



Infinera Corporation  
2019 Proxy Statement  
and  
2018 Annual Report on Form 10-K



**Infinera Corporation**  
140 Caspian Court  
Sunnyvale, California 94089

**NOTICE OF 2019 ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on May 23, 2019  
10:00 a.m. Pacific Time**

Dear Stockholder:

You are cordially invited to attend the 2019 Annual Meeting of Stockholders (the "Annual Meeting") of Infinera Corporation, a Delaware corporation. Notice is hereby given that the meeting will be held on Thursday, May 23, 2019, at 140 Caspian Court, Sunnyvale, California 94089 at 10:00 a.m. Pacific Time, for the following purposes:

1. To elect to the Board of Directors the two nominees for Class III directors named in the Proxy Statement;
2. To approve an amendment of the Infinera Corporation 2016 Equity Incentive Plan to increase the number of shares authorized for issuance thereunder by 7,300,000 shares;
3. To approve an amendment of the Infinera Corporation 2007 Employee Stock Purchase Plan to increase the number of shares authorized for issuance thereunder by 10,500,000 shares;
4. To approve, on an advisory basis, the compensation of Infinera's named executive officers, as described in the Proxy Statement;
5. To ratify the appointment of Ernst & Young LLP as Infinera's independent registered public accounting firm for the fiscal year ending December 28, 2019; and
6. To transact such other business as may properly come before the meeting or any postponement or adjournment thereof.

These items of business are more fully described in the Proxy Statement accompanying this Notice.

The record date for the Annual Meeting is April 2, 2019. Only stockholders of record at the close of business on that date may vote at the Annual Meeting or any postponement or adjournment thereof. A list of our stockholders will be maintained and open for examination by any of our stockholders, for any purpose germane to the Annual Meeting, during regular business hours at the address listed above for ten days prior to the meeting.

We are pleased to inform you that we will again be utilizing the U.S. Securities and Exchange Commission rules that allow issuers to furnish proxy materials to their stockholders via the Internet. We believe that these rules allow us to provide our stockholders with the information they need more quickly and conveniently, while lowering the cost of delivery and reducing the environmental impact of the Annual Meeting.

**As a stockholder, your vote is important. Whether or not you expect to attend the Annual Meeting in person, it is important that you vote as soon as possible so that your shares are represented. To vote your shares, please follow the instructions in the Notice of Internet Availability of Proxy Materials, which is being mailed to you on or about April 11, 2019.**

On behalf of the Board of Directors, thank you for your participation in this important annual process.

By Order of the Board,

/s/ BRAD D. FELLER

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**Brad D. Feller**  
*Chief Financial Officer*

Sunnyvale, California  
April 10, 2019

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**INFINERA CORPORATION**  
**PROXY STATEMENT SUMMARY**

*This summary highlights selected information contained elsewhere in this Proxy Statement. The summary does not contain all of the information that you should consider, and you should read and consider carefully the complete Proxy Statement before voting. Infinera Corporation is referred to herein as "Infinera," "we," "us" and "our."*

**2019 Annual Meeting of Stockholders**

Time and Date: 10:00 a.m. Pacific Time, on Thursday, May 23, 2019  
 Place: Infinera Corporation, 140 Caspian Court, Sunnyvale, California 94089  
 Record Date: April 2, 2019  
 Voting: Stockholders as of the record date are entitled to vote. Each share of common stock is entitled to one vote for each director nominee and one vote for each of the other proposals to be voted on.

**Meeting Agenda and Voting Matters**

<u>Agenda Items</u>	<u>Board Vote Recommendation</u>	<u>Page Reference (for more detail)</u>
1. To elect to the Board of Directors the two nominees for Class III directors named in the Proxy Statement.	FOR EACH DIRECTOR NOMINEE	11
2. To approve an amendment of the Infinera Corporation 2016 Equity Incentive Plan to increase the number of shares authorized for issuance thereunder by 7,300,000 shares.	FOR	57
3. To approve an amendment of the Infinera Corporation 2007 Employee Stock Purchase Plan to increase the number of shares authorized for issuance thereunder by 10,500,000 shares.	FOR	66
4. To approve, on an advisory basis, the compensation of Infinera's named executive officers, as described in the Proxy Statement.	FOR	72
5. To ratify the appointment of Ernst & Young LLP as Infinera's independent registered public accounting firm for the fiscal year ending December 28, 2019.	FOR	73
6. To transact such other business that may properly come before the meeting or any postponement or adjournment thereof.		

**Board Nominees**

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Independent<sup>(1)</sup></u>	<u>Committee Memberships</u>			
				<u>AC</u>	<u>CC</u>	<u>NGC</u>	<u>TAC</u>
Marcel Gani .....	66	2014	X	M	C	—	—
Mark A. Wegleitner .....	68	2011	X	—	—	M	C

AC = Audit Committee; CC = Compensation Committee; NGC = Nominating and Governance Committee;  
 TAC = Technology and Acquisition Committee; C = Chairman; M = Member

<sup>(1)</sup> Under the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") and the listing standards of The Nasdaq Stock Market ("Nasdaq").

## Board and Governance Highlights

Board Independence. Seven out of nine of our directors are independent.

Board Composition. The size of the Board of Directors (the “Board”) of Infinera is currently fixed at nine directors and is divided into three classes. The Board annually assesses its performance through a board self-evaluation. After the Annual Meeting, with the departure of John P. Daane, the size of the Board will be fixed at eight directors.

Board Tenure. The average tenure of our current Board members is 6.0 years. We have appointed three new directors in the last four years.

Board Diversity. The Board consists of a diverse group of professionals who bring significant leadership and distinct qualities and skill sets to Infinera. We believe the current composition of the Board is culturally and ethnically diverse, which provides a diverse range of perspectives and experience to engage each other and management to effectively represent our stockholders. To accomplish this, the Nominating and Governance Committee will continue to require that search firms engaged by us include a robust selection of women and ethnically diverse candidates in all prospective director candidate pools.

Board Committees. We have four standing committees of the Board—Audit, Compensation, Nominating and Governance and Technology and Acquisition. With the exception of the Technology and Acquisition Committee (David F. Welch, Ph.D., our Chief Innovation Officer, serves on this committee), all other committees are composed entirely of independent directors. In October 2018, we formed an Integration Oversight Committee for a term of one year to assist management with the integration of Coriant.

Leadership Structure. We have separated the positions of Chairman and Chief Executive Officer (“CEO”).

Director Stock Ownership. Each non-employee director is required to own shares of Infinera common stock having a value of at least four times the annual cash retainer.

Risk Oversight. Members of our senior management team are responsible for implementation of our day-to-day risk management processes, while the Board, as a whole and through its committees, has responsibility for the oversight of overall risk management.

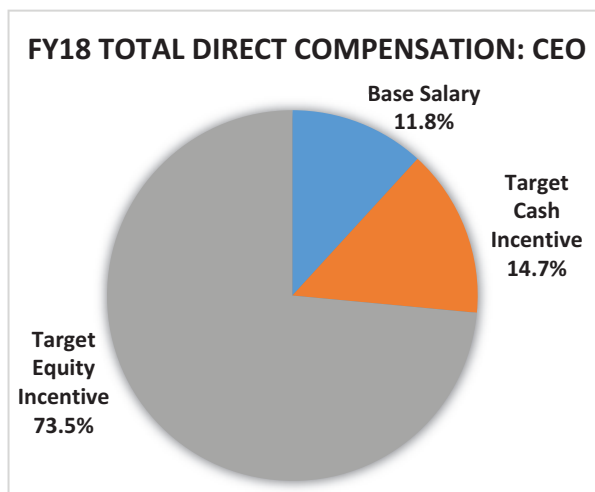
## Executive Compensation Program Highlights

The design of our executive compensation program for fiscal 2018 reflects our ongoing commitment to pay-for-performance and the continued strong alignment of the interests of our named executive officers (“NEOs”) with those of our stockholders. At the beginning of fiscal 2018, when a majority of executive compensation decisions were made, the Compensation Committee considered the performance of our company as we exited fiscal 2017 and the expectation of a challenging fiscal 2018. The decisions made were a proactive effort to maintain a strong pay-for-performance profile and support accountability of our leadership team for our financial performance. Highlights of our executive compensation program for fiscal 2018 included:

- **There were no increases in target cash compensation for our NEOs.**
  - During the Compensation Committee’s annual review in February 2018, the Compensation Committee approved no increases in base salary or annual incentive targets for our NEOs in fiscal 2018. This decision was based on an analysis of competitive market data provided by the Compensation Committee’s independent consultant, with consideration given to the challenging business environment expected during fiscal 2018.

• **The majority of our CEO’s fiscal 2018 target total direct compensation was in the form of equity.**

- 74% of our CEO’s target total direct compensation (the sum of base salary, target cash incentive opportunity and target equity incentive compensation) was in the form of equity awards, which closely links our CEO’s compensation directly to the value of our common stock. In fiscal 2018, our CEO was granted a time-based restricted stock unit (“RSU”) and a performance stock unit (“PSU”) award with vesting tied to our relative total stockholder return performance (“TSR”). For the purpose of this discussion and in the chart below, the grant date value of PSUs reflects the face value of the target number of shares awarded on the grant date, which differs from the accounting value presented in the Summary Compensation Table below.



- **Our long-term incentive program continues to emphasize performance-based awards.** For our CEO, 60% of the target value of equity granted in fiscal 2018 was in the form of PSUs that will vest based upon our TSR performance relative to a networking sector benchmark (the “2018 TSR Award”). TSR performance is measured relative to the TSR of each of the companies (the “Index Companies”) listed in the Standard & Poor’s North American Technology Multimedia Networking Index (“S&P Networking Index”). To support our “pay-for-performance” philosophy and further emphasize the importance of creating long-term stockholder value, the 2018 TSR Award contained several features we consider best practices.
  - **Stretch goal for maximum performance.** To earn the maximum number of shares under the 2018 TSR Award, which is 200% of the target number of shares, our TSR must exceed the 85<sup>th</sup> percentile of the companies included in the S&P Networking Index. In addition, to earn the maximum number of shares, our TSR must sustain at least 85<sup>th</sup> percentile performance for each of the one-, two- and three-year measurement periods (coinciding with the end of our fiscal 2018, 2019 and 2020).
  - **Payment cap.** Regardless of our performance versus the Index Companies in the S&P Networking Index, the number of shares that may be earned under the 2018 TSR Award is capped at 100% of target for any period in which our TSR is negative. Therefore, even if we significantly outperform the Index Companies in challenging market conditions, this award only provides rewards above the target performance level if incremental stockholder value is created.
- **Our fiscal 2018 payouts reflect our pay-for-performance philosophy.** Our fiscal 2018 payouts reflect the alignment of our executive compensation program to the performance of Infinera. As indicated above, a significant portion of our executive compensation program is designed to align the compensation outcomes for our NEOs with performance against measurable objectives. This resulted in no payout to our NEOs under our 2018 Bonus Plan (the “2018 Bonus Plan”), as we did not meet the minimum threshold established by the Compensation Committee for the financial objectives under the 2018 Bonus Plan. Further, during fiscal 2018, there were portions of three PSU awards for which payout was based

entirely or in part on our performance during the year, which included the 2018 TSR Award. We underperformed as compared to the S&P Networking Index for the 2016 PSU award, which resulted in no payout for the performance period that concluded at the end of fiscal 2018. In addition, we underperformed relative to the Index Companies in the S&P Networking Index, which resulted in no payouts under the 2017 PSU award and the 2018 TSR Award.

- ***We continue to maintain sound corporate governance policies and practices.*** We seek to maintain sound corporate governance standards. During fiscal 2018, the following policies and practices continued to be in effect:

- No Guaranteed Bonuses for our NEOs
- Executive Clawback Policy
- Anti-Hedging Policy
- No Pledging of our Common Stock by NEOs
- Fully Independent Compensation Committee
- Stock Ownership Policy
- Majority Voting for the Election of Directors
- “Double-Trigger” Change-of-Control Agreements
- Annual Compensation Risk Assessment
- No Executive Perquisites
- Independent Compensation Consultant Reporting Directly to Compensation Committee
- No Tax Gross-Ups

**PROXY STATEMENT**  
**2019 ANNUAL MEETING OF STOCKHOLDERS**  
**QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS**  
**AND VOTING PROCEDURAL MATTERS**

**Annual Meeting**

**Q: Why am I being provided access to these proxy materials?**

A: The Board of Infinera is providing you access to these proxy materials in connection with the solicitation of proxies by the Board for use at the 2019 Annual Meeting of Stockholders (the "Annual Meeting") to be held on Thursday, May 23, 2019 at 10:00 a.m. Pacific Time, and at any adjournment or postponement thereof, for the purpose of considering and acting upon the matters described herein. These materials were first sent or given to stockholders on or about April 11, 2019.

**Q: What is the Notice of Internet Availability of Proxy Materials?**

A: In accordance with rules and regulations adopted by the SEC, instead of mailing a printed copy of our proxy materials to all stockholders entitled to vote at the Annual Meeting, Infinera is furnishing the proxy materials to its stockholders via the Internet. If you received a Notice of Internet Availability of Proxy Materials (the "Notice") by mail, you will not receive a printed copy of the proxy materials. Instead, the Notice will instruct you as to how you may access and review the proxy materials and submit your vote via the Internet. If you received a Notice by mail and would like to receive a printed copy of the proxy materials, please follow the instructions for requesting such materials included in the Notice.

Choosing to receive the Notice by email will save us the cost of printing and mailing the documents to you and will reduce the impact of the Annual Meeting on the environment. If you choose to receive the Notice by email, you will receive an email next year with instructions containing a link to the proxy materials and a link to the proxy voting site. Your election to receive the Notice by email will remain in effect until you terminate it.

On the date of mailing of the Notice, all stockholders of record and beneficial owners will have the ability to access all of our proxy materials on a website referred to in the Notice. These proxy materials will be available free of charge.

**Q: Where is the Annual Meeting?**

A: The Annual Meeting will be held at our principal executive offices, located at 140 Caspian Court, Sunnyvale, California 94089.

**Q: Can I attend the Annual Meeting?**

A: You are invited to attend the Annual Meeting if you were a stockholder of record or a beneficial owner as of the close of business on April 2, 2019 (the "Record Date"). If you are a stockholder of record, please bring a form of personal identification to be admitted to the meeting. If your shares are held in the name of your broker, trustee or other nominee, you must obtain a legal proxy issued in your name from the broker, trustee or other nominee that holds your shares, together with a form of personal identification, to be admitted to the meeting. The Annual Meeting will begin promptly at 10:00 a.m. Pacific Time.

**Q: What proposals will be voted on at the Annual Meeting?**

A: At the Annual Meeting, stockholders will be asked to vote on:

- The election of two Class III directors to serve until the 2022 Annual Meeting of Stockholders or until their successors have been duly elected and qualified;
- The approval of an amendment of the Infinera Corporation 2016 Equity Incentive Plan (the "2016 Plan") to increase the number of shares authorized for issuance thereunder by 7,300,000 shares;



- The approval of an amendment of the Infinera Corporation 2007 Employee Stock Purchase Plan (the “2007 ESPP”) to increase the number of shares authorized for issuance thereunder by 10,500,000 shares;
- The approval, on an advisory basis, of the compensation of Infinera’s NEOs, as described in the Proxy Statement; and
- The ratification of the appointment of Ernst & Young LLP as Infinera’s independent registered public accounting firm for the fiscal year ending December 28, 2019.

We are not currently aware of any other business to be acted upon at the Annual Meeting. If any other matters are properly submitted for consideration at the Annual Meeting, including any proposal to adjourn the Annual Meeting, the persons named as proxies will vote the shares represented thereby at their discretion. Adjournments of the Annual Meeting may be made for the purpose of, among other things, soliciting additional proxies. Any adjournment may be made from time to time by approval of the holders of common stock representing a majority of the votes present in person or by proxy at the Annual Meeting, whether or not a quorum exists, without further notice other than by an announcement at the Annual Meeting.

**Q: What is the voting requirement to approve each of the proposals and how does the Board recommend that I vote?**

A: *Proposal 1*—Directors are elected by a majority vote, which requires the affirmative vote of a majority of the total votes cast by holders of shares present in person, or represented by proxy, and entitled to vote for each nominee at the Annual Meeting. You may vote “FOR,” “AGAINST” or “ABSTAIN” on this proposal. Abstentions are deemed to be votes cast and have the same effect as a vote “AGAINST” this proposal. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote. **The Board unanimously recommends that you vote your shares “FOR” the nominees listed in Proposal 1.**

*Proposal 2*—The approval of an amendment of the 2016 Plan to increase the number of shares authorized for issuance thereunder by 7,300,000 shares, requires the affirmative vote of a majority of the total votes cast by holders of shares present in person, or represented by proxy, and entitled to vote on this proposal at the Annual Meeting. You may vote “FOR,” “AGAINST” or “ABSTAIN” on this proposal. Abstentions are deemed to be votes cast and have the same effect as a vote “AGAINST” this proposal. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote. **The Board unanimously recommends that you vote your shares “FOR” Proposal 2.**

*Proposal 3*—The approval of an amendment of the 2007 ESPP to increase the number of shares authorized for issuance thereunder by 10,500,000 shares, requires the affirmative vote of a majority of the total votes cast by holders of shares present in person, or represented by proxy, and entitled to vote on this proposal at the Annual Meeting. You may vote “FOR,” “AGAINST” or “ABSTAIN” on this proposal. Abstentions are deemed to be votes cast and have the same effect as a vote “AGAINST” this proposal. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote. **The Board unanimously recommends that you vote your shares “FOR” Proposal 3.**

*Proposal 4*—The approval, on an advisory basis, of the compensation of Infinera’s NEOs requires the affirmative vote of a majority of the total votes cast by holders of shares present in person, or represented by proxy, and entitled to vote on this proposal at the Annual Meeting. You may vote “FOR,” “AGAINST” or “ABSTAIN” on this proposal. Abstentions are deemed to be votes cast and have the same effect as a vote “AGAINST” this proposal. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote. **The Board unanimously recommends that you vote your shares “FOR” Proposal 4.**

*Proposal 5*—The ratification of the appointment of Ernst & Young LLP as Infinera’s independent registered public accounting firm for the fiscal year ending December 28, 2019, requires the affirmative vote of a majority of the total votes cast by holders of shares present in person, or represented by proxy, and entitled to vote on this proposal at the Annual Meeting. You may vote “FOR,” “AGAINST” or “ABSTAIN” on this proposal. Abstentions are deemed to be votes cast and have the same effect as a vote “AGAINST” this proposal.

Broker non-votes, if any, are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote. **The Board unanimously recommends that you vote your shares “FOR” Proposal 5.**

## **Stock Ownership**

**Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?**

A: *Stockholders of Record*—If your shares are registered directly in your name with our transfer agent, Computershare, Inc., you are the stockholder of record with respect to those shares, and the Notice has been sent directly to you.

*Beneficial Owners*—Many stockholders hold their shares through a broker, trustee or other nominee, rather than directly in their own name. If your shares are held in a brokerage account or by a bank or other nominee, you are considered the “beneficial owner” of shares held in “street name.” The Notice has been forwarded to you by your broker, trustee or other nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, trustee or other nominee on how to vote your shares. For directions on how to vote shares beneficially held in street name, please refer to the voting instruction card provided by your broker, trustee or other nominee. Because a beneficial owner is not the stockholder of record, you may not vote these shares in person at the Annual Meeting unless you obtain a legal proxy issued in your name from the broker, trustee or other nominee that holds your shares, giving you the right to vote the shares at the Annual Meeting.

## **Quorum and Voting**

**Q: Who is entitled to vote at the Annual Meeting?**

A: Stockholders of record of our common stock at the close of business on the Record Date are entitled to receive notice of and to vote their shares at the Annual Meeting. Such stockholders are entitled to cast one vote for each share of common stock held as of the Record Date. As of the close of business on the Record Date, there were 177,415,495 shares of common stock outstanding and entitled to vote at the Annual Meeting. Shares held as of the Record Date include shares that are held directly in your name as the stockholder of record and those shares held for you as a beneficial owner through a broker, trustee or other nominee.

**Q: How many shares must be present or represented to conduct business at the Annual Meeting?**

A: The presence of the holders of a majority of the shares of our common stock entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting. Such stockholders are counted as present at the meeting if they (i) are present in person at the Annual Meeting or (ii) have properly submitted a proxy.

Under the General Corporation Law of the State of Delaware, as amended, abstentions and broker non-votes are counted as present and entitled to vote and are included for purposes of determining whether a quorum is present at the Annual Meeting.

**Q: What is a broker non-vote and how are they counted at the Annual Meeting?**

A: A broker non-vote occurs when the broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not exercise available discretionary voting power with respect to that proposal or, in the absence of discretionary voting power, has not received instructions from the beneficial owner on how to vote the shares. Broker non-votes will be counted towards the presence of a quorum, but will not be counted towards the vote total for any proposal.

**Q: Which proposals are considered “routine” or “non-routine?”**

A: The election of directors (Proposal 1), the amendment of the 2016 Plan (Proposal 2), the amendment of the 2007 ESPP (Proposal 3) and the non-binding advisory vote on Infinera’s NEO compensation (Proposal 4) are

“non-routine” matters for which discretionary voting power does not exist under applicable rules. A broker, trustee or other nominee cannot vote without instructions on non-routine matters, and therefore, broker non-votes may exist in connection with Proposals 1 through 4. Thus, if you hold your shares beneficially in street name and you do not instruct your broker, trustee or other nominee how to vote with respect to Proposals 1 through 4, no votes will be cast on your behalf.

The ratification of Ernst & Young LLP as our independent registered public accounting firm (Proposal 5) is considered a “routine” matter for which discretionary voting power exists under applicable rules. A broker, trustee or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected to exist in connection with Proposal 5.

**Q: How can I vote my shares in person at the Annual Meeting?**

A: *Stockholders of Record*—Shares held in your name as the stockholder of record may be voted in person at the Annual Meeting, even if previously voted by another method. To vote in person, please bring a form of personal identification to be admitted to the meeting.

*Beneficial Owners*—Shares held beneficially in street name may be voted in person at the Annual Meeting only if you obtain a legal proxy issued in your name from the broker, trustee or other nominee that holds your shares, giving you the right to vote the shares at the Annual Meeting. Otherwise, you will not be permitted to vote at the Annual Meeting.

**Even if you plan to attend the Annual Meeting, we recommend that you submit your vote as described in the Notice and below, so that your vote will be counted if you later decide not to attend the Annual Meeting.**

**Q: How can I vote my shares without attending the Annual Meeting?**

A: Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the Annual Meeting. If you are a stockholder of record, you may vote by submitting a proxy (please refer to the voting instructions in the Notice or below). If you hold shares beneficially in street name, you may vote by submitting voting instructions to your broker, trustee or other nominee (please refer to the voting instructions provided to you by your broker, trustee or other nominee).

*Internet*—Stockholders of record with Internet access may submit proxies by following the instructions on the Notice. Most of our stockholders who hold shares beneficially in street name may vote by accessing the website specified in the voting instructions provided by their brokers, trustees or other nominees.

*Telephone*—Depending on how your shares are held, you may be able to vote by telephone. If this option is available to you, you will receive information explaining this procedure.

*Mail*—If you are a stockholder of record and have not already received one, you may request a proxy card from Infinera, and indicate your vote by completing, signing and dating the card where indicated and returning it in the prepaid envelope that will be included with the proxy card.

**Q: How will my shares be voted if I submit a proxy via the Internet, by telephone or by mail and do not make specific choices?**

A: If you are a stockholder of record or have obtained a proxy voting form from your broker, trustee or other nominee that holds your shares giving you the right to vote the shares, and you submit a proxy via the Internet, by telephone or by mail and do not make voting selections, the shares represented by that proxy will be voted “FOR” the nominees listed in Proposal 1 and “FOR” Proposals 2, 3 and 4. If you are a beneficial owner of shares and your broker, trustee or other nominee does not receive instructions from you about how your shares are to be voted, the shares represented by that proxy will not be voted with respect to Proposals 1 through 4 and will be counted as broker non-votes, and with respect to Proposal 5 may be voted at the discretion of your broker, trustee or other nominee.

**Q: Can I change or revoke my vote?**

A: Subject to any rules your broker, trustee or other nominee may have, you may change your proxy instructions at any time before your proxy is voted at the Annual Meeting.

*Stockholders of Record*—If you are a stockholder of record, you may change your vote by (1) filing with our Corporate Secretary, prior to your shares being voted at the Annual Meeting, a written notice of revocation or a duly executed proxy card, in either case dated later than the prior proxy relating to the same shares, or (2) attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not, by itself, revoke a proxy). Any written notice of revocation or subsequent proxy card must be received by our Corporate Secretary prior to the taking of the vote at the Annual Meeting. Such written notice of revocation or subsequent proxy card should be hand delivered to our Corporate Secretary or should be sent to our principal executive offices, Attn: Corporate Secretary. A stockholder of record who has voted via the Internet or by telephone may also change his or her vote by making a timely and valid Internet or telephone vote at a later time but prior to 11:59 p.m. Eastern Time, on the day prior to the Annual Meeting.

*Beneficial Owners*—If you are a beneficial owner of shares held in street name, you may change your vote by (1) submitting new voting instructions by any of the applicable voting methods allowed to your broker, trustee or other nominee, or (2) attending the Annual Meeting and voting in person if you have obtained a proxy voting form from the broker, trustee or other nominee that holds your shares giving you the right to vote the shares.

**Q: Who will bear the cost of soliciting votes for the Annual Meeting?**

A: We will bear all expenses of soliciting proxies for the Annual Meeting. We may reimburse brokerage firms, custodians, nominees, fiduciaries and other persons representing beneficial owners of common stock for their reasonable expenses in forwarding solicitation materials to such beneficial owners. Directors, officers and employees of Infinera may also solicit proxies in person or by other means of communication. Such directors, officers and employees will not be additionally compensated, but may be reimbursed for reasonable out-of-pocket expenses in connection with such solicitation. We have engaged the services of Morrow Sodali LLC, 470 West Avenue, Stamford, Connecticut 06902, as our proxy solicitor to aid in the solicitation of proxies from certain brokers, bank nominees and other institutional owners. Morrow's fees for this service are estimated to be \$9,500 plus expenses.

**Q: Where can I find the voting results of the Annual Meeting?**

A: We intend to announce preliminary voting results at the Annual Meeting and will publish final results on a Current Report on Form 8-K filed with the SEC.

**Q: Are votes confidential? Who counts the votes?**

A: Proxy instructions, ballots, and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. We will not disclose the proxy instructions or ballots of individual stockholders, except:

- as necessary to meet applicable legal requirements and to assert or defend claims for or against Infinera;
- to facilitate a successful proxy solicitation;
- if a stockholder makes a written comment on the proxy card or otherwise communicates his or her vote to management; or
- to allow the independent inspector of election to certify the results of the vote.

A representative from Broadridge will serve as the inspector of election.

**Additional Information**

**Q: What should I do if I receive more than one Notice or set of proxy materials?**

A: If you receive more than one Notice or set of proxy materials, your shares are likely registered in more than one name or brokerage account. Please follow the voting instructions on each Notice or voting instruction card that you receive to ensure that all of your shares are voted.

**Q: Can I access Infinera’s proxy materials and Annual Report on Form 10-K via the Internet?**

A: Our proxy materials will be available on our website at [www.infinera.com/annual\\_meeting](http://www.infinera.com/annual_meeting), and all stockholders of record and beneficial owners will have the ability to vote free of charge online with their control number referred to in the Notice at [www.proxyvote.com](http://www.proxyvote.com). Our Annual Report on Form 10-K for the fiscal year ended December 29, 2018 (the “2018 Annual Report”) is also available on the Internet as indicated in the Notice. In addition, you can access this Proxy Statement and the 2018 Annual Report by going to Infinera’s website at [www.infinera.com/annual\\_meeting](http://www.infinera.com/annual_meeting). The 2018 Annual Report is not incorporated into this Proxy Statement and is not considered proxy soliciting material.

**Q: What information from this proxy statement is incorporated by reference into certain Company SEC filings?**

A: We have made previous filings under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the “Exchange Act”) that incorporate future filings, including this proxy statement, in whole or in part. However, the Compensation Committee Report and the Report of the Audit Committee shall not be incorporated by reference into any such filings.

**Q: How can I view or request copies of Infinera’s corporate documents and SEC filings?**

A: Our website contains our Amended and Restated Bylaws (“Bylaws”), Corporate Governance Guidelines, Board committee charters, Code of Business Conduct and Ethics, and SEC filings. To view these documents, please go to [www.infinera.com](http://www.infinera.com), click on “Investor Relations” under the “Company” heading and then click on “Committee Charters & Governance Documents” under the “Corporate Governance” heading. To view our SEC filings and Forms 3, 4 and 5 filed by our directors and executive officers, please go to [www.infinera.com](http://www.infinera.com), click on “Investor Relations” under the “Company” heading and then click on “SEC Filings” under the “Financials” heading.

We will promptly deliver free of charge, upon request, a copy of our Corporate Governance Guidelines, Board committee charters or Code of Business Conduct and Ethics to any stockholder requesting a copy. Requests should be directed to Infinera Corporation, c/o Corporate Secretary, 140 Caspian Court, Sunnyvale, California 94089.

We will promptly deliver free of charge, upon request, a copy of the 2018 Annual Report and this Proxy Statement to any stockholder requesting a copy. Requests should be directed to Infinera Corporation, c/o Corporate Secretary, 140 Caspian Court, Sunnyvale, California 94089.

## PROPOSAL 1—ELECTION OF DIRECTORS

### General

The Board currently consists of nine directors and is divided into three classes. Each class of the Board serves a staggered three-year term. Our Class III directors, whose terms expire at the Annual Meeting, are Marcel Gani and Mark A. Wegleitner. On January 24, 2019, John P. Daane informed the Board that he will be resigning from the Board effective immediately prior to the Annual Meeting and will not be standing for re-election. After the Annual Meeting, the Board will consist of eight members.

There are two nominees for election to Class III of the Board this year, Messrs. Gani and Wegleitner. The nomination of these directors to stand for election at the Annual Meeting has been recommended by the Nominating and Governance Committee and has been approved by the Board. Each of the nominees for our Class III directors, if elected, will serve for a three-year term expiring at the 2022 Annual Meeting of Stockholders, or until his successor is duly elected and qualified, or until his earlier death, resignation or removal from the Board.

Our Bylaws provide that, in an election of directors where the number of nominees does not exceed the number of directors to be elected, each director nominee must receive a majority of votes cast with respect to that director nominee. Should one of the nominees up for election not receive a majority of votes cast, the Board, after taking into consideration the recommendation of the Nominating and Governance Committee, will determine whether or not to accept the pre-tendered resignation of such nominee. The Board will publicly disclose its decision and its rationale within 90 days of the certification of the election results. The director whose resignation is under consideration shall abstain from participating in any decision regarding that resignation.

We believe the current Board consists of a diverse group of professionals, including former CEOs, CFOs and industry leaders, who bring significant leadership and distinct qualities and skill sets to Infinera. This group provides a diverse range of perspectives and experience to engage each other and management to effectively represent our stockholders.

### Director Qualifications

The Nominating and Governance Committee reviews candidates for service on the Board and recommends nominees for election to fill vacancies on the Board, including nomination for re-election of directors whose terms are due to expire. In discharging its responsibilities to nominate candidates for election to the Board, the Nominating and Governance Committee endeavors to identify, recruit and nominate candidates characterized by wisdom, maturity, sound judgment, excellent business skills and high integrity. The Nominating and Governance Committee seeks to assure that the Board is composed of individuals of diverse backgrounds who have a variety of complementary experience, training and relationships relevant to our business. This diversity of background and experience includes ensuring that the Board includes individuals with experience and skills sufficient to meet the requirements of the various rules and regulations of the SEC and Nasdaq, such as the requirements to have a majority of independent directors and an Audit Committee Financial Expert. In nominating candidates to fill vacancies created by the expiration of the term of a director, the Nominating and Governance Committee determines whether the incumbent director is willing to stand for re-election. The Nominating and Governance Committee evaluates each director's performance to determine suitability for re-election, taking into consideration, among other things, each director's willingness to fully participate and contribute to the Board and its committees, ability to work constructively with the rest of the members of the Board, personal and professional integrity and familiarity with our business, operations and markets.

Each of the nominees to fill positions as Class III directors have consented to serve if elected. However, if any of the persons nominated by the Board subsequently declines to accept election, or is otherwise unavailable for election prior to the Annual Meeting, proxies solicited by the Board will be voted by the proxy holders for the election of any other person or persons as the Board may recommend, at its option, or may decide to further reduce the number of directors that constitute the entire Board.

### Information Regarding Nominees and Continuing Directors

Set forth below is information regarding each person nominated for election as a Class III director at the Annual Meeting, as well as for each director continuing to serve on the Board, including their ages as of the



Record Date, the periods during which they have served as a director, certain information as to their principal occupations, directorships they hold in corporations whose shares are publicly registered and qualifications for serving as a member of the Board, including the skills, qualities, attributes and experiences that led the Board to determine it is appropriate to nominate these directors.

**Nominees for Election as Class III Directors whose terms expire at the 2019 Annual Meeting of Stockholders. If re-elected, the Class III Directors terms would expire at the 2022 Annual Meeting of Stockholders.**

**Marcel Gani**

Director since 2014

Age 66

**Marcel Gani** has been a member of the Board since June 2014. Mr. Gani has been working as an independent consultant since 2009. His previous experience includes Lecturer in Accounting and Finance at the Leavey School of Business at Santa Clara University, and multiple roles at Juniper Networks, Inc., including Chief of Staff from January 2005 to March 2006 and Executive Vice President and Chief Financial Officer (“CFO”) from February 1997 to December 2004. Prior to Juniper, Mr. Gani served as Vice President and CFO of NVIDIA Corporation from February 1996 to February 1997. Mr. Gani also served as CFO of Grand Junction Networks, Primary Access Corporation and NeXT Computer, Inc. Mr. Gani currently serves on the board of directors of SolarEdge Technologies, Inc., a power optimizer solutions company. Mr. Gani previously served on the board of directors of Envivio, Inc., a video technology company, from May 2011 through October 2015.

Mr. Gani’s executive management experience as a former CFO for various public and private companies in the technology industry provides the Board with broad experience in finance, including accounting and financial reporting. In addition, the Board also benefits from Mr. Gani’s service as Chairman of the Compensation Committee and as a member of the Audit Committee, as well as being an Audit Committee Financial Expert.

**Mark A. Wegleitner**

Director since 2011

Age 68

**Mark A. Wegleitner** has been a member of the Board since May 2011. Since April 2011, Mr. Wegleitner has served as President of Wegleitner Consulting, LLC, a privately-owned telecommunications consulting company. From September 2007 until his retirement in July 2010, Mr. Wegleitner served as the Senior Vice President, Technology, for Verizon Communications Inc., a telecommunications company, where his responsibilities included technology assessment, network architecture, platform development and laboratory testing for wireline and wireless communications networks. From July 2000 to September 2007, he served as Chief Technology Officer (“CTO”) for Verizon, with responsibility for wireline communications technologies. Prior to the creation of Verizon, Mr. Wegleitner held various positions in the Network Services division of Bell Atlantic, a telecommunications company, including CTO from January 1999 to July 2000. Prior to joining Bell Atlantic, he worked at Bell Laboratories and AT&T General Departments.

Mr. Wegleitner’s extensive experience in the telecommunications industry provides the Board with a high level of expertise and experience. The Board also benefits from Mr. Wegleitner’s service as Chairman of the Technology and Acquisition Committee and as a member of the Nominating and Governance Committee.

**Incumbent Class I Directors whose terms expire at the 2020 Annual Meeting of Stockholders.**

**Thomas J. Fallon**  
Director since 2009  
Age 57

**Thomas J. Fallon** has served as our CEO since January 2010 and as a member of the Board since July 2009. From January 2010 to June 2013, Mr. Fallon also served as our President. Mr. Fallon served as our Chief Operating Officer (“COO”) from October 2006 to December 2009, and as our Vice President of Engineering and Operations from April 2004 to September 2006. From August 2003 to March 2004, Mr. Fallon served as Vice President, Corporate Quality and Development Operations at Cisco Systems Inc., a networking and telecommunications company. From March 1991 to August 2003, Mr. Fallon served in a variety of functions at Cisco Systems, including General Manager of the Optical Transport Business Unit and Vice President of Service Provider Manufacturing. Prior to joining Cisco Systems, Mr. Fallon served in various manufacturing roles at Sun Microsystems and Hewlett Packard. Mr. Fallon currently serves on one other public company board, Hercules Capital, Inc., a specialty finance company. Mr. Fallon also serves on the Engineering Advisory Board of the Cockrell School at the University of Texas.

As the CEO of Infinera, Mr. Fallon provides significant institutional knowledge of Infinera and industry knowledge, as well as key insight and advice in the Board’s consideration and oversight of corporate strategy and management development. Mr. Fallon’s leadership skills and executive management experience, along with his operational management experience and technical expertise, enable Mr. Fallon to make significant contributions to the Board.

**Kambiz Y. Hooshmand**  
Director since 2009  
Age 57

**Kambiz Y. Hooshmand** has been a member of the Board since December 2009 and has served as Chairman of the Board since October 2010. From March 2005 to May 2009, Mr. Hooshmand served as President and CEO of Applied Micro Circuits Corporation (“AMCC”), a communications solutions company. From February 2002 to March 2005, Mr. Hooshmand served as Group Vice President and General Manager of Cisco Systems. From March 2000 to February 2002, Mr. Hooshmand served as Vice President and Division General Manager of the DSL Business Unit at Cisco Systems. From June 1997 to February 2000, Mr. Hooshmand served as Cisco Systems’ Vice President of Engineering. From January 1992 to June 1997, Mr. Hooshmand served as Director of Engineering of StrataCom, Inc., a networking solutions company, which was acquired by Cisco Systems.

As the Chairman of the Board of Infinera, Mr. Hooshmand brings his leadership skills, industry experience and comprehensive knowledge of our business, financial position and operations to the Board’s deliberations. Mr. Hooshmand brings significant executive management and technical experience in the networking industry as a result of his executive positions at AMCC, Cisco Systems and StrataCom. The Board also benefits from Mr. Hooshmand’s service as a member of the Audit Committee, Nominating and Governance Committee and Technology and Acquisition Committee.



**Rajal M. Patel**  
Director since 2015  
Age 50

**Rajal M. Patel** has been a member of the Board since September 2015. Mr. Patel brings more than 20 years of experience in scaling cloud infrastructure and applications for consumer Internet, SaaS and other service providers globally. Since April 2016, Mr. Patel has served as the Vice President, Cloud Platform Engineering at Symantec Corporation. From March 2014 to April 2016, Mr. Patel served as the Head of Cloud Engineering at Pinterest. Prior to Pinterest, Mr. Patel served as Senior Vice President for Technical Operations at Salesforce.com from July 2013 to December 2013. Mr. Patel was Vice President for Cloud Services Engineering at Cisco Systems from April 2010 to July 2013 for the Webex collaboration portfolio, and held various engineering and management roles at Yahoo! Inc. from 2004 to early 2010. Prior to joining Yahoo!, Mr. Patel worked at Exodus Communications, which was shortly thereafter acquired by Cable and Wireless. While at Cable and Wireless, Mr. Patel served as Vice President of Network Services and facilitated the integration of Exodus technology assets into Cable and Wireless. Mr. Patel began his career at Pacific Bell, which is now AT&T, and over a 10-year span was last the GM of the Advanced Technologies Group.

With over 20 years of experience in technology management and engineering over several transformations of infrastructure and networking technologies ranging from traditional service providers to the most modern webscale networks at the advent of consumer internet providers, Mr. Patel's leadership and know-how are additive to Infinera as it pursues these markets. The Board also benefits from Mr. Patel's service as a member of the Nominating and Governance Committee and Technology and Acquisition Committee.

**Incumbent Class II Directors whose terms expire at the 2021 Annual Meeting of Stockholders.**

**Gregory P. Dougherty**

Director since 2019

Age 59

**Gregory P. Dougherty** has been a member of the Board since January 2019. Mr. Dougherty served as CEO of Oclaro, Inc. from June 2013 until its acquisition by Lumentum Holdings Inc. in December 2018.

Mr. Dougherty also served as a director of Oclaro from April 2009 until December 2018. Prior to Oclaro, Mr. Dougherty served as a director of Avanex Corporation, a leading global provider of intelligent photonic solutions, from April 2005 to April 2009, when Avanex and Bookham merged to become Oclaro. Mr. Dougherty also served as a director of Picarro, Inc., a manufacturer of ultra-sensitive gas spectroscopy equipment using laser-based technology, from October 2002 to August 2013, and as its Interim CEO from January 2003 to April 2004. He also served as a Board member of the Ronald McDonald House at Stanford from January 2004 to December 2009, and the Bay Area Make-A-Wish Foundation. Earlier in his career, Mr. Dougherty served as the COO at SDL from 1997 to 2001, when the company was acquired by JDS Uniphase Corporation, where he continued in the role until 2002. From 1989 to 1997, Mr. Dougherty was the Director of Product Management and Marketing at Lucent Technologies Microelectronics in the Optoelectronics Strategic Business Unit. Mr. Dougherty currently serves on the board of directors of IPG Photonics Corporation, a fiber laser manufacturer, and Fabrinet, an optical, electro-mechanical and electronic manufacturing services company.

In addition to bringing public company CEO experience to the Board, Mr. Dougherty has extensive experience on compensation committees (Avanex and Oclaro from 2004 to 2013, as chairperson), audit committees (Avanex and Oclaro from 2004 to 2013) and has served as the Lead Independent Director at Avanex. His knowledge of the fiber optic component and transceiver markets will help to provide assistance in the strategic direction for the company. Mr. Dougherty also has been involved in several restructuring and integration programs over his career. The Board also benefits from Mr. Dougherty's service as a member of the Compensation Committee.

**Paul J. Milbury**

Director since 2010

Age 70

**Paul J. Milbury** has been a member of the Board since July 2010.

Mr. Milbury served as Vice President of Operations and CFO of Starent Networks, Corp., a provider of mobile network solutions, from January 2007 until its acquisition by Cisco Systems in December 2009. From December 2009 to July 2010, Mr. Milbury played a key role in integrating Starent Networks into Cisco Systems to create the Mobile Internet Technology Group. From December 2000 to March 2007, Mr. Milbury served as Vice President and CFO of Avid Technology, Inc., a digital media creation, management and distribution solutions company. Mr. Milbury previously served on the board of directors of Gigamon, Inc., a provider of network traffic visibility solutions, from January 2014 through its acquisition in December 2017.

Having been a CFO for a number of technology companies, Mr. Milbury provides the Board with a strong understanding and high level of experience in the areas of finance, accounting and operations and serves as the Chairman of the Audit Committee and as an Audit Committee Financial Expert. The Board also benefits from Mr. Milbury's service as a member of the Compensation Committee through his executive management experience at Starent Networks, Cisco Systems and Avid Technology, and his experience as a director at various public and private companies.

**David F. Welch, Ph.D.**  
Director since 2010  
Age 58

**David F. Welch, Ph.D.** co-founded Infinera and has been a member of the Board since October 2010, and also served as a member of the Board from May 2001 to November 2006. In October 2018, Dr. Welch transitioned to the role of Chief Innovation Officer. From November 2017 to October 2018, Dr. Welch served as our Chief Strategy and Technology Officer. From June 2013 to November 2017, Dr. Welch served as our President and from May 2004 to June 2013, he served as our Executive Vice President and Chief Strategy Officer. From May 2001 to May 2004, he served as our Chief Development Officer/CTO. From February 2001 to April 2001, he served as CTO of the Transmission Division of JDS Uniphase Corporation, an optical component company. From January 1985 to February 2001, he served in various executive roles, including Chief Technology Officer and Vice President of Corporate Development of SDL, an optical component company. Dr. Welch currently serves on the board of directors of CytoDyn Inc., a biopharmaceutical company. Dr. Welch holds over 130 patents, and has been awarded the Optical Society of America's ("OSA") Adolph Lomb Medal, Joseph Fraunhofer Award, the John Tyndall Award and the IET JJ Thompson Medal for Achievement in Electronics, in recognition of his technical contributions to the optical industry. He is a Fellow of OSA and the Institute of Electrical and Electronics Engineers. Dr. Welch holds a B.S. in Electrical Engineering from the University of Delaware and a Ph.D. in Electrical Engineering from Cornell University.

As co-founder and Chief Innovation Officer of Infinera, Dr. Welch has strong institutional knowledge of Infinera, coupled with a deep technical understanding of the optical networking industry. Dr. Welch's leadership skills, industry experience and comprehensive technical knowledge provide the Board with an important perspective into our product development, marketing and selling strategies. The Board also benefits from Dr. Welch's service as a member of the Technology and Acquisition Committee.

### **Vote Required**

Directors are elected by a majority vote, which means that each of the two director nominees requires the affirmative vote of a majority of the votes cast in order to be elected. Abstentions will have the same effect as an "AGAINST" vote. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote.

### **Proposal 1—Recommendation of the Board**

The Board unanimously recommends a vote "FOR" the election of each of the two Class III nominees listed above.

## CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS

We have adopted a number of policies and practices, some of which are described below, that highlight our commitment to sound corporate governance principles. We also maintain a Corporate Governance section on the Investor Relations page on our website, which can be found at [www.infinera.com](http://www.infinera.com).

### Independence of the Board

On an annual basis, in accordance with the current listing standards of Nasdaq, the Board affirmatively determines the independence of each director or nominee for election as a director. The Board has determined that, with the exception of Mr. Fallon and Dr. Welch, both of whom are employees of Infinera, all of its members are "independent directors," using the definition of that term in the listing standards of Nasdaq. Also, all members of the Audit Committee, Compensation Committee and Nominating and Governance Committee, as more fully described below, are independent directors.

### Stockholder Communications with the Board

Stockholders may communicate with the Board by writing to the following address:

Board of Directors  
c/o Corporate Secretary  
Infinera Corporation  
140 Caspian Court  
Sunnyvale, California 94089

Communications are distributed to the Board or to any individual director, as appropriate, depending on the facts and circumstances outlined in the communication. At the direction of the Board, all mail received may be opened and screened for security purposes. Communications that are unduly hostile, threatening, illegal or similarly unsuitable will be excluded with the provision that any communication that is filtered out will be made available to any independent or non-employee director upon request.

### Board Leadership Structure

The Board believes its current leadership structure best serves the objectives of the Board's oversight of management, the Board's ability to carry out its roles and responsibilities on behalf of our stockholders, and our overall corporate governance. Separating the positions of Chairman of the Board and CEO allows our CEO to focus on our day-to-day business, while allowing the Chairman of the Board to lead the Board in its fundamental role of providing advice to and independent oversight of management. While our Bylaws do not require that our Chairman of the Board and CEO positions be separate, the Board believes that having separate positions is the appropriate leadership structure for Infinera at this time and demonstrates our commitment to good corporate governance practices. The Board has assigned the Chairman of the Board responsibility for presiding over meetings of the Board, developing meeting agendas, facilitating communication between management and the Board, representing director views to management and improving meeting effectiveness, among other things. Mr. Hooshmand has served as Chairman of the Board since October 2010.

The Board also believes that the combination of an independent chairman, three of our four standing committees being comprised entirely of independent directors and the regular use of executive sessions of the independent directors enables the Board to maintain independent oversight of our strategies and activities.

### Board Oversight of Risk

Risk is inherent with every business and the Board is responsible for overseeing our risk management function, including a regular review of our strategic plans and business objectives. Members of our senior management team are responsible for implementation of our day-to-day risk management processes, while the Board, as a whole and through its committees, has responsibility for the oversight of overall risk management. In addition, each of the committees of the Board considers any risks that may be within its area of responsibilities and

Board members, or Board committee members, periodically engage in discussions with members of our senior management team as appropriate. Specifically, the Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to risk management in the areas of financial reporting, internal controls, key accounting and reporting policies, and cybersecurity, as well as meeting with the Head of Internal Audit and our external independent auditors. The Compensation Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs. The Nominating and Governance Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks associated with Board organization, membership and structure, succession planning for our directors and executive officers, and corporate governance. The Technology and Acquisition Committee assists the Board in fulfilling its oversight responsibilities with respect to managing the risks associated with technology development and smaller acquisitions and investments. Each of the committee chairs reports to the full Board at regular meetings concerning the activities of the committee, the significant issues it has discussed and the actions taken by the committee.

### **Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics, which applies to all of our employees, officers (including our principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions) and our directors. The Code of Business Conduct and Ethics reflects our policy of dealing with all persons, including our customers, employees, investors and suppliers, with honesty and integrity. The Code of Business Conduct and Ethics was last amended on March 1, 2019. All employees are required to complete training on our Code of Business Conduct and Ethics. A copy of our Code of Business Conduct and Ethics is posted on our website at [www.infinera.com](http://www.infinera.com) in the Corporate Governance section on our Investor Relations page. You may also obtain a copy of our Code of Business Conduct and Ethics without charge by writing to: Infinera Corporation, c/o Corporate Secretary, 140 Caspian Court, Sunnyvale, California 94089. We intend to disclose future amendments to certain provisions of our Code of Business Conduct and Ethics, or waivers of such provisions, applicable to any principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and our directors on our website identified above or on a Current Report on Form 8-K if required by the applicable listing standards.

### **Corporate Governance Guidelines**

The Board has adopted Corporate Governance Guidelines which govern, among other things, Board composition, Board responsibilities, committee composition, management succession and stockholder communications. You can access these Corporate Governance Guidelines, along with other materials such as Board committee charters, on our website at [www.infinera.com](http://www.infinera.com) in the Corporate Governance section on our Investor Relations page.

### **Stock Ownership Policy**

The Board believes that it is important to link the interests of our directors and management to those of our stockholders. Accordingly, the Board has adopted a Stock Ownership Policy for our directors and executive officers who are designated as reporting officers under Section 16 of the Exchange Act (“Section 16 Officers”). For additional information regarding our Stock Ownership Policy, please see the section entitled “Compensation Discussion and Analysis—Additional Information Regarding Our Compensation Practices—Stock Ownership Policy.”

### **Corporate Social Responsibility**

We aim to create a corporation that strategically considers all choices in light of our role in the global community. As an established player in transport networking, we recognize that we have some level of influence in the communities where we operate and in the marketplace. We view this influence as a privilege that inspires us to lead with bold and intentional socially responsible practices. Whenever possible, our hope is to use that influence to drive new best practices and a sense of obligation to the world around us. Each year we summarize our sustainability program and activities in a report, the Infinera Sustainability Report.

In addition, we expect all suppliers to comply with our Supplier Code of Conduct, which addresses the rights of workers to safe and healthy working conditions, environmental responsibility, and compliance with applicable laws. Copies of the Supplier Code of Conduct as well as other related policies related information can be found on the “Corporate Social Responsibility” page of our website at [www.infinera.com](http://www.infinera.com).

### Information Regarding the Board and its Committees

The Board met eleven times during fiscal 2018. The Board acted by written consent three times during fiscal 2018. During fiscal 2018, each director then in office attended 75% or more of the meetings of the Board and the committees on which he served during the period for which he was a director, committee chairman or committee member, as applicable. Our independent directors meet in executive sessions, without management present, during most regular meetings of the Board. Directors are encouraged, but not required, to attend our annual meetings of stockholders. Two members of the Board attended our 2018 Annual Meeting of Stockholders.

Currently, the Board is pursuing the addition of a new Board member with a particular focus on women candidates to increase Board diversity.

The Board has four standing committees: an Audit Committee, a Compensation Committee, a Nominating and Governance Committee, and a Technology and Acquisition Committee. The Board also established an Integration Oversight Committee with a one-year term in October 2018 (as described in more detail below). Mr. Fallon does not serve on any committees of the Board. The following table provides membership and meeting information for the Board and each of its standing committees of the Board as of the end of fiscal 2018:

<u>Name</u>	<u>Board</u>	<u>Audit</u>	<u>Compensation</u>	<u>Nominating and Governance</u>	<u>Technology and Acquisition</u>
John P. Daane <sup>(1)</sup>	M	—	M <sup>(2)</sup>	C	—
Thomas J. Fallon	M	—	—	—	—
Marcel Gani	M	M	C	—	—
Kambiz Y. Hooshmand	C	M	—	M	M
Paul J. Milbury	M	C	M	—	—
Rajal M. Patel	M	—	—	M	M
Mark A. Wegleitner	M	—	—	M	C
David F. Welch, Ph.D.	M	—	—	—	M
Total Meetings in Fiscal 2018	11	9	8	4	3

C = Chairman; M = Member

<sup>(1)</sup> On January 24, 2019, Mr. Daane informed the Board that he will be resigning from the Board effective immediately prior to the Annual Meeting and will not be standing for re-election.

