaims on June 5, 2017, and Infineon filed further amended counterclaims on June 19, 2017. MACOM answered the counterclaims on August 16, 2017. On March 14, 2018, MACOM filed a third amended complaint, which Infineon answered on March 28, 2018. On June 20, 2018, MACOM filed a fourth amended complaint. Infineon's response is due on August 13, 2018.

The suit arises out of agreements relating to GaN-on-Silicon ("GaN") patents that were executed in 2010 by Nitronex Corporation (acquired by us in 2014) and International Rectifier Corporation ("International Rectifier") (acquired by Infineon AG in 2015). We assert claims for breach of contract, breach of the covenant of good faith and fair dealing, declaratory judgment of contractual rights, declaratory judgment of non-infringement of patents, and, against Infineon AG only, intentional interference with contract and unfair competition. If successful, the relief sought would, among other remedies, require Infineon to assign back to us certain GaN-related Nitronex patents that were previously assigned to International Rectifier and enjoin Infineon from proceeding with its marketing and sales of certain types of GaN products. In an order dated October 31, 2016, the district court granted us a preliminary injunction against Infineon, which then issued on December 7, 2016 and was modified on March 6, 2017. The preliminary injunction declared, among other things, that a licensing agreement between us and Infineon that Infineon had purported to terminate is still in effect. On January 29, 2018, the Federal Circuit affirmed the district court's decision to enter a preliminary injunction declaring the license agreement to still be in effect, although it reversed other aspects of the district court's decision. Meanwhile, the district court case has been proceeding, and trial is set to begin on May 7, 2019.

With respect to the above legal proceeding, we are not able to reasonably estimate the amount or range of any possible loss, and accordingly have not accrued or disclosed any related amounts of possible loss in the accompanying consolidated financial statements.

14. RESTRUCTURINGS

We have periodically implemented restructuring actions in connection with broader plans to reduce staffing, reduce our internal manufacturing footprint and generally reduce operating costs. The restructuring expenses are primarily comprised of direct and incremental costs related to headcount reductions including severance and outplacement fees for the terminated employees, as well as facility closure costs.

During the fiscal quarter ended December 29, 2017, we initiated plans to restructure our facility in Long Beach, California and to close our facilities in Belfast, the United Kingdom and Sydney, Australia. As of June 29, 2018, the operations from the Long Beach facility have been consolidated into our other California locations in order to achieve operational synergies. The Belfast and Sydney facilities have been closed as we have discontinued certain product development activities that were performed in those locations. We do not expect to incur any additional restructuring costs associated with these facilities. The following is a summary of the restructuring charges incurred for the three and nine months ended June 29, 2018 under these restructuring plans (in thousands):

	Three Months Ended		Nine Months Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Employee related expenses	$4	$ 586	$2,796	$ 2,342
Facility related expenses	98	—	3,506	—
Total restructuring charges	$102	$ 586	$6,302	$ 2,342

The following is a summary of the costs incurred for the nine months ended June 29, 2018 and the remaining balances included in accrued expenses at June 29, 2018 (in thousands):

Balance as of September 29, 2017	$ 627
Current period expense	6,302
Charges paid/settled	(6,131)
Balance as of June 29, 2018	$ 798

As described in Note 20 - Subsequent Events, we have committed to a plan to exit certain production and product lines including certain production facilities located in Ithaca, New York. There were no restructuring charges incurred as of June 29, 2018 for these facilities, and we expect to incur restructuring costs of approximately $4.9 million to $6.2 million during the remainder of calendar year 2018 as we complete these restructuring actions.

15. SHARE-BASED COMPENSATION

Stock Plans

As of June 29, 2018, we had 14.1 million shares available for issuance under our 2012 Omnibus Incentive Plan (as Amended and Restated) (the “2012 Plan”) and 3.2 million shares available for issuance under our Employee Stock Purchase Plan. Under the 2012 Plan, we have the ability to issue incentive stock options (“ISOs”), non-statutory stock options (“NSOs”), performance based non-statutory stock options, stock appreciation rights, restricted stock (“RSAs”), restricted stock units (“RSUs”), performance-based restricted stock units (“PRSUs”), performance shares and other equity-based awards to employees, directors and outside consultants. The ISOs and NSOs must be granted at a price per share not less