<sup>(2)</sup> Effective as of January 29, 2019, Mr. Dougherty joined the Board and replaced Mr. Daane on the Compensation Committee.

Below is a description of each standing committee of the Board as well as the current composition of each committee.

#### **Audit Committee**

The Audit Committee reviews and monitors our financial statements, financial reporting process and our external audits, including, among other things, our internal controls and audit functions, the results and scope of the annual audit and other services provided by our independent registered public accounting firm as well as our compliance with legal matters that have a significant impact on our financial statements. The Audit Committee also consults with our management and our independent registered public accounting firm prior to the presentation of financial statements to stockholders and, as appropriate, initiates inquiries into aspects of our financial affairs. The Audit Committee is responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. In addition, the Audit Committee is directly responsible for the appointment, retention, compensation and oversight of the work of our independent registered public accounting firm, including approving services and fee arrangements. Any related

party transactions are subject to approval by the Audit Committee. A more detailed description of the Audit Committee's functions can be found in our Audit Committee charter. In addition, the Audit Committee meets in executive sessions, without management present and with the independent registered public accounting firm, during most regular meetings of the Audit Committee. A copy of the Audit Committee charter is available on our website at [www.infinera.com](http://www.infinera.com) in the Corporate Governance section on our Investor Relations page.

The current members of the Audit Committee are Messrs. Gani, Hooshmand and Milbury. Mr. Milbury chairs the Audit Committee. Each current member of the Audit Committee served the entire fiscal year. The Audit Committee met nine times during fiscal 2018. The Audit Committee did not act by written consent during fiscal 2018. Each member of the Audit Committee is independent for Audit Committee purposes under the rules and regulations of the SEC and the listing standards of Nasdaq. In addition to qualifying as independent under the Nasdaq rules, each member of the Audit Committee can read and understand fundamental financial statements in accordance with Nasdaq Audit Committee requirements. The Board has determined that Messrs. Gani and Milbury are each an "Audit Committee Financial Expert" as defined in Item 407(d)(5)(ii) of Regulation S-K. The designation does not impose on Messrs. Gani and Milbury any duties, obligations or liabilities that are greater than are generally imposed on them as members of the Audit Committee and the Board.

### ***Compensation Committee***

The Compensation Committee has the responsibility, authority and oversight relating to the development of our overall compensation strategy and compensation policies and programs. The Compensation Committee establishes our compensation philosophy and policies, administers all of our compensation plans for executive officers, and recommends the compensation for the non-employee directors of the Board. The Compensation Committee seeks to assure that our compensation policies and practices promote stockholder interests and support our compensation objectives and philosophy as described in more detail in the Compensation Discussion and Analysis section of this Proxy Statement.

The Compensation Committee also oversees, reviews and administers all of our material employee benefit plans, including our 401(k) plan, and reviews and approves various other compensation policies and matters. The Compensation Committee may form and delegate authority to one or more subcommittees as appropriate. A more detailed description of the Compensation Committee's functions can be found in our Compensation Committee charter. A copy of the Compensation Committee charter is available on our website at [www.infinera.com](http://www.infinera.com) in the Corporate Governance section on our Investor Relations page.

The current members of the Compensation Committee are Messrs. Dougherty, Gani and Milbury. Mr. Gani chairs the Compensation Committee. In addition, Mr. Dougherty replaced Mr. Daane on the Compensation Committee effective as of January 29, 2019. Other than Mr. Dougherty, each current member of the Compensation Committee served the entire fiscal year. The Compensation Committee met eight times during fiscal 2018. The Compensation Committee acted by written consent once during fiscal 2018. Each member of the Compensation Committee is a non-employee director, as defined in Rule 16b-3 promulgated under the Exchange Act, an outside director, as defined pursuant to Section 162(m) ("Section 162(m)") of the Internal Revenue Code, as amended (the "Code") and satisfies the director and compensation committee independence requirements under the listing standards of Nasdaq.

### ***Non-Executive Equity Award Subcommittee***

The guidelines for the size of new hire, promotional and annual retention equity awards for Section 16 Officers are reviewed and approved by the Compensation Committee. The Compensation Committee has delegated to the Non-Executive Equity Award Subcommittee (the "Subcommittee") the authority to formally approve new hire, promotional and annual retention equity awards to certain employees pursuant to guidelines pre-approved by the Compensation Committee. The delegation to the Subcommittee does not include the authority to grant equity awards to new employees who are or are reasonably expected to become Section 16 Officers or to current Section 16 Officers. The delegation of authority to the Subcommittee is not exclusive and the Board and Compensation Committee have retained the right to approve any equity awards at their discretion. The Subcommittee acted by written consent 12 times during fiscal 2018. This Subcommittee is typically comprised of our CEO, SVP of Human Resources and General Counsel.



## ***Nominating and Governance Committee***

The Nominating and Governance Committee reviews and recommends changes to corporate governance policies and practices applicable to Infinera. In addition, the Nominating and Governance Committee is responsible for identifying, evaluating and making recommendations of nominees to the Board and evaluating the performance of the Board and individual directors, including those eligible for re-election at the annual meeting of stockholders. The Nominating and Governance Committee also oversees an annual board evaluation process to determine whether the Board is functioning effectively. The Nominating and Governance Committee is also responsible for reviewing developments in corporate governance practices, and evaluating and making recommendations to the Board concerning corporate governance matters. In addition, the Nominating and Governance Committee oversees our succession planning process. A more detailed description of the Nominating and Governance Committee's functions can be found in our Nominating and Governance Committee charter. A copy of the Nominating and Governance Committee charter is available on our website at [www.infinera.com](http://www.infinera.com) in the Corporate Governance section on our Investor Relations page.

The current members of the Nominating and Governance Committee are Messrs. Daane, Hooshmand, Patel and Wegleitner. Mr. Daane chairs the Nominating and Governance Committee. Each current member of the Nominating and Governance Committee served the entire fiscal year. On January 24, 2019, Mr. Daane informed the Board that he will be resigning from the Board and Nominating and Governance Committee effective immediately prior to the Annual Meeting and will not be standing for re-election. Hence, Mr. Patel will assume the position of Chairman of the Nominating and Governance Committee effective as of May 23, 2019. The Nominating and Governance Committee met four times during fiscal 2018. The Nominating and Governance Committee did not act by written consent during fiscal 2018. Each member of the Nominating and Governance Committee satisfies the independence requirements under the listing standards of Nasdaq.

### ***Board Nominees and Diversity***

The Nominating and Governance Committee reviews and reports to the Board on a periodic basis with regard to matters of corporate governance, and reviews, assesses and makes recommendations on the effectiveness of our corporate governance policies. In addition, the Nominating and Governance Committee reviews and makes recommendations to the Board regarding the size and composition of the Board and the appropriate skills and characteristics required of our directors in the context of the then-current composition of the Board. This includes an assessment of each candidate's independence, personal and professional integrity, financial literacy or other professional or business experience relevant to an understanding of our business, ability to think and act independently and with sound judgment, and ability to serve our stockholders' long-term interests. The Board and the Nominating and Governance Committee follow a process that we consider best practices when reviewing the overall composition of the Board and considering the slate of nominees for annual election to the Board and the appointment of individual directors to the Board. The Board and Nominating and Governance Committee have created a map of key skill sets needed to provide the right level of guidance and oversight to the management team. Within the context of appropriately addressing this map of key skills needed on the Board, the Nominating and Governance Committee also considers diversity of background, including gender, ethnicity, specialized expertise and a range of insight gathered from relevant industries. These factors, and others considered useful by the Nominating and Governance Committee, are reviewed in the context of an assessment of the perceived needs of the Board at a particular point in time. As a result, the priorities and emphasis of the Nominating and Governance Committee and of the Board may change from time to time to take into account changes in business and other trends, as well as the portfolio of skills and experience of current and prospective directors.

The Nominating and Governance Committee leads the search for, selects and recommends candidates for election to the Board. Consideration of new director candidates typically involves a series of committee discussions, review of information concerning candidates and interviews with selected candidates. From time to time, the Nominating and Governance Committee may engage the services of a third-party search firm to identify director candidates. Any search firms retained to assist the Nominating and Governance Committee will be specifically advised to seek to include qualified, diverse candidates from traditional and nontraditional environments, including women and ethnically diverse minorities. The Nominating and Governance Committee will also consider candidates proposed in writing by stockholders, provided such proposal meets the eligibility requirements for submitting stockholder proposals for inclusion in our next proxy statement and is accompanied by the required information about the candidate specified in Section 2.4 of our Bylaws. Candidates proposed by



stockholders are evaluated by the Nominating and Governance Committee using the same criteria as for all other candidates.

If a stockholder wishes to recommend a director candidate for consideration by the Nominating and Governance Committee, pursuant to our Corporate Governance Guidelines, the stockholder must have held at least 1,000 shares of our common stock for at least six months and must notify the Nominating and Governance Committee by writing to our Corporate Secretary at our principal executive offices, and must include the following information:

- To the extent reasonably available, information relating to such director candidate that would be required to be disclosed in a proxy statement pursuant to Regulation 14A under the Exchange Act, in which such individual would be a nominee for election to the Board;
- The director candidate's written consent to (a) if selected, be named in our proxy statement and proxy, and (b) if elected, to serve on the Board;
- The other information set forth in the applicable sections of Section 2.4 of our Bylaws; and
- Any other information that such stockholder believes is relevant in considering the director candidate.

### ***Technology and Acquisition Committee***

The Technology and Acquisition Committee reviews with management, makes recommendations to the Board on and, when expressly authorized by the Board, approves acquisitions, investments, joint ventures and other strategic transactions in which we may engage from time to time. The Technology and Acquisition Committee serves to enhance the Board's understanding of our technology and product development to allow for better input and direction regarding our strategy, progress and risks. In addition, the Technology and Acquisition Committee also evaluates the execution, financial results and integration of any such potential transactions. A more detailed description of the Technology and Acquisition Committee's functions can be found in our Technology and Acquisition Committee charter. A copy of the Technology and Acquisition Committee charter is available on our website at [www.infinera.com](http://www.infinera.com) in the Corporate Governance section on our Investor Relations page.

The current members of the Technology and Acquisition Committee are Messrs. Hooshmand, Patel and Wegleitner and Dr. Welch. Mr. Wegleitner chairs the Technology and Acquisition Committee. Each current member of the Technology and Acquisition Committee served the entire fiscal year. The Technology and Acquisition Committee met three times during fiscal 2018. The Technology and Acquisition Committee did not act by written consent during fiscal 2018.

### ***Integration Oversight Committee***

In October 2018, the Board formed the Integration Oversight Committee to provide guidance to the management of the Company in its integration of the business, personnel and infrastructure of Coriant with Infinera, and assist the Board in its oversight of the integration. The Integration Oversight Committee reviews and exercises general oversight of all activities related to the integration, oversees the formulation and implementation of a plan for the integration and oversees the execution, performance and results of the integration. This committee has a one-year term.

The current members of the Integration Oversight Committee are Messrs. Dougherty, Hooshmand and Milbury. Mr. Dougherty replaced Mr. Daane as a member of the Integration Oversight Committee effective as of March 1, 2019. The Integration Oversight Committee met twice during fiscal 2018. The Integration Oversight Committee did not act by written consent during fiscal 2018.

### **Compensation Committee Interlocks and Insider Participation**

During fiscal 2018, Messrs. Daane, Gani and Milbury served on the Compensation Committee. None of these individuals was at any time during fiscal 2018, or at any other time, an executive officer or employee of Infinera. No member of the Compensation Committee had any relationship with Infinera during fiscal 2018 requiring disclosure under Item 404 of Regulation S-K under the Exchange Act. None of our executive officers has ever served as a member of the board or compensation committee of any other entity that has or has had one or more executive officers serving as a member of the Board or Compensation Committee.

## COMPENSATION OF DIRECTORS

Our compensation program for our non-employee directors is designed to attract and retain highly-qualified, independent directors to represent stockholders on the Board and to act in their best interests. The Compensation Committee, which consists solely of independent directors, has the primary responsibility for reviewing and recommending any changes to our director compensation program, with compensation changes approved or ratified by the full Board. During fiscal 2018, the Compensation Committee engaged an outside advisor to provide relevant market data regarding our director compensation program in order to review the program. The Compensation Committee and Board determined that a mix of cash compensation and equity awards should continue to be used in our compensation program for our non-employee directors. Directors who are also employees of Infinera do not participate in our director compensation program, nor do they receive any additional compensation for their service as directors. The full Board last approved changes to the director cash compensation program in December 2015 that took effect beginning in fiscal 2018. The Compensation Committee did not recommend any changes to our director compensation program after its review during fiscal 2018, except in connection with the formation of the Integration Oversight Committee in late September 2018.

### Director Fees

During fiscal 2018, our cash compensation program for our non-employee directors was as follows:

<u>Position</u>	<u>Annual Retainer Fee (\$)</u>
Non-Employee Director .....	50,000
Chairman of the Board .....	50,000
Audit Committee Chairman .....	30,000
Audit Committee Member .....	12,500
Compensation Committee Chairman .....	20,000
Compensation Committee Member .....	10,000
Nominating and Governance Committee Chairman .....	11,000
Nominating and Governance Committee Member .....	6,000
Technology and Acquisition Committee Chairman .....	10,000
Technology and Acquisition Committee Member .....	5,000
Integration Oversight Committee Member .....	15,000 <sup>(1)</sup>

<sup>(1)</sup> Beginning at the end of the third quarter of fiscal 2018, the annual retainer for non-employee directors serving as a member of the Integration Oversight Committee was set at \$15,000 annually.

We do not pay meeting fees for the Board or any of the committees of the Board. We pay the retainer fees set forth above in quarterly installments. Retainer fees are paid in arrears. In addition, we have a policy of reimbursing our non-employee directors for reasonable travel, lodging and other expenses incurred in connection with their attendance at Board and committee meetings.

### Director Equity Awards

Non-employee directors are eligible to receive equity awards as follows:

- *Initial RSU Award.* Each individual who commences service as a non-employee director upon his or her appointment to the Board or election at an annual meeting of stockholders will receive an RSU award covering a number of shares with an aggregate fair market value as reported on Nasdaq on the day prior to the grant date equal to approximately \$165,000. The Initial RSU Award vests in annual installments over three years, provided that the non-employee director remains a service provider of Infinera through each applicable vesting date.
- *Annual RSU Award.* On the date of each annual meeting of stockholders, each individual who continues to serve as a non-employee director after that annual meeting will be eligible to receive an RSU award covering a number of shares with an aggregate fair market value as reported on Nasdaq on the day prior to the grant date equal to approximately \$165,000. The Annual RSU Award will vest as to 100% of the

underlying shares on the earlier of the date of the next annual meeting of stockholders or the one-year anniversary of the date of grant, provided that the non-employee director remains a service provider of Infinera on the applicable vesting date.

Assuming a non-employee director is appointed to the Board at least six months prior to the next annual meeting of stockholders, such non-employee director will also be eligible for an RSU award covering a number of shares with an aggregate fair market value as reported on Nasdaq on the day prior to the grant date equal to approximately \$165,000. The number of shares covering this RSU award will be prorated for the number of months remaining until the next scheduled annual meeting of stockholders.

For the Annual RSU Award in connection with the 2018 Annual Meeting of Stockholders, we granted RSU awards covering 18,292 shares of Infinera common stock to each non-employee director then in office. These RSU awards vest in full on May 23, 2019, subject to each non-employee director's continued service to Infinera on the applicable vesting date.

### Fiscal 2018 Director Compensation

The following table sets forth all of the compensation awarded to or earned by the non-employee members of the Board in fiscal 2018.

Name	Fees Earned or Paid in Cash (\$) <sup>(1)</sup>	Stock Awards (\$) <sup>(2)</sup>	Option Awards (\$)	Total (\$)
John P. Daane <sup>(3)</sup> .....	74,874	169,567	—	244,441
Marcel Gani .....	82,500	169,567	—	252,067
Kambiz Y. Hooshmand .....	127,374	169,567	—	296,941
Paul J. Milbury .....	93,874	169,567	—	263,441
Rajal M. Patel .....	61,000	169,567	—	230,567
Mark A. Wegleitner .....	66,000	169,567	—	235,567

<sup>(1)</sup> For a description of the annual non-employee director retainer fees and retainer fees for chair positions and for service as Chairman of the Board, see the disclosure above under "Director Fees."

<sup>(2)</sup> The amounts reported in this column represent the aggregate grant date fair value of the RSU awards granted in fiscal 2018 computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, "Compensation—Stock Compensation" ("ASC 718") and without any adjustment for estimated forfeitures. These amounts reflect our accounting expense for these awards and do not correspond to the actual value that will be recognized by the non-employee directors with respect to these awards at the time the shares of Infinera common stock underlying the RSU awards are vested and/or sold. There can be no assurance that the actual value realized by a non-employee director will be at or near the grant date fair value of the RSU awards granted.

<sup>(3)</sup> Mr. Daane has decided not to stand for re-election and will no longer serve as a director after the Annual Meeting.

### Additional Information with Respect to Director Equity Awards

Name	Shares Subject to Stock Awards Outstanding at Fiscal Year-End (#) <sup>(1)</sup>	Shares Subject to Option Awards Outstanding at Fiscal Year-End (#)
John P. Daane <sup>(2)</sup> .....	21,801	—
Marcel Gani .....	18,292	—
Kambiz Y. Hooshmand .....	18,292	—
Paul J. Milbury .....	18,292	7,600
Rajal M. Patel .....	18,292	—
Mark A. Wegleitner .....	18,292	40,000

<sup>(1)</sup> Includes unvested RSU awards.

<sup>(2)</sup> Mr. Daane has decided not to stand for re-election and will no longer serve as a director after the Annual Meeting.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to us regarding beneficial ownership of our common stock as of the Record Date by:

- Each person known by us to be the beneficial owner of more than 5% of any class of our voting securities;
- Our NEOs;
- Each of our directors; and
- All current executive officers and directors as a group.

The information provided in this table is based on our records, information filed with the SEC and information provided to Infinera, except where otherwise noted. To our knowledge and unless as otherwise indicated, each stockholder possesses sole voting and investment power over the shares listed, except for shares owned jointly with such person's spouse. Percentage beneficially owned is based on 177,415,495 shares of common stock outstanding on the Record Date. Unless otherwise indicated, the principal address of each of the stockholders below is c/o Infinera Corporation, 140 Caspian Court, Sunnyvale, California 94089.

<u>Name of Beneficial Owner</u>	<u>Common Shares Currently Held</u>	<u>Common Shares That May Be Acquired Within 60 Days of the Record Date<sup>(1)</sup></u>	<u>Total Beneficial Ownership</u>	<u>Percent Beneficially Owned</u>
<b>5% or More Stockholders</b>				
FMR LLC <sup>(2)</sup> .....	26,204,780	—	26,204,780	14.8%
Oaktree Optical Holdings, L.P. <sup>(3)</sup> .....	20,975,384	—	20,975,384	11.8%
The Vanguard Group <sup>(4)</sup> .....	16,216,790	—	16,216,790	9.1%
BlackRock, Inc. <sup>(5)</sup> .....	13,943,456	—	13,943,456	7.9%
<b>Named Executive Officers and Directors</b>				
Thomas J. Fallon <sup>(6)</sup> .....	1,377,075	434,306	1,811,381	1.0%
Brad D. Feller .....	236,106	61,317	297,423	*
David F. Welch, Ph.D. <sup>(7)</sup> .....	1,574,767	379,608	1,954,375	1.1%
David W. Heard .....	44,532	17,188	61,720	*
Robert J. Jandro .....	179,061	31,621	210,682	*
John P. Daane .....	51,337	18,292	69,629	*
Gregory P. Dougherty .....	—	—	—	*
Marcel Gani .....	122,281	18,292	140,573	*
Kambiz Y. Hooshmand <sup>(8)</sup> .....	104,297	18,292	122,589	*
Paul J. Milbury .....	54,063	25,892	79,955	*
Rajal M. Patel <sup>(9)</sup> .....	41,921	18,292	60,213	*
Mark A. Wegleitner .....	67,197	58,292	125,489	*
<b>All Current Executive Officers and Directors as a Group (12 Persons)</b>				
	3,852,637	1,081,392	4,934,029	2.8%

\* Less than 1% of the outstanding shares of common stock.

(1) Includes shares represented by vested, unexercised stock options as of the Record Date and stock options, RSUs or other rights that are expected to vest within 60 days of the Record Date. These shares are deemed to be outstanding for the purpose of computing the percentage ownership of the person holding the stock options or RSUs, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) According to a Schedule 13G/A filed with the SEC on February 13, 2019 by FMR LLC ("FMR"), Abigail P. Johnson (FMR's Director, Chairman and CEO) and Fidelity Growth Company Fund ("Fidelity"). Such amendment states that FMR is deemed to be the beneficial owner of 26,204,780 shares by virtue of its control over Fidelity, which is deemed to be the beneficial owner of 12,894,773 shares as a result of its acting as investment advisor to various investment companies registered under Section 8 of the Investment Company Act of 1940. Such amendment further states that (a) FMR has sole voting power over 9,468,356 shares, shared voting power over no shares, sole dispositive power over 26,204,780 shares, and shared

dispositive power over no shares; (b) Ms. Johnson has neither sole nor shared voting power over any shares, sole dispositive power over 26,204,780 shares, and shared dispositive power over no shares and (c) Fidelity has sole voting power over 12,894,773 shares, shared voting power over no shares, sole dispositive power over no shares, and shared dispositive power over no shares. The address of FMR is 245 Summer Street, Boston, Massachusetts 02210.

- (3) According to a Schedule 13D filed with the SEC on October 11, 2018 jointly, pursuant to a joint filing agreement, by (i) Oaktree Optical Holdings, L.P., a Delaware limited partnership (“Optical”), whose principal business is to invest in securities; (ii) Oaktree Fund GP, LLC, a Delaware limited liability company (“GP LLC”), whose principal business is to serve as and perform the functions of the general partner of certain investment funds including Optical; (iii) Oaktree Fund GP I, L.P., a Delaware limited partnership (“GP I”), whose principal business is (A) serve as, and perform the functions of, the general partner of certain investment funds or to serve as, and perform the functions of, the managing member of the general partner of certain investment funds or (B) to act as the sole shareholder of certain controlling entities of certain investment funds; (iv) Oaktree Capital I, L.P., a Delaware limited partnership (“Capital I”), whose principal business is to serve as, and perform the functions of, the general partner of GP I; (v) OCM Holdings I, LLC, a Delaware limited liability company (“Holdings I”), whose principal business is to serve as, and perform the functions of, the general partner of Capital I and to hold limited partnership interests in Capital I; (vi) Oaktree Holdings, LLC, a Delaware limited liability company (“Holdings”), whose principal business is to serve as, and perform the functions of, the managing member of Holdings I; (vii) Oaktree Capital Group, LLC, a Delaware limited liability company (“OCG”), whose principal business is to act as the holding company and controlling entity of each of the general partner and investment adviser of certain investment funds and separately managed accounts; and (viii) Oaktree Capital Group Holdings GP, LLC, a Delaware limited liability company (“OCGH GP” and together with Optical, GP I, Capital I, Holdings I, Holdings, OCG and GP LLC, collectively, the “Reporting Persons”), whose principal business is to serve as, and perform the functions of, the manager of OCG. The principal business address of each of the Reporting Persons is c/o Oaktree Capital Group Holdings GP, LLC, 333 South Grand Avenue, 28th Floor, Los Angeles, California 90071.
- (4) According to a Schedule 13G/A filed with the SEC on February 12, 2019 by The Vanguard Group (“Vanguard”). Vanguard is the beneficial owner of 16,216,790 shares and has sole voting power over 147,204 shares, shared voting power over 29,846 shares, sole dispositive power over 16,054,694 shares and shared dispositive power over 162,096 shares. The address of Vanguard is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355.
- (5) According to a Schedule 13G/A filed with the SEC on February 11, 2019 by BlackRock, Inc. (“BlackRock”). BlackRock is the beneficial owner of 13,943,456 shares and has sole voting power over 13,008,791 shares and sole dispositive power over 13,943,456 shares. The address of BlackRock is 55 East 52<sup>nd</sup> Street, New York, New York 10055.
- (6) Shares held by The Fallon Family Revocable Trust dated 9/7/1994.
- (7) Consists of (i) 1,454,974 shares held by The Welch Family Trust U/A DTD 4/3/1996; (ii) 117,293 shares held by LRFA, LLC, a limited liability company of which Dr. Welch is the sole managing member; and (iii) 2,500 shares held by Dr. Welch as trustee for his children. Dr. Welch disclaims beneficial ownership of the shares held in trust for his children.
- (8) Consists of (i) 64,042 shares held by Mr. Hooshmand; and (ii) 40,255 shares held by 2002 Hooshmand Family Trust UA 03/01/2002.
- (9) Shares held by The Rajal & Brinda Patel Trust U/A DTD 9/6/2016.

## COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis provides information related to the fiscal 2018 compensation program and related decisions for our NEOs identified below. For fiscal 2018, these individuals included the following:

- Thomas J. Fallon, our CEO;
- Brad D. Feller, our CFO;
- David F. Welch, Ph.D., our Chief Innovation Officer;
- David W. Heard, our COO; and
- Robert J. Jandro, our Senior Vice President, Worldwide Sales.

*Fiscal 2018 Management Changes.* In February 2018, when the Compensation Committee established fiscal 2018 target compensation for our NEOs, Dr. Welch's title was Chief Strategy and Technology Officer and Mr. Heard's title was General Manager, Products and Solutions. In connection with the acquisition of Coriant on October 1, 2018, Dr. Welch transitioned to the role of Chief Innovation Officer and Mr. Heard transitioned to the role of COO. In addition, for fiscal 2019, Dr. Welch is no longer considered an executive officer for reporting purposes.

### Executive Summary

#### *Fiscal 2018 Business Summary*

We are a global supplier of networking solutions comprised of networking equipment, software and services. Our portfolio of solutions includes optical transport platforms, converged packet-optical transport platforms, optical line systems and disaggregated router platforms, as well as software-defined networking, network management and routing software. Our end-user services and applications include, but are not limited to, high-speed internet access, business Ethernet services, 4G/5G mobile broadband, cable high-speed Internet distribution, cloud-based services, high-definition video streaming services, virtual and augmented reality and the Internet of Things.

- Our systems are highly scalable, flexible and designed with open networking principles for ease of deployment.
- Our portfolio includes systems that leverage our innovative optical engine technology comprised of large-scale photonic integrated circuits ("PICs") and digital signal processors ("DSPs"). We optimize the manufacturing process by using indium phosphide to build our PICs, which enables the integration of hundreds of optical functions onto a set of semiconductor chips.
- This large-scale integration of our PICs and advanced DSPs allows us to deliver high-performance transport networking platforms with features that customers care about the most, including cost per bit, low power consumption and space savings.
- We design our optical engines to increase the capacity and reach performance of our products by leveraging coherent optical transmission.

Our overall fiscal 2018 performance fell short of the expectations we established at the beginning of the year to measure pay-for-performance. We did not achieve the non-GAAP operating margin requirement for short-term incentives to be paid out to our NEOs under our 2018 Bonus Plan and none of the PSU awards for which the performance period ended in 2018 resulted in any portion of the PSUs becoming eligible to vest. Despite these results for the last fiscal year, we believe our acquisition of Coriant, which occurred in October 2018, positions us as one of the largest vertically integrated optical network equipment providers in the world and represents a critical opportunity to build long-term stockholder value. The acquisition is expected to significantly increase revenue while expanding our customer base and the combination positions us to deliver a powerful suite of innovative, end-to-end packet optical network solutions for communications service providers and internet content providers.

The following fiscal 2018 financial information included the fourth quarter results of the Coriant business that we acquired on October 1, 2018. Historical comparison may not be meaningful.

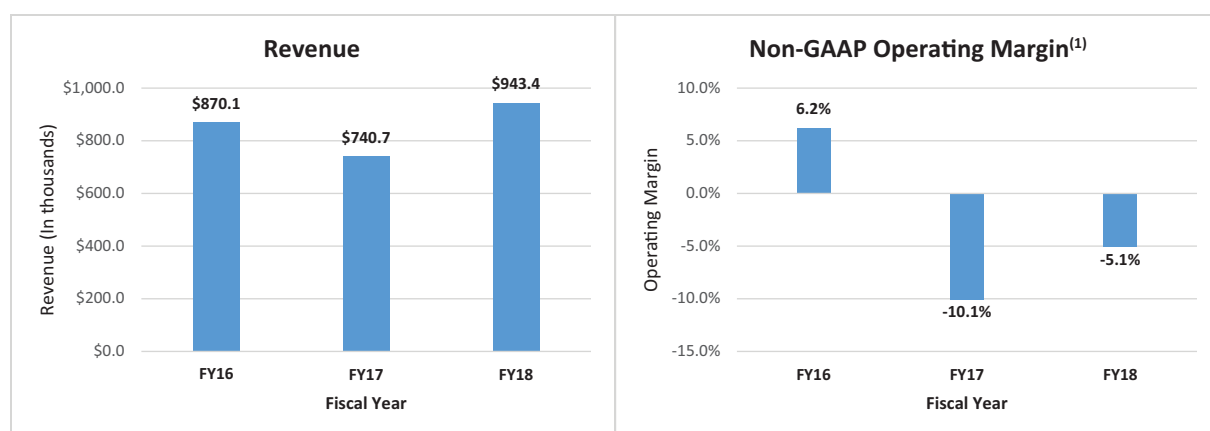
- GAAP Revenue was \$943.4 million, compared to \$740.7 million in fiscal 2017 and \$870.1 million in fiscal 2016.



- GAAP gross margin was 34.0%, compared to 32.9% in fiscal 2017 and 45.2% in fiscal 2016.
- Non-GAAP gross margin<sup>(1)</sup> was 38.4%, compared to 39.3% in fiscal 2017 and 48.3% in fiscal 2016.
- GAAP operating margin for the year was (19.7)%, compared to (24.7)% in fiscal 2017 and (3.0)% in fiscal 2016.
- Non-GAAP operating margin for the year was (5.1)%, compared to (10.1)% in fiscal 2017 and 6.2% in fiscal 2016.
- GAAP net loss was \$(1.36) per share, compared to a GAAP net loss of \$(1.32) per share in fiscal 2017 and a GAAP net loss of \$(0.17) per share in fiscal 2016.

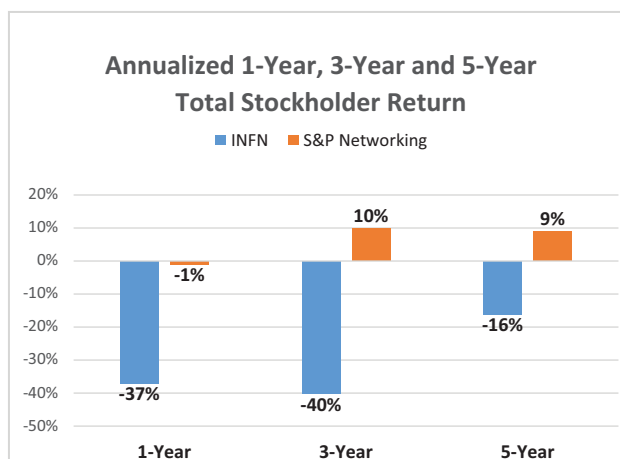
Our overall increase in revenue during fiscal 2018 was benefited by the addition of Coriant, whose results were included in the fourth quarter of fiscal 2018. Prior to the fourth quarter of 2018, our revenue through the first three quarters of fiscal 2018 was \$611.3 million, up by 12.2%, compared to \$544.9 million in the same period of fiscal 2017. This increase was primarily due to the strength of our next-generation ICE4 products and strong first half spending from our largest cable customer. Gross margin improved to 34.0% in fiscal 2018 from 32.9% in fiscal 2017. This improvement was primarily attributable to benefits of our vertically integrated operating model, driven by higher revenue spread across our largely fixed cost structure. Additionally, in fiscal 2018 compared to fiscal 2017, we incurred substantially less costs related to bridging customers to our new ICE4 technology and initially higher costs of early production units of our new ICE4 products. The increased gross margin in 2018 was offset by lower margins from the Coriant business and increased amortization of intangible assets. Operating expenses in fiscal 2018 grew by 19% to \$506.8 million from \$427.1 million in 2017 as the impacts of our restructuring efforts over the course of the first nine months of 2018 were more than offset by the inclusion of Coriant's operating expenses subsequent to the closing of the acquisition along with significant costs related to integration, restructuring, and other acquisition-related costs incurred in the fourth quarter of 2018 to begin to transform the business. While we made important strides in our overall performance, the final results did not meet the rigorous standards of our pay for performance objectives in fiscal 2018.

The following table illustrates our GAAP revenue and non-GAAP operating margin over the last three fiscal years:



<sup>(1)</sup> For a reconciliation of GAAP to non-GAAP revenue, gross profit, gross margin, operating income (loss) and operating margin for fiscal 2018, 2017 and 2016, please see [Appendix A](#) to this Proxy Statement.

The following graph shows our 1-, 3- and 5-year TSR as compared to the S&P Networking Index.



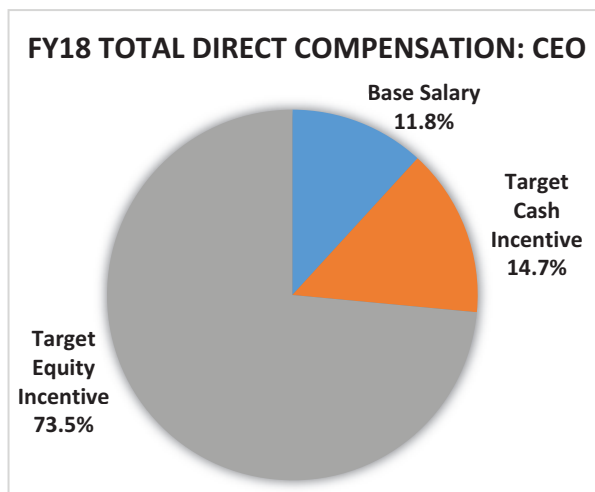
### ***Fiscal 2018 Executive Compensation Program Design Highlights***

The design of our executive compensation program for fiscal 2018 reflects our ongoing commitment to pay-for-performance and the continued strong alignment of the interests of our NEOs with those of our stockholders. At the beginning of fiscal 2018, when a majority of executive compensation decisions were made, the Compensation Committee considered the performance of our company as we exited fiscal 2017 and the expectation of a challenging fiscal 2018. The decisions made reflected a continuing effort to maintain a strong pay-for-performance profile and support accountability of our leadership team for our financial performance. The key elements of our executive compensation program include base salary, a cash bonus plan and long-term incentives in the form of RSUs and PSUs. Highlights of our executive compensation program for fiscal 2018 included the following:

- ***There were no increases in target cash compensation for our NEOs.***
  - During the Compensation Committee's annual review in February 2018, the Compensation Committee approved no increases in base salary or annual incentive targets for our NEOs in fiscal 2018. This decision was based on an analysis of competitive market data provided by the Compensation Committee's independent consultant, with consideration given to the challenging business environment expected during fiscal 2018.



- **The majority of our CEO’s fiscal 2018 target total direct compensation was in the form of equity.**
  - 74% of our CEO’s target total direct compensation (the sum of base salary, target cash incentive opportunity and target equity incentive compensation) was in the form of equity awards, which closely links our CEO’s compensation directly to the value of our common stock. In fiscal 2018, our CEO was granted time-based RSUs and the 2018 TSR Award. For the purpose of this discussion and in the chart below, the grant date value of PSUs reflects the face value of the target number of shares awarded on the grant date, which differs from the accounting value presented in the Summary Compensation Table below.



- **Our long-term incentive program continues to emphasize performance-based awards.** For our CEO, 60% of the target value of equity granted in fiscal 2018 was in the form of PSUs that will vest based upon our TSR performance relative to a networking sector benchmark. To support our “pay-for-performance” philosophy and further emphasize the importance of creating long-term stockholder value, the 2018 TSR Award contained several features we consider best practices.
  - **Stretch goal for maximum performance.** To earn the maximum number of shares under the 2018 TSR Award, which is 200% of the target number of shares, our TSR must exceed the 85<sup>th</sup> percentile of the companies included in the S&P Networking Index. In addition, to earn the maximum number of shares, our TSR must sustain at least 85<sup>th</sup> percentile performance for each of the one-, two- and three-year measurement periods (coinciding with the end of our fiscal 2018, 2019 and 2020).
  - **Payment cap.** Regardless of our performance versus the Index Companies in the S&P Networking Index, the number of shares that may be earned under the 2018 TSR Award is capped at 100% of target for any period in which our TSR is negative. Therefore, even if we significantly outperform the Index Companies in challenging market conditions, this award only provides rewards above the target performance level if incremental stockholder value is created.
- **Our 2018 Bonus Plan Included a Challenging Financial Goal for Payment.** For the 2018 Bonus Plan, payout to our NEOs was based 100% on non-GAAP operating margin goals. In order for the 2018 Bonus Plan to be funded, the financial performance objective required us to achieve a non-GAAP operating margin equal to or greater than 2% for the third and fourth quarters of fiscal 2018 (combined) (the “Operating Margin Gate”). In the event that the Operating Margin Gate was achieved, the bonus for our NEOs would be determined based on the level of improvement in non-GAAP operating margin between the last fiscal quarter of 2017 and the last fiscal quarter of 2018. Our acquisition of Coriant at the beginning of the fourth quarter of fiscal 2018 was not taken into account in determining the financial objectives under the 2018 Bonus Plan.

Relative to our bonus plan in 2017, this approach eliminated a 20% weighting on strategic goals that focused on key quality and product development objectives. Given the challenges facing us beginning in late 2017 and the impact this had on our stockholder return, the Compensation Committee considered an

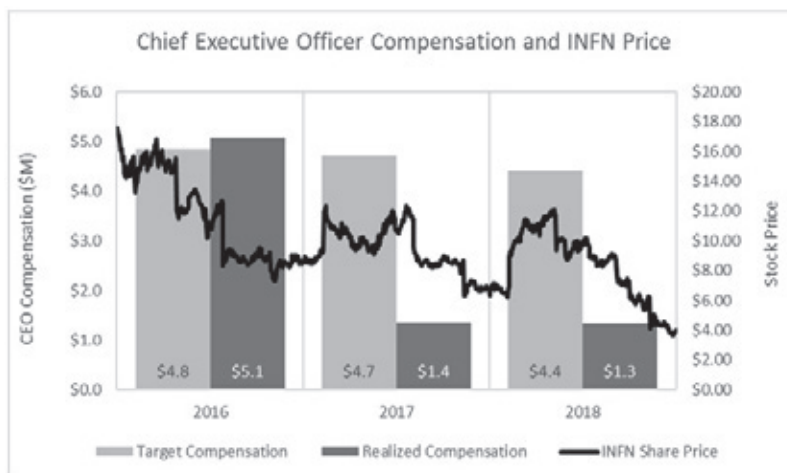
increased emphasis on improved operating margin as an important feature supporting alignment of the interests of our executive officers with that of our stockholders.

### **Pay-for-Performance Outcome in Fiscal 2018**

Our emphasis on performance-based incentives is evidenced in the chart below, which illustrates our CEO's target total compensation versus his actual realized compensation during the most recent three fiscal years. Target total compensation is defined as the sum of the base salary rate approved for each fiscal year, the bonus target for the year, and the grant date target value of equity. The target value of equity reflects the grant date share price of PSUs, which differs from the value reported in the Summary Compensation Table below. Actual realized compensation includes the base salary and cash annual incentive earned during the year plus the sum of any RSUs and PSUs that vested during the year, valued using the share price on the vesting date.

First, the Compensation Committee approved a 20% reduction in our CEO's base salary as of December 2017. This reduced his target cash compensation for 2018 by 20%. In addition, target equity awards in 2018 were equal to the value of target grants in 2017, which resulted in a decrease of his target total compensation by approximately 5% from 2017 to 2018. The Compensation Committee approved this reduction in cash compensation in connection with the continued challenges facing our business in 2017 and in the context of our emphasis on returning to a positive non-GAAP operating margin in 2018.

In addition, our CEO's realized compensation is aligned with our stockholder return in 2018 and was significantly below target in 2018. This relationship between realized pay and our total stockholder return continues a pattern from 2017 and demonstrates the alignment of pay and performance inherent in the design of our executive compensation programs. As the chart below illustrates, realized compensation for our CEO was approximately 70% below target in both 2017 and 2018. The \$1.3 million realized compensation of our CEO in 2018 also represented a 74% decrease from realized compensation in 2016.



### **Fiscal 2018 Executive Compensation Program Payout Highlights**

Our fiscal 2018 payouts reflect the alignment of our executive compensation program to the performance of Infinera. As indicated above, a significant portion of our executive compensation program was designed to align the compensation outcomes for our participating NEOs with performance against measurable objectives.

Bonuses under the 2018 Bonus Plan for participating NEOs were determined based on our performance against the achievement of financial targets. The financial performance objective for our participating NEOs under the 2018 Bonus Plan were tied to the Operating Margin Gate and improvement in non-GAAP operating margin by 13.3 points. As the required improvement in non-GAAP operating margin did not hit the target set out in the 2018 Bonus Plan, this resulted in no payout to NEOs under the 2018 Bonus Plan.

During fiscal 2018, there were portions of three PSU awards for which payout was based entirely or in part on our performance during the year. One of the awards (the fiscal 2016 award) measured our TSR against the TSR of the S&P Networking Index. The 2017 and 2018 PSU awards measure our TSR against the TSR of each of the Index Companies in the S&P Networking Index. Features of the 2018 TSR Awards are more fully described in the section below, entitled “Fiscal 2018 Compensation—Long-Term Incentive Compensation.”

As summarized in the table below, we failed to outperform the TSR of the S&P Networking Index for either of the applicable periods, which resulted in no payouts for each of the performance periods that concluded at the end of fiscal 2018.

<u>Year of Grant</u>	<u>Applicable Measurement Period<sup>(1)</sup></u>	<u>% of Target Award Tied to Period</u>	<u>Result</u>	<u>Payout as a % of Target<sup>(2)</sup></u>
2018 .....	1 year	33%	% Rank = 13 <sup>th</sup> percentile	0%
2017 .....	2 years	33%	% Rank = 5 <sup>th</sup> percentile	0%
2016 .....	3 years	33%	Relative TSR = -115.04 points	0%

<sup>(1)</sup> One-third of each award is tied to the end of the first, second and third fiscal years after the grant date.

<sup>(2)</sup> For the 2017 and 2018 TSR Awards, there is no payout for performance below the 25<sup>th</sup> percentile. For the 2016 TSR Award, there is no payout for relative TSR (i.e., INFN TSR minus the TSR of the benchmark) below -33 points.

### ***Governance of Executive Compensation***

Our executive compensation program includes the following executive compensation governance policies and practices:

- No Guaranteed Bonuses. We did not provide any guaranteed bonuses in fiscal 2018 for any of our NEOs with the exception of “sign on” bonuses, if any, that may be negotiated as part of an executive officer new hire package.
- Executive Clawback Policy. We maintain an executive clawback policy that applies to our Section 16 Officers and provides for recovery of both cash and equity incentive compensation under specified circumstances.
- Anti-Hedging Policy. Our Insider Trading Policy prohibits all employees, including our NEOs, and Board members, from hedging their Infinera common stock.
- Anti-Pledging Policy. Our Insider Trading Policy prohibits our NEOs and Board members from pledging Infinera common stock as collateral for a loan.
- Fully Independent Compensation Committee. Our executive compensation program is administered annually by the Compensation Committee, which consists solely of independent directors.
- Stock Ownership Policy. Our Section 16 Officers and the non-employee members of the Board are subject to minimum stock ownership requirements.
- No Tax Gross-Ups. We do not have any arrangements providing for tax “gross-ups” of any compensation elements with any of our executive officers.
- “Double-trigger” Change of Control Arrangements. Our change of control agreements contain “double-trigger” arrangements that require a termination of employment without cause or a constructive termination of employment following a change of control of Infinera before payments and benefits are triggered.
- Annual Compensation Risk Assessment. The Compensation Committee annually conducts a compensation risk assessment to determine whether our compensation arrangements, or components thereof, create risks that are reasonably likely to have a material adverse effect on Infinera.
- No Executive Perquisites. Our executive officers are only eligible to receive the same benefits and perquisites as our other U.S. salaried employees.
- Independent Compensation Consultant Reporting Directly to Compensation Committee. The Compensation Committee utilizes input from an independent compensation consultant that is retained

directly by the Compensation Committee and performed no services for Infinera during fiscal 2018 other than services for the Compensation Committee.

### ***Advisory Vote on Fiscal 2017 Named Executive Officer Compensation—“Say-on-Pay” Vote***

In calendar 2018, stockholders were provided with the opportunity to cast an advisory (non-binding) vote (a “say-on-pay” proposal) on the compensation of our NEOs for fiscal 2017. Our stockholders approved this say-on-pay proposal, with over 96% of votes cast voting in favor of our executive compensation program. Noting the results of this vote, the Compensation Committee considered this when making compensation decisions for fiscal 2018.

In light of the 2018 say-on-pay vote, the Compensation Committee maintained a consistent general approach to our executive officer compensation program. This included a continued emphasis on pay-for-performance through the use of PSUs that reward executive officers only if they deliver value for our stockholders. For fiscal 2018, and as noted above, the Compensation Committee also approved no increases to the base salaries or target annual incentives of our NEOs when compensation decision were made in February 2018. The 2018 Bonus Plan applicable to our NEOs was modified so that payout to our NEOs would only be made if the financial performance objectives were met.

The Compensation Committee will continue to consider input from our stockholders as reflected in the outcome of our annual say-on-pay vote when making executive compensation program decisions.

### **Overview of our Executive Compensation Program Philosophy and Process**

#### ***Compensation Objectives and Philosophy***

Our executive compensation program is designed to attract, retain, and reward talented executive officers and to motivate them to pursue our corporate objectives, while fostering the creation of long-term value for our stockholders. To achieve this mission, we take a “pay-for-performance” approach that forms the foundation for the design of our executive compensation program. The Compensation Committee also designs the various components of our executive compensation program to support our company culture (i.e., increasing levels of accountability through the use of “at risk” pay for more senior level employees), the internal company environment relative to industry conditions, current business priorities, strategy and product development cycles, and current market practices of our peer group.

#### ***Compensation-Setting Process***

*Role and Authority of Compensation Committee.* The Compensation Committee is responsible for our executive compensation program and all related policies and practices. The Compensation Committee has the responsibility to establish and approve the compensation of each of our executive officers, including our NEOs. In addition, the Compensation Committee reviews and administers our equity and employee benefit plans and programs, which are generally available to our employees, including our NEOs. The Compensation Committee also has the authority to engage its own advisors to assist it in carrying out its responsibilities, and the reasonable compensation for such advisor services is paid by Infinera.

*Role of Compensation Consultant.* During fiscal 2018, the Compensation Committee engaged the services of Compensia, Inc. (“Compensia”), a national compensation consulting firm. Compensia provided the Compensation Committee with an analysis of industry sector competitive market data regarding NEO compensation, information on compensation trends, peer group and general market data, as well as assistance with the parameters used to determine the peer group, base salary, incentive plan design and the structure of our executive compensation program. During fiscal 2018, Compensia also provided general observations about our compensation programs.

Compensia reports directly to the Compensation Committee. Compensia interacted with management at the direction of the Compensation Committee but did not provide any other services for Infinera or its management team in fiscal 2018. Compensia’s fees were paid by Infinera. The Compensation Committee annually reviews the independence of its compensation consultant and during fiscal 2018 determined that there were no conflicts of interest in connection with Compensia’s work.

*Determination of CEO Compensation.* Our compensation consultant provides market data and considerations for the Compensation Committee regarding the amount and form of our CEO's compensation. As part of this process, the Compensation Committee considers input from the Board and feedback from the Chairman of the Board, in particular with respect to the performance of our CEO. After considering the feedback and recommendations received, all decisions regarding our CEO's compensation are made by the Compensation Committee, based on its own judgment and after considering the interests of our stockholders, in executive sessions excluding our CEO.

*Determination of non-CEO Compensation.* As a result of his close working relationship with each of the other NEOs, our CEO is asked to provide his assessment of their performance to the Compensation Committee, including considerations regarding retention and importance of their contributions to Infinera. Our CEO is assisted by our Senior Vice President of Human Resources in making these assessments. Our CEO then presents his performance assessment of the other NEOs and makes formal recommendations to the Compensation Committee regarding adjustments to base salary, annual cash incentive award opportunities and equity awards for our NEOs (other than himself). While the Compensation Committee considers the recommendations of our CEO in determining compensation for our other NEOs, ultimately its decisions are based on its own judgment and the interests of our stockholders. None of our NEOs makes any recommendations regarding his own compensation and none of our NEOs are present at meetings in which their compensation is determined. The Compensation Committee finalized compensation decisions for the CEO in executive session without management present.

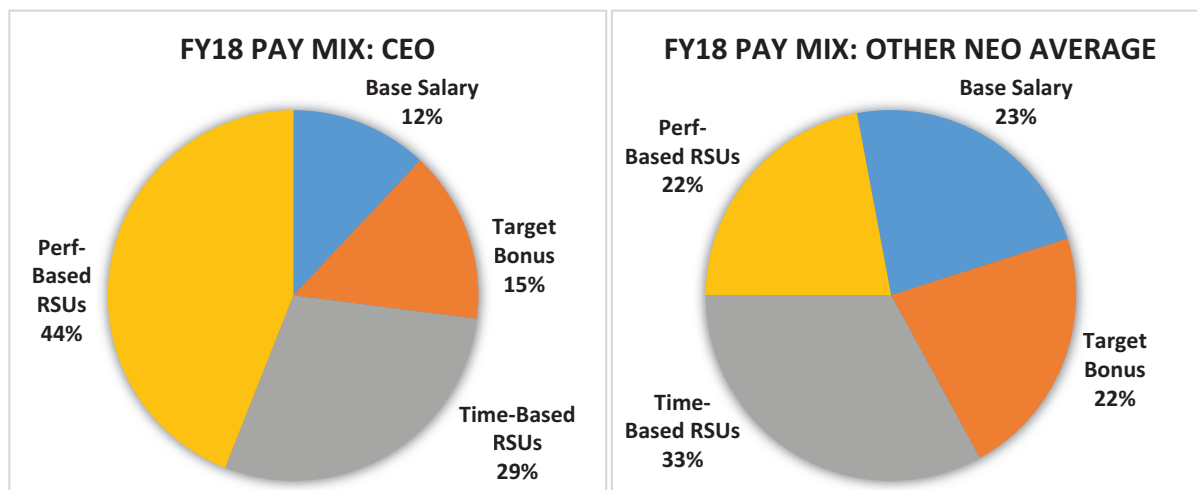
### ***Executive Compensation Elements***

We provide base salaries to attract, retain and motivate our executive officers for their day-to-day contributions, annual incentive cash compensation to link payments to the achievement of our annual financial and/or operational objectives, and long-term incentive compensation delivered in the form of equity awards to align the interests of our executive officers with those of our stockholders and provide significant motivational and retention value to our executive officers. These are the key elements of our executive compensation program. We believe each is necessary to attract, retain and motivate our executive officers, on whom our success largely depends. In addition, we also provide employee benefits that are generally available to all our employees including our NEOs, and certain severance and "double-trigger" change of control payments and benefits as part of our executive compensation program as described further below.

### ***Allocation of Compensation across Pay Elements***

In determining how to allocate an NEO's target total direct compensation opportunity among these various elements, the Compensation Committee seeks to take into account market competitive practices for companies of a similar size and with a comparable business focus. Individual retention considerations specific to the individual are also factored in the Compensation Committee's final determination of target total direct compensation. Equity awards, which for fiscal 2018 consisted of awards of time-based RSUs and PSUs, represented the largest component of our NEOs' target total direct compensation opportunity. This approach was designed to encourage sustained, long-term performance and to ensure alignment of the interests of our NEOs with those of our stockholders. Consistent with our "pay-for-performance" philosophy, a significant portion of our NEOs' fiscal 2018 target total direct compensation opportunity was completely "at risk," including 59% of our CEO's target total direct compensation opportunity. We define "at risk" compensation as opportunities for which vesting as well as the level of achievement is contingent upon achievement of specified performance conditions. In fiscal 2018, this included the 2018 Bonus Plan and PSU awards, where the value of PSUs is included based on the grant date target value of shares awarded.

The following charts show the target total direct compensation mix for fiscal 2018 for our CEO and our other NEOs as a group (value of equity awards is determined using grant date fair value):



The foregoing chart for our other NEOs as a group does not take into account the promotion of Mr. Heard to COO in October 2018. Mr. Heard's fiscal 2018 annual base salary increased from \$500,000 to \$520,000 effective October 1, 2018 and he was granted an additional time-based RSU award of 70,000 shares in connection with his new role as COO.

### Competitive Positioning

In making compensation decisions for our executive officers, the Compensation Committee reviews and analyzes competitive market practices using data drawn from a group of peer companies and the Radford Global Technology survey.

In June 2017, the Compensation Committee reviewed the peer group used for executive compensation decision-making and selected a new group based on updated financial criteria. Although this change in the selection criteria resulted in significant changes in the composition of the peer group, the Compensation Committee as well as members of management involved in making compensation decisions felt that this was an appropriate change based on our decreased revenue and market capitalization profile relative to the last changes made in May 2017. The target selection criteria for the peer group identified in May 2017 and used for fiscal 2018 compensation decisions were:

- Industry: companies in the communications equipment or related industry segments;
- Annual Revenue: \$290 million to \$2.6 billion; and
- Market Capitalization: \$365 million to \$3.6 billion.

Based on this recalibration, the new peer group now consists of the following 16 companies:

Acacia Communications*	InterDigital, Inc.
ADTRAN, Inc.	NETGEAR
Barracuda Networks*	Oclaro, Inc.*
Ciena Corporation	Plantronics, Inc.
Extreme Networks*	ShoreTel*
Finisar Corporation	Silicon Laboratories
Harmonic Inc.*	ViaSat, Inc.
Integrated Device Technology	Viavi Solutions

\* Indicates an addition to the recalibrated peer group for fiscal 2018. Companies removed from the fiscal 2018 peer group included ACI Worldwide, Brocade Communications, Coherent, FEI, OPC Photonics Corporation, Mentor Graphics, Microsemi, MicroStrategy, QLogic and Ubiquiti Networks.



Given that not all of the peer companies report data for a position comparable to each of our NEOs, the Compensation Committee also reviewed market data derived from the Radford Global Technology survey. In this discussion, where we refer to “market” levels of pay and the “market data,” we are referring to the combined compensation peer group and survey data described above that were then in effect and applicable to our NEOs.

### ***Use of Market Data***

For its fiscal 2018 compensation decisions, the Compensation Committee continued to maintain a holistic and flexible approach in its use of market data. The Compensation Committee’s goal is generally to set all elements of compensation within a competitive range, using a balanced approach that does not use rigid percentiles to target pay levels for each compensation element, but instead makes its compensation decisions based on a variety of relevant factors, including those listed below. While the Compensation Committee continues to review and reference market data, the data generally is used to inform the Compensation Committee of market practices to ensure that our executive compensation program remains within a generally competitive range of our peers. In addition to the market data, several other factors are taken into account in setting the amount of each NEO’s target total direct compensation opportunity. These factors include:

- **Recruitment, retention and historical factors.** The Compensation Committee reviews existing NEO compensation and retention levels relative to estimated replacement cost with respect to the scope, responsibilities and skills required of the particular position.
- **Lack of directly comparable data for some of our key roles.** Compensation data for some of our key positions (i.e., Chief Strategy Officer) are often not explicitly reported by companies in our compensation peer group or survey data. This results in limited sample sizes and/or inconclusive data that can be misleading if targeting a specific percentile for market positioning.
- **Market positioning may be distorted by the source of the data.** Certain elements of compensation reported from one source can be consistently higher or lower than the data collected from another, given differences in methods and samples used by each source to collect market data. Given this variability and volatility within the market data, the Compensation Committee has determined that targeting pay levels at specific percentiles of this data could result in outcomes that do not align with the internal value and strategic importance of various roles at Infinera.
- **Desire to account for other factors not captured in the market data.** As discussed below, the Compensation Committee also considers several qualitative factors.

### ***Relevant Qualitative Factors***

In addition to our uses of competitive market data as described above, the Compensation Committee considers a range of subjective and qualitative factors when making compensation decisions for our NEOs, including:

- The role the executive officer plays and the importance of such individual’s contributions to our ability to execute on our business strategy and to achieve our strategic objectives;
- Each executive officer’s tenure, skills and experience;
- The responsibilities and particular nature of the functions performed or managed by the executive officer;
- Our CEO’s recommendations and his assessment of each executive officer’s performance (other than his own performance), and with respect to the CEO’s performance, assessment by the Board;
- The value of unvested equity awards held by each executive officer and in comparison to other members of our executive management team and senior employees;
- Internal pay equity across the executive management team;
- The impact of our compensation decisions on key financial and other measures such as our equity award “burn rate”;
- Our overall performance as compared to internal plans and external benchmarks;

- The potential impact on stockholder dilution of our compensation decisions relative to peers and historical practices; and
- Competitive labor market pressures and the likely cost, difficulty and impact on our business and strategic objectives that would be encountered in recruiting a replacement for the role filled by each of our NEOs.

The Compensation Committee does not assign relative weights or rankings to any of these factors and does not solely use any quantitative formula, target percentile or multiple for establishing compensation among the executive officers or in relation to the market data. Instead, the Compensation Committee relies upon its members' knowledge and judgment in assessing the various qualitative and quantitative inputs it receives regarding each individual and makes compensation decisions accordingly.

## Fiscal 2018 Compensation

### Base Salaries

For fiscal 2018, the Compensation Committee reviewed the base salaries in February 2018 for each of our NEOs and approved no changes to the base salaries of our NEOs after taking into consideration the market data provided by its independent compensation consultant and the weaker financial performance over the prior fiscal year as well as the challenging year that was expected in fiscal 2018. Our CEO's base salary of \$520,000 was established in December 2017 and represents a 20% decrease from the salary rate in effect at the beginning of our fiscal 2017. As described above, the Compensation Committee approved this reduction in connection with the challenges facing our business beginning in late 2017 and in the context of our goal of returning to a positive non-GAAP operating margin in 2018.

The following table shows the annual base salary for each of our NEOs for fiscal 2017 and fiscal 2018:

<u>Name</u>	<u>Fiscal 2017 Annual Base Salary</u>	<u>Fiscal 2018 Annual Base Salary</u>
Thomas J. Fallon .....	\$520,000 <sup>(1)</sup>	\$520,000
Brad D. Feller .....	\$400,000	\$400,000
David F. Welch, Ph.D. ....	\$450,000 <sup>(2)</sup>	\$450,000
David W. Heard .....	\$500,000	\$520,000 <sup>(3)</sup>
Robert J. Jandro .....	\$365,000	\$365,000

<sup>(1)</sup> As part of the restructuring announced in November 2017, Mr. Fallon had his current annual base salary at the time reduced. Mr. Fallon's current base salary was decreased from \$650,000 to \$520,000.

<sup>(2)</sup> As part of the restructuring announced in November 2017, Dr. Welch had his current annual base salary at the time reduced. Dr. Welch's current base salary was decreased from \$500,000 to \$450,000.

<sup>(3)</sup> Mr. Heard's fiscal 2018 annual base salary increased from \$500,000 to \$520,000 effective October 1, 2018 in connection with his appointment to his new role of COO.

### Performance-Based Incentive Cash Compensation (2018 Bonus Plan)

*Target Bonus Opportunities.* In February 2018, the Compensation Committee reviewed the target bonus opportunities (which are expressed as a percentage of base salary) for fiscal 2018 for each of our NEOs, and determined that they all would remain the same as the prior fiscal year. The following table shows the target bonus opportunities for each of our NEOs for fiscal 2017 and fiscal 2018:

<u>Name</u>	<u>Fiscal 2017 Target Bonus (as a percentage of base salary)</u>	<u>Fiscal 2018 Target Bonus (as a percentage of base salary)</u>
Thomas J. Fallon .....	125%	125%
Brad D. Feller .....	75%	75%
David F. Welch, Ph.D. ....	90%	90%
David W. Heard .....	75%	90% <sup>(1)</sup>
Robert J. Jandro .....	100%	100%



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<sup>(1)</sup> Mr. Heard's fiscal 2018 target bonus opportunity (which is expressed as a percentage of base salary) was changed from 75% to 90% effective October 1, 2018 in connection with his appointment to the new role of COO. In considering the increased target bonus opportunity for Mr. Heard, the Compensation Committee considered the scope of Mr. Heard's new role as well as the competitive market data provided by Compensia.

*Bonus Plan Design.* Our NEOs were eligible to earn incentive compensation under the 2018 Bonus Plan based 100% on the achievement of a non-GAAP operating margin goal for fiscal year 2018. Relative to our bonus plan in 2017, this approach eliminated a 20% weighting on strategic goals that focused on key quality and product development objectives. Given the continued challenges facing us in fiscal 2017 and the impact this had on our stockholder return, the Compensation Committee considered an increased emphasis on improved operating margin as an important feature supporting alignment of the interests of our executive officers with that of our stockholders.

In addition, if our non-GAAP operating margin performance exceeded the threshold required for payment, the bonus earned by our NEOs could be modified by an individual performance component that could be used to adjust the bonus payouts by a factor between 75% and 125% of the funded amount. In the event that our financial performance provided for a bonus, our CEO would be responsible for reviewing the performance of each NEO (other than himself) and recommending an individual performance factor for each NEO. The individual performance factor was based on a qualitative assessment of the NEOs contributions during 2018 and did not include specific, pre-established, individual performance targets. The Compensation Committee then had sole discretion to determine any individual performance adjustments for each NEO (including the CEO) and the final bonus payout for fiscal 2018.

The financial performance metric for the 2018 Bonus Plan was tied to improvement year over year of non-GAAP operating margin. The Compensation Committee determined to focus on non-GAAP operating margin to emphasize the importance of driving increases in revenue while at the same time maintaining or improving profitability. The Compensation Committee believes that non-GAAP operating margin would be a key metric for our stockholders that supports a balanced approach to long-term growth.

For purposes of the 2018 Bonus Plan, "non-GAAP operating margin" was calculated excluding restructuring and other related costs, non-cash stock-based compensation expenses, amortization of debt discount on our convertible senior notes, impairment charge and gain on the sale related to non-marketable equity investments, accretion of financing lease obligation, amortization and impairment of acquired intangible assets, acquisition and integration costs, and certain purchase accounting adjustments related to our acquisitions of Coriant and Transmode AB, along with related tax effects. For a reconciliation of GAAP to non-GAAP operating margin for fiscal 2018, please see [Appendix A](#) to this Proxy Statement.

In order for the 2018 Bonus Plan to be funded, the financial performance objective required us to achieve an Operating Margin Gate. In the event that the Operating Margin Gate was achieved, the bonus for our NEOs would be determined based on the level of improvement in non-GAAP operating margin between the last fiscal quarter of 2017 and the last fiscal quarter of 2018. To earn the target bonus at 100%, in addition to achieving the Operating Margin Gate, our non-GAAP operating margin had to increase by 13.3 points. The CEO would only be paid out if the financial objectives are reached at target and he would receive no additional payout for overachievement. For the NEOs (other than the CEO), payout could be earned if we hit a minimum threshold of 70% of target. Any payouts at threshold would be paid on a sliding scale between 20% and 100% with no additional payout for overachievement.

*Bonus Plan Results.* Upon review of our actual financial performance for fiscal 2018 as compared to the pre-established target levels, the Compensation Committee did not approve a bonus payout to our NEOs participating in the 2018 Bonus Plan based on failure to achieve the Operating Margin Gate and the required improvement in non-GAAP operating margin year-over-year. Our acquisition of Coriant at the beginning of the fourth quarter of fiscal 2018 was not taken into account in determining the financial objectives under the 2018 Bonus Plan.

## **Long-Term Incentive Compensation**

Our long-term incentive compensation opportunities are delivered in the form of equity awards. Annual equity awards for NEOs are generally approved by the Compensation Committee during the first open trading window of each new calendar year.

*Equity Compensation Design.* Under the 2016 Plan, the Compensation Committee grants equity awards to eligible employees, including our NEOs. The Compensation Committee actively monitors our annual aggregate equity utilization as measured by our burn rate.

The Compensation Committee believes that it is in the best interests of Infinera and our stockholders to grant a combination of time-based and performance-based equity awards to senior level employees, including our NEOs. It also believes that our performance-based equity awards foster a “pay-for-performance” culture and multi-year vesting schedules create longer-term incentives that maintain alignment of the interests of our NEOs with those of our stockholders. Our NEOs benefit from these equity awards based on our sustained performance over time and the ability of our NEOs to create the results that drive stockholder value.

In determining the appropriate mix of such equity awards, the Compensation Committee considered how each equity vehicle supports our compensation strategy as follows:

<b>Type of Award</b>	<b>Description</b>	<b>Why It Is Used</b>
RSU Award	<ul style="list-style-type: none"><li>• Provides the opportunity to earn a specified number of shares of Infinera common stock subject to the participant’s continued employment for a specified period.</li><li>• Typically has a three-year or four-year vesting period to encourage a long-term perspective and to encourage key employees to remain at Infinera.</li></ul>	<ul style="list-style-type: none"><li>• Supports retention and succession planning.</li><li>• Provides a direct incentive for future performance.</li><li>• Useful in recruiting new executives.</li></ul>
PSU Award	<ul style="list-style-type: none"><li>• Provides the opportunity to earn shares of Infinera common stock upon the achievement of pre-established performance objectives.</li><li>• If the threshold performance level is not achieved, the entire portion of the award tied to such performance objective is forfeited.</li></ul>	<ul style="list-style-type: none"><li>• Supports pay-for-performance philosophy and retention efforts.</li><li>• Links compensation directly to Infinera’s stock performance in areas identified as important by the Compensation Committee.</li><li>• Increases alignment with interests of stockholders.</li></ul>

In February 2018, the Compensation Committee granted annual equity awards for fiscal 2018 in the form of a time-based RSU award and a PSU award to each of our NEOs. The Compensation Committee continued to believe that TSR remains an important metric for driving performance and promoting the alignment of the interests of our NEOs with those of our stockholders.

In determining the size of these annual equity awards, the Compensation Committee considered the factors described above in the sections entitled “Use of Market Data” and “Relevant Qualitative Factors,” with particular attention to market data, internal equity considerations, the potential dilutive impact of the equity awards and the amount and value of unvested equity awards held by each of our NEOs. The Compensation Committee believed a combination of time-based and performance-based equity awards promote close alignment of the interests of our NEOs with those of our stockholders.

The Compensation Committee first determined the target value of long-term incentive compensation for each executive. The number of RSUs and PSUs granted to each executive was then determined based on the closing price of our stock on the grant date and assuming a 60% allocation of target value into PSUs for Mr. Fallon, and a

50% allocation into PSUs for other NEOs. Because the Compensation Committee relied upon the closing price of our stock on the grant date (rather than the accounting value) to determine the number of PSUs, the target value approved by the Compensation Committee differs from the Summary Compensation Table reported value of equity below. The following table sets forth the equity awards granted to our NEOs in February 2018.

<u>Name</u>	<u>Number of Shares Subject to RSU Awards</u>	<u>2018 TSR Awards</u>	
		<u>Target Number of Shares</u>	<u>Maximum Number of Shares (200% of Target)</u>
Thomas J. Fallon .....	135,416	203,125	406,250
Brad D. Feller .....	68,750	45,833	91,666
David F. Welch, Ph.D. ....	68,750	45,833	91,666
David W. Heard .....	68,750 <sup>(1)</sup>	45,833	91,666
Robert J. Jandro .....	53,125	35,416	70,832

<sup>(1)</sup> Mr. Heard was granted an additional time-based RSU award of 70,000 shares in connection with his appointment to the new role of COO.

The RSU awards in the table above vest in annual installments with one-fourth of the underlying shares of Infinera common stock vesting on May 5<sup>th</sup> of each of 2019, 2020, 2021 and 2022, subject to the NEO's continued service with Infinera through each applicable vesting date.

In October 2018, in connection with his promotion to COO, Mr. Heard was granted an additional time-based RSU award of 70,000 shares. These shares vest in annual installments with one-fourth of the underlying shares of Infinera common stock vesting on October 5<sup>th</sup> of each of 2019, 2020, 2021 and 2022. In finalizing the terms of this grant, the Compensation Committee considered the scope of Mr. Heard's new role with the Company as well as competitive market data provided by Compensia.

Under the terms of the 2018 TSR Award, for which the design generally remained the same as that of the annual PSUs granted to our NEOs in fiscal 2017, the Compensation Committee established three performance periods for the performance-based awards in which our relative TSR is measured against the S&P Networking Index, with one-third (1/3) of the target number of performance-based awards eligible to vest based on our one-year TSR relative to the TSR of each of the Index Companies listed in the S&P Networking Index, one-third (1/3) based on the two-year comparison to the TSR of the Index Companies, and one-third (1/3) based on the three-year comparison to the TSR of the Index Companies. For purposes of calculating TSR performance for Infinera and each of the Index Companies, the performance periods are as follows:

- (i) For the first performance period, the starting price is the 60-day average (of our closing stock price or the index, as applicable) leading up to and inclusive of December 30, 2017 (the last day of fiscal 2017), and the ending price is the 60-day average leading up to and inclusive of December 29, 2018 (the last day of fiscal 2018);
- (ii) For the second performance period, the starting price is the 60-day average leading up to and inclusive of December 30, 2017 (the last day of fiscal 2017), and the ending price is the 60-day average leading up to and inclusive of December 28, 2019 (the last day of fiscal 2019); and
- (iii) For the third performance period, the starting price is the 60-day average leading up to and inclusive of December 30, 2017 (the last day of fiscal 2017), and the ending price is the 60-day average leading up to and inclusive of December 27, 2020 (the last day of fiscal 2020).

An "Index Company" refers to each company that was listed in the S&P Networking Index as of the last day of fiscal year 2017 and generally remains publicly traded (in other words, its stock is actively traded on an established stock exchange or national market system) through the last day of the applicable performance period. The performance-based awards shall only vest upon the determination by the Compensation Committee of the achievement of the performance metrics and are subject to each NEO's continued service to Infinera through each applicable vesting date. Any eligible shares (that is, eligible to vest as a result of performance achievement, as described below) with respect to the first performance period shall vest on May 5, 2019, any eligible shares with respect to the second performance period shall vest on May 5, 2020, and any eligible shares with respect to the third and final performance period shall vest on May 5, 2021.

The table below summarizes the performance criteria used to determine the percentage of the eligible shares subject to the 2018 TSR Award. For each applicable performance period, the number of shares that will become eligible shares (if any) based on our TSR percentile ranking relative to the TSRs of the Index Companies is achieved as follows:

INFN TSR Percentile Rank Among Index Companies	Percentage of the Target Allocated Shares that Become Eligible Shares for the Performance Period
Less than 25 <sup>th</sup> Percentile	0%
25 <sup>th</sup> Percentile	50%
50 <sup>th</sup> Percentile	100%
85 <sup>th</sup> Percentile or Greater	200%

No shares will become eligible shares if the percentile rank is less than the 25<sup>th</sup> percentile. If our percentile rank is between the 25<sup>th</sup> and 50<sup>th</sup> percentiles, then the number of shares that will become eligible shares will be determined by linear interpolation between 50% and 100% of the number of shares. If our percentile rank is between the 50<sup>th</sup> and 85<sup>th</sup> percentiles, then the number of shares that will become eligible shares will be determined by linear interpolation between 100% and 200% of the number of shares. In addition, if our TSR during any performance period is negative (as a result of a decline in the stock price during such period), then the maximum number of shares that can vest is 100% of the target number of shares allocated to that performance period. In the event that our TSR is negative during any of the one-year or two-year performance periods, then any shares that would have vested above 100% of the target number of shares for that performance period, but for the maximum cap described above, would be rolled over once and subject to an additional vesting requirement in the next performance period, and will vest only in the event that both our relative TSR performance is equal to or greater than 50% of the Index Companies in the subsequent performance period and our TSR for that subsequent performance period is positive. If the TSR during the three-year performance period is negative, then the maximum number of shares that can vest is capped at 100% of the target number of shares.

*PSU Results.* For the initial performance period ended December 29, 2018 under the 2018 TSR Award, our TSR performance finished 21 out of 24 Index Companies (13<sup>th</sup> percentile). As a result, 0% of the target number of shares of our common stock allocated to the initial performance period became eligible to vest, as shown in the table below.

<u>Name</u>	<u>2018 TSR Award Summary for Initial Performance Period</u>	
	<u>Target Number of PSUs Granted</u>	<u>Actual Number of PSUs Vested</u>
Thomas J. Fallon . . . . .	203,125	0
Brad D. Feller . . . . .	45,833	0
David F. Welch, Ph.D. . . . .	45,833	0
David W. Heard . . . . .	45,833	0
Robert J. Jandro . . . . .	35,416	0

*Outstanding PSU Awards Granted in Prior Fiscal Years.* The following table provides information regarding outstanding PSU awards granted prior to fiscal 2018 that were eligible to be earned in fiscal 2018 by our NEOs based on the achievement of performance with respect to relative TSR, including the performance requirements and number of shares of Infinera common stock earned through fiscal 2018.

<b>Name</b>	<b>Fiscal Year of Grant</b>	<b>Total Number of PSUs Remaining at Target (#)</b>	<b>Target Number of Shares that Could Vest for Fiscal 2018 Performance Period (#)</b>	<b>Maximum Number of Shares that Could Vest for Fiscal 2018 Performance Period (#)</b>	<b>Actual Number of Shares Vested for Fiscal 2018 Performance Period (#)</b>
Thomas J. Fallon	2017 <sup>(1)</sup>	172,247	57,416	114,832	0
	2016 <sup>(2)</sup>	135,990	45,330	90,660	0
Brad D. Feller	2017 <sup>(1)</sup>	44,247	14,749	29,498	0
	2016 <sup>(2)</sup>	33,690	11,230	22,460	0
David F. Welch, Ph.D.	2017 <sup>(1)</sup>	172,247	57,416	114,832	0
	2016 <sup>(2)</sup>	135,990	45,330	90,660	0
David W. Heard	2017 <sup>(1)</sup>	50,000	16,667	33,334	0
Robert J. Jandro	2017 <sup>(1)</sup>	42,035	14,012	28,024	0
	2016 <sup>(2)</sup>	32,700	10,900	21,800	0

<sup>(1)</sup> In fiscal 2017, the Compensation Committee granted to the then-current NEOs a PSU award that measures our TSR against the TSR of the of the Index Companies. This PSU award is subject to a payout of between 0% and 200% of the target number of shares based on our relative performance against the Index Companies for that period, with 100% of the target number of shares allocated to the performance. Our TSR performance for the second performance period finished 21 out of 22 Index Companies (5<sup>th</sup> percentile). As a result, 0% of the target number of shares of our common stock allocated to the second performance period became eligible to vest. For the two-year performance period ended December 29, 2018, the start price was the 60-day average (of our closing stock price or the index value, as applicable) leading up to and inclusive of December 28, 2016 and the end price was the 60-day average (of our closing stock price or the index value, as applicable) leading up to and inclusive of the last day of fiscal 2018.

<sup>(2)</sup> In fiscal 2016, the Compensation Committee granted to the then-current NEOs a PSU award that measures our TSR against the TSR of the S&P Networking Index. This PSU award pays out at 200% if our TSR outperforms the S&P Networking Index by 50 points or more and 0% if our TSR underperforms the S&P Networking Index by 33 points or more. Our TSR performance underperformed the TSR performance of this index by approximately 115.04 points for the performance period measured, which resulted in no payout for this performance period. For the three-year performance period ended December 29, 2018, the start price was the 60-day average (of our closing stock price or the index value, as applicable) leading up to and inclusive of December 26, 2015 and the end price was the 60-day average (of our closing stock price or the index value, as applicable) leading up to and inclusive of the last day of fiscal 2018.

### ***Employee Benefits and Perquisites***

Our NEOs are only eligible to receive the same benefits as our U.S. salaried employees except with respect to accrued paid time off (“PTO”) as explained below. Infinera and the Compensation Committee believe this approach is reasonable and consistent with the overall compensation objectives to attract and retain employees. These benefits include medical, dental, vision and disability benefits, a Section 401(k) plan, and other plans and programs, including the 2007 ESPP, made available to other eligible employees in the applicable country of residence. In fiscal 2018, we began to provide a matching contribution under the Section 401(k) plan that is applicable to all eligible participants, including our NEOs. Employee benefits and perquisites are reviewed periodically to ensure that benefit levels remain competitive, but are not included in the Compensation Committee’s annual determination of the total compensation for each of our NEOs.

All exempt U.S. employees, at any U.S. work location, participate in our “As Needed” FTO Program (“Flexible Time Off”). Under this program, these employees may schedule FTO as they see fit and as business necessity allows, although they must continue to meet all job expectations and remain responsible for ensuring appropriate coverage for the time they will be out of the office. Under this program, FTO does not accrue for these employees.

## **Additional Information Regarding Our Compensation Practices**

### ***Change of Control Payments and Benefits***

The Compensation Committee considers maintaining a stable and effective management team to be essential to protecting the best interests of Infinera and its stockholders. Accordingly, Infinera has entered into Change of Control Agreements (the “COC Agreements”) with each of our NEOs to encourage their continued attention, dedication and continuity with respect to their roles and responsibilities without the distraction that may arise from the possibility or occurrence of a change of control of Infinera. The current terms of these COC Agreements are included below.

An NEO will receive payments and benefits under the COC Agreement only if his or her employment is terminated without “cause,” or by him or her as a result of a “constructive termination” (as more fully described in the section entitled “Estimated Payments and Benefits upon Termination, Change of Control or Death/Disability” below), beginning on the date three (3) months prior to the first change of control to occur following the effective date of the COC Agreement and ending on the date eighteen (18) months following a change of control of Infinera. The Compensation Committee believes that this “double-trigger” structure provides an appropriate balance between the corporate objectives described above and the potential compensation payable to each NEO upon a change of control. The Compensation Committee also believes that should Infinera engage in any discussions or negotiations relating to a change of control that the Board believes is in the best interests of our stockholders, these COC Agreements will help to ensure that our NEOs remain focused on the consummation of such potential transaction, without significant distraction or concern regarding their personal circumstances, such as continued employment.

The following terms apply with respect to each of the NEOs if Infinera undergoes a change of control and the NEO’s employment is terminated without cause or as a result of a constructive termination during the Change of Control Period, subject to such individual entering into and not revoking a release of claims in our favor within 60 days of the termination date:

- 100% of all outstanding equity awards will vest (awards based on the achievement of performance criteria will vest as to 100% of the amount of the award assuming the performance criteria have been achieved at target levels);
- Our CEO will be paid a lump sum severance payment (less applicable tax withholdings) equal to two times his annual base salary and our other NEOs will be paid a lump sum severance payment (less applicable tax withholdings) equal to one and one-half times their annual base salary;
- Our CEO will be paid a lump sum severance payment (less applicable tax withholdings) equal to two times his annual target incentive bonus amount and our other NEOs will be paid a lump sum severance payment (less applicable tax withholdings) equal to one and one-half times their annual target incentive bonus amount; and
- Our CEO will be reimbursed for premiums under COBRA for a period of 24 months and our other NEOs will be reimbursed for premiums under COBRA for a period of 18 months.

Each COC Agreement will have an initial term of three years commencing on the effective date of such COC Agreement. On the third anniversary of the effective date, such COC Agreement will renew automatically for an additional, one-year term unless either party provides the other party with written notice of nonrenewal at least one year prior to the date of automatic renewal.

### ***Executive Severance Policy***

In addition to the change of control-related payments and benefits discussed above, the Compensation Committee has taken appropriate steps to provide competitive post-employment compensation arrangements that promote the continued attention, dedication and continuity of the members of our senior management team, including our NEOs, and enable us to continue to recruit talented senior executive officers. Accordingly, the Compensation Committee has adopted an executive severance policy, under which the following severance payments and benefits will become payable if the employment of one of our NEOs is terminated by us without



“cause” (as defined in the policy) subject to such individual entering into and not revoking a release of claims in our favor:

- Our CEO will be paid a lump sum severance payment equal to one and one-half times his annual base salary and our other NEOs will be paid a lump sum severance payment equal to their annual base salary; and
- Our CEO will be reimbursed for premiums under COBRA for a period of 18 months and our other NEOs will be reimbursed for premiums under COBRA for a period of 12 months.

If an NEO’s employment with Infinera is less than one year, the amount of severance payable to such individual will be equal to the lesser of (x) the base salary paid to such individual during his or her period of employment, or (y) the severance amount set forth above.

*Acceleration of Equity Awards upon Death or Disability.* In addition, all awards granted under our equity incentive plans permit accelerated vesting in the event of an employee’s death or terminal illness (with exceptions in certain circumstances). Because we do not have any policy with respect to severance payments or benefits in the event of an employee’s death or disability other than certain disability and life insurance benefits generally available to our employees, the Compensation Committee believes that in the event of an employee’s death or terminal illness, it would be appropriate to provide the accelerated vesting of his or her RSU awards, PSU awards and stock options.

The estimated payments and benefits that would be received by each NEO in connection with a qualifying termination of employment are presented in the section entitled “Estimated Payments and Benefits upon Termination, Change of Control or Death/Disability” below.

### ***Equity Grant Policy***

Under our Equity Grant Policy, a Subcommittee of the Compensation Committee has been delegated the authority to grant new hire, promotional and annual retention equity awards to non-executive employees pursuant to certain pre-approved guidelines. This Subcommittee is typically comprised of our CEO, SVP of Human Resources and General Counsel.

The Subcommittee generally meets on the second Monday of each month to approve new hire and promotional equity awards. Annual retention equity awards for such non-executive employees are also scheduled to occur as part of the monthly meetings of the Subcommittee. The delegation to the Subcommittee does not include the authority to grant equity awards to new employees who are or are reasonably expected to become Section 16 Officers or to current Section 16 Officers.

### ***Executive Clawback Policy***

We maintain an Executive Clawback Policy that applies to our Section 16 Officers (which includes each of our NEOs) and directors. Pursuant to this policy, the Compensation Committee has the authority to seek:

- Repayment of any cash incentive payment;
- Cancellation of unvested, unexercised or unreleased equity awards; and
- Repayment of any compensation earned on previously exercised or released equity awards,

where such payments, equity awards and/or compensation earned on previously exercised or released cash incentive payments and equity awards was predicated on financial results that were augmented by fraud, embezzlement, gross negligence or deliberate disregard of applicable rules resulting in significant monetary loss, damage or injury to Infinera (the “Excess Compensation”), whether or not such activity resulted in a financial restatement. The Compensation Committee shall have sole discretion under this policy, consistent with any applicable statutory requirements, to seek reimbursement for any Excess Compensation paid or received by a Section 16 Officer or director for up to a 12-month period prior to the date of the Compensation Committee action to require reimbursement of the Excess Compensation. Further, following a restatement of our financial statements, we will recover any compensation received by our CEO and CFO that is required to be recovered by Section 304 of the Sarbanes-Oxley Act of 2002.



For purposes of this policy, Excess Compensation will be measured as the positive difference, if any, between the compensation earned by a Section 16 Officer or director and the compensation that would have been earned by a Section 16 Officer or director had the fraud, embezzlement, gross negligence or deliberate disregard of applicable rules resulting in significant monetary loss, damage or injury to Infinera not occurred.

### ***Stock Ownership Policy***

The Board believes that it is important to link the interests of our NEOs to those of our stockholders. Our Stock Ownership Policy requires our non-employee directors and Section 16 Officers (which includes each of our NEOs) to accumulate and hold a minimum number of shares of Infinera common stock within three years of the later of (i) the effective date of the policy or (ii) the date of appointment of the director or appointment/promotion of the Section 16 Officer. As of the Record Date, each of our Section 16 Officers and the non-employee members of the Board has either satisfied these ownership guidelines or had time remaining to do so. The specific Infinera stock ownership requirements for our Section 16 Officers and non-employee directors are as follows:

- CEO: 4x annual base salary
- CFO: 2x annual base salary
- Other NEOs: 1x annual base salary
- Non-employee directors: 4x annual cash retainer for annual Board service

Shares of Infinera common stock that count towards satisfaction of this policy include: (i) shares owned outright by the Section 16 Officer or non-employee director or his or her immediate family members residing in the same household; (ii) shares held in trust for the benefit of the Section 16 Officer or non-employee director or his or her family; and (iii) shares subject to vested, unexercised, in-the-money stock options (the “spread” or “intrinsic value” of options). The value of a share of Infinera common stock is measured on the last day of the fiscal year as the greater of (i) the closing price on the date of calculation or (ii) the purchase price actually paid by the person for such share of Infinera common stock (for the avoidance of doubt, the purchase price for shares of Infinera common stock subject to RSU awards, PSU awards and other similar full value awards is zero).

### ***Anti-hedging Policy***

Under our Insider Trading Policy, we prohibit our employees, including our NEOs, and Board members, from hedging the risk associated with ownership of shares of Infinera common stock and other securities.

### ***Anti-pledging Policy***

Under our Insider Trading Policy, we prohibit our NEOs and directors from pledging any Infinera securities as collateral for a loan.

### ***Tax and Accounting Treatment of Compensation***

Prior to 2018, Section 162(m) of the Code generally limited the tax deductibility of compensation paid to the CEO and each of the next three most highly compensated executive officers (excluding the CFO) that exceeded \$1 million in any taxable year unless the compensation over \$1 million qualified as “performance-based” within the meaning of Section 162(m).

The ability to rely on the “performance-based” compensation exception under Section 162(m) was eliminated in 2017 and the \$1 million limitation on deductibility generally was expanded to include any individuals serving as the CEO or CFO during the tax year, the next three most highly compensated executive officers during the tax year and any other individual who was considered a covered employee for any prior tax year beginning after 2016. Thus, we generally will not be able to take a deduction for any compensation paid to our NEOs in excess of \$1 million unless the compensation qualifies for transition relief applicable to certain arrangements in place on November 2, 2017. We cannot guarantee that any compensation payable to our NEOs will qualify for the transition relief or that the compensation will ultimately be deductible. Historically, the Compensation Committee had not adopted a formal policy regarding tax deductibility of compensation paid to our CEO and other senior executive officers. Nonetheless, the Compensation Committee intends to maintain an approach to executive compensation that strongly links pay to performance.

We account for the equity compensation awarded to our executive officers and other employees under ASC 718, which requires us to estimate and record an expense for each award of equity compensation over the service period of the award. Accounting rules also require us to record cash compensation as an expense at the time the obligation is incurred.

### **COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on its review and discussions with management, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

#### **Compensation Committee**

Marcel Gani (Chair)

Gregory P. Dougherty (appointed as of January 29, 2019)

Paul J. Milbury

John P. Daane (replaced by Mr. Dougherty as of January 29, 2019)

## EXECUTIVE COMPENSATION TABLES

The following tabular information and accompanying narratives and footnotes provide all of the compensation awarded to, earned by, or paid to the individuals who served as our principal executive officer, principal financial officer and our three other highest paid executive officers during fiscal 2018. As previously noted, we refer to these executive officers as our NEOs.

**Fiscal 2018 Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$) <sup>(2)</sup>	All Other Compensation (\$) <sup>(3)</sup>	Total (\$)
Thomas J. Fallon <i>Chief Executive Officer</i>	2018	520,000	—	4,362,442	—	—	468	4,882,910
	2017	630,000	—	4,250,478	—	—	312	4,880,790
	2016	648,308	—	3,300,134	—	134,062 <sup>(4)</sup>	312	4,082,816
Brad D. Feller <i>Chief Financial Officer</i>	2018	400,000	—	1,351,009	—	—	468	1,751,477
	2017	400,000	—	1,258,532	—	—	312	1,658,844
	2016	399,385	—	981,030	—	49,500 <sup>(4)</sup>	312	1,430,227
David F. Welch, Ph.D. <sup>(5)</sup> <i>Chief Innovation Officer</i>	2018	450,000	—	1,351,009	—	—	468	1,801,477
	2017	492,308	—	4,250,478	—	—	312	4,743,098
	2016	499,231	—	3,300,134	—	74,250 <sup>(4)</sup>	312	3,873,927
David W. Heard <sup>(6)</sup> <i>Chief Operating Officer</i>	2018	503,077	—	1,783,609	—	—	468	2,287,154
	2017	278,846	215,750 <sup>(7)</sup>	2,526,000	—	—	312	3,020,908
Robert J. Jandro <i>Senior Vice President, Worldwide Sales</i>	2018	365,000	—	1,043,955	—	—	468	1,409,423
	2017	365,000	—	1,195,615	—	—	285	1,560,900
	2016	364,769	—	952,176	—	60,225 <sup>(4)</sup>	285	1,377,455

<sup>(1)</sup> The amounts reported in this column represent the aggregate grant date fair value of the listed equity awards, computed in accordance with ASC 718. See Notes 2 and 15 of the notes to our consolidated financial statements contained in our 2018 Annual Report on Form 10-K filed on March 14, 2019 for a discussion of all assumptions made by us in determining the ASC 718 values of equity awards.

<sup>(2)</sup> The amounts reported in this column represent payouts under our annual cash incentive plan.

<sup>(3)</sup> The amounts reported in this column represent payments of life insurance premiums.

<sup>(4)</sup> The amounts reported represent the annual incentive cash awards earned under our bonus plan for fiscal 2016.

<sup>(5)</sup> Dr. Welch transitioned from serving as our Chief Strategy and Technology Officer to our Chief Innovation Officer, as of October 1, 2018.

<sup>(6)</sup> Mr. Heard transitioned from serving as our General Manager, Products and Solutions to our COO, as of October 1, 2018.

<sup>(7)</sup> Mr. Heard was not eligible to participate in the 2017 Bonus Plan; however, in connection with his new hire package, he received a one-time bonus in the amount of \$215,750, which was paid out at the same time as the 2017 bonus for all Infinera employees in April 2018.

**Fiscal 2018 Grants of Plan-Based Awards Table**

The following table sets forth information regarding fiscal 2018 annual cash incentive compensation and equity awards granted to our NEOs during fiscal 2018.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		Estimated Future Payouts Under Equity Incentive Plan Awards		All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$) <sup>(1)</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)				
Thomas J. Fallon	2/15/2018	—	650,000 <sup>(2)</sup>	975,000	—	—	—	—	—
	2/15/2018	—	—	—	—	135,416 <sup>(3)</sup>	—	—	1,299,994
	2/15/2018	—	—	—	203,125 <sup>(4)</sup>	—	—	—	3,062,448
Brad D. Feller	2/15/2018	—	500,000 <sup>(2)</sup>	750,000	—	—	—	—	—
	2/15/2018	—	—	—	—	68,750 <sup>(3)</sup>	—	—	660,000
	2/15/2018	—	—	—	45,833 <sup>(4)</sup>	—	—	—	691,009
David F. Welch, Ph.D.	2/15/2018	—	562,500 <sup>(2)</sup>	843,750	—	—	—	—	—
	2/15/2018	—	—	—	—	68,750 <sup>(3)</sup>	—	—	660,000
	2/15/2018	—	—	—	45,833 <sup>(4)</sup>	—	—	—	691,009
David W. Heard	2/15/2018	—	650,000 <sup>(2)</sup>	975,000	—	—	—	—	—
	2/15/2018	—	—	—	—	68,750 <sup>(3)</sup>	—	—	660,000
	2/15/2018	—	—	—	45,833 <sup>(4)</sup>	—	—	—	691,009
	10/1/2018	—	—	—	—	70,000 <sup>(5)</sup>	—	—	432,600
Robert J. Jandro	2/15/2018	—	456,250 <sup>(2)</sup>	684,375	—	—	—	—	—
	2/15/2018	—	—	—	—	53,125 <sup>(3)</sup>	—	—	510,000
	2/15/2018	—	—	—	35,416 <sup>(4)</sup>	70,832 <sup>(4)</sup>	—	—	533,955

(1) For RSUs, represents the aggregate grant date fair value of each equity award computed in accordance with ASC 718. For PSUs, represents the aggregate grant date fair value of each equity award at the target payout level computed in accordance with ASC 718. See Notes 2 and 15 of the notes to our consolidated financial statements contained in our 2018 Annual Report on Form 10-K filed on March 14, 2019 for a discussion of all assumptions made by us in determining the ASC 718 values of equity awards.

(2) For a further description of the 2018 Bonus Plan applicable to eligible NEOs, please see the section entitled "Fiscal 2018 Compensation—Performance-Based Incentive Cash Compensation (2018 Bonus Plan)" in the Compensation Discussion and Analysis above. Eligible NEOs received zero payout for fiscal 2018 under the 2018 Bonus Plan.

(3) These RSU awards are scheduled to vest in annual installments with one-fourth of the underlying shares vesting on May 5 of each of 2019, 2020, 2021 and 2022, subject to each NEO's continued service to Infinera through each applicable vesting date.

(4) This PSU award is earned based on our TSR as compared to the S&P Networking Index for the one-, two- and three-year performance periods running from the first day of fiscal 2018 through the end of fiscal 2018, 2019 and 2020, and subject to each NEO's continued service to Infinera through each applicable vesting date. The vesting date shall be the fifth day of the month after certification of the award, which certification typically takes place in February for the prior performance period. This PSU award did not meet the performance criteria for the first performance period and no shares vested. For additional information regarding the PSU awards granted to our NEOs in fiscal 2018, please see the section entitled "Fiscal 2018 Compensation—Long-Term Incentive Compensation" in the Compensation Discussion and Analysis above.

(5) This RSU award is scheduled to vest in annual installments with one-fourth of the underlying shares vesting on October 5 of each of 2019, 2020, 2021 and 2022, subject to Mr. Heard's continued service to Infinera through each applicable vesting date.

**Fiscal 2018 Outstanding Equity Awards at Fiscal Year-End Table**

The following table sets forth information regarding outstanding stock options, RSU awards and PSU awards held by each of our NEOs as of December 29, 2018. The vesting conditions for each award are set forth in the footnotes below the table.

Name	Stock Option Awards							Stock Awards				Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(1)</sup>
	Grant Date	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Grant Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(1)</sup>	Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)		
Thomas J. Fallon	11/23/2009	90,056	—	8.19	11/23/2019	2/23/2016	43,424 <sup>(3)</sup>	170,222	—	—	—	—
	2/10/2011	14,286	—	8.58	2/10/2021	2/23/2016	—	—	45,330 <sup>(4)</sup>	—	45,330 <sup>(4)</sup>	177,694
	2/10/2011	32,965	—	8.58	2/10/2021	2/21/2017	86,123 <sup>(5)</sup>	337,602	—	—	—	—
	2/10/2011	30,475	—	8.58	2/10/2021	2/21/2017	—	—	114,831 <sup>(6)</sup>	—	114,831 <sup>(6)</sup>	450,138
	2/10/2011	182,250	—	8.58	2/10/2021	2/15/2018	135,416 <sup>(7)</sup>	530,831	—	—	—	—
Brad D. Feller	1/13/2014	25,000	—	9.02	1/13/2021	2/23/2016	16,134 <sup>(3)</sup>	63,245	—	—	—	—
	—	—	—	—	—	2/23/2016	—	—	11,230 <sup>(4)</sup>	—	11,230 <sup>(4)</sup>	44,022
	—	—	—	—	—	2/21/2017	33,185 <sup>(5)</sup>	130,085	—	—	—	—
	—	—	—	—	—	2/21/2017	—	—	29,498 <sup>(6)</sup>	—	29,498 <sup>(6)</sup>	115,632
	—	—	—	—	—	2/15/2018	68,750 <sup>(7)</sup>	269,500	—	—	—	—
	—	—	—	—	—	2/15/2018	—	—	45,833 <sup>(8)</sup>	—	45,833 <sup>(8)</sup>	179,665
David F. Welch, Ph.D.	2/10/2009	100,000	—	7.11	2/10/2019	2/23/2016	43,424 <sup>(3)</sup>	170,222	—	—	—	—
	8/10/2009	150,000	—	7.45	8/10/2019	2/23/2016	—	—	45,330 <sup>(4)</sup>	—	45,330 <sup>(4)</sup>	177,694
	2/10/2011	39,465	—	8.58	2/10/2021	2/21/2017	86,123 <sup>(5)</sup>	337,602	—	—	—	—
	2/10/2011	41,535	—	8.58	2/10/2021	2/21/2017	—	—	114,831 <sup>(6)</sup>	—	114,831 <sup>(6)</sup>	450,138
	2/10/2011	20,250	—	8.58	2/10/2021	2/15/2018	68,750 <sup>(7)</sup>	269,500	—	—	—	—
	2/10/2011	60,750	—	8.58	2/10/2021	2/15/2018	—	—	45,833 <sup>(8)</sup>	—	45,833 <sup>(8)</sup>	179,665
David W. Heard	—	—	—	—	—	6/8/2017	112,500 <sup>(9)</sup>	441,000	—	—	—	—
	—	—	—	—	—	6/8/2017	—	—	33,333 <sup>(6)</sup>	—	33,333 <sup>(6)</sup>	130,665
	—	—	—	—	—	2/15/2018	68,750 <sup>(5)</sup>	269,500	—	—	—	—
	—	—	—	—	—	2/15/2018	—	—	45,833 <sup>(8)</sup>	—	45,833 <sup>(8)</sup>	179,665
	—	—	—	—	—	10/1/2018	70,000 <sup>(10)</sup>	274,400	—	—	—	—
	—	—	—	—	—	2/23/2016	15,660 <sup>(3)</sup>	61,387	—	—	—	—
Robert J. Jandro	—	—	—	—	—	2/23/2016	—	—	10,900 <sup>(4)</sup>	—	10,900 <sup>(4)</sup>	42,728
	—	—	—	—	—	2/21/2017	31,526 <sup>(5)</sup>	123,582	—	—	—	—
	—	—	—	—	—	2/21/2017	—	—	28,023 <sup>(6)</sup>	—	28,023 <sup>(6)</sup>	109,850
	—	—	—	—	—	2/15/2018	53,125 <sup>(7)</sup>	208,250	—	—	—	—
	—	—	—	—	—	2/15/2018	—	—	35,416 <sup>(8)</sup>	—	35,416 <sup>(8)</sup>	138,831

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- (1) The closing price of our common stock as of the last trading day prior to our fiscal year end, December 28, 2018, was \$3.92 per share, which was used as the value of our common stock in the calculations.
  - (2) This stock option grant is fully vested.
  - (3) The remaining unvested portion of this RSU grant vests in its entirety on May 5, 2020, subject to the NEO's continued service to Infinera through each applicable vesting date.
  - (4) This PSU award can be earned based on our TSR performance relative to that of the S&P Networking Index as measured over one-, two- and three-year performance periods. For purposes of calculating TSR performance for Infinera and the S&P Networking Index under these PSU awards, the baseline value for our relative TSR calculations is the 60-day average closing price of our common stock and the S&P Networking Index leading up to and inclusive of December 26, 2015, which was the last day of fiscal 2015. TSR for Infinera and the S&P Networking Index is then calculated by comparing the average closing price of our common stock and the S&P Networking Index to this baseline value for the final 60 days of our fiscal 2016, 2017 and 2018. This PSU award pays out at a maximum of 200% if our TSR outperforms the S&P Networking Index by 50 points or more and 0% if our TSR underperforms the S&P Networking Index by 33 points or more. No PSUs subject to this award vested in March 2019, as the achievement of the third performance period was not met, and the award was cancelled.
  - (5) The remaining unvested portion of this RSU grant vests in its entirety on May 5 of 2021, subject to each NEO's continued service to Infinera through each applicable vesting date.
  - (6) This PSU award has three performance periods, with one-third (1/3) of the target number of performance-based awards eligible to vest based on our one-year TSR relative to the TSR of each of the Index Companies listed in the S&P Networking Index, one-third (1/3) based on our two-year TSR relative to the TSR of each of the Index Companies, and one-third (1/3) based on our three-year TSR relative to the to the TSR of each of the Index Companies. For purposes of calculating TSR performance for Infinera and each of the Index Companies under these PSU awards, the baseline value for our relative TSR calculations is the 60-day average closing price of our common stock and each of the Index Companies leading up to and inclusive of December 31, 2016, which was the last day of fiscal 2016. TSR for Infinera and each of the Index Companies is then calculated by comparing the average closing price of our common stock and each of the Index Companies to this baseline value for the final 60 days of our fiscal 2017, 2018 and 2019. No PSUs subject to his award vested in March 2019, as the achievement of the second performance period was not met.
  - (7) These RSU awards are scheduled to vest in annual installments with one-fourth of the underlying shares vesting on May 5 of each of 2019, 2020, 2021 and 2022, subject to each NEO's continued service to Infinera through each applicable vesting date.
  - (8) This PSU award has three performance periods, with one-third (1/3) of the target number of performance-based awards eligible to vest based on our one-year TSR relative to the TSR of each of the Index Companies listed in the S&P Networking Index, one-third (1/3) based on our two-year TSR relative to the TSR of each of the Index Companies, and one-third (1/3) based on our three-year TSR relative to the to the TSR of each of the Index Companies. For purposes of calculating TSR performance for Infinera and each of the Index Companies under these PSU awards, the baseline value for our relative TSR calculations is the 60-day average closing price of our common stock and each of the Index Companies leading up to and inclusive of December 30, 2017, which was the last day of fiscal 2017. TSR for Infinera and each of the Index Companies is then calculated by comparing the average closing price of our common stock and each of the Index Companies to this baseline value for the final 60 days of our fiscal 2018, 2019 and 2020. No PSUs subject to his award vested in March 2019, as the achievement of the first performance period was not met. For a more detailed description of this PSU award, please see the section entitled "Fiscal 2018 Compensation—Long-Term Incentive Compensation" in the Compensation Discussion and Analysis above.
  - (9) The remaining unvested portion of this RSU grant vests in its entirety on July 5 of 2021, subject to Mr. Heard's continued service to Infinera through each applicable vesting date.
  - (10) This RSU award is scheduled to vest in annual installments with one-fourth of the underlying shares vesting on October 5 of each of 2019, 2020, 2021 and 2022, subject to Mr. Heard's continued service to Infinera through each applicable vesting date.

## Fiscal 2018 Option Exercises and Stock Vested Table

The following table sets forth the number of shares acquired and the value realized upon the exercise of stock options and the vesting of RSU awards and PSU awards during fiscal 2018 by each of our NEOs.

Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) <sup>(1)</sup>	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) <sup>(2)</sup>
Thomas J. Fallon . . . . .	—	—	68,834	826,696
Brad D. Feller . . . . .	—	—	66,890	563,883
David F. Welch, Ph.D. . . . .	84,500	202,088	74,396	893,496
David W. Heard . . . . .	—	—	37,500	373,125
Robert J. Jandro . . . . .	—	—	24,335	292,263

<sup>(1)</sup> The value realized on the exercise date is based on the difference in the fair market value of our common stock on the exercise date and the exercise price, and does not necessarily reflect the proceeds actually received by the NEO.

<sup>(2)</sup> The value realized on the vesting date is based on the fair market value of our common stock on the vesting date and does not necessarily reflect the proceeds actually received by the NEO.

### 2018 CEO Pay Ratio

We are providing the following information regarding the relationship of the annual total compensation of our median employee to the annual total compensation of our CEO (in each case, the annual total compensation was calculated in accordance with SEC rules applicable to the Summary Compensation Table above). The pay ratio included in this information is a reasonable estimate calculated in a manner consistent with Item 402(u) of Regulation S-K.

For fiscal 2018:

- Our median employee's annual total compensation was \$100,860.
- Our CEO's annual total compensation, as reported on page 47 in the Summary Compensation Table, was \$4,882,910.
- Based on this information, the ratio of the annual total compensation of our CEO to the annual total compensation of our median employee is 48 to 1.

#### *Pay Ratio Methodology*

SEC rules allow us to select a methodology for identifying our median employee in a manner that is most appropriate based on our size, organizational structure and compensation plans, policies and procedures.

We selected December 1, 2018 as the date on which to determine our median employee, which is a date within the last three months of our last completed fiscal year. As of that date, we had 2,069 employees, with 1,107 employees based in the United States and 962 employees located outside of the United States. The pay ratio disclosure rules provide an exemption for companies to exclude non-U.S. employees from the median employee calculation if non-U.S. employees in a particular jurisdiction account for five percent (5%) or less of the company's total number of employees. We applied this *de minimis* exemption when identifying the median employee by excluding 5 employees in Argentina, 1 employee in Belgium, 1 employee in Denmark, 3 employees in Malaysia, 11 employees in Mexico, 2 employees in Poland, 3 employees in the Russian Federation, and 1 employee in Switzerland. After taking into account the *de minimis* exemption, 1,107 employees based in the United States and 935 employees located outside of the United States were considered for identifying the median employee.

For purposes of identifying the median employee from our employee population base, we considered total cash compensation (base salary, including overtime, annual bonus and the sum of other bonuses, which included signing bonuses and retention bonuses), as compiled from our payroll records. We selected total cash compensation as this information is readily available in each country. In addition, we measured compensation for



purposes of determining the median employee using the year-to-date period ended December 29, 2018 and annualized for employees who were employed on December 1, 2018 but did not work for us for all of 2018. Compensation paid in foreign currencies was converted to U.S. dollars based on exchange rates in effect on the last trading day of fiscal 2018, which was December 28, 2018.

## **Estimated Payments and Benefits upon Termination, Change of Control or Death/Disability**

### **Executive Severance Policy**

As discussed above in more detail in the section entitled “Compensation Discussion and Analysis—Additional Information Regarding Our Compensation Practices – Executive Severance Policy,” the Compensation Committee has taken appropriate steps to provide competitive post-employment compensation arrangements that promote the continued attention, dedication and continuity of the members of our senior management team, including our NEOs, and enable us to continue to recruit talented senior executive officers. Infinera shall not pay severance pursuant to this policy to the individuals subject to this policy in the event of (i) a change of control of Infinera (as defined below), or (ii) if such individual is terminated for Cause (as defined below).

### **Death and Disability Benefits**

Pursuant to the Infinera Corporation 2007 Equity Incentive Plan (the “2007 Plan”) and the 2016 Plan, accelerated vesting is provided in the event of the death (with exceptions in certain circumstances) or permanent disability of an employee, including our NEOs. We do not currently provide any other benefits in the event of an employee’s death or permanent disability.

### **Change of Control Payments and Benefits**

As discussed above in more detail in the section entitled “Compensation Discussion and Analysis—Additional Information Regarding Our Compensation Practices—Change of Control Payments and Benefits,” we entered into revised COC Agreements with each of our NEOs in February 2018 to encourage their continued attention, dedication and continuity with respect to their roles and responsibilities without the distraction that may arise from the possibility or occurrence of a change of control of Infinera.

For purposes of these benefits, the following terms have the following meanings:

**Change of Control** . . . . . (i) Any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Infinera representing fifty percent (50%) or more of the total voting power represented by Infinera’s then outstanding voting securities; (ii) the consummation of the sale or disposition by Infinera of all or substantially all of Infinera’s assets; (iii) the consummation of a merger or consolidation of Infinera with any other corporation, other than a merger or consolidation which would result in the voting securities of Infinera outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of Infinera or such surviving entity or its parent outstanding immediately after such merger or consolidation; or (iv) a change in the composition of the Board occurring within a two (2) year period, as a result of which less than a majority of the directors are Incumbent Directors. “Incumbent Directors” means directors who either (A) are directors of Infinera as of the date hereof, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the directors of Infinera at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to Infinera).

**Constructive Termination . . . .** The executive officer's resignation as a result of, and within three (3) months following the expiration of any company cure period (discussed below) following the occurrence of one or more of the following: (i) a material reduction in the executive officer's job, duties or responsibilities in a manner that is substantially inconsistent with the position, duties or responsibilities held by the executive officer immediately before such reduction; (ii) a material reduction in the executive officer's base salary (in other words, a reduction of more than five percent of executive's base salary within the twelve-month period following a Change of Control); or (iii) a material change in the work location at which the executive officer is required to perform services for Infinera (in other words, a requirement that the executive officer relocate to a work location that is more than 50 miles from the executive's work location in effect as of the date immediately prior to a Change in Control). The executive officer will not resign as the result of a Constructive Termination without first providing Infinera with written notice of the acts or omissions constituting the grounds for "Constructive Termination" within ninety (90) days of the initial existence of the grounds for "Constructive Termination" and a cure period of thirty (30) days following the date of such notice.

**Cause . . . . .** (i) The executive officer's willful failure to substantially perform his or her duties and responsibilities to Infinera or deliberate violation of a company policy; (ii) the executive officer's commission of any act of fraud, embezzlement, dishonesty or any other willful misconduct that has caused or is reasonably expected to result in material injury to Infinera; (iii) unauthorized use or disclosure by the executive officer of any proprietary information or trade secrets of Infinera or any other party to whom the executive officer owes an obligation of nondisclosure as a result of his or her relationship with Infinera; or (iv) the executive officer's willful breach of any of his or her obligations under any written agreement or covenant with Infinera. The determination as to whether the executive officer is being terminated for Cause will be made in good faith by Infinera and will be final and binding on the executive officer.

## Fiscal 2018 Estimated Payments and Benefits Table

The amount of compensation and benefits payable to each of our NEOs in the event of a termination of employment by Infinera, a termination of employment following a Change of Control transaction (as defined above), or a termination of employment due to death or permanent disability has been estimated in the table below. The value of the outstanding equity award vesting acceleration was calculated based on the assumption that the termination event occurred on December 29, 2018, the last day of fiscal 2018. The closing price of our common stock as of the last trading day of fiscal 2018 (December 28, 2018) was \$3.92 per share, which was used as the value of our common stock in the calculations below. The value of the vesting acceleration was calculated by (i) multiplying the number of accelerated shares of common stock underlying unvested, in-the-money equity awards by \$3.92 and (ii) subtracting the exercise price for the unvested stock options.

Name	Type of Benefit	Potential Payments in Connection With:		
		Termination Under Severance Policy (\$)	Termination After a Change of Control (\$)	Termination Upon Death or Disability (\$)
Thomas J. Fallon . . . . .	Cash Severance	780,000	1,040,000	—
	Bonus	—	1,300,000	—
	Vesting Acceleration <sup>(1)</sup>	—	2,462,736	2,462,736
	Continued Coverage of Employee Benefits	45,175	60,233	—
	<b>Total Benefits</b>	<b>825,175</b>	<b>4,862,969</b>	<b>2,462,736</b>
Brad D. Feller . . . . .	Cash Severance	400,000	600,000	—
	Bonus	—	450,000	—
	Vesting Acceleration <sup>(2)</sup>	—	802,150	802,150
	Continued Coverage of Employee Benefits	22,233	33,349	—
	<b>Total Benefits</b>	<b>422,233</b>	<b>1,885,499</b>	<b>802,150</b>
David F. Welch, Ph.D. . . . .	Cash Severance	450,000	675,000	—
	Bonus	—	607,500	—
	Vesting Acceleration <sup>(3)</sup>	—	1,584,821	1,584,821
	Continued Coverage of Employee Benefits	30,117	45,175	—
	<b>Total Benefits</b>	<b>480,117</b>	<b>2,912,496</b>	<b>1,584,821</b>
David W. Heard . . . . .	Cash Severance	520,000	780,000	—
	Bonus	—	585,000	—
	Vesting Acceleration <sup>(4)</sup>	—	1,295,231	1,295,231
	Continued Coverage of Employee Benefits	26,075	39,113	—
	<b>Total Benefits</b>	<b>546,075</b>	<b>2,699,344</b>	<b>1,295,231</b>
Robert J. Jandro . . . . .	Cash Severance	365,000	547,500	—
	Bonus	—	547,500	—
	Vesting Acceleration <sup>(5)</sup>	—	684,628	684,628
	Continued Coverage of Employee Benefits	17,238	25,857	—
	<b>Total Benefits</b>	<b>382,238</b>	<b>1,805,485</b>	<b>684,628</b>

- <sup>(1)</sup> The vesting of 628,249 shares of common stock would accelerate if Mr. Fallon was terminated without Cause, as a result of a Constructive Termination within 12 months following a Change of Control or upon death or permanent disability as of December 29, 2018.
- <sup>(2)</sup> The vesting of 204,630 shares of common stock would accelerate if Mr. Feller was terminated without Cause, as a result of a Constructive Termination within 12 months following a Change of Control or upon death or permanent disability as of December 29, 2018.
- <sup>(3)</sup> The vesting of 404,291 shares of common stock would accelerate if Dr. Welch was terminated without Cause, as a result of a Constructive Termination within 12 months following a Change of Control or upon death or permanent disability as of December 29, 2018.

- (4) The vesting of 330,416 shares of common stock would accelerate if Mr. Heard was terminated without Cause, as a result of a Constructive Termination within 12 months following a Change of Control or upon death or permanent disability as of December 29, 2018.
- (5) The vesting of 174,650 shares of common stock would accelerate if Mr. Jandro was terminated without Cause, as a result of a Constructive Termination within 12 months following a Change of Control or upon death or permanent disability as of December 29, 2018.

## RISK ASSESSMENT OF COMPENSATION PRACTICES

During fiscal 2018, at the request of the Compensation Committee, a review of the risks associated with our organization-wide compensation policies and practices was conducted. This review was conducted by Compensia with input from our legal, finance and human resources departments. This assessment included:

- A review of the policies and practices relating to the components of our compensation programs and arrangements;
- A review of incentive-based cash and equity compensation plans and arrangements;
- The identification of compensation design features that could potentially encourage excessive or imprudent risk taking, and identification of business risks that these features could potentially encourage; and
- Consideration of the presence or absence of controls, policies, plan features or other factors that mitigate potential risks.

Although all compensation programs were considered, particular attention was paid to incentive-based plans and arrangements involving variable payouts, where an employee might be able to influence payout factors and compensation plans and arrangements involving our executive team. In substantially all cases, these compensation plans and arrangements are centrally designed and administered and, excluding sales incentive compensation, are substantially identical across function and geography. Equity incentive compensation was found to be based on a blend of financial objectives and TSR, which allows us to avoid an over-emphasis on shorter-term financial goals. In addition, the financial and operational objectives used to determine the performance measures for our incentive-based compensation plans and arrangements were found to be substantially derived from our annual operating plan, which is approved by the Board.

In addition, the assessment considered the controls and other mitigating factors that serve to offset elements of our compensation policies and practices that may introduce or encourage risk-taking, including:

- Oversight of major incentive compensation plans and arrangements and decision-making by the Compensation Committee, which, in most cases, retains the ability to adjust elements of incentive compensation in its discretion;
- Internal controls over financial reporting and compensation practices regularly reviewed and/or tested by internal auditors and subject to testing as part of the annual independent integrated audit by our external auditors;
- Audit Committee oversight and review of financial results and non-GAAP adjustments used in certain components of incentive compensation;
- The existence of, and training relating to, corporate standards of business conduct and ethics;
- Substantial alignment of compensation of and benefits for executive and non-executive, salaried employees;
- A clawback policy pursuant to which the Compensation Committee has a one-year look-back provision and provides the authority to recoup up to 100% of any Excess Compensation; and
- Stock ownership guidelines applicable to our Section 16 Officers to align their interests with those of our stockholders.

Compensia's review concluded that the risks associated with our compensation policies and practices were being effectively managed by Infinera. Based on this review, as well as our assessment of the factors described above, we have determined that the risks associated with our compensation policies and practices are not reasonably likely to result in a material adverse effect on Infinera. This risk assessment was presented to and reviewed by the Compensation Committee.

## PROPOSAL 2—APPROVAL OF AMENDMENT OF THE INFINERA CORPORATION 2016 EQUITY INCENTIVE PLAN

The Board believes that our future success depends on our ability to attract and retain talented employees and that the ability to grant equity awards is a necessary and powerful recruiting and retention tool for Infinera. The Board believes that equity awards motivate high levels of performance, more closely align the interests of employees and stockholders by giving employees an opportunity to hold an ownership stake in Infinera, and provide an effective means of recognizing employee contributions to the success of Infinera. At the Annual Meeting, we are requesting that stockholders approve an increase to the number of shares of our common stock (“Shares”) authorized for issuance under the 2016 Plan by 7,300,000 Shares.

Other than the increase in the Shares authorized for issuance under the 2016 Plan, the 2016 Plan has not been amended in any material way since our stockholders last approved the amendment and restatement of the 2016 Plan at our 2018 annual meeting of our stockholders. Upon recommendation of the Compensation Committee, the Board approved this amendment to the 2016 Plan on March 29, 2019, subject to the approval of our stockholders at the Annual Meeting.

As of March 30, 2019, there were 1,537,690 Shares available for issuance pursuant to awards that may be granted under the 2016 Plan, excluding Shares already subject to outstanding awards granted under our predecessor 2007 Plan that, if forfeited, would be added to the number of Shares reserved under the 2016 Plan. If the proposed amendment to the 2016 Plan is not approved by our stockholders, the 2016 Plan will remain in effect without the amendment and awards will continue to be made under the 2016 Plan to the extent Shares remain available. However, we may not be able to continue our equity incentive program in the future. This could preclude us from successfully attracting and retaining highly skilled employees. The Board and the Compensation Committee believe that the additional Shares under the increased Share reserve will enable us to continue to use the 2016 Plan to achieve our recruiting, retention and incentive goals and will be essential to our future success.

If our stockholders approve this amendment to the 2016 Plan, we currently anticipate that the Shares will be sufficient to meet our expected needs through the date of our 2020 annual meeting of our stockholders. In determining the number of Shares to be reserved for issuance under the 2016 Plan, the Compensation Committee and the Board considered the following:

- *Historical Grant Practices.* The Compensation Committee and the Board considered the historical amounts of equity awards that we granted in the past three years. In fiscal 2016, 2017 and 2018, we granted equity awards covering 3.639 million, 5.197 million and 4.277 million Shares, respectively, or a total of approximately 13.113 million Shares over the three-year period.
- *Forecasted Grants.* In determining the projected Share utilization, the Compensation Committee and the Board considered a forecast that included the following factors: (i) the Shares that would be available for grant under the 2016 Plan, if our stockholders approve this amendment to the 2016 Plan, which was 8,837,690 Shares (consisting of 1,537,690 Shares available for issuance under the 2016 Plan as of March 30, 2019, plus the 7,300,000 additional Shares pursuant to this amendment to the 2016 Plan, and excluding Shares already subject to outstanding awards granted under the 2007 Plan that, if forfeited, would be added to the number of Shares reserved under the 2016 Plan); (ii) the estimated number of Shares to be added to the 2016 Plan from forfeited awards under the 2007 Plan; and (iii) forecasted future grants, which are “value-based,” meaning that Share amounts granted will be determined based on a dollar value of the award to be granted to the participant and stock price of Infinera. Due to our value-based grant program, any significant changes in our stock price as compared to the stock price we assumed for forecasting purposes could cause our actual Share usage to deviate significantly from our anticipated Share usage. The Compensation Committee and the Board also took into account the impact of future headcount growth on projected Share utilization, including the additional headcount that resulted from the acquisition of Coriant in October 2018.
- *Proxy Advisory Firm Guidelines.* Given our significant institutional stockholder base, the Compensation Committee and the Board considered proxy advisory firm guidelines.

## Outstanding Awards

The following table sets forth information regarding all outstanding stock options and RSUs and PSUs under all of our equity plans (other than our 2007 ESPP) as of March 30, 2019. The last sales price of our common stock as reported on The Nasdaq Global Select Market on March 29, 2019, was \$4.34 per share.

<u>Outstanding Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (in years)</u>	<u>Unvested PSUs / RSUs Outstanding</u>	<u>Number of Shares Available for Grant under 2016 Plan*</u>
970,035	\$8.244	1.51	15,071,989	1,537,690

\* There are no other outstanding equity plans under which awards of shares could be granted.

## Reasons for Voting for the Proposal

The 2016 Plan has been designed consistent with best corporate governance practices.

- *Administration.* The 2016 Plan is administered by the Compensation Committee of the Board, which is comprised entirely of independent non-employee directors.
- *Stockholder Approval is Required for Additional Shares.* The 2016 Plan does not contain an annual “evergreen” provision but instead reserves a fixed maximum number of Shares for issuance. Stockholder approval is required to increase that number.
- *Share Counting Provisions.* Under the 2016 Plan, if an option or stock appreciation right expires or becomes unexercisable without having been exercised in full, or if Shares subject to other types of awards are forfeited to or repurchased by us due to failure to vest, those Shares will become available for issuance again under the 2016 Plan. Shares used to pay the exercise or purchase price of an award will not become available for future grant under the 2016 Plan. Shares used to satisfy the tax withholding obligations for awards other than options and stock appreciation rights will become available for future grant under the 2016 Plan. With respect to stock appreciation rights settled in Shares, the gross number of Shares exercised under the stock appreciation right award will cease to be available under the 2016 Plan. In addition, to the extent that we pay out an award in cash rather than Shares, such cash payment will not reduce the number of Shares available for issuance under the 2016 Plan. No Shares purchased by us with proceeds received from the exercise of an option will become available for issuance under the 2016 Plan or the 2007 Plan.
- *Minimum Vesting Requirements.* 95% of the Shares reserved for issuance under the 2016 Plan may be issued only through awards that cannot vest in less than one year from the date of grant unless the vesting of such awards is accelerated due to the participant’s death, disability, or retirement or a termination of the participant’s service that occurs in connection with our change in control.
- *Limited Vesting Acceleration Upon a Change in Control.* Except (x) as permitted under the minimum vesting requirements and (y) for any awards made to non-employee directors, the administrator shall not be permitted to accelerate the vesting of an award upon a change in control other than in the event an award is not assumed or substituted for as described in this proposal below in the section entitled “Description of the 2016 Plan—Merger or Change in Control.”
- *Repricing Prohibition.* The 2016 Plan prohibits any program providing participants the opportunity to transfer outstanding awards to a financial institution or other person or entity selected by the administrator, exchange awards for awards of the same type, awards of a different type, and/or cash, or have the exercise price of awards repriced (i.e., increased or reduced).
- *Non-Employee Director Award Limits.* Under the 2016 Plan, in any fiscal year, a non-employee director may be granted equity awards (with an aggregate grant date fair value) and any other compensation (including cash retainers or fees) of no more than an aggregate of \$750,000, increased to \$1,000,000 in our fiscal year of his or her initial service. Any equity awards or other compensation provided to the director for his or her services as an employee or consultant (other than as a non-employee director) will be excluded for purposes of these limits.



Our executive officers and directors have an interest in the approval of the 2016 Plan by our stockholders because they would be eligible to receive awards under the 2016 Plan.

### **Description of the 2016 Plan**

The following paragraphs provide a summary of the principal features of the 2016 Plan and its operation. However, this summary is not a complete description of all of the provisions of the 2016 Plan and is qualified in its entirety by the specific language of the 2016 Plan. A copy of the 2016 Plan is provided as Appendix B to this Proxy Statement.

*Purposes.* The purposes of the 2016 Plan are to attract and retain the best available personnel for positions of substantial responsibility; to provide additional incentive to employees, directors, and consultants; and to promote the success of our business. These incentives will be provided through the grant of stock options, stock appreciation rights, restricted stock, RSUs, performance units, and performance shares as the administrator of the 2016 Plan may determine.

*Authorized Shares.* Subject to the adjustment provisions contained in the 2016 Plan, the maximum number of Shares that may be issued pursuant to awards under the 2016 Plan is equal to the sum of (1) 15,400,000 Shares plus (2) Shares subject to awards granted under the 2007 Plan that after May 12, 2016, expire, are forfeited or otherwise terminate without being exercised in full (to the extent they were exercisable), or are forfeited to or repurchased by us due to failure to vest (provided that the maximum number of Shares that may be added to the 2016 Plan with respect to awards granted under the 2007 Plan pursuant to this clause (2) above is 7,700,000 Shares). Our stockholders are being asked to approve an increase of 7,300,000 Shares in the maximum number of Shares that may be issued pursuant to awards under the 2016 Plan. Thus, if our stockholders approve this increase, the maximum number of Shares that may be issued pursuant to awards under the 2016 Plan will be increased to 22,700,000 Shares, plus the number of Shares described in clause (2) above.

Shares may be authorized, but unissued, or reacquired Shares. If an option or stock appreciation right expires or becomes unexercisable without having been exercised in full, or if Shares subject to other types of awards are forfeited to or repurchased by us due to failure to vest, those Shares will become available for issuance again under the 2016 Plan. Shares used to pay the exercise or purchase price of an award will cease to be available for future grant under the 2016 Plan. Shares used to satisfy the tax withholding obligations related to an award, except with respect to options and stock appreciation rights, will become available for future grant under the 2016 Plan. With respect to stock appreciation rights settled in Shares, the gross number of Shares exercised under the stock appreciation right award will cease to be available under the 2016 Plan. In addition, to the extent that we pay out an award in cash rather than Shares, such cash payment will not reduce the number of Shares available for issuance under the 2016 Plan. Shares used to pay the exercise price of an award will not be available for future grant or sale under the 2016 Plan. No Shares purchased by us with proceeds received from the exercise of an option will become available for issuance under the 2016 Plan or the 2007 Plan.

*Plan Administration.* The Compensation Committee (or other committee appointed by the Board) administers the 2016 Plan. The Board or any committee of directors or other individuals satisfying applicable laws appointed by the Board or a duly authorized committee of the Board may administer the 2016 Plan. With respect to awards granted or to be granted to certain officers and key employees intended to be an exempt transaction under Rule 16b-3 of the Exchange Act ("Rule 16b-3"), the members of the committee administering the 2016 Plan with respect to those awards must qualify as "non-employee directors" under Rule 16b-3 will administer the 2016 Plan with respect to such awards. In the case of awards that historically were intended to qualify as "performance-based compensation" within the meaning of Section 162(m), the 2016 Plan provided for administration with respect to those awards by a committee consisting of two or more "outside directors" within the meaning of Section 162(m). However, this provision relating to Section 162(m) no longer applies under the amended 2016 Plan due to recent changes to certain tax laws that have eliminated the "performance-based compensation" exemption under Section 162(m).

Subject to the provisions of the 2016 Plan, the administrator will have the power to determine the award recipients and the terms of the awards not inconsistent with the 2016 Plan, including the exercise price, the number of Shares subject to each such award, the exercisability of the awards, and the form of consideration, if

any, payable by an option holder upon exercise. The administrator also will have the authority to amend existing awards, to determine fair market value of Shares, to construe and interpret the 2016 Plan and awards granted under the 2016 Plan, to establish rules and regulations, including sub-plans for the purpose of satisfying, or qualifying for favorable tax treatment under, applicable laws in jurisdictions outside of the United States, and to make all other determinations necessary or advisable for administering the 2016 Plan. The administrator's decisions and interpretations will be final and binding on all participants and any other holders of awards, and will be given the maximum deference permitted by law.

*No Repricing.* The 2016 Plan prohibits any program providing participants the opportunity to transfer outstanding awards to a financial institution or other person or entity selected by the administrator, exchange awards for awards of the same type, awards of a different type, and/or cash, or have the exercise price of awards repriced (i.e., increased or reduced).

*Vesting Requirements.* 95% of the Shares reserved for issuance under the 2016 Plan may be issued only through awards that cannot vest in less than one year from the date of grant unless the vesting of such awards is accelerated due to the participant's death, disability, or retirement or a termination of the participant's service that occurs in connection with our change in control.

*Eligibility.* We will be able to grant stock options, stock appreciation rights, restricted stock, RSUs, performance units, and performance shares under the 2016 Plan to our employees, consultants, and non-employee directors and employees and consultants of our parent or subsidiary corporations. We will be able to grant incentive stock options under the 2016 Plan only to individuals who, as of the time of grant, are employees of ours or of any parent or subsidiary corporation of ours. As of March 30, 2019, we had seven non-employee directors, and approximately 3,792 employees (including five NEOs) and 77 consultants.

*Non-Employee Director Award Limits.* The 2016 Plan provides that all non-employee directors will be eligible to receive all types of awards (except for incentive stock options) under the 2016 Plan. However, in any fiscal year, a non-employee director may be granted equity awards (with an aggregate grant date fair value) and any other compensation (including cash retainers or fees) of no more than an aggregate of \$750,000, increased to \$1,000,000 in our fiscal year of his or her initial service as a non-employee director. Any equity awards or other compensation provided to the director for his or her services as an employee or consultant (other than as a non-employee director) will be excluded for purposes of these limits.

*Certain Other Limits.* In any fiscal year, subject to any adjustment provisions contained in the 2016 Plan, the maximum aggregate number of Shares covering equity awards that a participant is permitted to receive under the 2016 Plan is:

- With respect to stock appreciation rights, 1,500,000 Shares, plus an additional 1,500,000 Shares in connection with his or her initial service as an employee;
- With respect to restricted stock, 1,500,000 Shares, plus an additional 1,500,000 Shares in connection with his or her initial service as an employee;
- With respect to RSUs, 1,500,000 Shares, plus an additional 1,500,000 Shares in connection with his or her initial service as an employee;
- With respect to performance shares, 1,500,000 Shares, plus an additional 1,500,000 Shares in connection with his or her initial service as an employee; and
- The maximum aggregate grant date value of performance units that a participant may receive is \$7,500,000.

In addition, subject to any adjustment provisions contained in the 2016 Plan, the maximum aggregate number of Shares covering stock options that may be granted under the 2016 Plan to a participant during a fiscal year was 1,500,000 Shares, plus an additional 1,500,000 Shares in connection with his or her initial service as an employee.

*Stock Options.* We are able to grant stock options under the 2016 Plan. Each option will be evidenced by an award agreement that specifies the exercise price, the number of Shares subject to the option, the maximum term

of the option, forms of consideration for exercise, and such other terms and conditions as the administrator determines, subject to the terms of the 2016 Plan. The exercise price of options granted under the 2016 Plan must be at least equal to the fair market value of our common stock on the date of grant, except in special, limited circumstances as set forth in the 2016 Plan. The maximum term of an incentive stock option must not exceed 10 years. However, with respect to any participant who owns more than 10% of the voting power of all classes of outstanding stock of ours or of any parent or subsidiary of ours, the maximum term must not exceed five years and the per share exercise price must equal at least 110% of the fair market value of a Share on the grant date. Generally, the fair market value of a Share is the closing sales price of a Share on the relevant date as quoted on Nasdaq Stock. Options will be exercisable at such times and under such conditions as determined by the administrator and as set forth in the applicable award agreement. The administrator will determine and specify in each award agreement, and solely in its discretion, the period of post-termination exercise applicable to each option. In the absence of such a determination by the administrator, the participant generally will be able to exercise the vested portion of the option for three months following his or her termination for reasons other than death or disability, and for 12 months following his or her termination due to disability or death while holding the option (to the extent vested on the date of death). However, in no event can an option be exercised after the expiration of the term of the option.

*Stock Appreciation Rights.* We are able to grant stock appreciation rights under the 2016 Plan. Stock appreciation rights allow the recipient to receive the appreciation in the fair market value of the underlying Shares between the exercise date and the date of grant. Each stock appreciation right will be evidenced by an award agreement that specifies the exercise price, the term of the stock appreciation right, and other terms and conditions as determined by the administrator, subject to the terms of the 2016 Plan. The per Share exercise price of a stock appreciation right will be no less than 100% of the fair market value per Share on the date of grant. Stock appreciation rights will be exercisable at such times and under such conditions as determined by the administrator and set forth in the applicable award agreement. At the discretion of the administrator, the payment upon exercise of a stock appreciation right may be paid in cash, Shares, or a combination of both.

*Restricted Stock.* We are able to grant restricted stock under the 2016 Plan. Restricted stock awards are grants of Shares that are subject to various restrictions, which may include restrictions on transferability and forfeiture provisions. Each restricted stock award granted will be evidenced by an award agreement specifying the number of Shares subject to the award, any period of restriction, and other terms and conditions of the award, as determined by the administrator, subject to the terms of the 2016 Plan.

Restricted stock awards may (but are not required to) be subject to vesting conditions, as the administrator specifies (subject to the minimum vesting requirements), and the Shares acquired may not be transferred by the participant until the vesting conditions (if any) are satisfied. The administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed. Recipients of restricted stock awards generally will have full voting rights, and rights to dividends and other distributions, with respect to such Shares upon grant without regard to vesting, unless the administrator provides otherwise. Such dividends and other distributions, if any, that are paid in Shares will be subject to the same restrictions of transferability and forfeitability as the Shares of restricted stock on which they were paid. Unless otherwise determined by the administrator, a participant generally will forfeit any Shares of restricted stock as to which the restrictions have not lapsed prior to the participant's termination of service.

*Restricted Stock Units.* We are able to grant RSUs under the 2016 Plan. Each RSU granted is a bookkeeping entry representing an amount equal to the fair market value of one Share. Each RSU award will be evidenced by an award agreement that specifies the number of RSUs subject to the award, vesting criteria (which may include accomplishing specified performance criteria or continued service to us), form of payout, and other terms and conditions of the award, as determined by the administrator, subject to the terms of the 2016 Plan. RSUs result in a payment to a participant if the performance goals or other vesting criteria are achieved or the awards otherwise vest. The administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed (subject to the minimum vesting requirements). The administrator determines in its sole discretion whether an award will be settled in cash, Shares, or a combination of both.

*Performance Units and Performance Shares.* We are able to grant performance units and performance shares under the 2016 Plan. Performance units and performance shares are awards that will result in a payment to a

participant only if performance goals or other vesting criteria established by the administrator are achieved or the awards otherwise vest. Each award of performance units or performance shares will be evidenced by an award agreement specifying the number of units or shares (as applicable), the vesting conditions, the performance period, and other terms and conditions of the award, as determined by the administrator, subject to the terms and conditions of the 2016 Plan. On or before the date of grant, the administrator will establish an initial dollar value for each performance unit. Each performance share will have an initial value equal to the fair market value of a Share on the date of grant. The administrator in its discretion will establish performance goals or other vesting criteria (which may include continued service), which, depending on the extent to which they are met, will determine the value or number of performance units or performance shares to be paid out. After the grant of performance units or performance shares, the administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such performance units or performance shares (subject to the minimum vesting requirements). The administrator, in its sole discretion, may pay earned performance units or performance shares in the form of cash, Shares, or in some combination of both.

*Non-Transferability of Awards.* Unless the administrator provides otherwise, the 2016 Plan generally will not allow for the transfer of awards, and only the recipient of an award may exercise an award during his or her lifetime.

*Certain Adjustments.* In the event of any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, reincorporation, reclassification, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or our other securities, or other change in our corporate structure affecting Shares, then in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the 2016 Plan, the administrator will adjust the number and class of shares that may be delivered under the 2016 Plan and/or the number, class and price of shares covered by each outstanding award, and the numerical share limits set forth in the 2016 Plan. In the event of our proposed liquidation or dissolution, the administrator will notify participants as soon as practicable and all awards will terminate immediately prior to the completion of such proposed transaction.

*Merger or Change in Control.* The amendment to the 2016 Plan restricts the treatment of awards in the event of our merger or change of control to the alternatives specified below. The amendment to the 2016 Plan provides that in the event of our merger or change in control, as defined in the 2016 Plan, each outstanding award will be treated as the administrator determines, in accordance with the following: (i) the assumption or substitution of the award by the acquirer or successor corporation or its parent or subsidiary, (ii) termination of the award upon or immediately prior to the consummation of the merger or change in control following written notice and subject to the next paragraph, (iii) subject to the next paragraph, (A) termination of the award in exchange for an amount of cash and/or property in an amount that would have been attained upon exercise or realization of the award as of the date of the merger or change in control, or (B) replacement of the award with other rights or property, or (iv) any combination of the above. The administrator will not be required to treat all awards, all awards held by a participant, or all awards of the same type, similarly.

If outstanding awards (or portion of the awards) are not assumed or substituted for, the awards will fully vest and become exercisable and all restrictions will lapse, except that with respect to awards subject to performance-based vesting, performance criteria will be deemed achieved based on actual performance measured through the last date that the awards remain outstanding (or such earlier date that the administrator may determine), with any performance period shortened proportionately and applicable performance goals or other vesting criteria adjusted proportionately to reflect the adjusted performance period (or to the extent applicable, the value of the consideration to be received by our stockholders in connection with the merger or change in control). In addition, if an option or stock appreciation right is not assumed or substituted in the event of a merger or change in control, the administrator will notify the participant that such award will be exercisable for a specified period prior to the transaction, and such award will terminate upon the expiration of such period.

*Plan Amendment; Termination.* The administrator has the authority to amend, alter, suspend, or terminate the 2016 Plan at any time, provided such action does not impair the existing rights of any participant unless mutually agreed in writing. The 2016 Plan will terminate automatically in 2026, unless we terminate it sooner.

*Forfeiture of Awards.* The 2016 Plan adds grants the administrator authority to specify in an award agreement that a participant's rights, payments and benefits with respect to an award granted under the 2016 Plan will be

subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events. The 2016 Plan also provides that awards granted under the 2016 Plan also will be subject to any Infinera clawback policy as may be established or amended from time to time. The administrator may require a participant to forfeit, return or reimburse to Infinera all or a portion of an award and any amounts paid under the award pursuant to the terms of Infinera's clawback policy or in order to comply with applicable laws.

### Number of Awards Granted to Employees and Directors

The number of awards, and Shares subject thereunder, that an employee, director, or consultant may receive under the 2016 Plan is in the discretion of the administrator and therefore cannot be determined in advance. The following table sets forth the aggregate number of shares subject to RSUs and PSUs (at target) granted under the 2016 Plan during fiscal 2018 to each of our NEOs; our NEOs, as a group; directors who are not executive officers, as a group; and all employees who are not executive officers, as a group. There were no stock options granted to any employees (including our NEOs) or directors in fiscal 2018.

Name of Individual or Identity of Group and Principal Position	Dollar Value of Award(s) (\$) <sup>(1)</sup>	Number of RSUs and PSUs Granted (#)
Thomas J. Fallon <i>Chief Executive Officer</i>	4,362,442	338,541
Brad D. Feller <i>Chief Financial Officer</i>	1,351,009	114,583
David F. Welch, Ph.D. <i>Chief Innovation Officer</i>	1,351,009	114,583
David W. Heard <i>Chief Operating Officer</i>	1,783,609	184,583
Robert J. Jandro <i>Senior Vice President, Worldwide Sales</i>	1,043,955	88,541
All current executive officers as a group	9,892,024	840,831
All current directors who are not executive officers as a group	1,017,401	109,752
All employees (excluding executive officers as a group)	36,631,467	3,316,243

<sup>(1)</sup> For RSUs, represents the aggregate grant date fair value of each equity award computed in accordance with ASC 718. For PSUs, represents the aggregate grant date fair value of each equity award at the target payout level computed in accordance with ASC 718. See Notes 2 and 15 of the notes to our consolidated financial statements contained in our 2018 Annual Report on Form 10-K filed on March 14, 2019, for a discussion of all assumptions made by us in determining the ASC 718 values of equity awards.

### U.S. Federal Income Tax Consequences

The following paragraphs are a summary of the general federal income tax consequences to U.S. taxpayers and Infinera of awards granted under the 2016 Plan. Tax consequences for any particular individual may be different.

*Incentive Stock Options.* A participant recognizes no taxable income as the result of the grant or exercise of an incentive stock option qualifying under Section 422 of the Code (unless the participant is subject to the alternative minimum tax). If the participant exercises the option and then later sells or otherwise disposes of the Shares acquired through the exercise of the option after both the two-year anniversary of the grant date and the one-year anniversary of the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the Shares on or before the two- or one-year anniversaries described above (a "disqualifying disposition"), he or she generally will have ordinary income at the time of the sale equal to the fair market value of the Shares on the exercise date (or the sale price, if less) minus the exercise price of the option.

*Nonstatutory Stock Options.* A participant generally recognizes no taxable income on the date of grant of a nonstatutory stock option with an exercise price equal to the fair market value of the underlying stock on the date



of grant. Upon the exercise of a nonstatutory stock option, the participant generally will recognize ordinary income equal to the excess of the fair market value of the Shares on the exercise date over the exercise price of the option. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of Shares acquired through the exercise of a nonstatutory stock option, any subsequent gain or loss (generally based on the difference between the sale price and the fair market value on the exercise date) will be treated as long-term or short-term capital gain or loss, depending on how long the Shares were held by the participant.

*Stock Appreciation Rights.* A participant generally recognizes no taxable income on the date of grant of a stock appreciation right with an exercise price equal to the fair market value of the underlying stock on the date of grant. Upon exercise of the stock appreciation right, the participant generally will be required to include as ordinary income an amount equal to the sum of the amount of any cash received and the fair market value of any Shares received upon the exercise. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of Shares acquired by an exercise of the stock appreciation right, any gain or loss (generally based on the difference between the sale price and the fair market value on the exercise date) will be treated as long-term or short-term capital gain or loss, depending on how long the Shares were held by the participant.

*Restricted Stock, Restricted Stock Units, Performance Units and Performance Shares.* A participant generally will not have taxable income at the time an award of restricted stock, RSUs, performance shares, or performance units is granted. Instead, he or she generally will recognize ordinary income in the first taxable year in which his or her interest in the Shares underlying the award becomes either (i) freely transferable, or (ii) no longer subject to substantial risk of forfeiture. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. However, the recipient of a restricted stock award may elect to recognize income at the time he or she receives the award in an amount equal to the fair market value of the Shares underlying the award (less any cash paid for the Shares) on the date the award is granted.

*Section 409A.* Section 409A of the Code ("Section 409A") provides certain requirements for non-qualified deferred compensation arrangements with respect to an individual's deferral and distribution elections and permissible distribution events. Awards granted under the 2016 Plan with a deferral feature will be subject to the requirements of Section 409A. If an award is subject to and fails to satisfy the requirements of Section 409A, the recipient of that award may recognize ordinary income on the amounts deferred under the award, to the extent vested, which may be prior to when the compensation is actually or constructively received. Also, if an award that is subject to Section 409A fails to comply with Section 409A's provisions, Section 409A imposes an additional 20% tax on compensation recognized as ordinary income, as well as interest on such deferred compensation.

*Medicare Surtax.* In addition, a participant's annual "net investment income", as defined in Section 1411 of the Code, may be subject to a 3.8% federal surtax. Net investment income may include capital gain and/or loss arising from the disposition of Shares issued pursuant to awards granted under the 2016 Plan. Whether a participant's net investment income will be subject to this surtax will depend on the participant's level of annual income and other factors.

*Tax Effect for Infinera.* We generally will be entitled to a tax deduction in connection with an award under the 2016 Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonqualified stock option). However, special rules limit the deductibility of compensation paid to our CEO and other "covered employees" as determined under Section 162(m) and applicable guidance. Under Section 162(m), the annual compensation paid to any of these specified individuals will be deductible only to the extent that it does not exceed \$1,000,000. However, under Section 162(m) as it was in effect during fiscal year 2018, we could preserve the deductibility of certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) were met. These conditions included (among others) stockholder approval of the 2016 Plan and its material terms, setting certain limits on the number of Shares subject to awards and, for awards other than options and stock appreciation rights, establishing performance criteria that must be met before the award actually was vested or paid. As a result of the Tax Cuts and Jobs Act of 2017, for taxable years beginning on or after January 1, 2018, and except for certain grandfathered arrangements, under Section 162(m), any compensation over \$1,000,000 paid to the covered employees is not deductible to Infinera.

**THE FOREGOING IS ONLY A SUMMARY OF THE TAX EFFECT OF FEDERAL INCOME TAXATION UPON PARTICIPANTS AND INFINERA WITH RESPECT TO THE GRANT AND VESTING OR EXERCISE OF AWARDS UNDER THE 2016 PLAN. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF A SERVICE PROVIDER'S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE, OR NON-U.S. COUNTRY TO WHICH THE SERVICE PROVIDER MAY BE SUBJECT.**

### **Summary**

The Board believes that it is in the best interests of our company and our stockholders to continue to provide employees, consultants and directors with the opportunity to acquire an ownership interest in Infinera through the grant of equity awards under the 2016 Plan and thereby encourage them to remain in our service and more closely align their interests with those of our stockholders.

### **Vote Required**

Approval of Proposal 2 requires the affirmative vote of a majority of the votes cast on this proposal. Abstentions will have the same effect as an "AGAINST" vote. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote.

### **Proposal 2—Recommendation of the Board**

The Board unanimously recommends a vote "FOR" the approval of the amendment to the 2016 Plan to increase the number of Shares authorized thereunder by 7,300,000 Shares.



## **PROPOSAL 3—APPROVAL OF AMENDMENT OF THE INFINERA CORPORATION 2007 EMPLOYEE STOCK PURCHASE PLAN**

### **Reason for the Amendment**

At the Annual Meeting, stockholders are being asked to approve an amendment of the 2007 ESPP to increase the number of Shares authorized for issuance under the 2007 ESPP (the “ESPP Amendment”). This will allow us to use the 2007 ESPP to assist us in recruiting, retaining and motivating qualified personnel who help us achieve our business goals, including creating long-term value for stockholders as well as aligning the interest of our employees with those of our stockholders. Our 2007 ESPP is intended to offer a significant incentive by allowing employees to purchase Shares. Employees are allowed to purchase Shares under the 2007 ESPP at a price equal to 85% of the lower of the fair market value of the Share at either the first or last trading day of the respective offering period.

The Board initially adopted the 2007 ESPP in February 2007 and our stockholders approved the 2007 ESPP in May 2007. The 2007 ESPP became effective in June 2007. The 2007 ESPP was last amended by our stockholders in May 2018 to increase the number of Shares authorized for issuance under the 2007 ESPP by 4,500,000 Shares. Other than the ESPP Amendment, we have not made any material amendments to the 2007 ESPP since our stockholders last approved the 2007 ESPP.

As of March 30, 2019, 3,010,525 Shares remained available for issuance under the 2007 ESPP. The ESPP Amendment to the 2007 ESPP would increase the number of Shares issuable under the 2007 ESPP by 10,500,000 Shares, bringing the total that remains available for issuance under the 2007 ESPP to 13,510,525 Shares, which represents approximately 6.0% of our outstanding Shares as of the Record Date. The stockholders are asked to approve additional increases to the Share reserve so that we may continue to operate the 2007 ESPP.

Another relevant factor is the acquisition of Coriant in October 2018, which has nearly doubled the size of eligible participants in the 2007 ESPP. These new eligible participants will be eligible to participate in the 2007 ESPP for the first time starting with the August 15, 2019 offering period. We believe the 2007 ESPP is a valuable and important benefit that helps us to achieve our business success.

In considering its recommendation to approve the ESPP Amendment, the Compensation Committee and the Board analyzed the historical number of Shares purchased under the 2007 ESPP in the past three years and the motivational and retention value of the program as well as headcount trends versus the required funding of the 2007 ESPP. The number of Shares purchased under the 2007 ESPP in each of fiscal 2016, 2017 and 2018, was 1,368,826, 2,140,207 and 2,188,706, respectively. Although the Compensation Committee and the Board considered the historical number of purchased Shares, the actual number of Shares that will be purchased under the 2007 ESPP in any year will depend on a number of factors including, for example, the number of participants, each participant’s contribution rate and our stock price. Based on usage in 2018 and the additional number of eligible participants in connection with the Acquisition, we anticipate that the increased Share reserve would meet our anticipated needs for a period of approximately two years. However, the actual number of Shares that will be purchased under the 2007 ESPP will vary based on relevant factors, as noted above.

The Compensation Committee and the Board have approved the ESPP Amendment, subject to the approval of our stockholders at the 2019 Annual Meeting. If stockholders do not approve an increase in the number of Shares reserved for issuance under the 2007 ESPP, our 2007 ESPP will remain in effect without the ESPP Amendment, but our goals of recruiting, retaining and motivating talented employees will be more difficult to meet as we estimate that the remaining shares authorized is expected only to last us through the August 2019 purchase date. We believe that the approval of the ESPP Amendment is important to our continued success.

### **Description of the 2007 ESPP**

The following paragraphs provide a summary of the principal features of the 2007 ESPP and its operation. However, this summary is not a complete description of all of the provisions of the 2007 ESPP, and is qualified in its entirety by the specific language of the 2007 ESPP. A copy of the 2007 ESPP as it is proposed to be amended is provided as Appendix C to this Proxy Statement.

*Purpose.* The purpose of the 2007 ESPP is to provide eligible employees of Infinera and its participating subsidiaries with the opportunity to purchase Shares through payroll deductions or other contributions as permitted under the 2007 ESPP. The 2007 ESPP serves as an important tool for us in recruiting, retaining and motivating talented employees.

The 2007 ESPP is intended to qualify as an employee stock purchase plan under Section 423 of the Code (“Section 423”). In addition, the 2007 ESPP authorizes the grant of rights to purchase Shares that are not intended to qualify under Section 423, pursuant to rules, procedures or sub-plans adopted by the administrator of the 2007 ESPP that generally are designed to achieve desired tax, securities laws, or other objectives.

*Eligibility to Participate.* Employees of Infinera and its participating subsidiaries who are customarily employed for at least 20 hours per week and more than five months in a calendar year are eligible to participate in the 2007 ESPP. However, an employee is not eligible if he or she would own, and/or hold outstanding options to purchase, five percent or more of the total combined voting power or value of all classes of stock of Infinera or of any parent or subsidiary of Infinera. Also, the administrator of the 2007 ESPP (referred to herein as the Committee) generally has discretion to exclude employees from participating in the 2007 ESPP, on a uniform and nondiscretionary basis, if the employee normally is scheduled to work less than or equal to 20 hours per week or five months per calendar year (or lesser number of hours or period), has continuously worked for Infinera for less than two years (or lesser period), or is an officer or other highly compensated employee, provided that the exclusion of employees in these categories is not prohibited under applicable local law. The Committee also may exclude from participation in the 2007 ESPP employees who are citizens or residents of a non-U.S. jurisdiction if participation is prohibited by local law or if complying with local law would cause a violation of Section 423. As of March 30, 2019, approximately 1,856 employees are eligible to participate in the 2007 ESPP.

*Number of Shares of Common Stock Available under the 2007 ESPP.* Currently, a maximum of 21,056,830 Shares have been approved for issuance pursuant to the 2007 ESPP. As of March 29, 2019, the closing price of our common stock on The Nasdaq Global Select Market was \$4.34 per Share. If stockholders approve the ESPP Amendment, then the maximum number of Shares issuable under the 2007 ESPP will be 31,556,830 Shares. If stockholders do not approve the ESPP Amendment, no shares will be added to the total number of Shares reserved for issuance under the 2007 ESPP and the 2007 ESPP will continue under its existing terms without the increase in the Share reserve provided by the ESPP Amendment. If stockholders do not approve an increase in the number of Shares reserved for issuance under the 2007 ESPP, our goals of recruiting, retaining and motivating talented employees through the 2007 ESPP will be more difficult to meet as the remaining shares authorized is expected only to last us through the August 2019 purchase date. We believe that the approval of the ESPP Amendment is important to our continued success.

*Administration.* The Compensation Committee is the Committee that currently administers the 2007 ESPP. The members of the Compensation Committee serve as the administrator of the 2007 at the discretion of the Board. The Board or a committee of the Board designated by the Board may administer the 2007 ESPP. Subject to the terms of the 2007 ESPP, the Committee has full and exclusive discretionary authority to interpret and apply the terms of the 2007 ESPP, designate separate offerings under the 2007 ESPP, determine eligibility and adjudicate all dispute claims under the 2007 ESPP. The Committee also may adopt rules or procedures for the operation and administration of the 2007 ESPP (including to accommodate requirements of local laws and procedures for non-US jurisdictions), eligibility, compensation participants may contribute to the 2007 ESPP, making of contributions to the 2007 ESPP, establishment of bank or trust accounts, interest payments, and currency conversion, and other rules and procedures. The Committee’s findings, decisions, and interpretations are final and binding on all persons to the maximum extent permitted by law.

*Enrollment and Contributions.* Eligible employees voluntarily elect whether or not to enroll in the 2007 ESPP by completing, signing and submitting to Infinera an enrollment form in a form and manner and by the deadline set by the Compensation Committee. Each employee who joins the 2007 ESPP is granted an option to purchase Shares on each enrollment date while participating in the 2007 ESPP and is automatically re-enrolled for additional rolling six month offering periods; provided, however, that an employee may cancel his or her enrollment at any time (subject to 2007 ESPP rules). Eligible employees who participate in the 2007 ESPP are referred to as participants.

Participants contribute to the 2007 ESPP through payroll deductions or, if payroll withholding is not permitted or advisable under local laws, through other means specified by the Committee. Participants generally may contribute up to 15% of their eligible compensation (in whole percentages) through after-tax payroll deductions. Compensation eligible to be contributed under the 2007 ESPP includes a participant's base straight time gross earnings, commissions (to the extent the commissions are an integral, recurring part of compensation), overtime and shift premium, but exclusive of payments for incentive compensation, bonuses and other compensation. From time to time, the Committee may change the definition of eligible compensation, limit the nature and number of contribution rate changes that may be made by participants during an offering period, or change offering periods including the length of the offering and purchase periods (but in no event may such periods exceed twenty-seven (27) months). A participant may increase or decrease his or her contribution percentage by following procedures established by the Committee. During an offering period, participants may decrease but not increase the rate of his or her contribution with respect to an ongoing offering period.

*Purchase of Shares.* Currently, Shares are offered under the 2007 ESPP through a series of consecutive offering periods approximately six months in duration that are scheduled to start on the first trading day on or after February 15 or August 15 of each year and end on the last trading day on or after August 15 or February 15 approximately six months later. On the last trading day of each offering period, Infinera uses each participant's payroll deductions or contributions to purchase Shares for the participant. The price of the Shares purchased will be 85% of the lower of (1) the per Share closing sales price of our common stock on Nasdaq on the first trading day of the offering period, or (2) the per Share closing sales price of our common stock on Nasdaq on the last trading day of the offering period (on which day Shares are purchased for participants), provided that the Committee may establish in advance a different formula for the purchase price for offering periods under the 2007 ESPP or as permitted by the 2007 ESPP. No participant may purchase Shares under the 2007 ESPP at a rate of more than \$25,000 worth of our common stock (based on the fair market value of the stock at the beginning of the offering periods) for each calendar year during which the participant's option to purchase Shares under the 2007 ESPP is outstanding at any time. The Committee also has discretion to set a limit on the number of Shares that may be purchased during any six-month offering period (which currently is established at 3,000 Shares unless otherwise determined by the Committee). Further, under certain circumstances whereby the number of Shares to be purchased in an offering period exceeds the number of Shares available for purchase, the Committee may make adjustments that result in the purchase of a lesser number of Shares under the offering period. The Committee also may reduce a participant's contributions to zero percent to the extent necessary to comply with Section 423. Until Shares have been purchased and delivered to a participant (as evidenced by the appropriate entry in the books of Infinera or a duly authorized transfer agent of Infinera), the participant will have no voting, dividend, or other stockholder rights with respect to the Shares. At least annually, statements of account will be provided to each participant setting forth certain information regarding his or her participation in the 2007 ESPP, including the amounts of contributions, purchase price, and number of Shares purchased.

*Termination of Participation.* Participation in the 2007 ESPP generally terminates when a participating employee's employment with Infinera or its subsidiaries ceases for any reason, the employee withdraws from the 2007 ESPP, or Infinera terminates or amends the 2007 ESPP such that the employee no longer is eligible to participate. An employee may withdraw his or her participation in the 2007 ESPP at any time in accordance with procedures, and prior to the deadline, specified by the Committee. Upon withdrawal from the 2007 ESPP, generally the employee will receive all amounts credited to his or her account, without interest (unless otherwise required by applicable law), and his or her payroll withholdings or contributions under the 2007 ESPP will cease.

*Non-transferability.* Rights to purchase Shares and any other rights and interests under the 2007 ESPP may not be assigned, transferred, sold or otherwise disposed of (other than by will, the laws of descent and distribution, or beneficiary designation in the event of death). Any attempt at such prohibited disposition will be without effect except that Infinera may treat such act as an election to withdraw participation. During a participant's lifetime, an option to purchase Shares granted to the participant under the 2007 ESPP can be exercised only by him or her.

*Certain Transactions.* In the event of any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in Infinera's corporate structure affecting the Shares, the Committee, in order to prevent dilution or enlargement of the benefits and potential benefits intended to be made available under the

2007 ESPP, will make appropriate adjustments, as it deems equitable, to the number and class of stock reserved for issuance under the 2007 ESPP and options outstanding under the 2007 ESPP, the purchase price of options outstanding under the 2007 ESPP, and the numerical limits under the 2007 ESPP. In the event of Infinera's proposed dissolution or liquidation, any ongoing offering periods will be shortened and will terminate immediately before completion of the proposed dissolution or liquidation following the purchase of Shares under the shortened offering periods, unless provided otherwise by the Committee. In the event of a merger or change in control of Infinera, each outstanding option under the 2007 ESPP will be assumed or substituted for by the successor. In the event that the successor does not assume or substitute the options, the offering period will be shortened and end prior to the merger or change in control but following the purchase of Shares under the shortened offering period.

*Amendment and Termination.* The Committee or the Board may amend, suspend or terminate the 2007 ESPP or any part of the 2007 ESPP at any time and for any reason. The 2007 ESPP will continue in effect unless terminated by the Committee in accordance with its terms. If the Committee determines that the ongoing operation of the 2007 ESPP may result in unfavorable financial accounting consequences, the Committee may modify, amend or terminate the 2007 ESPP to reduce or eliminate such accounting consequence. If the 2007 ESPP is terminated, the Committee in its discretion may terminate all outstanding offering periods either immediately or after completion of the purchase of Shares under the 2007 ESPP (which may be adjusted to occur sooner than originally scheduled), or in accordance with their terms. If options are terminated prior to expiration, then all amounts credited to participants that have not been used to purchase Shares will be returned, without interest (unless otherwise required by applicable law), as soon as administratively practicable.

#### Number of Shares Purchased by Certain Individuals and Groups

Participation in the 2007 ESPP is voluntary and dependent on each eligible employee's election to participate and his or her determination as to the level of contributions of eligible compensation. Further, the number of Shares that may be purchased under the 2007 ESPP is determined, in part, by the price of our Shares on the first and last day of each offering period. Accordingly, the actual number of Shares that may be purchased by any individual is not determinable. For illustrative purposes only, the following table sets forth (a) the number of Shares that were purchased during 2018 under the 2007 ESPP, and (b) the weighted average per Share purchase price paid for such Shares, for each of our NEOs, all current executive officers as a group, and all other employees who participated in the 2007 ESPP as a group. Our executive officers have an interest in the approval of the ESPP Amendment by our stockholders because they are eligible to participate in the 2007 ESPP. Non-employee members of the Board are not eligible to participate in the 2007 ESPP.

#### New Plan Benefits 2007 Employee Stock Purchase Plan

Name of Individual or Identity of Group and Position	Number of Shares Purchased (#)	Weighted Average Purchase Price Per Share (\$)
Thomas J. Fallon . . . . . <i>Chief Executive Officer</i>	—	—
Brad D. Feller . . . . . <i>Chief Financial Officer</i>	2,604	\$7.30
David F. Welch, Ph.D. . . . . <i>Chief Innovation Officer</i>	—	—
David W. Heard . . . . . <i>Chief Operating Officer</i>	—	—
Robert J. Jandro . . . . . <i>Senior Vice President, Worldwide Sales</i>	—	—
All current executive officers as a group . . . . .	2,604	\$7.30
All current directors who are not executive officers as a group <sup>(1)</sup> . . . . .	—	—
All other employees (including all current officers who are not executive officers) as a group . . . . .	2,186,102	\$7.31

<sup>(1)</sup> Non-employee directors are not eligible to participate in the 2007 ESPP.

## **U.S. Federal Income Tax Consequences**

The following brief summary of the effect of U.S. federal income taxation upon the participant and Infinera with respect to the Shares purchased under the 2007 ESPP is based on management's understanding of current U.S. federal income tax laws, does not purport to be complete, and does not discuss the tax consequences of a participant's death or the income tax laws of any state or foreign country in which the participant may reside.

The 2007 ESPP is intended to qualify as an employee stock purchase plan within the meaning of Section 423. Under an employee stock purchase plan that so qualifies, no taxable income will be recognized by a participant, and no deductions will be allowable to Infinera, upon either the grant or the exercise of the purchase rights. Taxable income will not be recognized until there is a sale or other disposition of the Shares acquired under the 2007 ESPP or in the event of the participant's death while still owning the purchased Shares.

If the participant sells or otherwise disposes of the purchased Shares within two (2) years after the start date of the offering period in which the Shares were acquired or within one (1) year after the actual purchase date of those Shares, then the participant generally will recognize ordinary income in the year of sale or disposition equal to the amount by which the fair market value of the Shares on the purchase date exceeded the purchase price paid for those Shares, and Infinera will be entitled to an income tax deduction, for the taxable year in which such disposition occurs equal in amount to such excess. The amount of this ordinary income will be added to the participant's basis in the Shares, and any resulting gain or loss recognized upon the sale or disposition will be a capital gain or loss. If the Shares have been held for more than one (1) year since the date of purchase, the gain or loss will be long-term.

If the participant sells or disposes of the purchased Shares more than two (2) years after the start date of the offering period in which the Shares were acquired and more than one (1) year after the actual purchase date of those Shares, then the participant generally will recognize ordinary income in the year of sale or disposition equal to the lesser of (a) the amount by which the fair market value of the Shares on the sale or disposition date exceeded the purchase price paid for those Shares, or (b) 15% of the fair market value of the Shares on the start date of that offering period. Any additional gain upon the disposition will be taxed as a long-term capital gain. Alternatively, if the fair market value of the Shares on the date of the sale or disposition is less than the purchase price, there will be no ordinary income and any loss recognized will be a long-term capital loss. Infinera will not be entitled to an income tax deduction with respect to such disposition.

In addition, a participant's annual "net investment income," as defined in Section 1411 of the Code, may be subject to a 3.8% federal surtax. Net investment income may include capital gain and/or loss arising from the disposition of Shares purchased under the 2007 ESPP. Whether a participant's net investment income will be subject to this surtax will depend on the participant's level of annual income and other factors.

If the participant still owns the purchased Shares at the time of death, the lesser of (i) the amount by which the fair market value of the Shares on the date of death exceeds the purchase price or (ii) 15% of the fair market value of the Shares on the start date of the offering period in which those Shares were acquired will constitute ordinary income in the year of death.

## **Summary**

The Board believes that it is in the best interests of our company and our stockholders to continue to provide eligible employees with the opportunity to purchase Shares through the 2007 ESPP, which constitutes an important incentive for our employees and helps us in recruiting, retaining and motivating talented employees. We strongly believe that the 2007 ESPP is essential for us to compete for talent in the labor markets in which we operate.

## **Vote Required**

Approval of Proposal 3 requires the affirmative vote of a majority of the votes cast on this proposal. Abstentions will have the same effect as an "AGAINST" vote. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote.

**Proposal 3—Recommendation of the Board**

The Board unanimously recommends a vote “FOR” the approval of the amendment to the 2007 ESPP to increase the number of Shares authorized thereunder by 10,500,000 Shares.



## **PROPOSAL 4—ADVISORY APPROVAL OF NAMED EXECUTIVE OFFICER COMPENSATION**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, enables our stockholders to vote to approve, on an advisory basis, the compensation of our NEOs as disclosed in the Compensation Discussion and Analysis and the tabular disclosures of this Proxy Statement. This proposal, commonly known as a “say-on-pay” proposal, provides our stockholders with the opportunity to express their views on the compensation of our NEOs.

As described in the section entitled “Compensation Discussion and Analysis,” we believe that the skill, talent, judgment and dedication of our executive officers are critical factors affecting the long-term value of Infinera. The goals of our executive compensation programs are to fairly compensate our executives, attract and retain highly-qualified executives able to contribute to our long-term success, encourage performance consistent with clearly defined corporate goals and align our executives’ long-term interests with those of our stockholders. The specific goals that our current executive compensation programs reward are focused on financial objectives, including specific non-GAAP operating margin targets. Please read the “Compensation Discussion and Analysis” section of this Proxy Statement beginning on page 27 for additional details about our executive compensation programs, including information about the fiscal 2018 compensation of our NEOs.

The Board is asking our stockholders to indicate their support for the compensation of our NEOs as described in this Proxy Statement. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our NEOs and the philosophy, policies, practices and objectives described in this Proxy Statement. Accordingly, the Board recommends that our stockholders vote “FOR” the following resolution at the Annual Meeting:

**“RESOLVED:** That the stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Proxy Statement for the 2019 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the compensation tables, and the accompanying footnotes and narrative disclosures.”

As an advisory vote, this say-on-pay proposal is not binding upon Infinera, the Board or the Compensation Committee. However, Infinera, the Board and the Compensation Committee, which are responsible for overseeing, reviewing and administering our executive compensation programs, value the opinions expressed by our stockholders and will continue to consider our stockholders’ feedback in evaluating future compensation options for our NEOs.

### **Vote Required**

Approval of Proposal 4 requires the affirmative vote of a majority of the votes cast on this proposal. Abstentions will have the same effect as an “AGAINST” vote. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote.

### **Proposal 4—Recommendation of the Board**

The Board unanimously recommends a vote “FOR” the approval of the compensation of our NEOs, as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the SEC.



**PROPOSAL 5—RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board has selected Ernst & Young LLP, independent registered public accounting firm, as our independent auditors for the fiscal year ending December 28, 2019 and has further directed that we submit the appointment of independent auditors for ratification by the stockholders at the Annual Meeting. Ernst & Young LLP has audited our financial statements since fiscal 2001. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Ratification of appointment of Ernst & Young LLP as our independent registered public accounting firm is not required pursuant to our Bylaws, our other governing documents or law. However, we are submitting the appointment of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the appointment, the Audit Committee will reconsider whether or not to retain that firm. Even if the appointment is ratified, the Audit Committee in its discretion may direct the appointment of different independent auditors at any time during the year if it determines that such change would be in the best interests of Infinera and its stockholders.

**Independent Registered Public Accounting Firm’s Fees**

The following table sets forth the aggregate fees for audit, audit-related, tax and other services provided by Ernst & Young LLP for the fiscal years ended December 29, 2018 and December 30, 2017. All of the services described in the following table were approved in conformity with the Audit Committee’s pre-approval processes and procedures.

	<u>2018</u>	<u>2017</u>
Audit Fees .....	\$4,619,000	\$2,824,000
Audit-Related Fees .....	1,057,000	—
Tax Fees .....	485,000	507,000
All Other Fees .....	<u>72,000</u>	<u>27,000</u>
Total Fees .....	<u>\$6,233,000</u>	<u>\$3,358,000</u>

*Audit Fees*

This category of the table above includes fees for the integrated audit of our annual consolidated financial statements and internal control over financial reporting, review of the condensed consolidated financial statements included in our Quarterly Reports on Form 10-Q, and services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filings or engagements for those fiscal years. This category also includes statutory audits required by non-U.S. jurisdictions. The preparation of our audited consolidated financial statements includes compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and the preparation by Ernst & Young LLP of a report expressing its opinion regarding the effectiveness of our internal control over financial reporting. The increase was due to the debt offering completed in September 2018 and the acquisition of Coriant in October 2018.

*Audit-Related Fees*

Audit-related services principally include due diligence in connection with acquisitions, accounting consultations, audits in connection with proposed or consummated acquisitions and information systems audits. There were no audit-related fees in fiscal 2017.

*Tax Fees*

This category of the table above includes fees for tax compliance, tax advice and tax planning.

*All Other Fees*

This category of the table above principally includes support and advisory services provided by Ernst & Young LLP that are not included in the service categories reported above.

**Pre-Approval Policies and Procedures**

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services rendered by Ernst & Young LLP, our independent registered public accounting firm. The Audit Committee can pre-approve specified services in defined categories of audit services, audit-related services and tax services up to specified amounts, as part of the Audit Committee's approval of the scope of the engagement of Ernst & Young LLP or on an individual case-by-case basis before Ernst & Young LLP is engaged to provide a service. The Audit Committee has determined that the rendering of the services other than audit services by Ernst & Young LLP is compatible with maintaining the principal accountant's independence.

**Vote Required**

Approval of Proposal 5 requires the affirmative vote of a majority of the votes cast on this proposal. Abstentions will have the same effect as an "AGAINST" vote. Broker non-votes, if any, are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote.

**Proposal 5—Recommendation of the Board**

The Board unanimously recommends a vote "FOR" the ratification of the appointment of Ernst & Young LLP as Infinera's independent registered public accounting firm for its fiscal year ending December 28, 2019.

## REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board currently consists of the three non-employee directors named below. The Board annually reviews the Nasdaq listing standards' definition of independence for Audit Committee members and has determined that each member of the Audit Committee meets that standard. The Board has also determined that Messrs. Gani and Milbury are each an Audit Committee Financial Expert as described in applicable rules and regulations of the SEC.

The principal purpose of the Audit Committee is to assist the Board in its general oversight of our accounting practices, system of internal controls, audit processes and financial reporting processes. The Audit Committee is responsible for appointing and retaining our independent auditor and approving the audit and non-audit services to be provided by our independent registered public accounting firm. The Audit Committee's function is more fully described in its charter, which the Board has adopted and which the Audit Committee reviews on an annual basis. A copy of the Audit Committee charter is available on our website at [www.infinera.com](http://www.infinera.com).

Our management is responsible for preparing our financial statements and ensuring they are complete and accurate and prepared in accordance with generally accepted accounting principles. Ernst & Young LLP, our independent registered public accounting firm, is responsible for performing an independent audit of our consolidated financial statements in accordance with generally accepted auditing standards and expressing an opinion on the effectiveness of our internal control over financial reporting.

The Audit Committee has reviewed and discussed the audited financial statements for the year ended December 29, 2018 with our management and Ernst & Young LLP. The Audit Committee has also discussed with Ernst & Young LLP the matters required to be discussed by Auditing Standard No. 1301, "Communications with Audit Committees" issued by Public Company Accounting Oversight Board ("PCAOB"). The Audit Committee also has received and reviewed the written disclosures and the letter from Ernst & Young LLP required by applicable requirements of the PCAOB regarding Ernst & Young LLP's communications with the Audit Committee concerning independence, and has discussed with Ernst & Young LLP its independence from Infinera.

Based upon the review and discussions described above, the Audit Committee recommended to the Board that the audited financial statements referred to above be included in our Annual Report on Form 10-K for the year ended December 29, 2018 for filing with the SEC.

Submitted by the members of the Audit Committee:

Paul J. Milbury (Chair)  
Marcel Gani  
Kambiz Y. Hooshmand

## **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

We have adopted a formal policy that our executive officers, directors, and principal stockholders, including their immediate family members and affiliates, are not permitted to enter into a related party transaction with us without the prior consent of the Audit Committee, or other independent members of the Board in the case it is inappropriate for the Audit Committee to review such transaction due to a conflict of interest. Any request for us to enter into a transaction with an executive officer, director, principal stockholder, or any of such persons' immediate family members or affiliates, in which the amount involved exceeds \$120,000 must first be presented to the Audit Committee for review, consideration and approval. All of our directors, executive officers and employees are required to report to the Audit Committee any such related party transaction. In approving or rejecting the proposed agreement, the Audit Committee shall consider the relevant facts and circumstances available and deemed relevant to the Audit Committee, including, but not limited to the risks, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products, and, if applicable, the impact on a director's independence. The Audit Committee shall approve only those agreements that, in light of known circumstances, are, or are not inconsistent with, our best interests, as the Audit Committee determines in the good faith exercise of its discretion.

In fiscal 2018, Infinera did not engage in any related party transactions.

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

The members of the Board, our executive officers and persons who hold more than 10% of our outstanding common stock are subject to the reporting requirements of Section 16(a) of the Exchange Act, which requires them to file reports with respect to their ownership of our common stock and certain transactions in our common stock. Based solely upon (i) the copies of Section 16(a) reports that we received from such persons for their fiscal 2018 transactions in our common stock and their common stock holdings and (ii) the written representations received from one or more of such persons, we believe that all reporting requirements under Section 16(a) were met in a timely manner during fiscal 2018.

## EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 29, 2018 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

<u>Plan Category</u>	<u>(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)</u>
Equity compensation plans approved by security holders .....	8,990,002 <sup>(1)</sup>	\$8.09	13,563,679 <sup>(2)</sup>
Equity compensation plans not approved by security holders .....	—	—	—
<b>Total</b> .....	<b>8,990,002</b>		<b>13,563,679</b>

<sup>(1)</sup> This amount includes the following:

- 1,114,785 shares issuable upon the exercise of outstanding stock options granted under the 2007 Plan.
- 6,746,308 shares subject to RSUs granted under the 2007 Plan and 2016 Plan. Since these awards have no exercise price, they are not included in the weighted average exercise price calculation in column (b).
- 1,128,909 shares issuable pursuant to outstanding stock awards that have been granted under the 2007 Plan, but not yet earned as of December 29, 2018. The number of shares, if any, to be issued pursuant to such outstanding awards will be determined based on certain performance metrics, as discussed above in the section entitled “Fiscal 2018 Compensation—Long-Term Incentive Compensation” in the Compensation Discussion and Analysis. Since these awards have no exercise price, they are not included in the weighted average exercise price calculation in column (b).

<sup>(2)</sup> This amount includes 4,835,326 shares of common stock available for future issuances under the 2007 ESPP.

## STOCKHOLDER PROPOSALS FOR 2020 ANNUAL MEETING

To be considered for inclusion in our Proxy Statement for the 2020 Annual Meeting of Stockholders (the “2020 Annual Meeting”), stockholder proposals must comply with our Bylaws and the requirements of Rule 14a-8 under the Exchange Act and be received by our Corporate Secretary at our principal executive offices no later than December 12, 2019, or no later than 120 calendar days before the one-year anniversary of the date on which we first mailed our Proxy Statement or Notice to stockholders in connection with this year’s Annual Meeting.

To be raised at the 2020 Annual Meeting, stockholder proposals must comply with our Bylaws. Under our Bylaws, a stockholder must give timely notice thereof in proper written form to our Corporate Secretary of any business, including nominations of directors for the Board that the stockholder wishes to raise at our 2020 Annual Meeting. To be timely, the stockholder notice must be received by our Corporate Secretary no later than February 25, 2020 nor earlier than January 26, 2020, or no later than the 45<sup>th</sup> day nor earlier than the 75<sup>th</sup> day before the one-year anniversary of the date on which we first mailed our proxy materials or a notice of availability of proxy materials (whichever is earlier) to stockholders in connection with this year’s Annual Meeting. To be in proper written form, the stockholder notice must contain a brief description of such business and the reasons for conducting such business at the meeting, as well as certain other information as set forth in greater detail in our Bylaws. In connection with a stockholder nomination of a candidate for the Board, the stockholder notice must also include certain information as set forth in our Bylaws about both the nominee and the stockholder making the nomination. If you wish to bring a stockholder proposal or nominate a candidate for director, you are advised to review our Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations. Our current Bylaws may be found on our website at [www.infinera.com](http://www.infinera.com) in the Corporate Governance section on our Investor Relations page.

Under Rule 14a-8 of the Exchange Act, if the date of the 2020 Annual Meeting changes by more than 30 days from the anniversary of this year’s Annual Meeting, to be included in our Proxy Statement, stockholder proposals must be received by us within a reasonable time before our solicitation is made.

Under our Bylaws, if the date of the 2020 Annual Meeting is advanced by more than 30 days prior to or delayed by more than 60 days after the one-year anniversary of the date of this year's Annual Meeting, then, for notice by the stockholder to be timely, it must be received by our Corporate Secretary no earlier than the close of business on the 120<sup>th</sup> day prior to the 2020 Annual Meeting and no later than the close of business on the later of (i) the 90<sup>th</sup> day prior to the 2020 Annual Meeting, or (ii) the tenth day following the day on which disclosure in a press release reported by GlobeNewswire, Associated Press or a comparable national news service or in a document publicly filed by Infinera with the SEC pursuant to Section 13, 14 or 15(d) of the Exchange Act of the date of the 2020 Annual Meeting is first made.

If we receive notice of a matter to come before the 2020 Annual Meeting that is not in accordance with the deadlines described above and as more fully set forth in our Bylaws and Rule 14a-8 of the Exchange Act, we will use our discretion in determining whether or not to bring such matter before the 2020 Annual Meeting. If such matter is brought before the 2020 Annual Meeting, then our proxy card for such meeting will confer upon our proxy holders' discretionary authority to vote on such matter.

### **DELIVERY OF DOCUMENTS TO STOCKHOLDERS SHARING THE SAME LAST NAME AND ADDRESS**

To reduce the expense of delivering duplicate proxy materials to stockholders who may have more than one account holding our common stock, but sharing the same address, we have adopted a procedure, approved by the SEC, called "householding." Under this procedure, stockholders who have the same last name and address, and who do not participate in electronic delivery of proxy materials, will receive only one copy of our Notice, and as applicable, any additional proxy materials that are delivered. This procedure reduces duplicate mailings and saves printing costs and postage fees, as well as natural resources. Stockholders who participate in "householding" will continue to have access to and utilize separate proxy voting instructions.

Once you have received notice from your broker that they will be "householding" communications to your address, "householding" will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in "householding" and would prefer to receive a separate set of proxy materials or if you would like an additional copy of any of the proxy materials, please notify your broker or direct your written request to Infinera Corporation, 140 Caspian Court, Sunnyvale, California 94089, Attention: Corporate Secretary, or call (408) 572-5200. Stockholders who currently receive multiple copies of the Proxy Statement at their address and would like to request "householding" of their communications should contact their broker.

## OTHER MATTERS

The Board knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board,

/s/ BRAD D. FELLER

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**Brad D. Feller**  
***Chief Financial Officer***

Sunnyvale, California  
April 10, 2019



**APPENDIX A—UNAUDITED RECONCILIATIONS FROM GAAP TO NON-GAAP**

**Infinera Corporation  
Unaudited Reconciliations from GAAP to Non-GAAP  
(In thousands)**

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
<b>Reconciliation of Revenue:</b>			
U.S. GAAP as reported	\$ 943,379	\$ 740,739	\$870,135
Acquisition-related deferred revenue adjustment	4,582	—	400
Non-GAAP as adjusted	<u>\$ 947,961</u>	<u>\$ 740,739</u>	<u>\$870,535</u>
<b>Reconciliation of Gross Profit:</b>			
U.S. GAAP as reported	\$ 321,156	\$ 244,000	\$393,718
Stock-based compensation	6,621	7,811	6,463
Acquisition-related deferred revenue adjustment	4,582	—	400
Amortization of acquired intangible assets	23,475	20,474	19,715
Acquisition-related inventory step-up expense	5,337	—	—
Acquisition and integration costs	132	46	144
Restructuring and other related costs	2,630	19,141	—
Non-GAAP as adjusted	<u>\$ 363,933</u>	<u>\$ 291,472</u>	<u>\$420,440</u>
<b>Reconciliation of Gross Margin:</b>			
U.S. GAAP as reported	34.0%	32.9%	45.2%
Stock-based compensation	0.7%	1.0%	0.7%
Acquisition-related deferred revenue adjustment	0.5%	—	0.1%
Amortization of acquired intangible assets	2.4%	2.8%	2.3%
Acquisition-related inventory step-up expense	0.5%	—	—
Restructuring and other related costs	0.3%	2.6%	—
Non-GAAP as adjusted	<u>38.4%</u>	<u>39.3%</u>	<u>48.3%</u>
<b>Reconciliation of Operating Income (Loss):</b>			
U.S. GAAP as reported	\$(185,679)	\$(183,087)	\$(25,774)
Stock-based compensation	43,409	45,720	40,533
Acquisition-related deferred revenue adjustment	4,582	—	400
Amortization of acquired intangible assets	52,771	26,634	25,904
Acquisition-related inventory step-up expense	5,337	—	—
Acquisition and integration costs	15,660	368	2,013
Restructuring and other related costs	15,142	35,247	—
Intangible asset impairment	—	252	11,295
Non-GAAP as adjusted	<u>\$ (48,778)</u>	<u>\$ (74,866)</u>	<u>\$ 54,371</u>
<b>Reconciliation of Operating Margin:</b>			
U.S. GAAP as reported	-19.7%	-24.7%	-3.0%
Stock-based compensation	4.6%	6.2%	4.7%
Acquisition-related deferred revenue adjustment	0.5%	—	—
Amortization of acquired intangible assets	5.6%	3.6%	3.0%
Acquisition-related inventory step-up expense	0.6%	—	—
Acquisition and integration costs	1.7%	—	0.2%
Restructuring and other related costs	1.6%	4.8%	—
Intangible asset impairment	—	—	1.3%
Non-GAAP as adjusted	<u>-5.1%</u>	<u>-10.1%</u>	<u>6.2%</u>

The non-GAAP measures of gross profit, gross margin, operating income (loss) and operating margin exclude restructuring and other related costs, non-cash stock-based compensation expenses, amortization and impairment of acquired intangible assets, acquisition and integration costs, and certain purchase accounting adjustments related to our acquisitions of Coriant and Transmode AB, along with related tax effects. We believe these adjustments are appropriate to enhance an overall understanding of our underlying financial performance and also our prospects for the future and are considered by management for the purpose of making operational decisions. In addition, these results are the primary indicators management uses as a basis for its planning and forecasting of future periods. The presentation of this additional information is not meant to be considered in isolation or as a substitute for net loss, basic and diluted net loss per share, gross margin or operating margin prepared in accordance with GAAP. Non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles and are subject to limitations.

**APPENDIX B—INFINERA CORPORATION 2016 EQUITY INCENTIVE PLAN**

**INFINERA CORPORATION  
2016 EQUITY INCENTIVE PLAN**

(as amended and restated on May 24, 2018, as amended , 2019)

1. Purposes of the Plan. The purposes of this Plan are:

- to attract and retain the best available personnel for positions of substantial responsibility,
- to provide additional incentive to Employees, Directors and Consultants, and
- to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units and Performance Shares.

2. Definitions. As used herein, the following definitions will apply:

(a) "Administrator" means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the legal and regulatory requirements relating to the administration of equity-based awards, including but not limited to U.S. federal and state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any non-U.S. country or jurisdiction where Awards are, or will be, granted under the Plan.

(c) "Award" means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares.

(d) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(e) "Board" means the Board of Directors of the Company.

(f) "Change in Control" means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, (A) the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control, and (B) if the stockholders of the Company immediately before the change in ownership continue to retain, immediately after the change in ownership, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately prior to the change in ownership, the direct or indirect beneficial ownership of fifty percent (50%) or more of the total voting power of the shares of the Company or of the ultimate parent entity of the Company, such event will not be considered a Change in Control; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions. For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

(iv) Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Section 409A. Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (x) its sole purpose is to change the jurisdiction of the Company's incorporation, or (y) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(g) "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(h) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board, or a duly authorized committee of the Board, in accordance with Section 4 hereof.

(i) "Common Stock" means the common stock of the Company.

(j) "Company" means Infinera Corporation, a Delaware corporation, or any successor thereto.

(k) "Consultant" means any natural person, including an advisor, engaged by the Company or a Parent or Subsidiary to render bona fide services to such entity, provided the services (i) are not in connection with the offer or sale of securities in a capital-raising transaction, and (ii) do not directly promote or maintain a market for the Company's securities, in each case, within the meaning of Form S-8 promulgated under the Securities Act, and provided, further, that a Consultant will include only those persons to whom the issuance of Shares may be registered under Form S-8 promulgated under the Securities Act.

(l) "Director" means a member of the Board.

(m) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(n) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute "employment" by the Company.

(o) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(p) "Exchange Program" means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for awards of the same type (which may have higher or lower exercise prices and different terms), awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is increased or reduced. For the avoidance of doubt, as set forth in Section 5(e), the Administrator may not implement an Exchange Program.

(q) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, the NASDAQ Global Select Market, the NASDAQ Global Market or the NASDAQ Capital Market of The NASDAQ Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination (or, if no bids and asks were reported on that date, as applicable, on the last trading date such bids and asks were reported), as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

Notwithstanding the foregoing under this Section 2(q), for federal, state and local income tax reporting purposes, fair market value will be determined by the Company (or its delegate) in accordance with uniform and nondiscriminatory standards adopted by it from time to time.

(r) "Fiscal Year" means the fiscal year of the Company.

(s) "Incentive Stock Option" means an Option that by its terms qualifies and otherwise is intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(t) "Initial Value" means (i) with respect to any Option or Stock Appreciation Right, the value of such Option or Stock Appreciation Right calculated in accordance with the Black-Scholes option valuation methodology on the grant date, and (ii) with respect to any Award other than an Option or Stock Appreciation Right, the product of (A) the Fair Market Value of one Share on the grant date of the Award and (B) the aggregate number of Shares subject to the Award, as applicable.

(u) "Inside Director" means a Director who is an Employee.

(v) "Nonstatutory Stock Option" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(w) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(x) "Option" means a stock option granted pursuant to the Plan.

(y) "Outside Director" means a Director who is not an Employee.

(z) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(aa) "Participant" means the holder of an outstanding Award.

(bb) "Performance Goals" means performance goals relating to one or more business criteria, which may provide for a targeted level or levels of achievement including without limitation: (i) revenue; (ii) gross margin; (iii) operating margin; (iv) operating income; (v) pre-tax profit; (vi) earnings before stock-based compensation

expense, interest, taxes and depreciation and amortization; (vii) earnings before interest, taxes and depreciation and amortization; (viii) earnings before interest and taxes; (ix) net income; (x) expenses; (xi) new product development; (xii) stock price; (xiii) earnings per share; (xiv) return on stockholder equity; (xv) return on capital; (xvi) return on net assets; (xvii) economic value added; (xviii) market share; (xix) customer service; (xx) customer satisfaction; (xxi) sales; (xxii) total stockholder return; (xxiii) free cash flow; (xxiv) net operating income; (xxv) operating cash flow; (xxvi) return on investment; (xxvii) employee satisfaction; (xxviii) employee retention; (xxix) balance of cash, cash equivalents and marketable securities; (xxx) product development; (xxxii) research and development expenses; (xxxiii) completion of an identified special project; (xxxiv) completion of a joint venture or other corporate transaction; (xxxv) inventory balance; or (xxxvi) inventory turnover ratio. Any criteria used may be measured, as applicable, (A) in absolute terms, (B) in combination with another Performance Goal or Goals (for example, but not by way of limitation, as a ratio or matrix), (C) in relative terms (including, but not limited to, results for other periods, passage of time and/or against another company or companies or an index or indices), (D) on a per-share or per-capita basis, (E) against the performance of the Company as a whole or a segment of the Company (including, but not limited to, any combination of the Company and any subsidiary, division, business unit, joint venture and/or other segment), and/or (F) on a pre-tax or after-tax basis. The Performance Goals may differ from Participant to Participant and from Award to Award. The Administrator will determine whether any significant element(s) will be included in or excluded from the calculation of any Performance Goal with respect to any Participant. In all other respects, Performance Goals will be calculated in accordance with the Company's financial statements, generally accepted accounting principles, or under a methodology established by the Administrator prior to the issuance of an Award.

(cc) "Performance Period" means the time period of any Fiscal Year of the Company or such other period as determined by the Administrator in its sole discretion.

(dd) "Performance Share" means an Award denominated in Shares which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine pursuant to Section 11.

(ee) "Performance Unit" means an Award which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 11.

(ff) "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, continued service, the achievement of target levels of performance, the achievement of Performance Goals, or the occurrence of other events as determined by the Administrator.

(gg) "Plan" means this 2016 Equity Incentive Plan, as may be amended from time to time.

(hh) "Restricted Stock" means Shares issued pursuant to a Restricted Stock award under Section 8 of the Plan, or issued pursuant to the early exercise of an Option.

(ii) "Restricted Stock Unit" means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 9. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(jj) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(kk) "Securities Act" means the Securities Act of 1933, as amended.

(ll) "Section 16(b)" means Section 16(b) of the Exchange Act.

(mm) "Section 409A" means Section 409A of the Code and the final regulations and any guidance promulgated thereunder, as may be amended from time to time.

(nn) "Service Provider" means an Employee, Director or Consultant.

(oo) "Share" means a share of the Common Stock, as adjusted in accordance with Section 14 of the Plan.

(pp) "Stock Appreciation Right" means an Award, granted alone or in connection with an Option, that pursuant to Section 10 is designated as a Stock Appreciation Right.

(qq) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

(rr) "Tax Obligations" means tax, social insurance and social security liability obligations and requirements in connection with the Awards, including, without limitation, (i) all federal, state, and local income, employment and any other taxes (including the Participant's Federal Insurance Contributions Act (FICA) obligation) that are required to be withheld by the Company (or Company's Parent or Subsidiary, as applicable), (ii) the Participant's and, to the extent required by the Company (or its Parent or Subsidiary, as applicable), the Company's (or its Parent's or Subsidiary's) fringe benefit tax liability, if any, associated with the grant, vesting, or exercise of an Award or sale of Shares issued under the Award, and (iii) any other taxes or social insurance or social security liabilities or premium the responsibility for which the Participant has, or has agreed to bear, with respect to such Award (or exercise thereof or issuance of Shares or other consideration thereunder).

### 3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 14 of the Plan, the maximum aggregate number of Shares that may be issued under the Plan is (i) 22,700,000 Shares, plus (ii) any Shares subject to awards granted under the Company's 2007 Equity Incentive Plan (the "Existing Plan") that, after the effective date of the Plan, expire, are forfeited or otherwise terminate without having been exercised in full to the extent such awards were exercisable, and Shares issued pursuant to awards granted under the Existing Plan that, after the effective date of the Plan, are forfeited to or repurchased by the Company due to failure to vest, with the maximum number of Shares to be added to the Plan pursuant to clause (ii) equal to 7,700,000 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Lapsed Awards. Shares that actually have been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan (unless repurchased as specified in this subsection (b) below). If an Option or Stock Appreciation Right Award expires or becomes unexercisable without having been exercised in full, the unexercised Shares which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). If an Award of Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares (eh, a "Full Value Award") is forfeited or repurchased by the Company due to failure to vest, then the forfeited or repurchased Shares subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to Stock Appreciation Rights settled in Shares, the gross number of Shares covered by the portion of the Award so exercised will cease to be available under the Plan. Shares used to pay the exercise or purchase price of an Award will cease to be available for future grant or sale under the Plan. Shares used to satisfy the Tax Obligations related to an Option or Stock Appreciation Right will not become available for future grant or sale under the Plan. Shares used to satisfy the Tax Obligations related to a Full Value Award will be available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. For purposes of clarification, no Shares purchased by the Company with proceeds received from the exercise of an Option will become available for issuance under this Plan or the Existing Plan. Notwithstanding the foregoing and, subject to adjustment as provided in Section 14, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to Section 3(b).

(c) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.



#### 4. Administration of the Plan.

##### (a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iii) Other Administration. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;

(vi) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(vii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws or for qualifying for favorable tax treatment under applicable foreign laws;

(viii) to modify or amend each Award (subject to Section 5 and Section 19 of the Plan), including but not limited to the discretionary authority to extend the post-termination exercisability period of Awards;

(ix) to allow Participants to satisfy Tax Obligations in such manner as prescribed in Section 15 of the Plan;

(x) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xi) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award; and

(xii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards and will be given the maximum deference permitted by law.

## 5. Limits.

(a) Share Limits. Subject to Section 14, the limits specified below shall be applicable to Awards issued under the Plan:

(i) Limits on Options. No Participant shall receive Options during any Fiscal Year covering in excess of 1,500,000 Shares; provided, however, that in connection with a Participant's initial service as an Employee, the Participant may be granted Options covering up to an additional 1,500,000 Shares.

(ii) Limits on Stock Appreciation Rights. No Participant shall receive Stock Appreciation Rights during any Fiscal Year covering in excess of 1,500,000 Shares; provided, however, that in connection with a Participant's initial service as an Employee, the Participant may be granted Stock Appreciation Rights covering up to an additional 1,500,000 Shares.

(iii) Limits on Restricted Stock. No Participant shall receive Awards of Restricted Stock during any Fiscal Year covering in excess of 1,500,000 Shares; provided, however, that in connection with a Participant's initial service as an Employee, the Participant may be granted an aggregate of up to an additional 1,500,000 Shares of Restricted Stock.

(iv) Limits on Restricted Stock Units. No Participant shall receive Restricted Stock Units during any Fiscal Year covering in excess of 1,500,000 Shares; provided, however, that in connection with a Participant's initial service as an Employee, the Participant may be granted an aggregate of up to an additional 1,500,000 Restricted Stock Units.

(v) Limits on Performance Shares. No Participant shall receive Performance Shares during any Fiscal Year covering in excess of 1,500,000 Shares; provided, however, that in connection with a Participant's initial service as an Employee, the Participant may be granted up to an additional 1,500,000 Performance Shares.

(vi) Limits on Performance Units. No Participant shall receive Performance Units with an aggregate Initial Value of greater than \$7,500,000.

(b) Outside Director Share Limits. No Outside Director may be granted, in any Fiscal Year, Awards (the value of which will be based on their grant date fair value determined in accordance with U.S. generally accepted accounting principles) and any other compensation (including without limitation any cash retainers or fees) that, in the aggregate, exceed \$750,000, provided that such amount is increased to \$1,000,000 in the Fiscal Year of his or her initial service as an Outside Director. Any Awards or other compensation provided to an individual for his or her services as an Employee, or for his or her services as a Consultant other than an Outside Director, will be excluded for purposes of this Section 5(b).

### (c) Vesting Limits.

(i) One-Year Vesting Requirement. Awards granted under the Plan shall vest no earlier than the one (1) year anniversary of the Award's date of grant, provided that the Administrator, in its sole discretion, may provide an Award may accelerate vesting by reason of the Participant's death, Disability or retirement, or a termination of the Participant's service that occurs in connection with a Change in Control, and provided further, that, notwithstanding the foregoing in this sentence, Awards that result in the issuance of an aggregate of up to 5% of the Shares reserved for issuance under Section 3(a) may be granted to Service Providers, or outstanding Awards modified, without regard to such minimum vesting, exercisability and distribution provisions.

(ii) Limited Vesting Acceleration upon a Change in Control. Except (x) as permitted under Section 5(c)(i) and (y) for any Awards made to Outside Directors, the Administrator shall not be permitted to accelerate the vesting of an Award upon a Change in Control other than in the event an Award is not assumed or substituted for as provided for in Section 14(c). For purposes of clarification, the Administrator will be permitted to provide for the acceleration of an Award in connection with a termination of service upon or in connection with a Change in Control.

(d) Incentive Stock Options.

(i) \$100,000 Limitation. Notwithstanding any designation of an Option as an Incentive Stock Option, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds one hundred thousand dollars (\$100,000), the portion of the Options falling within such limit will be Incentive Stock Options and the excess Options will be treated as Nonstatutory Stock Options. For these purposes, Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(ii) Maximum Option Term. In the case of an Incentive Stock Option, the term of an Option will be ten (10) years from the date of grant or such shorter term as may be provided by the Administrator and set forth in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

(iii) Option Exercise Price. In the case of an Incentive Stock Option granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant. An Incentive Stock Option granted to any Employee other than an Employee described in immediately preceding sentence, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant. Notwithstanding the foregoing provisions of this subsection (iii), Incentive Stock Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(e) No Exchange Program or Repricing. The Administrator may not implement an Exchange Program.

6. Eligibility. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

7. Stock Options.

(a) Grant of Options. Subject to the terms and conditions of the Plan, an Option may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion. Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option.

(b) Number of Shares. The Administrator will have complete discretion to determine the number of Shares subject to Options granted to any Participant, provided that during any Fiscal Year, no Participant will be granted Options covering more than 1,500,000 Shares. Notwithstanding the foregoing limitation, in connection with a Participant's initial service as an Employee, the Participant may be granted Options covering up to an additional 1,500,000 Shares.

(c) Term of Option. The term of each Option will be determined by the Administrator and stated in the Award Agreement, but in no event shall the term of an Option be more than ten (10) years from the date of grant.

(d) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, but shall in no event be less than one hundred percent (100%)

of the Fair Market Value per Share on the date of grant, subject to Section 5. Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of: (1) cash; (2) check; (3) promissory note, to the extent permitted by Applicable Laws, (4) other Shares, provided that such Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option will be exercised and provided that accepting such Shares will not result in any adverse accounting consequences to the Company, as the Administrator determines in its sole discretion; (5) consideration received by the Company under a broker-assisted (or other) cashless exercise program (whether through a broker or otherwise) implemented by the Company in connection with the Plan; (6) by net exercise; (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (8) any combination of the foregoing methods of payment.

(e) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 14 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than as the result of the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination of Participant's status as a Service Provider (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the termination of Participant's status as a Service Provider, but in no event later than the expiration of the term of such Option as set forth in the Award Agreement. Unless otherwise provided by the Administrator, if on the date of termination of Participant's status as a Service Provider, the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of death (but in no event may the Option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following termination of Participant's status as a Service Provider, but in no event later than the expiration of the term of such Option as set forth in the Award Agreement. Unless otherwise provided by the Administrator, if on the date of termination of Participant's status as a Service Provider, the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination of Participant's status as a Service Provider (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following termination of Participant's status as a Service Provider, but in no event may the Option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

In the event that the Participant dies while a Service Provider, but before the expiration of the Participant's Option as set forth in subsections (iii) or (iv), as applicable, all or part of the Option (to the extent vested) may be exercised (prior to expiration) by the Participant's designated beneficiary, provided such beneficiary has been properly designated prior to Participant's death in a form acceptable to the Administrator and to the extent permitted by Applicable Law. In the absence of such designated beneficiary (or to the extent not permitted by Applicable Law), such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution.

## 8. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction (if any), the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Unless the Administrator determines otherwise, the Company as escrow agent will hold Shares of Restricted Stock until the restrictions on such Shares have lapsed.

(c) Transferability. Except as provided in this Section 8 or the Award Agreement, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) Removal of Restrictions. Except as otherwise provided in this Section 8, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction or at such other time as the Administrator may determine. Subject to the vesting limitations under Section 5, the Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares, unless the Administrator provides otherwise. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

#### 9. Restricted Stock Units.

(a) Grant. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. Each Restricted Stock Unit grant will be evidenced by an Award Agreement that will specify such terms and conditions as the Administrator in its sole discretion determines, including all terms, conditions, and restrictions related to the grant, the number of Restricted Stock Units and the form of payout, which, subject to Section 9(d), may be left to the discretion of the Administrator.

(b) Vesting Criteria and Other Terms. The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, divisional, business unit, or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws or any other basis determined by the Administrator in its sole discretion.

(c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as determined by the Administrator. Notwithstanding the foregoing, subject to the vesting limitations under Section 5, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout.

(d) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) determined by the Administrator and set forth in the Award Agreement. The Administrator, in its sole discretion, may pay earned Restricted Stock Units in cash, Shares, or a combination of both.

(e) Cancellation. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

#### 10. Stock Appreciation Rights.

(a) Grant of Stock Appreciation Rights. Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(b) Number of Shares. The Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Service Provider.

(c) Exercise Price and Other Terms. The per share exercise price for the Shares to be issued pursuant to exercise of a Stock Appreciation Right will be determined by the Administrator and will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant. Otherwise, the Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan.



(d) Stock Appreciation Right Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) Expiration of Stock Appreciation Rights. A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 7(c) relating to the maximum term and Section 7(e) relating to exercise also will apply to Stock Appreciation Rights.

(f) Payment of Stock Appreciation Right Amount. Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

#### 11. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant.

(b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Participant. Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, business unit or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

(d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, subject to the vesting limitations under Section 5, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.



(f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

12. Service Provider Status.

(a) Leaves of Absence/Transfer Between Locations. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Service Provider will not cease to be an Employee or Director in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no leave of absence may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six (6) months following the first (1st) day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

13. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

14. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, reincorporation, reclassification, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, and the numerical Share limits in Sections 3 and 5 of the Plan.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a merger of the Company with or into another corporation or other entity or a Change in Control, each outstanding Award will be treated as the Administrator determines, in accordance with the following (i) Awards will be assumed or an equivalent option or right substituted by the acquiring or succeeding corporation or a Parent or Subsidiary thereof, (ii) upon written notice to a Participant and subject to the next paragraph, that the Participant's Awards will terminate upon or immediately prior to the consummation of such merger or Change in Control; (iii) subject to the next paragraph, (A) the termination of an Award in exchange for an amount of cash and/or property, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights as of the date of the occurrence of the transaction (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction the Administrator determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment), or (B) the replacement of such Award with other rights or property selected by the Administrator in its sole discretion; or (iv) any combination of the foregoing. The Administrator will not be required to treat all Awards, all Awards held by a Participant, or all Awards of the same type, similarly in the transaction.

In the event that the successor corporation does not assume or substitute for the Award (and for the avoidance of doubt, notwithstanding the vesting limitations under Section 5) (or portion of the Award), (A) the Participant will fully vest in and have the right to exercise such outstanding Option and Stock Appreciation Right,

including Shares as to which such Award would not otherwise be vested or exercisable, (B) all restrictions on such Restricted Stock and Restricted Stock Units will lapse, and (C) with respect to such Award with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved based on actual performance measured through the last date that the Award remains outstanding (or such earlier date, as determined by the Administrator, in its sole discretion), with any performance period shortened proportionately and applicable performance goals or other vesting criteria adjusted proportionately to reflect the shortened performance period (or to the extent applicable, the value of the consideration to be received by the Company's stockholders in connection with the merger or Change in Control), as determined by the Administrator, in its sole discretion. In addition, if an Option or Stock Appreciation Right is not assumed or substituted in the event of a merger or Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subsection (c), an Award will be considered assumed if, following the merger or Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the merger or Change in Control, the consideration (whether stock, cash, or other securities or property) received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Unit or Performance Share, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or Change in Control.

Notwithstanding anything in this Section 14(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

Notwithstanding anything in this Section 14(c) to the contrary, if a payment under an Award Agreement is subject to Section 409A and if the change in control definition contained in the Award Agreement does not comply with the definition of "change in control" for purposes of a distribution under Section 409A, then any payment of an amount that otherwise is accelerated under this Section will be delayed until the earliest time that such payment would be permissible under Section 409A without triggering any penalties applicable under Section 409A.

## 15. Tax.

(a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof) or such earlier time as any Tax Obligations are due, the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy all Tax Obligations with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such Tax Obligation, in whole or in part by (without limitation) (a) paying cash, (b) having the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld, (c) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld, provided the delivery of such Shares will not result in adverse accounting consequences as the Administrator determines in its sole discretion, or (d) selling a sufficient number of Shares otherwise deliverable to the Participant through such means as the Administrator may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that such Shares are withheld or delivered, as applicable.

(c) Compliance with Section 409A. Awards will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Section 409A such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Section 409A, except as otherwise determined in the sole discretion of the Administrator. The Plan and each Award Agreement under the Plan is intended to meet the requirements of Section 409A and will be construed and interpreted in accordance with such intent, except as otherwise determined in the sole discretion of the Administrator. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Section 409A the Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Section 409A, such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Section 409A. Notwithstanding the foregoing, in no event will the Company or any Parent, Subsidiary or other affiliate of the Company have any liability or obligation to reimburse, indemnify, or hold harmless any Participant for any taxes, interest, or penalties imposed, or other costs incurred, as a result of Section 409A.

16. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company or any Parent or Subsidiary, nor will they interfere in any way with the Participant's right or the right of the Company or any Parent or Subsidiary, as applicable, to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

17. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

18. Term of Plan. Subject to Section 23 of the Plan, the Plan will become effective upon approval of the Plan by the stockholders of the Company. It will continue in effect for a term of ten (10) years from the date of such stockholder approval, unless terminated earlier under Section 19 of the Plan.

19. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Administrator may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

20. Forfeiture Events. The Administrator may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award will be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Notwithstanding any contrary provisions to the contrary under this Plan, an Award shall be subject to the Company's clawback policy as may be established and/or amended from time to time (the "Clawback Policy"). The Administrator may require a Participant to forfeit, return or reimburse the Company all or a portion of the Award and any amounts paid thereunder pursuant to the terms of the Clawback Policy or as necessary or appropriate to comply with Applicable Laws.

21. Conditions upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

22. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction or to complete or comply with the requirements of any registration or other qualification of the Shares under any state, federal or foreign law or under the rules and regulations of the Securities and Exchange Commission, the stock exchange on which Shares of the same class are then listed, or any other governmental or regulatory body, which authority, registration, qualification or rule compliance is deemed by the Company's counsel to be necessary or advisable for the issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority, registration, qualification or rule compliance will not have been obtained.

23. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

24. Captions. Captions are provided herein for convenience only, and will not serve as a basis for interpretation or construction of the Plan.

## **APPENDIX C—INFINERA CORPORATION 2007 EMPLOYEE STOCK PURCHASE PLAN**

### **INFINERA CORPORATION**

#### **2007 EMPLOYEE STOCK PURCHASE PLAN**

(as amended and restated on May 24, 2018, as amended , 2019)

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Companies with an opportunity to purchase Common Stock through accumulated Contributions. The Company's intention is to have the Plan include two components: (i) a Code Section 423 Component (the "Section 423 Component"), which the Company intends to qualify as an "employee stock purchase plan" under Section 423 of the Code (although the Company makes no undertaking or representation to maintain such qualification); and (ii) a non-Code Section 423 Component (the "Non-Section 423 Component"), which the Company does not intend to qualify as an "employee stock purchase plan" under Section 423 of the Code. The provisions of the Plan, accordingly, will be construed so as to extend and limit Plan participation consistent with the foregoing intent.

#### 2. Definitions.

(a) "Administrator" means the Board or any Committee designated by the Board to administer the Plan pursuant to Section 14.

(b) "Applicable Laws" means the requirements relating to the administration of equity-based awards, including but not limited to the related issuance of shares of Common Stock, under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any non-U.S. country or jurisdiction where options are, or will be, granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Change in Control" means the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; or

(iii) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation; or

(iv) A change in the composition of the Board occurring within a two (2) year period, as a result of which less than a majority of the Directors are Incumbent Directors. "Incumbent Directors" means Directors who either (A) are Directors as of the effective date of the Plan, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of Directors to the Company).

(e) "Code" means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.

(f) "Committee" means a committee of the Board appointed in accordance with Section 14 hereof.

(g) "Common Stock" means the common stock of the Company.

(h) "Company" means Infinera Corporation, a Delaware corporation.

(i) "Compensation" means an Employee's base straight time gross earnings, commissions (to the extent such commissions are an integral, recurring part of compensation), overtime and shift premium, but exclusive of payments for incentive compensation, bonuses and other compensation.

(j) "Contributions" means payroll deductions (to the extent permitted under Applicable Laws) and any other contributions the Company may allow to be made by a participant to fund the purchase of shares of Common Stock under the Plan if payroll deductions are not permitted or advisable under Applicable Laws.

(k) "Designated Company" means any Subsidiary that has been designated by the Administrator from time to time in its sole discretion as eligible to participate in the Plan. At any given time a Subsidiary that is a Designated Company under the Section 423 Component shall not be a Designated Company under the Non-Section 423 Component. The Committee may provide that any Designated Company shall only be eligible to participate in the Non-Section 423 Component.

(l) "Director" means a member of the Board.

(m) "Eligible Employee" means any individual who is a common law employee of an Employer and is customarily employed for at least twenty (20) hours per week and more than five (5) months in any calendar year by the Employer. For purposes of the Plan, the employment relationship will be treated as continuing intact while the individual is on sick leave or other leave of absence that the Employer approves or is legally protected under Applicable Laws. Where the period of leave exceeds three (3) months and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated on the date three (3) months and one (1) day following the commencement of such leave. The Administrator, in its discretion, from time to time may, prior to an Offering Date for all options to be granted on such Offering Date in an Offering, determine (on a uniform and nondiscriminatory basis) that the definition of Eligible Employee will or will not include an individual if he or she: (i) has not completed at least two (2) years of service since his or her last hire date (or such lesser period of time as may be determined by the Administrator in its discretion), (ii) customarily works not more than twenty (20) hours per week (or such lesser period of time as may be determined by the Administrator in its discretion), (iii) customarily works not more than five (5) months per calendar year (or such lesser period of time as may be determined by the Administrator in its discretion), (iv) is a highly compensated employee within the meaning of Section 414(q) of the Code, or (v) is a highly compensated employee within the meaning of Section 414(q) of the Code with compensation above a certain level or is an officer or subject to the disclosure requirements of Section 16(a) of the Exchange Act, provided the exclusion is applied with respect to each Offering in an identical manner to all highly compensated individuals of the Employer whose Eligible Employees are participating in that Offering. Each exclusion shall be applied with respect to an Offering in a manner complying with U.S. Treasury Regulation Section 1.423-2(e)(2)(ii).

(n) "Employer" means any one or all of the Company and its Designated Companies.

(o) "Exchange Act" means the Securities Exchange Act of 1934, as amended, including the rules and regulations promulgated thereunder.

(p) "Exercise Date" means the first Trading Day on or after February 15 and August 15 of each year.

(q) "Fair Market Value" means, as of any date and unless the Administrator determines otherwise, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market of The Nasdaq Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the date of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value will be the mean of the closing bid and asked prices for the Common Stock on



the date of determination (or if no bids and asks were reported on that date, on the last day such bids and asks were reported), as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof will be determined in good faith by the Administrator.

(r) "Fiscal Year" means the fiscal year of the Company.

(s) "New Exercise Date" means a new Exercise Date set by shortening any Offering Period then in progress.

(t) "Non-Section 423 Component" means the part of the Plan that is not intended to meet the requirements set forth in Section 423 of the Code.

(u) "Offering" means an offer under the Plan of an option that may be exercised during an Offering Period as further described in Section 4. For purposes of the Plan, the Administrator may designate separate Offerings under the Plan (the terms of which need not be identical) in which Eligible Employees of one or more Eligible Employers will participate, even if the dates of the applicable Offering Periods of each such Offering are identical and the provisions of the Plan will separately apply to each Offering. To the extent permitted by U.S. Treasury Regulation Section 1.423-2(a)(1), the terms of each Offering need not be identical provided that the terms of the Plan and an Offering together satisfy U.S. Treasury Regulation Section 1.423-2(a)(2) and (a)(3).

(v) "Offering Date" means the first Trading Day of each Offering Period.

(w) "Offering Periods" means the periods of approximately six (6) months during which an option granted pursuant to the Plan may be exercised, (i) commencing on the first Trading Day on or after February 15 of each year and terminating on the first Trading Day on or following August 15, approximately six (6) months later, and (ii) commencing on the first Trading Day on or after August 15 of each year and terminating on the first Trading Day on or following February 15, approximately six (6) months later. The duration and timing of Offering Periods may be changed pursuant to Sections 4 and 20.

(x) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(y) "Plan" means this Infinera Corporation 2007 Employee Stock Purchase Plan, as amended from time to time.

(z) "Purchase Period" means the period during an Offering Period in which shares of Common Stock may be purchased on a participant's behalf in accordance with the terms of the Plan. Unless and until the Administrator provides otherwise, the Purchase Period will have the same duration and coincide with the length of the Offering Period.

(aa) "Purchase Price" means an amount equal to eighty-five percent (85%) of the Fair Market Value of a share of Common Stock on the Offering Date or on the Exercise Date, whichever is lower; provided however, that the Purchase Price may be determined for subsequent Offering Periods by the Administrator subject to compliance with Section 423 of the Code (or any successor rule or provision or any other Applicable Laws) or pursuant to Section 20.

(bb) "Section 423 Component" means the part of the Plan, which excludes the Non-Section 423 Component, pursuant to which options to purchase shares of Common Stock that satisfy the requirements for "employee stock purchase plans" set forth in Section 423 of the Code may be granted to Eligible Employees.

(cc) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

(dd) "Trading Day" means a day on which the national stock exchange upon which the Common Stock is listed is open for trading.



### 3. Eligibility.

(a) Offering Periods. Any Eligible Employee on a given Offering Date will be eligible to participate in the Plan, subject to the requirements of Section 5.

(b) Non-U.S. Employees. Eligible Employees who are citizens or residents of a non-U.S. jurisdiction (without regard to whether they also are citizens or residents of the United States or resident aliens (within the meaning of Section 7701(b)(1)(A) of the Code)) may be excluded from participation in an Offering under Section 423 of the Plan if the participation of such Employees is prohibited under the laws of the applicable jurisdiction or if complying with the laws of the applicable jurisdiction would cause the Offering to violate Section 423 of the Code. Non-U.S. Employees may participate in an Offering under the Non-Section 423 Component.

(c) Limitations. Any provisions of the Plan to the contrary notwithstanding, no Eligible Employee will be granted an option under the Plan (i) to the extent that, immediately after the grant, such Eligible Employee (or any other person whose stock would be attributed to such Eligible Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company or any Parent or Subsidiary of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Parent or Subsidiary of the Company, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans (as defined in Section 423 of the Code) of the Company or any Parent or Subsidiary of the Company accrues at a rate which exceeds twenty-five thousand dollars (\$25,000) worth of stock (determined at the Fair Market Value of the stock at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan will be implemented by consecutive Offering Periods with a new Offering Period commencing on the first Trading Day on or after February 15 and August 15 each year, or on such other date as the Administrator will determine. The Administrator will have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future Offerings without stockholder approval if such change is announced prior to the scheduled beginning of the first Offering Period to be affected thereafter; provided, however, that no Offering Period may last more than twenty-seven (27) months.

5. Participation. An Eligible Employee may participate in the Plan pursuant to Section 3(a) by (i) submitting to the Company's payroll office (or its designee), on or before a date prescribed by the Administrator prior to an applicable Offering Date, a properly completed subscription agreement authorizing Contributions in the form provided by the Administrator for such purpose, or (ii) following an electronic or other enrollment procedure prescribed by the Administrator.

### 6. Contributions.

(a) At the time a participant enrolls in the Plan pursuant to Section 5, he or she will elect to have Contributions made on each pay day during the Offering Period in an amount not exceeding fifteen percent (15%) of the Compensation, in whole percentages only, which he or she receives on each pay day during the Offering Period; provided, however, that should a pay day occur on an Exercise Date, a participant will have the Contributions made on such day applied to his or her account under the subsequent Purchase or Offering Period. A participant's subscription agreement will remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(b) Contributions for a participant will commence on the first pay day following the Offering Date and will end on the last pay day prior to the Exercise Date of such Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

(c) All Contributions made for a participant will be credited to his or her account under the Plan and will be withheld in whole percentages only. A participant may not make any additional payments into such account, unless required by Applicable Laws.

(d) A participant may discontinue his or her participation in the Plan as provided in Section 10, or may decrease (but not increase) the rate of his or her Contributions during the Offering Period by (i) properly

completing and submitting to the Company's payroll office (or its designee), on or before a date prescribed by the Administrator prior to an applicable Exercise Date, a new subscription agreement authorizing the change in Contribution rate in the form provided by the Administrator for such purpose, or (ii) following an electronic or other procedure prescribed by the Administrator; provided, however, that a participant may only make one Contribution change during each Offering Period. A participant may increase or decrease the rate of his or her Contributions for future Offering Periods by (x) properly completing and submitting to the Company's payroll office (or its designee), on or before a date prescribed by the Administrator prior to an applicable Offering Period, a new subscription agreement authorizing the change in Contribution rate in the form provided by the Administrator for such purpose, or (y) following an electronic or other procedure prescribed by the Administrator. If a participant has not followed such procedures to change the rate of Contributions, the rate of his or her Contributions will continue at the originally elected rate throughout the Offering Period and future Offering Periods (unless terminated as provided in Section 10). The Administrator may, in its sole discretion, limit the nature and/or number of Contribution rate changes that may be made by participants during any Offering Period. Any change in Contribution rate made pursuant to this Section 6(d) will be effective as of the first full payroll period following five (5) business days after the date on which the change is made by the participant (unless the Administrator, in its sole discretion, elects to process a given change in Contribution rate more quickly).

(e) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(c), a participant's Contributions may be decreased to zero percent (0%) at any time during an Offering Period. Subject to Section 423(b)(8) of the Code and Section 3(c) hereof, Contributions will recommence at the rate originally elected by the participant effective as of the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10.

(f) At the time the option is exercised, in whole or in part, or at the time some or all of the Common Stock issued under the Plan is disposed of (or any other time that a taxable event related to the Plan occurs), the participant must make adequate provision for the Company's or Employer's federal, state, local, or any other tax liability payable to any authority including taxes imposed by jurisdictions outside of the U.S., national insurance, social insurance contributions, social security, payroll tax, fringe benefits tax, payment on account or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock (or any other time that a taxable event related to the Plan occurs). At any time, the Company or the Employer may, but will not be obligated to, withhold from the participant's compensation or other payments made to the participant the amount necessary for the Company or the Employer to meet applicable withholding obligations, including any withholding required to make available to the Company or the Employer any tax deductions or benefits attributable to sale or early disposition of Common Stock by the participant. In addition, the Company or the Employer may, but will not be obligated to, withhold from the proceeds of the sale of Common Stock or any other method of withholding the Company or the Employer deems appropriate to the extent permitted by U.S. Treasury Regulation Section 1.423-2(f) for Offerings under the Section 423 Component and Applicable Laws for Offerings under the Non-Section 423 Component.

7. Grant of Option. On the Offering Date of each Offering Period, each Eligible Employee participating in such Offering Period will be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of Common Stock determined by dividing such Eligible Employee's Contributions accumulated prior to such Exercise Date and retained in the Eligible Employee's account as of the Exercise Date by the applicable Purchase Price; provided that in no event will an Eligible Employee be permitted to purchase during each Offering Period more than 3,000 shares of the Common Stock (subject to any adjustment pursuant to Section 19), and provided further that such purchase will be subject to the limitations set forth in Sections 3(c) and 13. The Eligible Employee may accept the grant of such option by electing to participate in the Plan in accordance with the requirements of Section 5. The Administrator may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of Common Stock that an Eligible Employee may purchase during each Offering Period and/or each Purchase Period of an Offering Period. Exercise of the option will occur as provided in Section 8, unless the participant has withdrawn pursuant to Section 10. The option will expire on the last day of the Offering Period.

8. Exercise of Option.

(a) Unless a participant withdraws from the Plan as provided in Section 10, his or her option for the purchase of shares of Common Stock will be exercised automatically on the Exercise Date, and the maximum number of full

shares subject to option will be purchased for such participant at the applicable Purchase Price with the accumulated Contributions in his or her account. No fractional shares of Common Stock will be purchased; any Contributions accumulated in a participant's account which are not sufficient to purchase a full share will be retained in the participant's account for the subsequent Purchase Period and/or Offering Period, as applicable, subject to earlier withdrawal by the participant as provided in Section 10. Any other funds left over in a participant's account after the Exercise Date will be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

(b) If the Administrator determines that, on a given Exercise Date, the number of shares of Common Stock with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Offering Date of the applicable Offering Period, or (ii) the number of shares of Common Stock available for sale under the Plan on such Exercise Date, the Administrator may in its sole discretion provide that the Company will make a pro rata allocation of the shares of Common Stock available for purchase on such Offering Date or Exercise Date, as applicable, in as uniform a manner as will be practicable and as it will determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect or terminate all Offering Periods then in effect pursuant to Section 20. The Company may make a pro rata allocation of the shares available on the Offering Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's stockholders subsequent to such Offering Date.

9. Delivery. As soon as reasonably practicable after each Exercise Date on which a purchase of shares of Common Stock occurs, the Company will arrange the delivery to each participant the shares purchased upon exercise of his or her option in a form determined by the Administrator (in its sole discretion) and pursuant to rules established by the Administrator. The Company may permit or require that shares be deposited directly with a broker designated by the Company or to a trustee or designated agent of the Company, and the Company may utilize electronic or automated methods of share transfer. The Company may require that shares be retained with such broker, trustee or agent for a designated period of time and/or may establish other procedures to permit tracking of disqualifying dispositions or other dispositions of such shares. No participant will have any voting, dividend, or other stockholder rights with respect to shares of Common Stock subject to any option granted under the Plan until such shares have been purchased and delivered to the participant as provided in this Section 9.

10. Withdrawal.

(a) A participant may withdraw all but not less than all the Contributions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by (i) submitting to the Company's payroll office (or its designee) a written notice of withdrawal in the form prescribed by the Administrator for such purpose, or (ii) following an electronic or other withdrawal procedure prescribed by the Administrator. All of the participant's Contributions credited to his or her account will be paid to such participant promptly after receipt of notice of withdrawal and such participant's option for the Offering Period will be automatically terminated, and no further Contributions for the purchase of shares will be made for such Offering Period. If a participant withdraws from an Offering Period, Contributions will not resume at the beginning of the succeeding Offering Period, unless the participant re-enrolls in the Plan in accordance with the provisions of Section 5.

(b) A participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.

11. Termination of Employment. Unless otherwise required by Applicable Laws, upon a participant's ceasing to be an Eligible Employee, for any reason, he or she will be deemed to have elected to withdraw from the Plan and the Contributions credited to such participant's account during the Offering Period but not yet used to purchase shares of Common Stock under the Plan will be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15, and such participant's option will be automatically terminated.

12. Interest. No interest will accrue on the Contributions of a participant in the Plan, unless otherwise required by Applicable Laws.

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of Common Stock which will be made available for sale under the Plan will be 31,556,830 shares.

(b) Until the shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), a participant will only have the rights of an unsecured creditor with respect to such shares, and no right to vote or receive dividends or any other rights as a stockholder will exist with respect to such shares.

(c) Shares of Common Stock to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse.

14. Administration. The Plan will be administered by the Board or a Committee appointed by the Board or a Committee, which Committee will be constituted to comply with Applicable Laws. The Administrator will have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to designate separate Offerings under the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Administrator will, to the full extent permitted by law, be final and binding upon all parties. Notwithstanding any provision to the contrary in this Plan, the Administrator may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures for jurisdictions outside of the United States. Without limiting the generality of the foregoing, the Administrator is specifically authorized to adopt rules and procedures regarding eligibility to participate, the definition of Compensation, making of Contributions to the Plan (including, without limitation, in forms other than payroll deductions), establishment of bank or trust accounts to hold Contributions, payment of interest, conversion of local currency, obligations to pay payroll tax, determination of beneficiary designation requirements, withholding procedures and handling of stock certificates which vary with local requirements.

15. Designation of Beneficiary.

(a) If authorized by the Administrator, a participant may file a designation of a beneficiary who is to receive any shares of Common Stock and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such shares and cash. In addition, if authorized by the Administrator, a participant may file a designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent will be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by notice in a form determined by the Administrator. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company will deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

(c) All beneficiary designations will be in such form and manner as the Administrator may designate from time to time.

16. Transferability. Neither Contributions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares of Common Stock under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition will be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. The Company may use all Contributions received or held by it under the Plan for any corporate purpose, and the Company will not be obligated to segregate such Contributions, unless otherwise required by Applicable Laws. Until shares of Common Stock are issued, participants will only have the rights of an unsecured creditor with respect to such shares.

18. Reports. Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participants at least annually, which statements will set forth the amounts of Contributions, the Purchase Price, the number of shares of Common Stock purchased and the remaining cash balance, if any.

19. Adjustments, Dissolution, Liquidation, Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, or other change in the corporate structure of the Company affecting the Common Stock occurs, the Administrator, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, shall, in such manner as it may deem equitable, adjust the number and class of Common Stock which may be delivered under the Plan, the Purchase Price per share, and class and number of shares of Common Stock covered by each option under the Plan which has not yet been exercised, and the numerical limits of Sections 7 and 13.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, any Offering Period then in progress will be shortened by setting a New Exercise Date, and will terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Administrator. The New Exercise Date will be before the date of the Company's proposed dissolution or liquidation. The Administrator will notify each participant in writing or electronically, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

(c) Merger or Change in Control. In the event of a merger or Change in Control, each outstanding option will be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, the Offering Period with respect to which such option relates will be shortened by setting a New Exercise Date and will end on the New Exercise Date. The New Exercise Date will occur before the date of the Company's proposed merger or Change in Control. The Administrator will notify each participant in writing or electronically prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

20. Amendment or Termination.

(a) The Administrator, in its sole discretion, may amend, suspend, or terminate the Plan, or any part thereof, at any time and for any reason. If the Plan is terminated, the Administrator, in its discretion, may elect to terminate all outstanding Offering Periods either immediately or upon completion of the purchase of shares of Common Stock on the next Exercise Date (which may be sooner than originally scheduled if determined by the Administrator in its discretion), or may elect to permit Offering Periods to expire in accordance with their terms (and subject to any adjustment pursuant to Section 19). If the Offering Periods are terminated prior to expiration, all amounts then credited to participants' accounts which have not been used to purchase shares of Common Stock will be returned to the participants (without interest thereon, except as otherwise required by Applicable Laws) as soon as administratively practicable.

(b) Without stockholder consent and without limiting Section 20(a), the Administrator will be entitled to change the Offering Periods, designate separate Offerings, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit Contributions in excess of the amount designated by a participant in order to adjust for



delays or mistakes in the Company's processing of properly completed Contribution elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with Contribution amounts, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable which are consistent with the Plan.

(c) In the event the Administrator determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Administrator may, in its discretion and, to the extent necessary or desirable, modify, amend or terminate the Plan to reduce or eliminate such accounting consequence including, but not limited to:

(i) amending the Plan to conform with the safe harbor definition under Statement of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor thereto), including with respect to an Offering Period underway at the time;

(ii) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;

(iii) shortening any Offering Period by setting a New Exercise Date, including an Offering Period underway at the time of the Administrator action;

(iv) reducing the maximum percentage of Compensation a participant may elect to set aside as Contributions; and

(v) reducing the maximum number of Shares a participant may purchase during any Offering Period or Purchase Period.

Such modifications or amendments will not require stockholder approval or the consent of any Plan participants.

21. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan will be deemed to have been duly given when received in the form and manner specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions upon Issuance of Shares. Shares of Common Stock will not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto will comply with all Applicable Laws, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and will be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. Code Section 409A. The Plan is intended to be exempt from the application of Code Section 409A, and to the extent not exempt, is intended to comply with Code Section 409A and any ambiguities or ambiguous terms herein will be interpreted to so be exempt from or comply with Code Section 409A. In furtherance of the foregoing and notwithstanding any provision in the Plan to the contrary, if the Administrator determines that an option granted under the Plan may be subject to Code Section 409A or that any provision in the Plan would cause an option under the Plan to be subject to Code Section 409A, the Administrator may amend the terms of the Plan and/or of an outstanding option granted under the Plan, or take such other action the Administrator determines is necessary or appropriate, in each case, without the participant's consent, to exempt any outstanding option or future option that may be granted under the Plan from or to allow any such options to comply with Code Section 409A, but only to the extent any such amendments or action by the Administrator would not violate Code Section 409A. Notwithstanding the foregoing, in no event will the Company or any Parent, Subsidiary or other affiliate of the Company have any liability or obligation to reimburse, indemnify, or hold harmless a participant or any other party

if the option to purchase Common Stock under the Plan that is intended to be exempt from or compliant with Code Section 409A is not so exempt or compliant or for any action taken by the Administrator with respect thereto. The Company makes no representation that the option to purchase Common Stock under the Plan is exempt from or compliant with Code Section 409A.

24. Term of Plan. The Plan will become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company. It will continue in effect unless sooner terminated under Section 20.

25. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

26. Governing Law. The Plan will be governed by, and construed in accordance with, the laws of the State of California (except its choice-of-law provisions).

27. No Right to Employment. Participation in the Plan by a Participant will not be construed as giving a participant the right to be retained as an employee of the Company or a Subsidiary, as applicable. Furthermore, the Company or a Subsidiary may dismiss a participant from employment at any time, free from any liability or any claim under the Plan.

28. Severability. If any provision of the Plan is or becomes or is deemed to be invalid, illegal, or unenforceable for any reason in any jurisdiction or as to any participant, such invalidity, illegality or unenforceability will not affect the remaining parts of the Plan, and the Plan will be construed and enforced as to such jurisdiction or participant as if the invalid, illegal or unenforceable provision had not been included.

29. Compliance with Applicable Laws. The terms of this Plan are intended to comply with all Applicable Laws and will be construed accordingly.



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

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 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: 001-33486

**Infinera Corporation**  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

77-0560433  
(IRS Employer  
Identification No.)

140 Caspian Court  
Sunnyvale, CA 94089  
(Address of principal executive offices, including zip code)  
(408) 572-5200  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u> Common Stock, \$0.001 Par Value	<u>Name of Each Exchange on Which Registered</u> The Nasdaq Global Select Market
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Securities registered pursuant to Section 12(g) of the Act: None  
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the registrant's common stock, \$0.001 par value per share, held by non-affiliates of the registrant on June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$921,230,011 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person who owns more than 5% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of March 5, 2019, 177,415,495 shares of the registrant's common stock, \$0.001 par value per share, were issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement relating to its 2019 Annual Meeting of Stockholders (the "2019 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2019 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

**INFINERA CORPORATION**  
**ANNUAL REPORT ON FORM 10-K**  
**For the Fiscal Year Ended December 29, 2018**

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## Part I

### ITEM 1. BUSINESS

Infinera Corporation (“we,” “us,” “our” or “Infinera”) is a global supplier of networking solutions comprised of networking equipment, software and services. Our portfolio of solutions includes optical transport platforms, converged packet-optical transport platforms, optical line systems and disaggregated router platforms, as well as software-defined networking (“SDN”), network management and routing software.

Our customers include telecommunications service providers, Internet content providers (“ICPs”), cable providers, wholesale carriers, research and education institutions, large enterprises and government entities. Our networking solutions enable our customers to deliver business and consumer communications services. Our comprehensive portfolio of networking solutions also enable our customers to scale their transport networks as end-user services and applications demand for network bandwidth continues to grow. These end-user services and applications include, but are not limited to, high-speed Internet access, business Ethernet services, 4G/5G mobile broadband, cable high-speed Internet distribution, cloud-based services, high-definition video streaming services, virtual and augmented reality and the Internet of Things (“IoT”).

Our systems are highly scalable, flexible and designed with open networking principles for ease of deployment. We build our systems using a combination of internally manufactured and third party components. Our portfolio includes systems that leverage our innovative optical engine technology, comprised of large-scale photonic integrated circuits (“PICs”) and digital signal processors (“DSPs”). We optimize the manufacturing process by using indium phosphide to build our PICs, which enables the integration of hundreds of optical functions onto a set of semiconductor chips. This large-scale integration of our PICs and advanced DSPs allows us to deliver high-performance transport networking platforms with features that customers care about the most, including cost per bit, low power consumption and space savings. In addition, we design our optical engines to increase the capacity and reach performance of our products by leveraging coherent optical transmission. With the addition of new products to our portfolio, we plan to integrate our optical engine technology into a broader set of transport platforms in order to enhance customer value and lower production costs.

Over the past several years, we expanded our portfolio of solutions, evolving from our initial focus on the long-haul and subsea optical transport markets to offering a more complete suite of packet-optical networking solutions that address multiple markets within the end-to-end transport infrastructure. These markets include metro access, metro aggregation and switching, data center interconnect (“DCI”), long-haul and subsea.

We have grown our portfolio through internal development as well as acquisitions. In 2014, we introduced the Infinera Cloud Xpress to address the emerging DCI market opportunity. In 2015, we entered the metro market with the acquisition of Transmode AB (“Transmode”), a leader in metro packet-optical applications. On October 1, 2018, we expanded our product portfolio and customer base through the acquisition of Coriant (the “Acquisition”), a privately-held global supplier of open network solutions for the largest global network operators. The Acquisition positions us as one of the largest providers of vertically integrated transport networking solutions in the world, enhances our ability to serve a global customer base and accelerates delivery of the innovative solutions our customers demand. This Acquisition also positions us to expand the breadth of customer applications we can address, including metro aggregation and switching, disaggregated transport and routing, and software-enabled multi-layer network management and control.

In 2018, the majority of our product revenue was derived from transport systems built on the Infinite Capacity Engine (ICE), our optical engine technology. Our Infinite Capacity Engine enables different subsystems that can be customized for a variety of network applications in different transport markets, including the metro, DCI, long-haul and subsea markets. ICE4, our most recent technology generation, delivers multi-terabit opto-electronic subsystems powered by our fourth-generation PIC and latest generation FlexCoherent DSP (the combination of which we market as “ICE4”).

Our products are designed to be managed by a suite of software solutions that enable end-to-end common network management, multi-layer service orchestration, and automated operations. We also provide software-enabled programmability that offers differentiated capabilities such as Instant Bandwidth (“IB”). IB, combined with our differentiated hardware solutions, enables our customers to purchase and activate bandwidth as needed through our unique software licensing feature set. This, in turn, allows our customers to accomplish two key objectives: (1) limit their initial network startup costs and investments; and (2) instantly activate new bandwidth as their customers’ and their own network needs evolve.

We believe our portfolio of solutions benefits our customers by providing a unique combination of highly scalable capacity and features that address various applications and ultimately simplify and automate packet-optical network operations.

We were incorporated in December 2000 and originally operated under the name “Zepton Networks.” We are incorporated in the State of Delaware. Our principal executive offices are located at 140 Caspian Court, Sunnyvale, CA 94089. Our telephone number is (408) 572-5200. “Infinera,” “Infinera DTN-X,” “FlexCoherent,” “Infinera Groove,” “Infinera mTera,” “Infinera DRX,” “Infinera Aware,” “Infinera Transcend,” “Infinera FlexILS,” “Infinera Instant Bandwidth” and the Infinera logo, are trademarks or service marks of Infinera Corporation in the United States, certain other countries and/or the European Union. Any other trademarks or trade names mentioned are the property of their respective owners.

## **Industry Background**

Optical transport networking equipment carries digital information using light waves over fiber optic cables. With the advent of wavelength division multiplexing (“WDM”) systems, data is transmitted by using multiple wavelengths of light using different frequencies or colors over a single optical fiber. Customers deploy WDM systems to carry information between continents, across countries, between cities and within metropolitan areas, and in some cases all the way to the end-user. Fiber optic networks are generally capable of carrying most types of communications traffic. We believe that a number of trends in the communications industry are driving demand for large amounts of network bandwidth and ultimately will increase demand for packet-optical transport networking systems and software. These trends include:

- growth of cloud services;
- growth of over-the-top services and high-definition video streaming;
- growth of mobile broadband services, including 4G and emerging 5G services;
- increasing use of connected virtual and augmented reality devices; and
- the IoT, which continues to drive massive growth in the number of network-connected devices.

As network traffic grows, customers add transmission capacity to existing optical networks or deploy new systems to address bandwidth demands and offer expanded services to end-users.

We believe we are in the midst of two significant shifts in transport network architectures that impact the markets we serve. The first is the bifurcation of the traditional transport market into either a cloud-based model or a more traditional carrier model. Cloud-based architectures are characterized by transport networks optimized to handle the massive growth of server-to-server traffic between data center sites, and public Internet user-to-data traffic as deployed by traditional service providers. To manage server-to-server traffic growth, our customers seek open, scalable and disaggregated transport solutions designed to accommodate point-to-point, high-capacity traffic patterns. These customers require solutions that are cost-optimized for low power consumption, reduced footprint and ease of deployment. In contrast, traditional service providers require high capacity solutions with more integrated network platforms, which can provide multi-service capabilities and aggregate data flows, and can perform traffic add/drop at various points across their networks. These customers require protection schemes and a larger variety of interfaces to address their end customer needs. Our solutions serve both the point-to-point applications driven by increasing data center traffic and the more traditional mesh-oriented switched transport networks.

A second shift is happening at the edge of the network, where fiber is increasingly being deployed closer to the end-user. This trend is frequently referred to as “Fiber Deep,” and occurs in primarily two types of access networks: 4G/5G mobile transport networks and next-generation cable and multiple system operator (“MSO”) networks. Both of these trends require cost-efficient scalability, higher density and lower power per bit networking devices with integrated packet switching capabilities.

In all of these transport applications, we believe our customers seek the following solutions to increase their revenue, expand their service offerings and lower the total cost of operations:

- high-bandwidth solutions that scale optical transmission capacity to meet increasing bandwidth demand while providing efficiency through service granularity;
- efficient solutions with the right mix of disaggregated and integrated systems that optimize performance and increase reliability while reducing physical space and power consumption, leading to lower operational and capital expenses;
- easy-to-use solutions that are highly programmable, open, and automated, which help reduce the time and complexity of deploying new transmission bandwidth;
- improved integration between Ethernet or Internet Protocol equipment such as switches or routers, and optical transport networking equipment; and

- strong encryption at the transport layer processed using hardware at line-rate speeds.

## Strategy

Our goal is to be the preeminent provider of end-to-end transport networking solutions in the world by delivering the highest performance and lowest total cost solutions for our customers. Key aspects of our strategy include:

- *Leveraging our vertically integrated solutions to deliver lowest total cost network solutions.* We will continue to provide our customers differentiated value by leveraging our vertically integrated optical engine. This value includes significant cost advantages that our innovative PIC and DSP technology enable, including service agility, spectral efficiency, optical performance leadership and reliability, industry-leading optical scalability and high-density and ultra-power efficient platforms. Our strategy is to continue to evolve our unique optical technology with higher speed and increasingly efficient solutions, integrating our optical engine across a broader end-to-end portfolio set and extending this innovation to the edge of the network.
- *Driving cost structure optimization and achieving cost advantages of scale.* Leveraging scale as part of our vertical integration strategy, which includes integration of our optical engine across a broader set of platforms, enables us to achieve cost advantages and cost structure efficiencies that enhance our ability to continue to invest in research and development in our optical engine and end-to-end portfolio, as well as drive profitability. In particular, we believe our vertically integrated manufacturing capabilities serve as a competitive advantage from a technology and supply chain perspective, and financially, enable a lower cost structure and thus, higher profitability.
- *Offering comprehensive networking solutions and expanding our go-to-market reach.* We believe a broad and integrated solutions portfolio spanning multi-layer technologies and optimized for edge-to-core transport markets is critical to helping our customers most cost effectively provide services with new 5G, Distributed Access Architecture, DCI, cloud and business services. By expanding our solutions portfolio and leveraging application-optimized capabilities and disruptive innovation, we are able to expand our go-to-market reach and address a broader set of our customers' transport applications, from core network scalability to packet- and application-optimized metro transport.
- *Delivering a superior customer experience.* Our success will continue to be driven by our commitment to providing a superior experience to all customers. In addition to product delivery capability that efficiently and predictably delivers innovative technology and high-quality products to market, we bring value to our customers by providing end-to-end solutions with differentiation that includes usage-based bandwidth provisioning, service agility and ease-of-use that accelerates time-to-revenue. Additionally, our global customer services team is committed to making our customers successful by providing the highest quality support services that help our customers deploy, operate and maintain their networks. We believe our technology leadership combined with our ability to provide the most reliable products and a differentiated customer experience contribute to customer success and represent major differentiators.
- *Utilizing software-driven automation and cognitive networking to deliver differentiated solutions.* We believe we lead the industry in ease of use and automation, both integrated into our system design and facilitated by our software capabilities. We continue to invest in our differentiated technologies, including enhancing capabilities of IB offerings and introducing cognitive networking capabilities. In particular, we believe that our IB offerings offer customers a uniquely positive user experience and also are a key element of delivering differentiated financial results. We are extending management and control capabilities across our entire product portfolio with the addition of a new orchestration solution following the Acquisition. This new solution enables customers to utilize end-to-end network resources and the automation of multi-layer and multi-vendor networks. Additionally, based on customers' desire for more programmable networks, we have added open application programming interfaces ("APIs") to our solutions to enable our customers to be more agile and customized automated operations.

## Customers

Our customer verticals include:

- Tier-1 carriers for domestic and international networks;
- Tier-2 and Tier-3 carriers;
- ICP and data center operators;
- cable providers and MSOs;
- wholesale carriers;

- submarine network operators;
- large enterprise customers;
- research and education; and
- government entities.

We sell our products directly to customers who are end-users and to channel partners that sell on our behalf. We do not have long-term sales commitments from our customers. One customer accounted for approximately 13% and 18% of our revenue in 2018 and 2017, respectively. This customer completed a merger with another customer in 2017 and these two historically larger customers each individually accounted for approximately 16% and 8% of our revenue in 2016, respectively. One other customer accounted for approximately 15% of our revenue in 2018. No other customers accounted for over 10% of our revenue for 2017 or 2016.

## Technology

We were founded with a vision of enabling an infinite pool of intelligent bandwidth powered by software-enabled on-demand service provisioning. We have focused our efforts and capital on developing application-optimized platforms that enable customers to create rich end-user experiences delivered through efficient, high-bandwidth packet-optical transport characterized by the following attributes:

- *Scalable.* The proliferation of data centers, rise of cloud computing, increasing consumption of video and growth in mobile access is fundamentally changing traffic characteristics in operator networks. We currently deliver terabit class coherent, sliceable super-channels, which allow a massive pool of bandwidth to be provisioned in a single operation.
- *Flexible.* In addition to providing our customers end-to-end solutions, we offer a mix of integrated and disaggregated platforms to reduce complexity and enable flexibility as transport network architectures evolve. There are varying customer preferences as some customers continue to favor integrated multi-service mesh networks while others, such as ICPs, favor disaggregated platforms that address point-to-point connections.
- *Open.* Network operators are facing intensifying competition to meet customer demand for immediate bandwidth and better visibility into the network. Our networking solutions feature highly programmable platforms with SDN APIs enabling networks to be open; this simplifies end-to-end, multi-layer service provisioning and network control.

### *Infinera Optical Engines*

We believe our optical engines, with the latest version being ICE4, are key to our value proposition and a competitive advantage to our system solutions. Technologically, we are able to deliver multi-terabit class coherent super-channels through PICs in systems that significantly exceed reliability standards. Additionally, our DSPs enable network operators to utilize coherent technologies to enable higher data capacity transmissions over existing optical fiber infrastructure. We have integrated advanced coherent technologies onto our FlexCoherent DSP in ICE4, such as cutting-edge Nyquist subcarriers and soft-decision forward error correction gain sharing techniques. We use third-party components for specific applications, such as DCI and multi-service packet-optical transport within our metro platforms. Financially, we believe our technology approach enables improved manufacturing economics for optical networking, allowing future optical transport cost reductions to be viably sustained on a cost curve defined by volume manufacturing efficiencies and greater functional integration. These advantages allow us to develop new cost-effective architectures to allow our customers to solve their business needs.

### *Infinera Super-Channels and Sliceable Photonics*

We offer customers flexibility in deploying WDM by using single or multiple channels simultaneously. Infinera's DTN-X and Cloud Xpress Family of products, for example, are designed to support multiple channels, each up to 200 gigabits per second ("Gb/s") capacity, in a single line card or unit depending on the platform form factor. This pool of bandwidth can either be managed as a single super-channel, with up to 1.2 terabits per second ("Tb/s") that can be deployed in a single operation, or sliced into smaller increments to allow operators more flexibility. Super-channels result in competitive advantages leading to lower operational costs and long-term system reliability, as well as significant reductions in installation time. Our ICE4 technology combines the benefits of super-channels with the capability of being able to slice capacity into smaller unit increments such as 100 Gb/s. Each increment can be tuned and routed in multiple separate directions, with each fully tuned to its own flexible grid frequency as well as having its own coherent modulation profile. This significantly reduces the number of modules required in networks, resulting in lower total cost of ownership. The Infinera Groove G30 solution, a new addition to our portfolio following the Acquisition, provides a single-channel transmission solution up to 600 Gb/s. Both the single and super-channel approaches allow customers to tailor networks to their specific needs.



### *Infinera Instant Bandwidth*

Infinera Instant Bandwidth enables customers to license a super-channel pool of bandwidth in smaller increments such as 100 Gb/s. With IB technology, which is available on the Infinera DTN-X XTC Series, DTN-X XT Series, DTN-X XTS Series, Cloud Xpress Family and XTM Series platforms, customers can provision additional transmission capacity on demand without the deployment of any incremental equipment. Our IB technology is uniquely enabled by our hardware, providing customers the ability to adopt a success-based business model for network growth.

### *Infinera CloudWave T Optics*

Infinera CloudWave T Optics is a coherent detection interface technology leveraged by the Infinera Groove G30 that features a flexible sled-based architecture designed to support pay-as-you-grow network scalability. The CloudWave T Optics solution leverages technologies acquired through the Acquisition and is based on third-party components that provide rapid go-to-market capabilities for 600 Gb/s transmission. The CloudWave T solution also enables low initial costs, reduces sparing costs, and supports cost-effective growth as capacity demands increase over time.

### *Infinera Aware Technology*

Infinera's Aware technology enables network operators to maximize the capacity of each wavelength while speeding the activation of new wavelengths, thus allowing our customers to accelerate time to revenue. It does this by providing the real-time residual margin of each wavelength and generates the valid parameter options enabling the best options to be automatically selected by the management system. Infinera Aware speeds the activation of new wavelengths by enabling accurate, real-time wavelength planning in the Infinera Transcend Software Suite with optical transmission reach and capacity that matches, or even exceeds, that of best-in-class offline planning tools.

### *Infinera Pluggable Optical Layer*

A key enabler of the Infinera Groove G30 open line system and the Infinera 7100 optical layer, our Pluggable Optical Layer technology enables our customers to mix and match optical layer functions. The solution also enables our customers to meet and optimize the requirements of their networks in the short term, while providing the ability to add functionality over time as needs evolve. As a result, customers can minimize capital expense, footprint and power consumption. This value is provided by collapsing optical layer functions into compact pluggables that address a wide range of transport applications.

### *Infinera Disaggregated Routing*

Compared to traditional closed and proprietary chassis-based routers, our open and disaggregated routing technology reduces vendor lock-in, speeds innovation, lowers costs and removes the chassis backplane and number of slots as barriers to cost-optimized scaling. Our disaggregated router solution is comprised of hardware-independent, carrier-class routing software, which we market as converged network operating system ("CNOS"), and the Infinera DRX series of packet switching white boxes that support capacities from 300 Gb/s to 9.6 Tb/s in one or two rack unit ("RU") form factor platforms.

### *Software-enabled Network Automation*

Leveraging open network architectures based on SDN principles, the Infinera Transcend Software Suite provides a platform for advanced network automation that reduces operational costs, optimizes deployed network assets, speeds time to revenue and maximizes network and service availability. Intent-based automation translates service requests into optimized multi-layer network configurations while closed loop automation proactively monitors network state and service performance and, then, when appropriate, takes actions to assure service quality. Additional highlights include DevOps-style programmability, open interfaces, and graphical user interface-based portals.

## **Products and Services**

Our product portfolio consists of the Infinera DTN-X Family (including the XTC Series, XTS Series and XT Series), the Infinera hiT 7300 platform, the Infinera mTera Series, the Infinera 7100 Series, the Infinera 7090 Series, the Infinera XTM Series, the Infinera Cloud Xpress Family, the Infinera Groove G30, the Infinera FlexILS Series, the Infinera DRX Series and the Infinera 8600 Smart Router Series. Software products include the Infinera Transcend Software Suite, which includes SDN and network management software, and our CNOS routing software. These products address the metro, long-haul and subsea network markets from end-to-end. DCI is a subset of these markets.



## **Product Portfolio**

The high-speed transport network infrastructure is comprised of multiple technology layers that require intelligent interworking and coordination between layers to ensure efficient delivery of end-user services. These technology layers include Layer 0 (WDM), Layer 1 (OTN, SONET/SDH), Layer 2 (Carrier Ethernet), Layer 2.5 (MPLS-TP) and Layer 3 (Internet Protocol). Our product portfolio includes solutions that span all of these transport network layers. Our product portfolio also includes multi-layer network management and automation software that helps simplify operational tasks and accelerate provisioning of end-user services across multiple transport market domains, including metro, long-haul and subsea.

### *Infinera DTN-X Family*

The Infinera DTN-X Family of terabit-class transport network platforms comprises the DTN-X XTC Series, DTN-X XTS Series and the DTN-X XT Series. The DTN-X Family is designed to meet the needs of network operators seeking to offer high capacity, innovative services with scalability, flexibility and openness. We have designed the DTN-X Family to integrate our ICE technology for metro, DCI, long-haul and subsea networks.

The Infinera DTN-X XTC Series includes multi-terabit packet optical transport platforms that integrate digital OTN switching and optical WDM transmission. The DTN-X XTC platforms combine switching with WDM transport without compromising the performance of either function. These platforms also support a broad range of Ethernet and OTN client interfaces for flexibility and are designed for metro, long-haul and subsea networks.

The Infinera DTN-X XT Series for terrestrial applications and XTS Series for subsea applications are small-form-factor, server-like WDM platforms, designed to blend sliceable photonics and muxponder functionality to deliver up to 2.4 Tb/s capacity and fine-grained granularity. These platforms are designed to power cloud scale network services over metro, DCI, long-haul and subsea networks.

### *Infinera hiT 7300*

The Infinera hiT 7300 is an SDN-ready coherent optical transport system predominantly for long-haul is designed to support secure and reliable transmission of 10 x 400 Gb/s per optical channel. With Infinera CloudWave T Optics technology, the hiT 7300 achieves a total system capacity of up to 38.4 Tb/s per fiber pair and supports programmable modulation for optimal capacity-reach and simplified evolution to next-generation services.

### *Infinera mTera Series*

The Infinera mTera Universal Transport Platform is a flexible and scalable converged packet-optical transport platform that delivers unique universal transport capabilities for high-bandwidth applications in metro networks. The mTera Series includes a compact 8-slot, 4 Tb/s shelf and a higher capacity 14-slot, 7 Tb/s shelf, with paired 14-slot shelves able to deliver 12 Tb/s of electrical switching. The mTera Series combines SDN-ready, advanced reconfigurable add-drop multiplexer ("ROADM") capabilities and support for the universal switching of optical transport network ("OTN"), packet, and synchronous optical networking and synchronous digital hierarchy ("SONET/SDH") traffic at the electrical layer. The solution also includes switching modules that provide the ability to select OTN, multiprotocol label switching - transport profile ("MPLS-TP") and Carrier Ethernet for each interface.

### *Infinera 7100 Series*

The Infinera 7100 Series offers flexible and feature-rich packet-optical transport for diverse metro network applications and enables cost-effective growth while minimizing operational costs. The 7100 Series supports a wide range of technologies including ROADM, fixed WDM, 10 Gb/s, 100 Gb/s, packet switching, OTN, and SONET/SDH. The 7100 Series includes the 7100 Nano, a 5 rack unit (5RU) platform optimized for metro transport and the 7100 Pico, a 2 rack unit (2RU) platform that extends services to the metro edge and enables metro access applications. The 7100 Series also includes the PSX-3S, a 1 rack unit (1RU) 376 Gb/s packet switch optimized for aggregation and access applications.

### *Infinera 7090 Family*

The Infinera 7090 Family includes MPLS-TP and Metro Ethernet Forum ("MEF") Carrier Ethernet-based packet transport solutions that address a wide variety of metro and edge applications including business Ethernet, legacy service migration, cloud access and mobile backhaul. The 7090 Family includes MPLS-TP-based transport platforms with capacities ranging from 5 Gb/s to 960 Gb/s and CE-based platforms that provide a range of compact gigabit Ethernet ("GbE") and 10 GbE Ethernet access devices.

### *Infinera XTM Series*

The Infinera XTM Series packet-optical transport platform enables high-performance metro networks with service-aware, application-specific capabilities. Supporting integrated packet-optical features, the XTM Series builds on key design philosophies such as low power, high density and high scalability. It offers advanced capabilities for mobile infrastructure such as superior sync features for backhaul, WDM in cloud radio access network architecture

and fronthaul. The platform supports fiber delivery technologies (commonly referred to as “FTTx”) with transparent delivery of TDM services over a packet-optical network. It provides error correction, OTN transport, MEF Carrier Ethernet, MPLS - transport profile and optics, all in one terabit-scale packet-optical transport switch solution. This platform is designed for application-rich packet-optical metro networks providing cable, mobile, broadband and business services that require 10 Gb/s, 100 Gb/s or 200 Gb/s wavelengths.

#### *Infinera Cloud Xpress Family*

The Infinera Cloud Xpress Family is designed to meet the varying needs of ICPs, communication service providers, Internet exchange service providers, enterprises and other large-scale data center operators. The first generation of the Cloud Xpress has a 500 Gb/s WDM super-channel output in two data center rack units (2RU). Our second generation, the Cloud Xpress 2, released in June 2017 leverages the ICE4 optical engine, and has a 1.2 Tb/s super-channel output in one data center rack unit (1RU). These platforms are designed with a rack-and-stack form factor and utilize a software approach that enables them to easily plug into existing cloud provisioning systems using open SDN APIs, an approach similar to the server and storage infrastructure deployed in the cloud.

#### *Infinera Groove G30*

The Infinera Groove G30 is a one rack unit (1RU) modular open transport solution designed to deliver programmable, high speed and secure bandwidth optimized for the growing capacity demands of mobile, video, IoT, and cloud applications. The Groove G30 can be equipped as a muxponder terminal solution and as an open line system optical layer solution, and is designed to support disaggregated transport in metro and long-haul applications. Open APIs ensure rapid introduction and easy integration within any network operating environment. In combination with CloudWave T Optics, the Groove G30 platform supports ultra-high density and low power consumption optical transport, as well as transmission of up to 600 Gb/s of capacity per single wavelength.

#### *Infinera FlexILS Open Line System*

The Infinera FlexILS open line system platform connects various Infinera and third-party terminal equipment platforms over long-distance fiber optic cable while providing switching, multiplexing, amplification and management channels. It is designed to support over 50 Tb/s of fiber capacity when used with the Infinera platforms over extended C-band and L-band. The platform supports ROADM functionality with a flexible grid architecture and provides unconstrained optical switching by eliminating the restrictions of fixed wavelengths by port or direction. This platform is designed to provide open APIs interfacing with SDN control for multi-layer switching when combined with other platforms featuring WDM, OTN and packet switching.

#### *Infinera DRX Series*

The Infinera DRX Series of disaggregated routers is designed to help network operators reduce capital expenditures and accelerate innovation by minimizing vendor lock-in, while also reducing operating expenses with open SDN-enabled network automation. The DRX Series includes carrier-class 1RU and 2RU white boxes purpose-built for disaggregated router applications including 5G backhaul and Fiber Deep. As an open networking solution, the DRX Series leverages Infinera CNOS routing software as well as third party hardware-independent network operating systems. While the capacity of individual DRX devices ranges from 300 Gb/s to 9.6 Tb/s, stacking and leaf-spine architectures enabled by CNOS provide for much larger node capacities. Carrier-class capabilities of the DRX Series include advanced synchronization, equipment redundancy, and temperature hardened options. We anticipate shipping the Infinera DRX Series in the first half of 2019.

#### *Infinera 8600 Series*

The Infinera 8600 Series of SDN-ready Internet Protocol/MPLS routers provide compact, cost-effective and power-efficient solutions for cell sites, metro core and aggregation applications. By boosting network performance, integrating advanced synchronization and enabling new fixed mobile services, the 8600 Series helps network operators ensure a high-quality user experience in 3G, 4G, fixed mobile convergence and emerging 5G networks.

## **Software and Services**

### *Transcend Software Suite*

Leveraging open architectures based on SDN principles, the Infinera Transcend Software Suite includes a multi-domain orchestrator, SDN domain controllers, network managers, and MANO for VNF management. It provides a platform for automation that reduces operational costs, optimizes network assets, speeds time to revenue, and maximizes network and service availability. Intent-based automation translates service requests into optimized multi-layer (L0-L3) network configurations while closed loop automation proactively monitors network state and service performance and, then, when appropriate, takes actions to assure service quality. Additional highlights include DevOps-style programmability, open interfaces, and GUI-based portals. Following the Acquisition, Infinera Xceed software applications and functionality have been integrated into the Transcend Software Suite.

### *Infinera CNOS*

Infinera CNOS is a hardware-independent network operating system that leverages field-proven 8600 Internet Protocol/MPLS software widely deployed by leading Tier-1 carriers. Infinera CNOS is designed to run on the Infinera DRX platform or on third party packet switching white boxes to provide a scalable disaggregated router solution. This solution is designed to enable network operators to reduce capital expenses and accelerate innovation by minimizing vendor lock-in, while also reducing operational expenses with SDN-enabled automation and the ability to scale cost effectively with stacking and leaf-spine architectures.

### *Customer Support Services*

In connection with our product offerings, we provide a comprehensive range of support services for all hardware and software products. These support services cover all phases of network ownership, from the initial installation through day-to-day maintenance activities and professional services. Our support services are designed to efficiently manage and maintain customer network operations in the face of today's ever-increasing demands for lower operational costs and minimized downtime.

Our support organization continues to scale and provide world-class services that successfully support customers around the world. In addition, we continue to expand our services portfolio to meet the evolving needs of our customers.

## **Competition**

Our current technologies and platforms support the metro, DCI, long-haul and subsea markets. The packet-optical networking equipment market is highly competitive and competition in the markets we serve is based on any one or a combination of the following factors:

- price and other commercial terms;
- functionality;
- existing business and customer relationships;
- the ability of products and services to meet customers' immediate and future network requirements;
- power consumption;
- heat dissipation;
- form factor or density;
- installation and operational simplicity;
- quality and reliability;
- service and support;
- security and encryption requirements;
- scalability and investment protection; and
- product lead times.

Competition in the packet-optical equipment market is intense. In the long-haul market, our main competitors include WDM systems suppliers such as Ciena, Huawei, Nokia and ZTE. In the metro market, we face the same competitors as in long-haul, plus Cisco, Adva Optical Networking and ECI. In the DCI market we also face competition from vendors that are selling optical components directly to customers as opposed to WDM systems. In addition to our current competitors, other companies have, or may in the future, develop products that are, or could be, competitive

with our products. We also may encounter competitor consolidation in the markets in which we compete, which could lead to a changing competitive landscape, capabilities and market share, and could impact our results of operations.

Some of our competitors have substantially greater name recognition, technical, financial and marketing resources, and better-established relationships with potential customers than we have. Many of our competitors have more resources and more experience in developing or acquiring new products and technologies, and in creating market awareness for those products and technologies. In addition, many of our competitors have the financial resources to offer competitive products at aggressive pricing levels that could prevent us from competing effectively. Further, many of our competitors have built long-standing relationships with some of our prospective and existing customers, and have the ability to provide financing to customers and could, therefore, have an inherent advantage in selling products to those customers.

## **Sales and Marketing**

We market and sell our products and related support services primarily through our direct sales force, supported by marketing and product management personnel. We also use distribution or support partners to enter new markets or when requested by a potential customer. Our sales team has significant experience with the buying process and sales cycles typical of high-value telecommunications products.

The sales process for our products entails discussions with prospective customers, analyzing their networks and identifying how they can utilize our systems capabilities within their networks. This process requires developing strong customer relationships and leveraging our sales force and customer support capabilities.

Over the course of the sales cycle, potential customers often test our products before buying. Prior to commercial deployment, the customer will generally perform a field trial of our products. Upon successful completion, the customer generally accepts the products installed in its network and may continue with commercial deployment of additional products. We anticipate that our sales cycle, from initial contact with a prospective customer through the signing of a purchase agreement may, in some cases, take several quarters.

*Direct Sales Force.* Our sales team sells directly to service providers worldwide. We maintain a sales presence throughout the United States, as well as in a number of international locations, including Argentina, Denmark, France, Germany, Hong Kong, India, Italy, Japan, Malaysia, Mexico, the Netherlands, Poland, Russia, Singapore, Spain, Sweden and the United Kingdom. Adding incremental sales headcount in the future is expected to be success-based and in support of new customer accounts or expansion of existing ones.

*Indirect Sales Force.* We employ business consultants and resale and logistics partners to assist in our sales efforts, primarily in new regions for us whereby these partners have deep knowledge of typical business practices and strong relationships with key local operators. We expect to work with business partners to assist our customers in the sale, deployment and maintenance of our systems and have entered into distribution and resale agreements to facilitate the sale and support of our products.

*Marketing and Product Management.* Our product management team is responsible for defining the product features and go-to-market plan required to maximize our success in the marketplace. Product management supports our sales efforts with product and application expertise. Our corporate marketing team works to create demand for our products by communicating our value proposition and differentiation through direct customer interaction, public relations, attendance at tradeshow and other events, as well as Internet programs and other marketing channels.

## **Research and Development**

Continued investment in research and development is critical to our business. To this end, we have a team of engineers with expertise in various fields, including systems, sub-systems, software and components. Our research and development efforts are currently focused in Sunnyvale, California; Allentown, Pennsylvania; Bangalore, India; Kanata, Canada; Stockholm, Sweden; Munich, Germany; Lisbon, Portugal; Shanghai, PRC; Espoo, Finland; and Naperville, Illinois. We utilize a mix of internal resources and supplement our staffing with development personnel provided by third parties on a contract basis. We have invested significant time and financial resources into the enhancement of existing products and the development of new products. We will continue to expand our product offerings and the capabilities of existing products in the future and plan to dedicate significant resources to these continued research and development efforts. We are continually increasing the scalability and software features of our current platforms. As part of the integration efforts related to the Acquisition, we are integrating the legacy Infinera and Coriant products into a seamless end-to-end portfolio; and we are investing in leveraging the vertical integration capabilities of Infinera into the legacy Coriant platforms. We are also working to develop new generations of optical engines at a faster cadence than we have historically in order to bring new products to market faster and meet customer demand. We believe these efforts will enhance our competitiveness in the markets we currently serve and also allow us to address adjacent markets to fuel our future growth.

## **Employees**

As of December 29, 2018, we had 3,876 employees. A total of 2,583 of those employees were located outside of the United States. None of our U.S. employees are subject to a collective bargaining agreement. Employees in certain foreign jurisdictions may be represented by local workers' councils and/or collective bargaining agreements, as may be customary or required in those jurisdictions. We have not experienced any work stoppages, and we consider our employee relationships to be good.

## **Manufacturing**

We have invested significant time and capital to develop and improve the manufacturing processes we use to produce and package our products. This includes significant investments in personnel, equipment and the facilities needed to manufacture and package our products in Sunnyvale, California, Berlin, Germany and Allentown, Pennsylvania. We also have invested in automating our manufacturing process and in training and maintaining the quality of our manufacturing workforce. As a leader in the development of photonic integration, our manufacturing processes have been developed over several years and are protected through a combination of trade secrets, patents and contractual protections. We believe that the investments we have made towards the manufacturing and packaging of our products provide us with a significant competitive advantage. We also believe that our current manufacturing facilities, including our fabrication facility for our PICs in Sunnyvale, California, and our module manufacturing facility in Allentown, Pennsylvania can accommodate an increase in production capacity as our business continues to grow.

We also use contract manufacturers to assemble portions of our products. Each contract manufacturer procures components necessary to assemble products according to our specifications and bills of material. For elements of our business where we outsource, we perform rigorous in-house quality control testing to ensure the reliability of our products. Our supply chain risk mitigation strategies are continuous and institutionalized in our supply chain design for external manufacturing and for procurement of components. We currently use four contract manufacturers in several different countries, including Germany, China, Malaysia, Mexico, Sweden, Hungary and Thailand, and we maintain the capability to redirect manufacturing to U.S. qualified factories of three electronic manufacturing services partners.

We expect all suppliers to comply with our Supplier Code of Conduct, which addresses the rights of workers to safe and healthy working conditions, environmental responsibility, and compliance with applicable laws.

## **Backlog**

As of December 29, 2018 and December 30, 2017, our total order backlog was approximately \$374.3 million and \$100.9 million, respectively. Our backlog represents purchase orders received from customers for future product shipments and services to be provided in future periods. More than half of our total order backlog is related to services, comprised primarily of annual maintenance contracts. The significant increase in backlog at the end of 2018 was primarily due to the inclusion of the Coriant business as a result of the Acquisition. Our backlog is subject to future events that could cause the amount or timing of the related revenue to change, and, in certain cases, may be canceled without penalty. Orders in backlog may be fulfilled several quarters following order receipt and may relate to multi-year support service obligations. As a result, we believe that backlog should not be viewed as an accurate indicator of future operating results for any particular period. A backlogged order may not result in revenue in a particular period, and the actual revenue may not be equal to our backlog amounts. Our presentation of backlog may not be comparable with that of other companies in our industry.

## **Intellectual Property**

We believe our success depends upon our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, as well as customary contractual protections.

Our optical engine technology, including our PIC, DSP, module and related technologies, are protected through a combination of patents, trade secrets and contractual protections. However, there can be no assurances that these protections will be sufficient to provide us with a competitive advantage or that others have not or will not reverse engineer our designs or discover, develop or disclose the same or similar designs and manufacturing processes.

As of December 29 2018, we held 1,071 U.S. patents and 684 international patents expiring between 2019 and 2038, and held 185 U.S. and 177 foreign pending patent applications. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims.

We may not receive any competitive advantages from the rights granted under our patents and other intellectual property. Any patents granted to us may be contested, circumvented or invalidated over the course of our



business, and we may not be able to prevent third parties from infringing these patents. Therefore, the impact of these patents cannot be predicted with certainty.

We believe that the frequency of assertions of patent infringement is increasing as patent holders, including entities that are not in our industry and who purchase patents as an investment or to monetize such rights by obtaining royalties, use such actions as a competitive tactic as well as a source of additional revenue. For example, we are currently involved in litigation for alleged patent infringement. See Item 3. “Legal Proceedings” for additional information regarding these lawsuits. Any claim of infringement from a third party, even those without merit, could cause us to incur substantial costs defending against such claims, and could distract our management from running our business. Furthermore, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages or could include an injunction or other court order that could prevent us from offering our products. In addition, we might be required to seek a license for the use of such intellectual property, which may not be available on commercially reasonable terms or at all. Alternatively, we may be required to develop non-infringing technology, which would require significant effort and expense and may ultimately not be successful.

In addition to trade secret and patent protections, we generally control access to and the use of our proprietary software and other confidential information. This protection is accomplished through a combination of internal and external controls, including contractual protections with employees, contractors, customers and partners, and through a combination of U.S. and international copyright laws.

We license some of our software pursuant to agreements that impose restrictions on our customers’ ability to use such software, such as prohibiting reverse engineering and limiting the use of copies. We also seek to avoid disclosure of our intellectual property by relying on non-disclosure and assignment of intellectual property agreements with our employees and consultants that acknowledge our exclusive ownership of all intellectual property developed by the individual during the course of his or her work with us. The agreements also require that each person maintain the confidentiality of all proprietary information disclosed to them. Other parties may not comply with the terms of their agreements with us, and we may not be able to enforce our rights adequately against these parties. We also rely on contractual rights to establish and protect our proprietary rights in our products.

We incorporate free and open source licensed software into our products. Although we monitor our use of such open source software closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. In addition, non-compliance with open source software license terms and conditions could subject us to potential liability, including intellectual property infringement and or contractual claims. In such event, we could be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished in a timely manner, any of which could adversely affect our business, operating results and financial condition.

## **Environmental Matters**

We are committed to maintaining compliance with all environmental laws and regulations applicable to our operations, products and services. Our business and operations are subject to various federal, state, local and foreign laws and regulations that have been adopted with respect to the environment, including the Waste Electrical and Electronic Equipment (“WEEE”) Directive, Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (“RoHS”), and Registration, Evaluation, Authorization, and Restriction of Chemicals (“REACH”) regulations adopted by the European Union. Environmental regulation is increasing and we expect that our operations will be subject to additional environmental compliance requirements, which may expose us to additional costs. We are also subject to disclosure requirements related to the presence of “conflict minerals” in our products. To date, our compliance costs relating to environmental regulations have not resulted in a material adverse effect on our business, results of operations or financial condition.

## **Executive Officers**

Our executive officers and their ages and positions as of December 29, 2018, are set forth below:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Thomas J. Fallon .....	57	Chief Executive Officer and Director
Brad D. Feller .....	45	Chief Financial Officer
David W. Heard .....	50	Chief Operating Officer
Robert J. Jandro .....	63	Senior Vice President, Worldwide Sales

**Thomas J. Fallon** has served as our Chief Executive Officer since January 2010 and as a member of our board of directors since July 2009. Mr. Fallon also served as our President from January 2010 to June 2013, and as

our Chief Operating Officer from October 2006 to December 2009. From April 2004 to September 2006, Mr. Fallon served as our Vice President of Engineering and Operations. From August 2003 to March 2004, Mr. Fallon was Vice President, Corporate Quality and Development Operations at Cisco Systems, Inc., a networking and telecommunications company. From March 1991 to August 2003, Mr. Fallon served in a variety of functions at Cisco, including General Manager of the Optical Transport Business Unit and Vice President of Service Provider Manufacturing. Prior to joining Cisco, Mr. Fallon also served in various manufacturing roles at Sun Microsystems and Hewlett Packard. Mr. Fallon currently serves on one other public company board, Hercules Capital, Inc., a specialty finance company. Mr. Fallon also serves on the Engineering Advisory Board of the Cockrell School at the University of Texas. Mr. Fallon holds B.S.M.E. and M.B.A. degrees from the University of Texas at Austin.

**Brad D. Feller** was appointed as our Chief Financial Officer in March 2014 after joining us as Senior Vice President of Finance in January 2014. Prior to joining us, Mr. Feller served as Interim Chief Financial Officer of Marvell Technology Group Ltd., a fabless semiconductor company, from October 2012 to December 2013, and as Marvell's Vice President, Corporate Controller, from September 2008 to October 2012. Prior to Marvell, Mr. Feller served as Corporate Controller for Integrated Device Technology, Inc., a semiconductor company, from April 2005 to September 2008 and Financial Reporting Manager from October 2003 to April 2005. Prior to that, Mr. Feller served in various roles at Ernst & Young LLP in the technology practice. Mr. Feller is a certified public accountant (inactive) in the State of California and holds a B.S. degree in Business Administration from San Jose State University.

**David W. Heard** has served as our Chief Operating Officer since October 2018. Prior to that, Mr. Heard served as our General Manager, Products and Solutions, since June 2017. Prior to joining us, Mr. Heard served as a private consultant from 2015 to June 2017. From 2010 to 2015, Mr. Heard served as President of Network and Service Enablement at JDS Uniphase. From 2007 to 2010, Mr. Heard served as Chief Operating Officer at BigBand Networks (now part of Arris). From 2004 to 2006, Mr. Heard served as President and Chief Executive Officer at Somera (now part of Jabil). From 2003 to 2004, Mr. Heard served as President and General Manager Switching Division at Tekelec (now part of Oracle). From 1995 to 2003, Mr. Heard served in a number of leadership roles at Santera Systems Spatial Networks and at Lucent Technologies (both now part of Nokia). Mr. Heard holds a B.A. in Production and Operations Management from Ohio State University, an M.B.A. from the University of Dayton and an M.S. in Management from Stanford Graduate School of Business, where he was a Sloan Fellow.

**Robert J. Jandro** has served as our Senior Vice President, Worldwide Sales, since May 2013. Prior to joining us, Mr. Jandro served as Vice President of Business Development of Openwater Software, Inc., a large data and analytics cloud company, from January 2008 to August 2012. From February 2004 to November 2006, Mr. Jandro served as Chief Executive Officer and President of Nsite Software, Inc., an early cloud company acquired by Business Objects. From March 2000 to August 2002, Mr. Jandro served as Executive Vice President of Global Sales and Services for ONI Systems, an optical networking company. Prior to that, Mr. Jandro worked at Oracle where he last served as the Group Vice President of Oracle's Communications and Utilities Industries. Mr. Jandro holds an M.S. in Management from Northwestern University's Kellogg Graduate School of Management and a B.S. in Business from the University of Missouri-St. Louis.

#### **Available Information**

Our website address is <http://www.infinera.com>. Information contained on our website or any website referred to in this Form 10-K is not incorporated by reference unless expressly noted. We file reports with the Securities and Exchange Commission ("SEC"), which we make available on our website free of charge. These reports include Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to such reports, each of which is provided on our website as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC.



## ITEM 1A. RISK FACTORS

*Investing in our securities involves a high degree of risk and a description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this Annual Report on Form 10-K and in our other public filings. Because of the following factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report on Form 10-K and in our other public filings, which could cause the market price of our common stock to decline, perhaps significantly.*

### **Risks Related to the Acquisition**

#### **We may fail to realize the anticipated strategic and financial benefits expected from the Acquisition.**

We may fail to realize all of the anticipated benefits of the Acquisition or fail to realize such benefits in the anticipated time frame after the completion of the Acquisition. Our ability to realize the anticipated strategic and financial benefits of the Acquisition will depend on, among other things, our ability to combine our business with Coriant's business in a manner that facilitates growth, realizes anticipated cost savings and retains Coriant's and our customers, suppliers and employees. We must successfully combine our business with the business of Coriant in a manner that enables these anticipated benefits to be realized and we must achieve the anticipated growth and cost savings without adversely affecting the combined company's revenue base. Failure to achieve all of the anticipated strategic and financial benefits in a timely manner may have a material adverse effect on our business, financial condition and results of operations.

#### **We may be unable to realize the anticipated synergies related to the Acquisition, which could have a material adverse effect on our business, financial condition and results of operations.**

We expect to realize significant synergies from cost savings, including from consolidation of the combined company's supply chain, operational scale efficiencies throughout the combined company and our ability to integrate our optical engine into key Coriant products. We also expect to incur material one-time costs to achieve these synergies. While we believe these synergies are achievable, our ability to achieve such estimated synergies in the amounts and time frame expected is subject to various assumptions by our management based on expectations that are subject to a number of risks, which may or may not be realized, as well as the incurrence of other costs in our operations that may offset all or a portion of such synergies and other factors outside our control. As a consequence, we may not be able to realize all of these synergies within the time frame expected or at all, or the amounts of such synergies could be significantly reduced, and we may incur additional and/or unexpected costs to realize these synergies. In addition, if we fail to achieve the anticipated cost benefits throughout the supply chain or integrating our optical engine in key Coriant products in a timely manner, we may be unable realize all the anticipated synergies. Failure to achieve the expected synergies could significantly reduce the expected benefits associated with the Acquisition and adversely affect our business, financial condition and results of operations.

#### **We may be unable to successfully integrate Coriant's business and realize the anticipated benefits of the Acquisition.**

We will be required to devote significant management attention and resources to integrating the business and operations of Coriant. Potential difficulties we may encounter in the integration process include the following:

- the loss of customers or suppliers of ours or of Coriant as a result of such parties deciding not to continue business at the same or similar levels with us after the Acquisition;
- challenges associated with operating the combined business in markets and geographies in which we have not historically operated in;
- difficulty integrating our direct sales and distribution channels with Coriant's to effectively sell the products and services of the combined company following the closing of the Acquisition;

- the complexities associated with managing our company and integrating personnel from Coriant, resulting in a significantly larger combined company, while at the same time providing high quality products to customers;
- unanticipated issues in integrating accounting, information technology, communications, administration and other systems;
- challenges with re-negotiating pricing with key suppliers for more favorable terms;
- the failure to identify and eliminate redundant and underperforming functions and assets;
- difficulty addressing possible differences in corporate culture and management philosophies;
- the failure to retain key employees of the combined company;
- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the Acquisition; and
- performance shortfalls as a result of the diversion of management's attention caused by integrating Coriant's operations.

An inability to realize the anticipated benefits and cost synergies of the Acquisition, as well as any delays encountered in the integration process, could have a material adverse effect on the revenue, gross margin, level of operating expenses and overall results of operations of the combined company, which may materially adversely affect the value of our stock.

The actual integration may result in additional and unforeseen expenses, and the anticipated benefits of our plan for integration may not be realized. Actual synergies, if achieved at all, may be lower than what we expect and may take longer to achieve than anticipated. For example, the elimination of duplicative costs may not be possible or may take longer than anticipated, or the benefits from the Acquisition may be offset by costs incurred or delays in integrating the companies. In addition, since Coriant's operations are more widely distributed around the globe than our current operations, it may take longer to integrate the various functions and divert management's time more than anticipated. If we are not able to adequately address these challenges, we may be unable to successfully integrate Coriant's operations into our own or, even if we are able to combine the two business operations successfully, to realize the anticipated benefits of the integration of the two companies. Although our integration plan involves us making significant cash outlays to transform the business, if the integration does not generate the returns we anticipate, it could cause us to decrease our cash and investment position. This may cause customers to lose confidence in our business and make them reluctant to continue to do business with us.

**Our business relationships, those of Coriant or the combined company may be subject to disruption due to uncertainty associated with the Acquisition.**

Parties with which we or Coriant do business may experience uncertainty associated with the Acquisition, including with respect to current or future product roadmaps of the combined company. Our and Coriant's business relationships may be subject to disruption, as customers, distributors, suppliers, vendors, and others may seek to receive confirmation that their existing business relations with us or Coriant, as the case may be, will not be adversely impacted as a result of the Acquisition or attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than the combined company as a result of the Acquisition. For example, a number of Coriant's customers deferred purchase orders with Coriant pending announcement of a strategic transaction, and there can be no assurance that all of those customers will ultimately submit such purchase orders. Any such failure to submit such purchase orders, or any of these other disruptions could have a material adverse effect on our business, financial condition, or results of operations and could also have an adverse effect on our ability to realize the anticipated benefits of the Acquisition. The risks and adverse effects of such disruptions could have a negative effect on our stock price.

**If we are unable to maintain effective internal control over financial reporting for the combined companies, we may fail to prevent or detect material misstatements in our financial statements, in which case investors may lose confidence in the accuracy and completeness of our financial statements.**

We and Coriant currently maintain separate internal control over financial reporting with different financial reporting processes and different enterprise resource planning (“ERP”) systems. We plan to integrate our internal control over financial reporting and move the combined companies to a single ERP system. We may encounter difficulties and unanticipated issues in combining our respective accounting systems due to the complexity of the business processes. In addition, Coriant as a private company has not historically had to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and their accounting systems and processes will need to be integrated and in compliance in 2019. If we are unable to implement and maintain effective internal control over financial reporting of the combined company, we may fail to prevent or detect material misstatements in our financial statements, in which case investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our securities may decline.

**Coriant may have liabilities that are not known, probable or estimable at this time.**

As a result of the Acquisition, Coriant has become our subsidiary and remains subject to its past, current and future liabilities (other than indebtedness discharged in connection with the Acquisition). There could be unasserted claims or assessments against or affecting Coriant, including the failure to comply with applicable laws, regulations, orders and consent decrees or infringement or misappropriation of third party intellectual property or other proprietary rights that we failed or were unable to discover or identify in the course of performing our due diligence investigation of Coriant. In addition, there are liabilities of Coriant that are neither probable nor estimable at this time that may become probable or estimable in the future, including indemnification requests received from customers of Coriant relating to claims of infringement or misappropriation of third party intellectual property or other proprietary rights, tax liabilities arising in connection with ongoing or future tax audits and liabilities in connection with other past, current and future legal claims and litigation. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our financial results. We may learn additional information about Coriant that adversely affects us, such as unknown, unasserted, or contingent liabilities and issues relating to compliance with applicable laws or infringement or misappropriation of third party intellectual property or other proprietary rights (including related indemnity requests from customers).

**As a result of the Acquisition, Infinera and Coriant may be unable to retain key employees.**

Our success after the Acquisition will depend in part upon our ability to retain key employees of ours and Coriant. Key employees may depart because of a variety of reasons relating to the Acquisition. If we and Coriant are unable to retain key personnel who are critical to the successful integration and future operations of the combined company, we could face disruptions in our operations, loss of existing customers, loss of key information, expertise or know-how, and unanticipated additional recruitment and training costs. In addition, the loss of key personnel could diminish the anticipated benefits of the Acquisition.

**We may be unable to generate the cash flow necessary to service the 2024 Notes or to make anticipated capital expenditures.**

We may not be able to generate sufficient cash flow to enable us to service the \$402.5 million of 2.125% convertible senior notes due September 1, 2024 (the “2024 Notes”) or to make anticipated capital expenditures. For example, in the first quarter after the Acquisition, the combined company had a net loss and negative cash flows. In addition, we expect to incur losses over the next few quarters as we integrate the two companies. Our ability to pay our expenses, satisfy the 2024 Notes and fund planned capital expenditures will depend on our future performance, which will be affected by general economic, competitive, legislative, regulatory and other factors beyond our control, and our ability to realize synergies and anticipated cost savings. If we are unable to generate sufficient cash flow from operations or to borrow sufficient funds in the future to service the 2024 Notes or to make anticipated capital expenditures, we may be required to sell assets, reduce capital expenditures or obtain additional financing. For additional risk related to the 2024 Notes, please see “Risk Related to our 2024 Notes” below.

## Risks Related to Our Business and Our Common Stock

**Our quarterly results may vary significantly from period to period, which could make our future results difficult to predict and could cause our operating results to fall below investor or analyst expectations.**

Our quarterly results, in particular, our revenue, gross margins, operating expenses, operating margins and net income (loss), have historically varied from period to period and may continue to do so in the future. As a result, comparing our operating results on a period-to-period basis may not be meaningful. Our budgeted expense levels are based, in large part, on our expectations of future revenue and the development efforts associated with that future revenue. Consequently, if our revenue does not meet projected levels in the short-term, our inventory levels, cost of goods sold and operating expenses would be high relative to revenue, resulting in potential operating losses. For example, in each of the prior eight quarters, we have had operating losses, largely as a result of lower than expected revenue and gross margins.

Factors that may contribute to fluctuations in our quarterly results, many of which are outside our control and may be difficult to predict, include:

- fluctuations in demand, sales cycles and prices for products and services, including discounts given in response to competitive pricing pressures, as well as the timing of purchases by our key customers;
- our ability to integrate our operations with Coriant's operations and realize the anticipated synergies related to the Acquisition;
- changes in customers' budgets for optical transport network purchases and changes or variability in their purchasing cycles;
- fluctuations in our customer, product or geographic mix, including the impact of new customer deployments, which typically carry lower gross margins, and customer consolidation, which may affect our ability to grow revenue;
- the timing and acceptance of our new product releases and our competitors' new product releases;
- how quickly, or whether at all, the markets in which we operate adopt our solutions;
- our ability to increase volumes and yields on products manufactured in our internal manufacturing facilities;
- our ability to successfully restructure our operations within our anticipated timeframe and realize our anticipated savings;
- the quality and timing of delivery of key components from suppliers;
- order cancellations, reductions or delays in delivery schedules by our customers;
- our ability to control costs, including our operating expenses and the costs and availability of components we purchase for our products;
- any significant changes in the competitive dynamics of the markets we serve, including any new entrants, new technologies, or customer or competitor consolidation;
- readiness of customer sites for installation of our products as well as the availability of third party suppliers to provide contract engineering and installation services for us;
- the timing of revenue recognition and revenue deferrals;
- any future changes in U.S. generally accepted accounting principles ("U.S. GAAP") or new interpretations of existing accounting rules, including Accounting Standards Update No. 2016-02, "Leases (Topic 842)";

- the impact of a significant natural disaster, such as an earthquake, severe weather, or tsunami or other flooding, as well as interruptions or shortages in the supply of utilities such as water and electricity, in a key location such as our Northern California facilities, which is located near major earthquake fault lines and in a designated flood zone; and
- general economic conditions in domestic and international markets.

Many factors affecting our results of operations are beyond our control and make it difficult to predict our results for a particular quarter and beyond. If our revenue or operating results do not meet the expectations of investors or securities analysts or fall below any guidance we provide to the market, the price of our common stock may decline substantially.

**Any delays in the development and introduction of our new products or in releasing enhancements to our existing products may harm our business.**

Because our products are based on complex technologies, including, in many cases, the development of next-generation PICs and specialized ASICs (key components of our optical engines), we may experience unanticipated delays in developing, improving, manufacturing or deploying these products. The development process for our optical engines is lengthy, and any modifications entail significant development cost and risks.

At any given time, various new product introductions and enhancements to our existing products are in the development phase and are not yet ready for commercial manufacturing or deployment. We rely on third parties, some of which are relatively early stage companies, to develop, manufacture and deliver components for our next-generation products, which can often require custom development. The development process from laboratory prototype to customer trials, and subsequently to general availability, involves a significant number of simultaneous efforts. These efforts often must be completed in a timely and coordinated manner so that they may be incorporated into the product development cycle for our systems, and include:

- completion of product development, including the development and completion of our next-generation optical engines, and the completion of associated module development;
- the qualification and multiple sourcing of critical components;
- validation of manufacturing methods and processes;
- extensive quality assurance and reliability testing and staffing of testing infrastructure;
- validation of software; and
- establishment of systems integration and systems test validation requirements.

Each of these steps, in turn, presents risks of failure, rework or delay, any one of which could decrease the speed and scope of product introduction and marketplace acceptance of our products. New generations of our optical engines as well as intensive software testing are important to the timely introduction of new products and enhancements to our existing products, and are subject to these development risks. In addition, unexpected intellectual property disputes, failure of critical design elements, limited or constrained engineering resources, and a host of other development execution risks may delay, or even prevent, the introduction of new products or enhancements to our existing products. If we do not develop and successfully introduce or enhance products in a timely manner, our competitive position will suffer.

Additionally, as a result of the Acquisition, significant development effort is in progress to enhance our end-to-end product portfolio, including the newly added Coriant products, with network management and network automation software and features that would enable our current and future potential customers to deploy networks easily and take advantage of features such as IB. This effort may not bear the expected results and benefits to our current and future potential customers and we may not realize the financial and strategic benefits to our business.

As we transition customers to new products, we face significant risk that our new products may not be accepted by our current or new customers. To the extent that we fail to introduce new and innovative products that are adopted by customers, we could fail to obtain an adequate return on these investments and could lose

market share to our competitors, which could be difficult or impossible to regain. Similarly, we may face decreased revenue, gross margins and profitability due to a rapid decline in sales of current products as customers hold spending to focus purchases on new product platforms. We could incur significant costs in completing the transition, including costs of inventory write-downs of the current product as customers transition to new product platforms. In addition, products or technologies developed by others may render our products noncompetitive or obsolete and result in significant reduction in orders from our customers and the loss of existing and prospective customers.

**Our ability to increase our revenue will depend upon continued growth of demand by consumers and businesses for additional network capacity and on the level and timing of capital spending by our customers.**

Our future success depends on factors that increase the amount of data transmitted over communications networks and the growth of optical transport networks to meet the increased demand for optical capacity. These factors include the growth of mobile, video and cloud-based services, increased broadband connectivity and the continuing adoption of high-capacity, revenue-generating services. If demand for such bandwidth does not continue, or slows down, the market for optical transport networking equipment may not continue to grow and our product sales would be negatively impacted.

In addition, demand for our products depends on the level and timing of capital spending in optical networks by service providers as they construct, expand and upgrade the capacity of their optical networks. Capital spending is cyclical in our industry and spending by customers can change on short notice. Any future decisions by our customers to reduce capital spending, whether caused by lower customer demand or weakening economic conditions, changes in government regulations relating to telecommunications and data networks, customer consolidation or other reasons, could have a material adverse effect on our business, results of operations and financial condition.

**We are dependent on a small number of key customers for a significant portion of our revenue from period to period and the loss of, or a significant reduction in, orders from one or more of our key customers would reduce our revenue and harm our operating results.**

While our revenue and customer base will diversify as part of the Acquisition, today a relatively small number of customers account for a large percentage of our revenue from period to period. For example, for fiscal year 2018 our top five customers accounted for approximately 42% of our total revenue. For fiscal year 2017, our top five customers accounted for approximately 44% of our total revenue. Included in these five customers for fiscal year 2017 is one customer that completed a merger in late 2017, which was a combination of two of our historically larger customers. For fiscal year 2016, our top five customers accounted for approximately 46% of our total revenue. Our business will likely be harmed if any of our key customers are acquired, do not generate as much revenue as we forecast, stop purchasing from us, delay anticipated product purchases, or substantially reduce their orders to us. In addition, our business will be harmed if we fail to maintain our competitive advantage with our key customers or do not add new larger customers over time. We continue to expect a relatively small number of customers to continue to account for a large percentage of revenue from period to period. However, customer consolidation could reduce the number of key customers that generate a significant percentage of our revenue and may increase the risks relating to dependence on a small number of customers.

Our ability to continue to generate revenue from our key customers will depend on our ability to maintain strong relationships with these customers and introduce competitive new products at competitive prices, and we may not be successful at doing so. In most cases, our sales are made to these customers pursuant to standard purchase agreements rather than long-term purchase commitments, and orders may be canceled or reduced readily. In the event of a cancellation or reduction of an order, we may not have enough time to reduce operating expenses to minimize the effect of the lost revenue on our business. Our operating results will continue to depend on our ability to sell our products to our key customers.



**Increased consolidation among our customers and suppliers in the communications networking industry has and could continue to adversely affect our business and results of operations.**

We have seen increased consolidation in the communications networking industry over the past few years, which has adversely affected our business and results of operations. For example several of our customers have consolidated, during 2016, Charter Communications completed its acquisition of Time Warner Cable, Inc. and Altice completed its acquisition of Cablevision, and during 2017, Verizon completed its acquisition of XO Communications and CenturyLink completed its acquisition of Level 3 Communications. Customer consolidation has led to changes in buying patterns, slowdowns in spending, redeployment of existing equipment and re-architecture of parts of existing networks or future networks, as the combined companies evaluate the needs of the combined business. Moreover, the significant purchasing power of these large companies can increase pricing and competitive pressures for us, including the potential for decreases in our average selling prices. If one of our customers is acquired by another company that does not rely on us to provide it with products or relies on another provider of similar products, we may lose that customer's business. Such consolidation may further reduce the number of customers that generate a significant percentage of our revenue and may exacerbate the risks relating to dependence on a small number of customers. Any of the foregoing results will adversely affect our business, financial condition and results of operations.

In addition, our suppliers in the communications networking industry have recently begun to consolidate. For example, in the fourth quarter of 2018, Lumentum completed its acquisition of Oclaro, and II-VI announced its intention to acquire Finisar. Supplier consolidation may lead to increased prices of components for our products, deployment delays and/or a disruption in output. In addition, such consolidation may exacerbate the risks relating to our dependence on a small number of suppliers.

**Our gross margin may fluctuate from period to period and may be adversely affected by a number of factors, some of which are beyond our control.**

Our gross margin fluctuates from period to period and varies by customer and by product. Over the past eight fiscal quarters, our gross margin has ranged from 24.1% to 40.5%. Our gross margin is likely to continue to fluctuate and will be affected by a number of factors, including:

- the mix of the types of customers purchasing our products as well as the product mix, including sales of lower margin Coriant products;
- the initial products released powered by our next-generation technologies generate lower margin initially, as per unit production costs for initial units tend to be higher and experience more variability in production yields;
- the pace at which we deploy solutions powered by our next generation technologies, which could lead to higher excess or obsolete inventory;
- significant new deployments to existing and new customers, often with a higher portion of lower margin common equipment as we deploy network footprint;
- aggressive pricing tactics by our competitors;
- changes in our manufacturing costs, including fluctuations in yields and production volumes;
- pricing and commercial terms designed to secure long-term customer relationships, as well as commercial deals to transition certain customers to our new products;
- consolidation amongst our suppliers, which may increase prices of components for our products;
- the volume of IB-enabled solutions sold, and capacity licenses activated;
- price discounts negotiated by our customers;
- charges for excess or obsolete inventory;

- changes in the price or availability of components for our products, including the possible effect of new or increased tariffs on the prices of raw materials used in such components; and
- changes in warranty related costs.

It is likely that the average unit prices of our products will decrease over time in response to competitive pricing pressures. In addition, some of our customer contracts contain clauses that require us to annually decrease the sales price of our products to these customers. In response, we will need to reduce the cost of our products through manufacturing efficiencies, design improvements and cost reductions from our supply partners. If these efforts are not successful or if we are unable to reduce our costs by more than the reduction in the price of our products, our gross margin will decline, causing our operating results to decline. Fluctuations in gross margin may make it difficult to manage our business and achieve or maintain profitability.

**Aggressive business tactics by our competitors may harm our business.**

The markets in which we compete are extremely competitive and this often results in aggressive business tactics by our competitors, including:

- aggressively pricing their optical transport products and other portfolio products, including offering significant one-time discounts and guaranteed future price decreases;
- offering optical products at a substantial discount or for free when bundled together with broader technology purchases, such as router or wireless equipment purchases;
- providing financing, marketing and advertising assistance to customers; and
- influencing customer requirements to emphasize different product capabilities, which better suit their products.

The level of competition and pricing pressure tend to increase when competing for larger high-profile opportunities or during periods of economic weakness when there are fewer network build-out projects. If we fail to compete successfully against our current and future competitors, or if our current or future competitors continue or expand their aggressive business tactics, including those described above, demand for our products could decline, we could experience delays or cancellations of customer orders, and/or we could be required to reduce our prices to compete in the market.

**Actions that we are taking to restructure our business to cut costs in order to align our operating structure with current opportunities may not be as effective as anticipated.**

In December 2018, we implemented a restructuring initiative (the “2018 Restructuring Plan”) as part of a comprehensive review of our operations and ongoing integration synergies in order to optimize resources for future growth, improve efficiencies and address redundancies following the Acquisition. As part of the 2018 Restructuring Plan, we hope to reduce expenses, streamline the organization, and reallocate resources to align more closely with our needs going forward. While we expect to realize efficiencies from these actions, these activities might not produce the full efficiency and cost reduction benefits we expect. Further, such benefits may be realized later than expected, and the ongoing costs of implementing these measures may be greater than anticipated. In addition, as a result of the restructuring, our ability to execute on product development, address key market opportunities and/or meet customer demand, could be materially and adversely affected.

**If we lose key personnel or fail to attract and retain additional qualified personnel when needed, our business may be harmed.**

Our success depends to a significant degree upon the continued contributions of our key management, engineering, sales and marketing, and finance personnel, many of whom would be difficult to replace. For example, senior members of our engineering team have unique technical experience that would be difficult to replace. We do not have long-term employment contracts or key person life insurance covering any of our key personnel. Because our products are complex, we must hire and retain highly trained customer service and support personnel to ensure that the deployment of our products does not result in network disruption for our customers. We believe our future success will depend in large part upon our ability to identify, attract and retain highly skilled personnel. Competition for these individuals is intense in our industry, especially in the San Francisco Bay Area where we are headquartered. We may not succeed in identifying, attracting and retaining appropriate personnel. The loss of the services of any of our key personnel, the inability to identify, attract or retain qualified personnel in the future or delays in hiring qualified personnel, particularly engineers and sales personnel, could make it difficult for us to manage our business and meet key objectives, such as timely product introductions. In addition, as a result of the Acquisition, our current and prospective employees may experience uncertainty about their futures that may impair our ability to retain, recruit or motivate key management, engineering, technical and other personnel.

**The markets in which we compete are highly competitive and we may not be able to compete effectively.**

Competition in the packet-optical equipment market is intense. Our main competitors include WDM system suppliers, such as Adva, Ciena, Cisco, ECI, Huawei, Nokia and ZTE. In addition, there are several other companies that offer one or more products that partially compete with our offerings.

Competition in the markets we serve is based on any one or a combination of the following factors:

- price and other commercial terms;
- functionality;
- existing business and customer relationships;
- the ability of products and services to meet customers' immediate and future network requirements;
- power consumption;
- heat dissipation;
- form factor or density;
- installation and operational simplicity;
- quality and reliability;
- service and support;
- security and encryption requirements;
- scalability and investment protection; and
- product lead times.

In addition to our current competitors, other companies have, or may in the future develop, products that are or could be competitive with our products. We also could encounter competitor consolidation in the markets in which we compete, which could lead to a changing competitive landscape, capabilities and market share, and could impact our results of operations.

Some of our competitors have substantially greater name recognition, technical, financial and marketing resources, and better established relationships with potential customers than we have. Many of our competitors

have more resources and more experience in developing or acquiring new products and technologies, and in creating market awareness for those products and technologies. In addition, many of our competitors have the financial resources to offer competitive products at aggressive pricing levels that could prevent us from competing effectively. Further, many of our competitors have built long-standing relationships with some of our prospective and existing customers and have the ability to provide financing to customers and could, therefore, have an inherent advantage in selling products to those customers.

We also compete with low-cost producers that can increase pricing pressure on us and a number of smaller companies that provide competition for a specific product, customer segment or geographic market. In addition, we may also face increased competition from system and component companies that develop products based on off-the-shelf hardware that offers the latest commercially available technologies. Due to the narrower focus of their efforts, these competitors may achieve commercial availability of their products more quickly than we can and may provide attractive alternatives to our customers.

**We must respond to rapid technological change and comply with evolving industry standards and requirements for our products to be successful.**

The optical transport networking equipment market is characterized by rapid technological change, changes in customer requirements and evolving industry standards. We continually invest in research and development to sustain or enhance our existing products, but the introduction of new communications technologies and the emergence of new industry standards or requirements could render our products obsolete. Further, in developing our products, we have made, and will continue to make, assumptions with respect to which standards or requirements will be adopted by our customers and competitors. If the standards or requirements adopted by our prospective customers are different from those on which we have focused our efforts, market acceptance of our products would be reduced or delayed, and our business would be harmed.

We are continuing to invest a significant portion of our research and development efforts in the development of our next-generation products. We expect our competitors will continue to improve the performance of their existing products and introduce new products and technologies and to influence customers' buying criteria so as to emphasize product capabilities that we do not, or may not, possess. To be competitive, we must anticipate future customer requirements and continue to invest significant resources in research and development, sales and marketing, and customer support. If we do not anticipate these future customer requirements and invest in the technologies necessary to enable us to have and to sell the appropriate solutions, it may limit our competitive position and future sales, which would have an adverse effect on our business and financial condition. We may not have sufficient resources to make these investments and we may not be able to make the technological advances necessary to be competitive.

**The manufacturing process for our PICs and certain components of our products, and the assembly of our finished products, is very complex. The partial or complete loss of any of our manufacturing facilities, a reduction in yields of our PICs or an inability to scale capacity to meet customer demands could harm our business.**

The manufacturing process for our PICs and certain components of our products, and the assembly of our finished products, is very complex. In the event that any of our manufacturing facilities utilized to build these components and assemble our finished products were fully or partially destroyed, or shut down, as a result of a natural disaster, work stoppage or otherwise, it would limit our ability to sell our products. Because of the complex nature of our manufacturing facilities, such loss would take a considerable amount of time to repair or replace. The partial or complete loss of any of our manufacturing facilities, or an event causing the interruption in our use of any such facilities, whether as a result of a natural disaster, work stoppage or otherwise, for any extended period of time would cause our business, financial condition and operating results to be harmed.

Minor deviations in the PIC manufacturing process can cause substantial decreases in yields and, in some cases, cause production to be suspended. In the past, we have had significant variances in our PIC yields, including production interruptions and suspensions and may have continued yield variances, including additional interruptions or suspensions in the future. Lower than expected yields from our PIC manufacturing process or defects, integration issues or other performance problems in our products could limit our ability to satisfy customer demand requirements, and could damage customer relations and cause business reputation problems, harming our business and operating results.

Our inability to obtain sufficient manufacturing capacity to meet demand, either in our own facilities or through foundry or similar arrangements with third parties, could harm our relationships with our customers, our business and our results of operations.

**Our large customers have substantial negotiating leverage, which may cause us to agree to terms and conditions that result in decreased revenue due to lower average selling prices and potentially increased cost of sales leading to lower gross margin, all of which would harm our results of operations.**

Many of our customers are large service providers that have substantial purchasing power and leverage in negotiating contractual arrangements with us. In addition, customer consolidation in the past few years has created combined companies that are even larger and have greater negotiating leverage. Our customers have and may continue to seek advantageous pricing, payment and other commercial terms. We have and may continue to agree to unfavorable commercial terms with these customers, including the potential of reducing the average selling price of our products, increasing cost of sales or agreeing to extended payment terms in response to these commercial requirements or competitive pricing pressures. To maintain acceptable operating results, we will need to comply with these commercial terms, develop and introduce new products and product enhancements on a timely basis, and continue to reduce our costs.

**We are dependent on sole source and limited source suppliers for several key components, and if we fail to obtain these components on a timely basis, we will not meet our customers' product delivery requirements.**

We currently purchase several key components for our products from sole or limited sources. In particular, we rely on our own production of certain components of our products, such as PICs, and on third parties, including sole source and limited source suppliers, for certain of the components of our products, including ASICs, field-programmable gate arrays, processors, and other semiconductor and optical components. We have increased our reliance on third parties to develop and manufacture components for certain products, some of which require custom development. We purchase most of these components on a purchase order basis and only have long-term contracts with these sole source or limited source suppliers. If any of our sole source or limited source suppliers suffer from capacity constraints, lower than expected yields, deployment delays, work stoppages or any other reduction or disruption in output, they may be unable to meet our delivery schedule which could result in lost revenue, additional product costs and deployment delays that could harm our business and customer relationships. Further, our suppliers could enter into exclusive arrangements with our competitors, refuse to sell their products or components to us at commercially reasonable prices or at all, go out of business or discontinue their relationships with us. We may be unable to develop alternative sources for these components.

The loss of a source of supply, or lack of sufficient availability of key components, could require us to redesign products that use such components, which could result in lost revenue, additional product costs and deployment delays that could harm our business and customer relationships. In addition, if our contract manufacturers do not receive critical components in a timely manner to build our products, then we would not be able to ship in a timely manner and would, therefore, be unable to meet our prospective customers' product delivery requirements. In the past, we have experienced delivery delays because of lack of availability of components or reliability issues with components that we were purchasing. In addition, some of our suppliers have gone out of business, merged with another supplier, or limited their supply of components to us, which may cause us to experience longer than normal lead times, supply delays and increased prices. We may in the future experience a shortage of certain components as a result of our own manufacturing issues, manufacturing issues at our suppliers or contract manufacturers, capacity problems experienced by our suppliers or contract manufacturers, strong demand in the industry for such components, or other disruptions in our supply chain. In addition, disruptions to global macroeconomic conditions may create pressure on us and our suppliers to accurately project overall component demand and manufacturing capacity. These supplier disruptions may continue to occur in the future, which could limit our ability to produce our products and cause us to fail to meet a customer's delivery requirements. Any failure to meet our customers' product delivery requirements could harm our reputation and our customer relationships, either of which would harm our business and operating results.

**If we fail to accurately forecast our manufacturing requirements or customer demand, we could incur additional costs, including inventory write-downs or equipment write-offs, which would adversely affect our business and results of operations.**

We generate forecasts of future demand for our products several months prior to the scheduled delivery to our prospective customers. This requires us to make significant investments before we know if corresponding revenue will be recognized. Lead times for materials and components, including ASICs, that we need to order for the manufacture of our products vary significantly and depend on factors such as the specific supplier, contract terms and demand for each component at a given time. In the past, we have experienced lengthening in lead times for certain components. If the lead times for components are lengthened, we may be required to purchase increased levels of such components to satisfy our delivery commitments to our customers. In addition, we must manage our inventory to ensure we continue to meet our commitments as we introduce new products or make enhancements to our existing products.

If we overestimate market demand for our products and, as a result, increase our inventory in anticipation of customer orders that do not materialize, we will have excess inventory, which could result in increased risk of obsolescence and significant inventory write-downs. Furthermore, this will result in reduced production volumes and our fixed costs will be spread across fewer units, increasing our per unit costs. If we underestimate demand for our products, we will have inadequate inventory, which could slow down or interrupt the manufacturing of our products and result in delays in shipments and our ability to recognize revenue. In addition, we may be unable to meet our supply commitments to customers, which could result in a loss of certain customer opportunities or a breach of our customer agreements resulting in payment of damages.

**Product performance problems, including undetected errors in our hardware or software, or deployment delays could harm our business and reputation.**

The development and production of products with high technology content is complicated and often involves problems with software, hardware, components and manufacturing methods. Complex hardware and software systems, such as our products, can often contain undetected errors or bugs when first introduced or as new versions are released. In addition, errors associated with components we purchase from third parties, including customized components, may be difficult to resolve. We have experienced issues in the past in connection with our products, including failures due to the receipt of faulty components from our suppliers and performance issues related to software updates. From time to time we have had to replace certain components, provide software remedies or other remediation in response to errors or bugs, and we may have to do so again in the future. In addition, performance issues can be heightened during periods where we are developing and introducing multiple new products to the market, as any performance issues we encounter in one technology or product could impact the performance or timing of delivery of other products. Our products may suffer degradation of performance and reliability over time. Also, as a result of the Acquisition, we will be adding, augmenting, and modifying significant parts of our combined portfolio with network management and network automation software and features. These efforts may introduce new software bugs or network level reliability issues that are not known at this time, which could cause us to lose customers and fail to add new customers.

If reliability, quality, security or network monitoring problems develop, a number of negative effects on our business could result, including:

- reduced orders from existing customers;
- declining interest from potential customers;
- delays in our ability to recognize revenue or in collecting accounts receivables;
- costs associated with fixing hardware or software defects or replacing products;
- high service and warranty expenses;
- delays in shipments;
- high inventory excess and obsolescence expense;



- high levels of product returns;
- diversion of our engineering personnel from our product development efforts; and
- payment of liquidated damages, performance guarantees or similar penalties.

Because we outsource the manufacturing of certain components of our products, we may also be subject to product performance problems as a result of the acts or omissions of third parties.

From time to time, we encounter interruptions or delays in the activation of our products at a customer's site. These interruptions or delays may result from product performance problems or from issues with installation and activation, some of which are outside our control. If we experience significant interruptions or delays that we cannot promptly resolve, the associated revenue for these installations may be delayed or confidence in our products could be undermined, which could cause us to lose customers and fail to add new customers.

**If our contract manufacturers do not perform as we expect, our business may be harmed.**

We rely on third party contract manufacturers to perform a portion of the manufacturing of our products, and our future success will depend on our ability to have sufficient volumes of our products manufactured in a cost-effective and quality-controlled manner. We have engaged third parties to manufacture certain elements of our products at multiple contract manufacturing sites located around the world but do not have long-term agreements in place with some of our manufacturers and suppliers that will guarantee product availability, or the continuation of particular pricing or payment terms. There are a number of risks associated with our dependence on contract manufacturers, including:

- reduced control over delivery schedules, particularly for international contract manufacturing sites;
- reliance on the quality assurance procedures of third parties;
- potential uncertainty regarding manufacturing yields and costs;
- potential lack of adequate capacity during periods of high demand;
- limited warranties on components;
- potential misappropriation of our intellectual property; and
- potential manufacturing disruptions (including disruptions caused by geopolitical events, military actions, work stoppages or natural disasters).

Any of these risks could impair our ability to fulfill orders. Any delays by our contract manufacturers may cause us to be unable to meet the delivery requirements of our customers, which could decrease customer satisfaction and harm our product sales. In addition, if our contract manufacturers are unable or unwilling to continue manufacturing our products or components of our products in required volumes or our relationship with any of our contract manufacturers is discontinued for any reason, we would be required to identify and qualify alternative manufacturers, which could cause us to be unable to meet our supply requirements to our customers and result in the breach of our customer agreements. Qualifying a new contract manufacturer and commencing volume production is expensive and time-consuming and if we are required to change or qualify a new contract manufacturer, we could lose revenue and damage our customer relationships.

**Our sales cycle can be long and unpredictable, which could result in an unexpected revenue shortfall in any given quarter.**

Our products can have a lengthy sales cycle, which can extend from six to twelve months and may take even longer for larger prospective customers. Our prospective customers conduct significant evaluation, testing, implementation and acceptance procedures before they purchase our products. We incur substantial sales and marketing expenses and expend significant management effort during this time, regardless of whether we make a sale.

Because the purchase of our equipment involves substantial cost, most of our customers wait to purchase our equipment until they are ready to deploy it in their network. As a result, it is difficult for us to accurately predict the timing of future purchases by our customers. In addition, product purchases are often subject to budget constraints, multiple approvals and unplanned administrative processing and other delays. If sales expected from customers for a particular quarter are not realized in that quarter or at all, our revenue will be negatively impacted.

**If we need additional capital in the future, it may not be available to us on favorable terms, or at all.**

Our business requires significant capital. We have historically relied on outside debt or equity financing as well as cash flow from operations to fund our operations, capital expenditures and expansion. We may require additional capital from equity financing, debt financing or other financings in the future to fund our operations, respond to competitive pressures or strategic opportunities or to refinance our existing debt obligations. In the event that we require additional capital, we may not be able to secure timely additional financing on favorable terms, or at all. The terms of any additional financing may place limits on our financial and operating flexibility. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer dilution in their percentage ownership of our company, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, if and when we require it, our ability to grow or support our business and to respond to business challenges could be limited and our business will be harmed.

**If we fail to protect our intellectual property rights, our competitive position could be harmed, or we could incur significant expense to enforce our rights.**

We depend on our ability to protect our proprietary technology. We rely on a combination of methods to protect our intellectual property, including limiting access to certain information, and utilizing trade secret, patent, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. The steps we have taken to protect our proprietary rights may be inadequate to preclude misappropriation or unauthorized disclosure of our proprietary information or infringement of our intellectual property rights, and our ability to police such misappropriation, unauthorized disclosure or infringement is uncertain, particularly in countries outside of the United States. This is likely to become an increasingly important issue if we expand our operations and product development into countries that provide a lower level of intellectual property protection. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims, and even if patents are issued, they may be contested, circumvented or invalidated. Moreover, the rights granted under any issued patents may not provide us with a competitive advantage, and, as with any technology, competitors may be able to develop similar or superior technologies to our own now or in the future.

Protecting against the unauthorized use of our products, trademarks and other proprietary rights is expensive, difficult, time consuming and, in some cases, impossible. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity or scope of the proprietary rights of others. Such litigation could result in substantial cost and diversion of management resources, either of which could harm our business, financial condition and operating results. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

### **Claims by others that we infringe their intellectual property could harm our business.**

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In particular, many leading companies in the optical transport networking industry, including our competitors, have extensive patent portfolios with respect to optical transport networking technology. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. From time to time, third parties may assert exclusive patent, copyright, trademark and other intellectual property rights to technologies and related standards that are important to our business or seek to invalidate the proprietary rights that we hold. Competitors or other third parties have, and may continue to assert claims or initiate litigation or other proceedings against us or our manufacturers, suppliers or customers alleging infringement of their proprietary rights, or seeking to invalidate our proprietary rights, with respect to our products and technology. In addition, we have had certain patent licenses with third parties that have not been renewed, and if we cannot successfully renew these licenses, we could face claims of infringement. In the event that we are unsuccessful in defending against any such claims, or any resulting lawsuit or proceedings, we could incur liability for damages and/or have valuable proprietary rights invalidated. For additional information regarding certain of the legal proceedings in which we are involved, see Item 1, "Legal Proceedings," contained in Part II of this report.

Any claim of infringement from a third party, even one without merit, could cause us to incur substantial costs defending against the claim, and could distract our management from running our business. Furthermore, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages or could include an injunction or other court order that could prevent us from offering our products. In addition, we might be required to seek a license for the use of such intellectual property, which may not be available on commercially reasonable terms or at all. Alternatively, we may be required to develop non-infringing technology, which would require significant effort and expense and may ultimately not be successful. Any of these events could harm our business, financial condition and operating results. Competitors and other third parties have and may continue to assert infringement claims against our customers and sales partners. Any of these claims would require us to initiate or defend potentially protracted and costly litigation on their behalf, regardless of the merits of these claims, because we generally indemnify our customers and sales partners from claims of infringement of proprietary rights of third parties. If any of these claims succeed, we may be forced to pay damages on behalf of our customers or sales partners, which could have an adverse effect on our business, financial condition and operating results.

We may also be required to indemnify some customers under our contracts if a third party alleges, or a court finds, that our products have infringed upon the proprietary rights of other parties. From time to time, we have agreed to indemnify certain customers for claims made against our products, where such claims allege infringement of third party intellectual property rights, including, but not limited to, patents, registered trademarks and/or copyrights. If we are required to make a significant payment under any of our indemnification obligations, our result of operations may be harmed.

We incorporate free and open source licensed software into our products. Although we monitor our use of such open source software closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. In addition, non-compliance with open source software license terms and conditions could subject us to potential liability, including intellectual property infringement and/or contract claims. In such events, we may be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished in a timely manner, any of which could adversely affect our business, operating results and financial condition.

### **The trading price of our common stock has been volatile and is likely to be volatile in the future.**

The trading prices of our common stock and the securities of other technology companies have been and may continue to be highly volatile. Factors affecting the trading price of our common stock include:

- variations in our operating results;

- announcements of technological innovations, new services or service enhancements, strategic alliances or agreements by us or by our competitors;
- the gain or loss of customers;
- recruitment or departure of key personnel;
- changes in the estimates of our future operating results or external guidance on those results or changes in recommendations or business expectations by any securities analysts that elect to follow our common stock;
- mergers and acquisitions by us (including the Acquisition), by our competitors or by our customers;
- market conditions in our industry, the industries of our customers and the economy as a whole; and
- adoption or modification of regulations, policies, procedures or programs applicable to our business.

In addition, if the market for technology stocks or the broader stock market experience a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or operating results. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. Each of these factors, among others, could harm the value of your investment in our common stock. Some companies that have had volatile market prices for their securities have had securities class action lawsuits filed against them. If a suit were filed against us, regardless of its merits or outcome, it could result in substantial costs and divert management's attention and resources.

**Unfavorable macroeconomic and market conditions may adversely affect our industry, business and financial results.**

Our business depends on the overall demand for additional bandwidth capacity and on the economic health and willingness of our customers and potential customers to make capital commitments to purchase our products and services. As a result of macroeconomic or market uncertainty, we may face new risks that we have not yet identified. In addition, a number of the risks associated with our business, which are disclosed in these risk factors, may increase in likelihood, magnitude or duration.

In the past, unfavorable macroeconomic and market conditions have resulted in sustained periods of decreased demand for optical communications products. These conditions may also result in the tightening of credit markets, which may limit or delay our customers' ability to obtain necessary financing for their purchases of our products. A lack of liquidity in the capital markets or the continued uncertainty in the global economic environment may cause our customers to delay or cancel their purchases, increase the time they take to pay or default on their payment obligations, each of which would negatively affect our business and operating results. Weakness and uncertainty in the global economy could cause some of our customers to become illiquid, delay payments or adversely affect our collection of their accounts, which could result in a higher level of bad debt expense. In addition, currency fluctuations could negatively affect our international customers' ability or desire to purchase our products.

Challenging economic conditions have from time to time contributed to slowdowns in the telecommunications industry in which we operate. Such slowdowns may result in:

- reduced demand for our products as a result of constraints on capital spending by our customers;
- increased price competition for our products, not only from our competitors, but also as a result of our customer's or potential customer's utilization of inventoried or underutilized products, which could put additional downward pressure on our near term gross profits;
- risk of excess or obsolete inventories;

- excess manufacturing capacity and higher associated overhead costs as a percentage of revenue; and
- more limited ability to accurately forecast our business and future financial performance.

A lack of liquidity and economic uncertainty may adversely affect our suppliers or the terms on which we purchase products from these suppliers. It may also cause some of our suppliers to become illiquid. Any of these impacts could limit our ability to obtain components for our products from these suppliers and could adversely impact our supply chain or the delivery schedule to our customers. This also could require us to purchase more expensive components, or re-design our products, which could cause increases in the cost of our products and delays in the manufacturing and delivery of our products. Such events could harm our gross margin and harm our reputation and our customer relationships, either of which could harm our business and operating results.

**Our international sales and operations subject us to additional risks that may harm our operating results.**

Sales of our products into international markets are an important part of our business and will be increasingly important given Coriant's international revenue mix. During 2018, 2017 and 2016, we derived approximately 49%, 42% and 38%, respectively, of our revenue from customers outside of the United States. We expect that significant management attention and financial resources will be required for our international activities over the foreseeable future as we continue to operate in international markets. In some countries, our success in selling our products and growing revenue will depend in part on our ability to form relationships with local partners. Our inability to identify appropriate partners or reach mutually satisfactory arrangements for international sales of our products could impact our ability to maintain or increase international market demand for our products. In addition, many of the companies we compete against internationally have greater name recognition and a more substantial sales and marketing presence.

We have sales and support personnel in numerous countries worldwide. In addition, we have established development centers in Canada, India and Sweden. There is no assurance that our reliance upon development resources in international locations will enable us to achieve meaningful cost reductions or greater resource efficiency. As a result of the Acquisition, we now have sales and support personnel in greater number of geographical locations throughout Asia (including China) and EMEA (with offices in the Middle East).

Our international operations are subject to inherent risks, and our future results could be adversely affected by a variety of factors, many of which are outside of our control, including:

- greater difficulty in collecting accounts receivable and longer collection periods;
- difficulties of managing and staffing international offices, and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- political, social and economic instability, including wars, terrorism, political unrest, boycotts, curtailment of trade and other business restrictions;
- tariff and trade barriers and other regulatory requirements or contractual limitations on our ability to sell or develop our products in certain foreign markets;
- less effective protection of intellectual property than is afforded to us in the United States or other developed countries;
- local laws and practices that favor local companies, including business practices that we are prohibited from engaging in by the Foreign Corrupt Practices Act and other anti-corruption laws and regulations;
- potentially adverse tax consequences; and
- effects of changes in currency exchange rates, particularly relative increases in the exchange rate of the U.S. dollar versus other currencies that could negatively affect our financial results and cash flows.

International customers may also require that we comply with certain testing or customization of our products to conform to local standards. The product development costs to test or customize our products could be extensive and a material expense for us.

Our international operations are subject to increasingly complex foreign and U.S. laws and regulations, including but not limited to anti-corruption laws, such as the Foreign Corrupt Practices Act and the UK Bribery Act and equivalent laws in other jurisdictions, antitrust or competition laws, and data privacy laws, among others. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially affect our reputation, our international expansion efforts, our ability to attract and retain employees, our business, and our operating results. Although we have implemented policies, procedures and training designed to ensure compliance with these laws and regulations, there can be no complete assurance that any individual employee, contractor or agent will not violate our policies. Additionally, the costs of complying with these laws (including the costs of investigations, auditing and monitoring) could also adversely affect our current or future business.

As we continue to expand our business globally, our success will depend, in large part, on our ability to effectively anticipate and manage these and other risks and expenses associated with our international operations. For example, political instability and uncertainty in the European Union and, in particular, the United Kingdom's pending exit from the E.U. (Brexit) as well as other countries potentially choosing to exit the E.U., could slow economic growth in the region, affect foreign exchange rates, and could further discourage near-term economic activity, including our customers delaying purchases of our products. Our failure to manage any of these risks successfully could harm our international operations and reduce our international sales, and business generally, adversely affecting our business, financial condition and results of operations.

**We may be adversely affected by fluctuations in currency exchange rates.**

A portion of our sales and expenses stem from countries outside of the United States, and are in currencies other than U.S. dollars, and therefore subject to foreign currency fluctuation. Accordingly, fluctuations in foreign currency rates could have a material impact on our financial results in future periods. We may enter into other financial contracts to reduce the impact of foreign currency fluctuations. We currently enter into foreign currency exchange forward contracts to reduce the impact of foreign currency fluctuations on accounts receivable, and also to reduce the volatility of cash flows primarily related to forecasted foreign currency revenue and expenses. These forward contracts reduce the impact of currency exchange rate movements on certain transactions, but do not cover all foreign-denominated transactions and therefore do not entirely eliminate the impact of fluctuations in exchange rates that could negatively affect our results of operations and financial condition.

**Our effective tax rate may increase or fluctuate, which could increase our income tax expense and reduce our net income.**

Our effective tax rate can be adversely affected by several factors, many of which are outside of our control, including:

- changes in the valuation of our deferred tax assets and liabilities, and in deferred tax valuation allowances;
- changes in the relative proportions of revenue and income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
- changing tax laws, regulations, rates and interpretations in multiple jurisdictions in which we operate;
- changes in accounting and tax treatment of equity-based compensation;
- changes to the financial accounting rules for income taxes; and
- the resolution of issues arising from tax audits.



The international tax environment continues to change as a result of both coordinated actions by governments and unilateral measures designed by individual countries, both intended to tackle concerns over base erosion and profit shifting (“BEPS”) and perceived international tax avoidance techniques. The recommendations of the BEPS Project led by the Organization for Economic Cooperation and Development are involved in much of the coordinated activity, although the timing and methods of implementation vary. In addition, U.S. tax reform continues to be a priority for the current administration, and changes to the U.S. Tax Cuts and Jobs Act (the “Tax Act”) could adversely affect our effective tax rate and our results of operations.

**If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.**

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. The provisions of the act require, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. Preparing our financial statements involves a number of complex processes, many of which are done manually and are dependent upon individual data input or review. These processes include, but are not limited to, calculating revenue, deferred revenue and inventory costs. While we continue to automate our processes and enhance our review and put in place controls to reduce the likelihood for errors, we expect that for the foreseeable future, many of our processes will remain manually intensive and thus subject to human error. In addition, if we are unable to implement key operation controls around pricing, spending and other financial processes, we may not be able to improve our financial performance.

**Any acquisitions we make could disrupt our business and harm our financial condition and operations.**

We have made strategic acquisitions of businesses, technologies and other assets in the past, including most recently the acquisition of Coriant. In order to make acquisitions, we may use cash, issue equity that could dilute our current stockholders, or incur debt or assume indebtedness. If we are unable to achieve the anticipated strategic benefits of such acquisitions, it could adversely affect our business, financial condition and results of operations. In addition, the market price of our common stock could be adversely affected if the integration or the anticipated financial and strategic benefits of such acquisitions are not realized as rapidly as, or to the extent anticipated by investors and securities analysts.

Acquisitions can also result in adverse tax consequences, warranty or product liability exposure related to acquired assets, additional stock-based compensation expense, and write-up of acquired inventory to fair value. In addition, we may record goodwill and other purchased intangible assets in connection with an acquisition and incur impairment charges in the future. If our actual results, or the plans and estimates used in future impairment analyses, are less favorable than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

Acquisitions also involve numerous risks that could disrupt our ongoing business and distract our management team, including:

- problems integrating the acquired operations, technologies or products with our own;
- diversion of management’s attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering new markets; and
- loss of key employees.

Our failure to adequately manage the risks associated with an acquisition could have an adverse effect on our business, financial condition and operating results.

**Unforeseen health, safety and environmental costs could harm our business.**

Our manufacturing operations use substances that are regulated by various federal, state and international laws governing health, safety and the environment, including the Waste Electrical and Electronic Equipment Directive, Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, and the Registration, Evaluation, Authorization, and Restriction of Chemicals regulations

adopted by the European Union. If we experience a problem with complying with these regulations, it could cause an interruption or delay in our manufacturing operations or it could cause us to incur liabilities for any costs related to health, safety or environmental remediation. We could also be subject to liability if we do not handle these substances in compliance with safety standards for storage and transportation and applicable laws. If we experience a problem or fail to comply with such safety standards, our business, financial condition and operating results may be harmed.

**We are subject to governmental regulations that could adversely affect our business.**

We are subject to U.S. and foreign trade control laws that may limit where and to whom we sell our products. These trade control laws also limit our ability to conduct product development activities in certain countries and restrict the handling of our U.S. export controlled technology. In addition, various countries regulate the import of certain technologies and have enacted laws that could limit our ability to distribute our products and certain product features or could limit our customers' ability to implement our products in those countries. Changes in our products or changes in U.S. and foreign import and export regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the import and export of our products to certain countries altogether. Any change in import and export regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies impacted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Failure to comply with these and similar laws on a timely basis, or at all, or any limitation on our ability to develop, export or sell our products would adversely affect our business, financial condition and operating results.

Our product or manufacturing standards could also be impacted by new or revised environmental rules and regulations or other social initiatives. For instance, the SEC has adopted disclosure requirements relating to the use of conflict minerals originating from the Democratic Republic of Congo and certain other adjoining countries. Those rules, which require us to report on our processes and supply chain around sourcing these minerals, could adversely affect our costs, the availability of minerals used in our products and our relationships with customers and suppliers.

The Federal Communications Commission ("FCC") has jurisdiction over the entire U.S. communications industry and, as a result, our products and our U.S. customers are subject to FCC rules and regulations. In December 2017, the FCC voted to roll back its 2015 order regulating broadband Internet service providers as telecommunications service carriers under Title II of the Telecommunications Act. This decision repeals net neutrality regulations that prohibit blocking, degrading or prioritizing certain types of Internet traffic and restores the light touch regulatory treatment of broadband service in place prior to 2015. Changes in regulatory requirements or uncertainty associated with the regulatory environment could delay or impede investment in network infrastructures by our customers, which could adversely affect the sale of our products and services. Similarly, changes in regulatory tariff requirements or other regulations relating to pricing or terms of carriage on communications networks could slow the development or expansion of network infrastructures and adversely affect our business, operating results, and financial condition.

In addition, international regulatory standards could impair our ability to develop products for international customers in the future. Moreover, many jurisdictions are evaluating or implementing regulations relating to cybersecurity, privacy and data protection, which can affect the market and requirements for networking and communications equipment. For example, in April 2016, the European Parliament approved the General Data Protection Regulation (the "GDPR"), which came into effect in May 2018 and supersedes current EU data protection regulations. The GDPR will impose stringent data handling requirements on companies that receive or process personal data of residents of the EU, and non-compliance with the GDPR could result in significant penalties, including data protection audits and heavy fines. Any failure to obtain the required approvals or comply with such laws and regulations could harm our business and operating results.

**Natural disasters, terrorist attacks or other catastrophic events could harm our operations.**

Our headquarters and the majority of our infrastructure, including our PIC fabrication manufacturing facility, are located in Northern California, an area that is susceptible to earthquakes, floods and other natural disasters. Further, a terrorist attack aimed at Northern California or at the United States energy or telecommunications infrastructure could hinder or delay the development and sale of our products. In the event that an earthquake, terrorist attack or other man-made or natural catastrophe were to destroy any part of our facilities, or certain of our contract manufacturers' facilities, destroy or disrupt vital infrastructure systems or interrupt our operations for any extended period of time, our business, financial condition and operating results would be harmed.

**Security incidents, such as data breaches and cyber-attacks, could compromise our intellectual property and proprietary or confidential information and cause significant damage to our business and reputation.**

In the ordinary course of our business, we maintain sensitive data on our networks, including data related to our intellectual property and data related to our business, customers and business partners, which is considered proprietary or confidential information. We believe that companies in the technology industry have been increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access. While the secure maintenance of this information is critical to our business and reputation, our network and storage applications, and those systems and other business applications maintained by our third-party providers, may be subject to unauthorized access by hackers or breached due to operator error, malfeasance or other system disruptions. It may be difficult to anticipate or immediately detect such security incidents or data breaches and the damage caused as a result. Accordingly, a data breach, cyber-attack, or unauthorized access or disclosure of our information, could compromise our intellectual property and reveal proprietary or confidential business information. While we continually work to safeguard our internal network systems and validate the security of our third party providers to mitigate these potential risks, including through information security policies and employee awareness and training, there is no assurance that such actions will be sufficient to prevent cyber-attacks or security breaches. We have been subjected in the past to a range of incidents including phishing, emails purporting to come from an executive or vendor seeking payment requests, and communications from look-alike corporate domains. While these have not had a material effect on our business or our network security to date, security incidents involving access or improper use of our systems, networks or products could compromise confidential or otherwise protected information, destroy or corrupt data, or otherwise disrupt our operations. These security incidents could cause us to incur significant remediation costs and expenses, subject us to regulatory action, disrupt key business operations, open us up to liability, and divert attention of management and key information technology resources, any of which could cause significant harm to our business and reputation.

**Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our company and may affect the trading price of our common stock.**

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law, which apply to us, may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our amended and restated certificate of incorporation and amended and restated bylaws:

- authorize the issuance of "blank check" convertible preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- establish a classified board of directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;
- require that directors only be removed from office for cause and only upon a supermajority stockholder vote;

- provide that vacancies on the board of directors, including newly-created directorships, may be filled only by a majority vote of directors then in office rather than by stockholders;
- prevent stockholders from calling special meetings; and
- prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders.

### **Risks Related to our 2024 Notes**

**Our debt obligations may adversely affect our ability to raise additional capital and will be a burden on our future cash resources, particularly if we elect to settle these obligations in cash upon conversion or upon maturity or required repurchase.**

In September 2018, we issued the 2024 Notes, which will mature on September 1, 2024, unless earlier repurchased by us or converted. The degree to which we are leveraged could have important consequences, including, but not limited to, the following:

- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, litigation, general corporate or other purposes may be limited; and
- a substantial portion of our future cash balance may be dedicated to the payment of the principal of our indebtedness as we have stated the intention to pay the principal amount of the 2024 Notes in cash upon conversion or when otherwise due, such that we would not have those funds available for use in our business.

Our ability to meet our payment obligations under our debt instruments, including the 2024 Notes, depends on our future cash flow performance. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors, as well as other factors that may be beyond our control. There can be no assurance that our business will generate positive cash flow from operations, or that additional capital will be available to us, in an amount sufficient to enable us to meet our debt payment obligations and to fund other liquidity needs. For example, in the first quarter after the Acquisition, the combined company had a significant net loss and negative cash flows. If we are unable to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we were unable to implement one or more of these alternatives, we may be unable to meet our debt payment obligations. As a result, we may be more vulnerable to economic downturns, less able to withstand competitive pressures and less flexible in responding to changing business and economic conditions.

**We may issue additional shares of our common stock in connection with conversions of the 2024 Notes, and thereby dilute our existing stockholders and potentially adversely affect the market price of our common stock.**

In the event that some or all of the 2024 Notes are converted and we elect to deliver shares of common stock, the ownership interests of existing stockholders will be diluted, and any sales in the public market of any shares of our common stock issuable upon such conversion could adversely affect the prevailing market price of our common stock. In addition, the anticipated conversion of the 2024 Notes could depress the market price of our common stock.

**The fundamental change provisions of the 2024 Notes may delay or prevent an otherwise beneficial takeover attempt of us.**

If a fundamental change, such as an acquisition of our company, occurs prior to the maturity of the 2024 Notes, holders of the 2024 Notes will have the right, at their option, to require us to repurchase all or a portion of their 2024 Notes. In addition, if such fundamental change also constitutes a make-whole fundamental change, the conversion rate for the 2024 Notes may be increased upon conversion of the 2024 Notes in connection with such make-whole fundamental change. Any increase in the conversion rate will be determined based on the date on which the make-whole fundamental change occurs or becomes effective and the price paid (or deemed paid) per share of our common stock in such transaction. Any such increase will be dilutive to our existing stockholders. Our obligation to repurchase 2024 Notes or increase the conversion rate upon the occurrence of a make-whole

fundamental change may, in certain circumstances, delay or prevent a takeover of us that might otherwise be beneficial to our stockholders.

**The capped call transactions may affect the value of the 2024 Notes and our common stock.**

In connection with the issuance of the 2024 Notes, we entered into capped call transactions with the “option counterparties.” The capped call transactions are expected generally to reduce or offset the potential dilution upon conversion of the 2024 Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted 2024 Notes, as the case may be, with such reduction and/or offset subject to a cap.

From time to time, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the 2024 Notes. This activity could also cause or avoid an increase or a decrease in the market price of our common stock.

**We are subject to counterparty risk with respect to the capped call transactions.**

The option counterparties to the capped call transactions are financial institutions, and we will be subject to the risk that any or all of them might default under the capped call transactions. Our exposure to the credit risk of the counterparties will not be secured by any collateral. Past global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under the capped call transactions with such option counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in the market price and in the volatility of our common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurance as to the financial stability or viability of the option counterparties.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

## **ITEM 2. PROPERTIES**

Our headquarters are located in Sunnyvale, California, which consist of approximately 321,000 square feet under lease.

In addition to the leased building in Sunnyvale, we also lease approximately 1,084,000 square feet of office spaces for research and development centers in the United States, China, Canada, Sweden, Finland, Germany and for sales, service and support in the United States, China, United Kingdom, Japan, India, Indonesia, Malaysia, Philippines, Taiwan, Vietnam, Belgium, Finland, Germany, Hungary, Israel, Italy, Kazakhstan, Poland, Portugal, Russia, Saudi Arabia, Serbia and UAE. All of these leases expire between 2019 and 2028.

In the fourth quarter of 2017, we implemented a restructuring plan. Included in the above square footage are certain facilities located in Sunnyvale, California, Carrollton, Texas and Stockholm, Sweden, which we have vacated as part of this restructuring. See Note 9, "Restructuring and Other Related Costs" to the Notes to Consolidated Financial Statements for more information.

In May 2017, we purchased a 60,000 square-foot module manufacturing facility and the associated land that we had previously leased in Allentown, Pennsylvania. We believe that our existing facilities are adequate to meet our business needs through the next 12 months, and that suitable additional or substitute space will be available as needed to accommodate any expansion of our operations.

## **ITEM 3. LEGAL PROCEEDINGS**

On November 23, 2016, Oyster Optics, LLC ("Oyster Optics") filed a complaint against us in the United States District Court for the Eastern District of Texas. The complaint asserts U.S. Patent Nos. 6,469,816, 6,476,952, 6,594,055, 7,099,592, 7,620,327 (the "'327 patent'"), 8,374,511 (the "'511 patent'") and 8,913,898 (the "'898 patent'") (collectively, the asserted patent are referred to herein as the "Oyster Optics patents in suit"). The complaint seeks unspecified damages and a permanent injunction. We filed our answer to Oyster Optics' complaint on February 3, 2017. We filed two petitions for Inter Partes Review ("IPR") of the '898 patent with the U.S. Patent and Trademark Office ("USPTO"). Other defendants have filed IPR petitions in connection with the remaining Oyster Optics patents in suit. The USPTO instituted two IPRs of the '511 patent and two IPRs of '898 patent but denied IPR petitions in connection with the '327 patent. A Markman decision was issued on December 5, 2017 and fact discovery closed on December 22, 2017. Oyster Optics dropped the '511 and '898 patents, leaving only a few claims in the '327 patent at issue in the case. On May 15, 2018, Oyster Optics filed a new patent infringement complaint in the United States District Court for the Eastern District of Texas, naming us as a defendant. In its new complaint, Oyster Optics alleges infringement of the '327 patent, U.S. Patent No. 9,749,040 and the '898 patent. On June 8, 2018, the court granted the parties' joint motion to sever and consolidate the first-filed lawsuit with the later filed case. We filed our answer to the new complaint on July 16, 2018. A case management conference was held on September 11, 2018, and the court set a trial date for November 4, 2019. On October 26, 2018, we filed an amended answer to include a license defense. On November 29, 2018, we filed a motion for summary judgment based on the license defense. We are currently unable to predict the outcome of this litigation and therefore cannot reasonably estimate the possible loss or range of loss, if any, arising from this matter.

On March 24, 2017, Core Optical Technologies, LLC ("Core Optical") filed a complaint against us in the United States District Court for the Central District of California. The complaint asserts U.S. Patent No. 6,782,211 (the "Core Optical patent in suit"). The complaint seeks unspecified damages and a permanent injunction. We believe that we do not infringe any valid and enforceable claim of the Core Optical patent in suit, and intend to defend this action vigorously. We filed our answer to Core Optical's complaint on September 25, 2017. A Markman hearing was held on May 9, 2018 and the court has set a trial for March 2019. On June 14, 2018, we filed a petition for IPR of the Core Optical patent in suit in the USPTO. Core Optical contacted us on July 19, 2018 to propose that the case be stayed pending the IPR. We agreed to Core Optical's proposal, and the parties filed a joint motion to stay, which the court granted on July 31, 2018. On October 17, 2018, Core Optical filed a response to our IPR petition. On January 14, 2019, the USPTO denied our IPR petition, and on February 13, 2019, we filed a request for rehearing in the USPTO requesting reconsideration of the dismissal of our IPR



petition. We are unable to predict the outcome of this litigation at this time and therefore cannot reasonably estimate the possible loss or range of loss, if any, arising from this matter.

On June 8, 2017, a Civil Investigative Demand was issued to Coriant pursuant to a False Claims Act investigation by the U.S. government as to whether there has been any violation of 31 U.S.C. §3729. Coriant provided documents and other responses to the U.S. government, and we will continue to cooperate in the ongoing investigation.

In addition to the matters described above, we are subject to various legal proceedings, claims and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material effect on our consolidated financial position, results of operations or cash flows.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

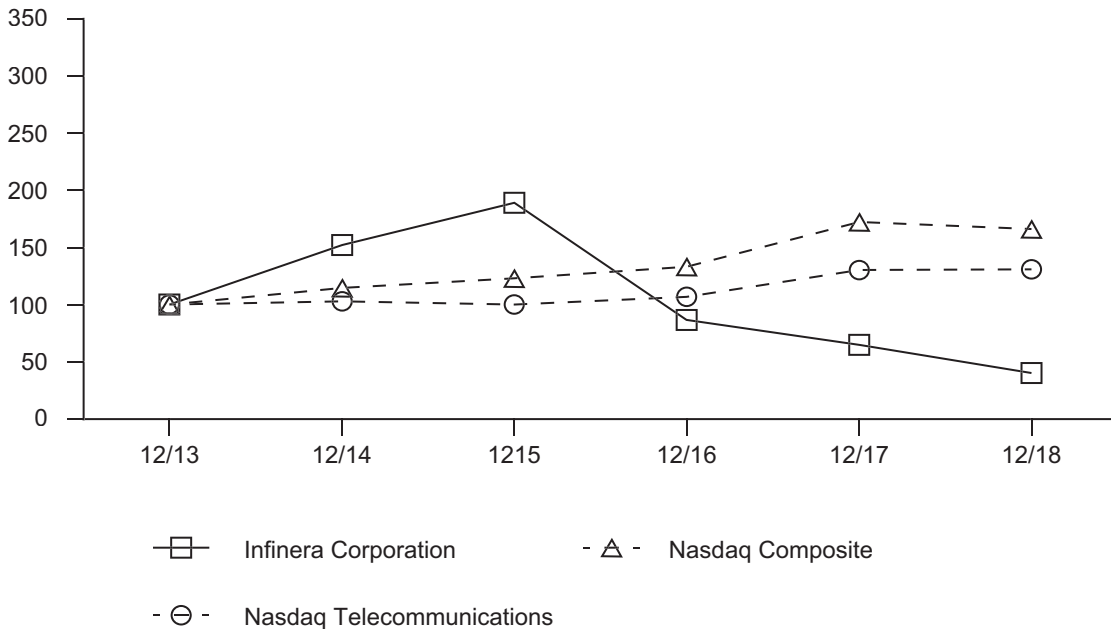
Our common stock is listed on the Nasdaq Global Select Market under the symbol “INFN.” As of March 5, 2019, there were 93 registered holders of record of our common stock. A substantially greater number of holders of our common stock are “street name” or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

We have not paid any cash dividends on our common stock and do not intend to pay any cash dividends on our common stock in the near future.

**STOCK PERFORMANCE GRAPH**

The following graph compares the cumulative five-year total return provided stockholders on our common stock relative to the cumulative total returns of the Nasdaq Composite Index and the Nasdaq Telecommunications Index. An investment of \$100 (with reinvestment of all dividends, if any) is assumed to have been made in our common stock and in each of the indexes on December 28, 2013 and its relative performance is tracked through December 29, 2018. The Nasdaq Telecommunications Index contains securities of Nasdaq-listed companies classified according to the Industry Classification Benchmark as Telecommunications and Telecommunications Equipment. They include providers of fixed-line and mobile telephone services, and makers and distributors of high-technology communication products. This graph is not deemed to be “filed” with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the graph shall not be deemed to be incorporated by reference into any prior or subsequent filing by Infinera under the Securities Act of 1933, as amended, or the Exchange Act.

**COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN\***  
Among Infinera Corporation, the Nasdaq Composite Index,  
and the Nasdaq Telecommunications Index



\*\$100 invested on December 28, 2013 in our common stock or December 31, 2013 in the Nasdaq Composite Index and the Nasdaq Telecommunications Index, with reinvestment of all dividends, if any. Indexes calculated on month-end basis.

**ITEM 6. SELECTED FINANCIAL DATA**

You should read the following selected consolidated historical financial data below in conjunction with the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements, related notes and other financial information included elsewhere in this Annual Report on Form 10-K.

We derived the statements of operations data for the years ended December 29, 2018, December 30, 2017 and December 31, 2016 and the balance sheet data as of December 29, 2018 and December 30, 2017 from our audited consolidated financial statements and related notes, which are included elsewhere in this Annual Report on Form 10-K. We derived the statements of operations data for the years ended December 26, 2015 and December 27, 2014 and the balance sheet data as of December 31, 2016, December 26, 2015, and December 27, 2014 from our audited consolidated financial statements and related notes which are not included in this Annual Report on Form 10-K. We have not declared or distributed any cash dividends.

	Years Ended				
	December 29, 2018 <sup>(1)</sup>	December 30, 2017	December 31, 2016	December 26, 2015	December 27, 2014
	(In thousands, except per share data)				
Revenue .....	\$ 943,379	\$ 740,739	\$ 870,135	\$ 886,714	\$ 668,079
Gross profit .....	\$ 321,156	\$ 244,000	\$ 393,718	\$ 403,477	\$ 288,304
Net income (loss) .....	\$ (214,295)	\$ (194,506)	\$ (24,430)	\$ 50,950	\$ 13,659
Net income (loss) attributable to Infinera Corporation .....	\$ (214,295)	\$ (194,506)	\$ (23,927)	\$ 51,413	\$ 13,659
Net income (loss) per common share attributable to Infinera Corporation:					
Basic .....	\$ (1.36)	\$ (1.32)	\$ (0.17)	\$ 0.39	\$ 0.11
Diluted .....	\$ (1.36)	\$ (1.32)	\$ (0.17)	\$ 0.36	\$ 0.11
Weighted average number of shares used in computing basic and diluted net income (loss) per common share:					
Basic .....	157,748	147,878	142,989	133,259	123,672
Diluted .....	157,748	147,878	142,989	143,171	128,565
Total cash and cash equivalents, investments and restricted cash .....	\$ 268,848	\$ 305,211	\$ 367,056	\$ 370,979	\$ 405,316
Intangible assets, net .....	\$ 233,119	\$ 92,188	\$ 108,475	\$ 156,319	\$ 361
Goodwill .....	\$ 227,231	\$ 195,615	\$ 176,760	\$ 191,560	\$ —
Total assets .....	\$ 1,801,270	\$ 1,117,670	\$ 1,198,583	\$ 1,226,294	\$ 818,016
Short-term debt .....	\$ —	\$ 144,928	\$ —	\$ —	\$ —
Long-term debt, net .....	\$ 266,929	\$ —	\$ 133,586	\$ 125,440	\$ 116,894
Long-term financing lease obligation .....	\$ 193,538	\$ —	\$ —	\$ —	\$ —
Common stock and additional paid-in capital .....	\$ 1,686,091	\$ 1,417,192	\$ 1,354,227	\$ 1,300,441	\$ 1,077,351
Infinera stockholders' equity ..	\$ 703,821	\$ 665,365	\$ 762,328	\$ 762,151	\$ 481,907
Noncontrolling interest .....	\$ —	\$ —	\$ —	\$ 14,910	\$ —
Total stockholders' equity .....	\$ 703,821	\$ 665,365	\$ 762,328	\$ 777,061	\$ 481,907

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(1) Effective December 31, 2017, we adopted Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("Topic 606"), using the modified retrospective method applied to those contracts that were not completed as of December 31, 2017. Results for the reporting periods after December 31, 2017 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition" ("Topic 605").

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*This Annual Report on Form 10-K contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include our expectations regarding revenue, gross margin, expenses, cash flows and other financial items; any statements of the plans, strategies and objectives of management for future operations and personnel; expectations related to the Acquisition; factors that may affect our future operating results; anticipated customer activity; statements about the benefits of our products and product features; statements concerning new products or services, including new product features and delivery dates; statements related to capital expenditures; statements related to future economic conditions, performance, market growth or our sales cycle; statements related to the 2024 Notes; statements related to the effects of litigation on our financial position, results of operations or cash flows; statements related to the timing and impact of transfer pricing reserves or our effective tax rate; statements regarding the Tax Act; statements regarding our restructuring plans; statements as to industry trends and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," or "will," and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in Item 1A of this Annual Report on Form 10-K. You should review these risk factors for a more complete understanding of the risks associated with an investment in our securities. Such forward-looking statements speak only as of the date of this report. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. The following discussion and analysis should be read in conjunction with our "Selected Financial Data" included in Item 6 of this Annual Report on Form 10-K and consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.*

### Overview

We are a global supplier of networking solutions comprised of networking equipment, software and services. Our portfolio of solutions includes optical transport platforms, converged packet-optical transport platforms, optical line systems and disaggregated router platforms, as well as SDN, network management and routing software.

Our customers include telecommunications service providers, ICPs, cable providers, wholesale carriers, research and education institutions, large enterprises and government entities. Our networking solutions enable our customers to deliver business and consumer communications services. Our comprehensive portfolio of networking solutions also enable our customers to scale their transport networks as end-user services and applications demand for network bandwidth continues to grow. These end-user services and applications include, but are not limited to, high-speed Internet access, business Ethernet services, 4G/5G mobile broadband, cable high-speed Internet distribution, cloud-based services, high-definition video streaming services, virtual and augmented reality and the Internet of Things ("IoT").

Our systems are highly scalable, flexible and designed with open networking principles for ease of deployment. We build our systems using a combination of internally manufactured and third party components. Our portfolio includes systems that leverage our innovative optical engine technology comprised of large-scale PICs and DSPs. We optimize the manufacturing process by using indium phosphide to build our PICs, which enables the integration of hundreds of optical functions onto a set of semiconductor chips. This large-scale integration of our PICs and advanced DSPs allows us to deliver high-performance transport networking platforms with features that customers care about the most, including cost per bit, low power consumption and space savings. In addition, we design our optical engines to increase the capacity and reach performance of our products by leveraging coherent optical transmission. With the addition of new products to our portfolio, we plan to integrate our optical engine technology into a broader set of transport platforms in order to enhance customer value and lower production costs.

Over the past several years, we expanded our portfolio of solutions, evolving from our initial focus on the long-haul and subsea optical transport markets to offering a more complete suite of packet-optical networking solutions that address multiple markets within the end-to-end transport infrastructure. These markets include metro access, metro aggregation and switching, data center interconnect (“DCI”), long-haul and subsea.

We have grown our portfolio through internal development as well as acquisitions. In 2014, we introduced the Infinera Cloud Xpress to address the emerging DCI market opportunity. In 2015, we entered the metro market with the acquisition of Transmode, a leader in metro packet-optical applications. In 2018, we expanded our product portfolio and customer base through the Acquisition. The Acquisition positions us as one of the largest vertically integrated transport networking solutions providers in the world, enables us to strengthen our ability to serve a global customer base and accelerates delivery of innovative solutions our customers demand. This Acquisition also positions us to expand the breadth of customer applications we can address, including metro aggregation and switching, disaggregated transport and routing, and software-enabled multi-layer network management and control.

In 2018, the majority of our product revenue was derived from transport systems built on the Infinite Capacity Engine (ICE), our optical engine technology. Our Infinite Capacity Engine enables different subsystems that can be customized for a variety of network applications in different transport markets, including the metro, DCI, long-haul and subsea. ICE4, our most recent technology generation, delivers multi-terabit opto-electronic subsystems powered by our fourth-generation PIC and latest generation FlexCoherent DSP (the combination of which we market as “ICE4”).

Our products are designed to be managed by a suite of software solutions that enable end-to-end common network management, multi-layer service orchestration, and automated operations. We also provide software-enabled programmability that offers differentiated capabilities such as IB. IB, combined with our differentiated hardware solutions, enables our customers to purchase and activate bandwidth as needed through our unique software licensing feature set. This, in turn, allows our customers to accomplish two key objectives: (1) limit their initial network startup costs and investments; and (2) instantly activate new bandwidth as their customers’ and their own network needs evolve.

We believe our portfolio of solutions benefits our customers by providing a unique combination of highly scalable capacity and features that address various applications and ultimately simplify and automate packet-optical network operations.

### **Financial and Business Highlights**

Total revenue was \$943.4 million in 2018 as compared to \$740.7 million in 2017. The key driver of this increase was the addition of Coriant, whose results were included in the fourth quarter of 2018 following the close of the Acquisition. Prior to the fourth quarter of 2018, our revenue through the first three quarters of 2018 was \$611.3 million, up by 12.2% compared to \$544.9 million in the same period of 2017. This increase was primarily due to the strength of our next-generation ICE4 products and strong first half spending from our largest cable customer. In 2019, we see a number of prospective opportunities to grow revenue driven by continued adoption of our new products, traditional Coriant customers returning to more normal spend patterns, and opportunities with new and existing customers enabled by our end-to-end capabilities. Our results will depend on overall market conditions and, as is typical, quarter-over-quarter revenue could be volatile, affected by customer buying patterns and the timing of customer network deployments.

Gross margin improved to 34.0% in 2018 from 32.9% in 2017. This improvement was primarily attributable to benefits of our vertically-integrated operating model, driven by higher revenue spread across our largely fixed cost structure and improved cost structure of our ICE4 technology due to the increased levels of integration. Additionally, in 2018, compared to 2017, we incurred substantially less costs related to bridging customers to our new ICE4 technology and from initially higher costs of early production units from our new ICE4 products. The increased gross margin in 2018 was offset by lower margins from the Coriant business and increased amortization of intangible assets.

In 2019, we expect to further benefit from the plans we began to implement at the end of 2018 to reduce our fixed cost structure including headcount reductions and out-sourcing of certain service and manufacturing capabilities. In addition, we are undergoing cost renegotiations with many of our global suppliers in order to align our costs to the opportunity of the new Infinera moving forward.



Operating expenses in 2018 grew by 19% to \$506.8 million from \$427.1 million in 2017 primarily due to the inclusion of Coriant's operating expenses subsequent to the closing of the Acquisition, along with significant costs related to integration, restructuring, and other acquisition-related costs incurred in the fourth quarter of 2018 to begin to transform the business. These costs were partially offset by the impacts of our restructuring efforts over the course of the first nine months of 2018. Our on-going operating expense levels should continue to improve as we execute on our synergy targets over the course of 2019.

Over a longer period of time, particularly with the larger scale that Coriant provides, we believe that we can further leverage our vertically-integrated manufacturing model to significantly improve gross margins from where they are today. This, combined with the ability to continue to sell incremental bandwidth capacity into deployed networks and expense management, can result in returning to consistently delivering profitability and positive cash flow.

One customer accounted for approximately 13% and 18% of our revenue in 2018 and 2017, respectively. This customer completed a merger with another customer in 2017 and these two historically larger customers each individually accounted for approximately 16% and 8% of our revenue in 2016, respectively. One other customer accounted for approximately 15% of our revenue in 2018. No other customers accounted for over 10% of our revenue for 2017 or 2016.

We primarily sell our products through our direct sales force, with a small portion sold indirectly through channel partners. We derived 89%, 94% and 93% of our revenue from direct sales to customers for 2018, 2017 and 2016, respectively. We expect to continue generating the substantial majority of our revenue from direct sales in the future.

We are headquartered in Sunnyvale, California, with employees located throughout the Americas, Europe, Middle East and Africa ("EMEA"), and the Asia Pacific regions.

## Results of Operations

The results of operations for 2018 reflect the inclusion of the Coriant business from the period subsequent to the close of the Acquisition on October 1, 2018. The following sets forth, for the periods presented, certain consolidated statements of operations information (in thousands, except percentages):

	Years Ended				Change	% Change
	December 29, 2018	% of total revenue	December 30, 2017	% of total revenue		
Revenue:						
Product .....	\$ 763,555	81%	\$ 610,535	82%	\$ 153,020	25 %
Services .....	179,824	19%	130,204	18%	49,620	38 %
Total revenue .....	\$ 943,379	100%	\$ 740,739	100%	\$ 202,640	27 %
Cost of revenue:						
Product <sup>(1)</sup> .....	\$ 517,765	55%	\$ 406,644	55%	\$ 111,121	27 %
Services .....	78,353	8%	50,480	7%	27,873	55 %
Amortization of intangible assets <sup>(1)</sup> .....	23,475	3%	20,474	3%	3,001	15 %
Restructuring and related .....	2,630	—%	19,141	3%	(16,511)	(86)%
Total cost of revenue .....	\$ 622,223	66%	\$ 496,739	67%	\$ 125,484	25 %
Gross profit .....	\$ 321,156	34.0%	\$ 244,000	32.9%	\$ 77,156	32 %

	Years Ended				Change	% Change
	December 30, 2017	% of total revenue	December 31, 2016	% of total revenue		
Revenue:						
Product .....	\$ 610,535	82%	\$ 751,167	86%	\$ (140,632)	(19)%
Services .....	130,204	18%	118,968	14%	11,236	9 %
Total revenue .....	<u>\$ 740,739</u>	<u>100%</u>	<u>\$ 870,135</u>	<u>100%</u>	<u>\$ (129,396)</u>	<u>(15)%</u>
Cost of revenue:						
Product <sup>(1)</sup> .....	\$ 406,644	55%	\$ 413,551	48%	\$ (6,907)	(2)%
Services .....	50,480	7%	43,151	5%	7,329	17 %
Amortization of intangible assets <sup>(1)</sup> .....	20,474	3%	19,715	2%	759	4 %
Restructuring and related .....	19,141	3%	—	—%	19,141	100 %
Total cost of revenue.....	<u>\$ 496,739</u>	<u>67%</u>	<u>\$ 476,417</u>	<u>55%</u>	<u>\$ 20,322</u>	<u>4 %</u>
Gross profit .....	<u>\$ 244,000</u>	<u>32.9%</u>	<u>\$ 393,718</u>	<u>45.2%</u>	<u>\$ (149,718)</u>	<u>(38)%</u>

<sup>(1)</sup> Prior periods have been adjusted to conform with the current period's presentation. See Note 1, "Organization and Basis of Presentation" to the Notes to Consolidated Financial Statements for additional information.

#### Revenue

*2018 Compared to 2017.* Product revenue increased by \$153.0 million, or 25%, in 2018 from 2017, primarily driven by the inclusion of Coriant's revenue since the Acquisition, increased demand for our next-generation ICE4 products and strong spending from our largest cable customer. In 2018, we experienced growth from all of our major customer verticals: Tier-1, ICPs and cable. Additionally, our product revenue benefited by \$10.7 million from the adoption of Topic 606 during 2018.

Services revenue increased by \$49.6 million, or 38%, in 2018 from 2017, primarily attributable to the inclusion of Coriant's services revenue since the Acquisition, and partially offset by the negative impact of \$3.9 million from the adoption of Topic 606 during 2018. In 2018, we continued to experience growth in on-going maintenance services due to our growing installed base of customer networks.

*2017 Compared to 2016.* Product revenue decreased by \$140.6 million, or 19%, in 2017 from 2016, primarily attributable to effects of customer consolidation, impacts from our product transition as well as customers shifting spend to other parts of their networks.

Services revenue increased by \$11.2 million, or 9%, in 2017 from 2016, primarily attributable to continued growth in on-going maintenance services as a result of our growing installed base of customer networks.

We currently expect that revenue in the first quarter of 2019 will decline relative to the fourth quarter of 2018. The first quarter in our industry tends to be negatively impacted by seasonality as it takes time for customers to finalize their capital expenditure plans. In addition, the fact that one of our largest customers plans to change their buying patterns from predominantly early in the year to more evenly spread throughout the year will negatively impact our revenue in the first quarter of 2019.

Revenue by geographic region is based on the shipping address of the customer. The following table summarizes our revenue by geography and sales channel for the periods presented (in thousands, except percentages):

	Years Ended					
	December 29, 2018	% of total revenue	December 30, 2017	% of total revenue	Change	% Change
Total revenue by geography						
Domestic .....	\$ 476,784	51%	\$ 428,592	58%	\$ 48,192	11%
International .....	466,595	49%	312,147	42%	154,448	49%
	<u>\$ 943,379</u>	<u>100%</u>	<u>\$ 740,739</u>	<u>100%</u>	<u>\$ 202,640</u>	<u>27%</u>
Total revenue by sales channel						
Direct .....	\$ 838,931	89%	\$ 693,472	94%	\$ 145,459	21%
Indirect .....	104,448	11%	47,267	6%	57,181	121%
	<u>\$ 943,379</u>	<u>100%</u>	<u>\$ 740,739</u>	<u>100%</u>	<u>\$ 202,640</u>	<u>27%</u>

	Years Ended					
	December 30, 2017	% of total revenue	December 31, 2016	% of total revenue	Change	% Change
Total revenue by geography						
Domestic .....	\$ 428,592	58%	\$ 541,889	62%	\$(113,297)	(21)%
International .....	312,147	42%	328,246	38%	(16,099)	(5)%
	<u>\$ 740,739</u>	<u>100%</u>	<u>\$ 870,135</u>	<u>100%</u>	<u>\$(129,396)</u>	<u>(15)%</u>
Total revenue by sales channel						
Direct .....	\$ 693,472	94%	\$ 809,681	93%	\$(116,209)	(14)%
Indirect .....	47,267	6%	60,454	7%	(13,187)	(22)%
	<u>\$ 740,739</u>	<u>100%</u>	<u>\$ 870,135</u>	<u>100%</u>	<u>\$(129,396)</u>	<u>(15)%</u>

*2018 Compared to 2017.* Domestic revenue increased by \$48.2 million, or 11%, in 2018 compared to 2017, primarily due to a significant increase in spending from cable operators for the first half of 2018, success with our ICE4 platform and the inclusion of Coriant's revenue since the Acquisition.

International revenue increased by \$154.4 million, or 49%, in 2018 compared to 2017. The inclusion of Coriant's revenue was a key driver of this growth. Additionally, we also benefited from increased ICE4 sales and U.S.-based ICPs network deployments in both EMEA and Asia Pacific and Japan regions.

*2017 Compared to 2016.* Domestic revenue decreased by \$113.3 million, or 21%, in 2017 compared to 2016, primarily attributable to the effects of customer consolidation, and changes in certain large customers' buying patterns as we transition to our next-generation of products. The majority of the decrease in 2017 occurred in the first half of the year, as the revenue during the second half of the year was up by 8% as compared to the corresponding period in 2016, primarily driven by improved spending from cable customers.

International revenue decreased by \$16.1 million, or 5%, in 2017 compared to 2016, primarily attributable to lower sales from our Other Americas region, where we continued to be challenged by slower spending from our largest customer in the region due to political conditions. We had a small decline in our EMEA region attributable to product transitions and a challenging pricing environment.

### Cost of Revenue and Gross Margin

**2018 Compared to 2017.** Gross margin increased to 34.0% in 2018 from 32.9% in 2017. This improvement was primarily attributable to benefits of our vertically-integrated operating model, driven by higher revenue spread across our largely fixed cost structure and improved cost structure of our new ICE4 technology due to the increased levels of integration. Additionally, in 2018, we incurred substantially less costs related to bridging customers to our new ICE4 technology and from initially higher costs of early production units from our new ICE4 products. The increased gross margin in 2018 was offset by lower margins from the Coriant business and increased amortization of intangible assets.

**2017 Compared to 2016.** Gross margin decreased to 32.9% in 2017 from 45.2% in 2016. This decline was driven primarily by the high early manufacturing costs from initial units of our new ICE-based products, and with changes in customer mix and strategic investments to win and preserve business as we brought our new products to market. Lower overall manufacturing levels during 2017 compared to 2016 also reduced the benefits of our vertically-integrated operating model. Gross margin in 2017 was also impacted by restructuring and other related costs of \$19.1 million, which consisted of \$13.6 million of inventory write-downs, \$4.0 million of manufacturing asset impairments as a result of our product rationalization efforts, and \$1.5 million of employee-related costs for eliminated roles.

In any given quarter, gross margins can fluctuate based on a number of factors, including the mix of footprint versus fill, product mix, customer mix and overall volume.

We currently expect that gross margin in the first quarter of 2019 will decline slightly relative to the fourth quarter of 2018 largely due to lower revenue expectations and our relatively fixed cost structure for costs of goods sold. We took significant actions late in the fourth quarter of 2018 to lower our cost structure by reducing our workforce and overall costs, and improving terms with suppliers. We expect to see benefits from these actions gradually over the course of 2019.

### Operating Expenses

The following table summarizes our operating expenses for the periods presented (in thousands, except percentages):

	Years Ended					
	December 29, 2018	% of total revenue	December 30, 2017	% of total revenue	Change	% Change
Research and development <sup>(1)</sup> ..	\$ 244,302	26%	\$ 224,368	30%	\$ 19,934	9 %
Sales and marketing <sup>(1)</sup> .....	124,238	13%	109,511	15%	14,727	13 %
General and administrative <sup>(1)</sup> ...	80,957	9%	70,620	10%	10,337	15 %
Amortization of intangible assets <sup>(1)</sup> .....	29,296	3%	6,160	1%	23,136	NMF*
Acquisition and integration costs <sup>(1)</sup> .....	15,530	2%	322	—%	15,208	NMF*
Restructuring and related .....	12,512	1%	16,106	2%	(3,594)	(22)%
Total operating expenses .	<u>\$ 506,835</u>	<u>54%</u>	<u>\$ 427,087</u>	<u>58%</u>	<u>\$ 79,748</u>	<u>19 %</u>

	Years Ended					
	December 30, 2017	% of total revenue	December 31, 2016	% of total revenue	Change	% Change
Research and development <sup>(1)</sup> ..	\$ 224,368	30%	\$ 232,143	27%	\$ (7,775)	(3)%
Sales and marketing <sup>(1)</sup> .....	109,511	15%	111,678	13%	(2,167)	(2)%
General and administrative <sup>(1)</sup> ...	70,620	10%	67,612	8%	3,008	4 %
Amortization of intangible assets <sup>(1)</sup> .....	6,160	1%	6,189	1%	(29)	— %
Acquisition and integration costs <sup>(1)</sup> .....	322	—%	1,870	—%	(1,548)	(83)%
Restructuring and related .....	16,106	2%	—	—%	16,106	100 %
Total operating expenses .	<u>\$ 427,087</u>	<u>58%</u>	<u>\$ 419,492</u>	<u>49%</u>	<u>\$ 7,595</u>	<u>2 %</u>

\*NMF - not meaningful

<sup>(1)</sup> Prior periods have been adjusted to conform with the current period's presentation. See Note 1, "Organization and Basis of Presentation" to Notes to Consolidated Financial Statements.

The following table summarizes the stock-based compensation expense included in our operating expenses for the periods presented (in thousands):

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Research and development .....	\$ 16,270	\$ 15,845	\$ 13,732
Sales and marketing .....	10,869	11,288	11,043
General and administration .....	9,649	10,776	9,295
Total .....	<u>\$ 36,788</u>	<u>\$ 37,909</u>	<u>\$ 34,070</u>

#### *Research and Development Expenses*

*2018 Compared to 2017.* Research and development expenses increased by \$19.9 million, or 9%, in 2018 from 2017, primarily due to the inclusion of incremental headcount from the Acquisition. Excluding the additional expenses from the Coriant business, research and development costs would have decreased due to lower headcount costs and reduced spending in equipment and materials, in conjunction with company-wide cost reduction efforts.

*2017 Compared to 2016.* Research and development expenses decreased by \$7.8 million, or 3%, in 2017 from 2016, with the biggest driver being an \$11.3 million impairment charge recorded in 2016, resulting from our decision to stop development on certain technologies that were in-process at the time of the Transmode acquisition. We also incurred lower spending in development and manufacturing expenses of \$8.6 million, as we drove efficiencies in our development and manufacturing business over the course of the year. These decreases were offset by an increase of \$10.9 million in personnel expenses. During the year, we balanced investments around bringing our next-generation solutions to market and enacting a faster technology development cadence, with prudent expense management, particularly given our overall revenue decrease.

#### *Sales and Marketing Expenses*

*2018 Compared to 2017.* Sales and marketing expenses increased by \$14.7 million, or 13%, in 2018 from 2017 primarily due to the inclusion of the Coriant business and an increase in recruiting and relocation expenses. Excluding the additional expenses from the Coriant business, sales expenses would have been slightly higher due to increased commissions expenses relative to revenue growth in 2018. Marketing expenses would have been a slight decrease as a result of a reduction in personnel-related costs due to reduced headcount and lower program spend in conjunction with company-wide cost reduction efforts.

*2017 Compared to 2016.* Sales and marketing expenses decreased by \$2.2 million, or 2%, in 2017 from 2016 as we tightly managed expenses, such as outside professional services and travel during the year. In 2017, outside professional services declined by \$1.6 million, and travel and entertainment declined by \$1.1 million. Overall personnel costs were effectively flat in 2017.

#### *General and Administrative Expenses*

*2018 Compared to 2017.* General and administrative expenses increased by \$10.3 million, or 15%, in 2018 from 2017 primarily due to the inclusion of the Coriant business offset by a decrease in personnel-related costs due to lower headcount attributable to company-wide cost reduction efforts.

*2017 Compared to 2016.* General and administrative expenses increased by \$3.0 million, or 4%, in 2017 from 2016 primarily due to increased depreciation expenses of \$1.6 million and personnel costs of \$1.5 million. These expenses were offset by a \$1.6 million decrease in travel, equipment and facilities, and lower consulting services of \$0.5 million.

#### *Amortization of Intangible Assets*

*2018 Compared to 2017.* Amortization of intangible assets increased by \$23.1 million in 2018 from 2017 as a result of the Acquisition.

*2017 Compared to 2016.* Amortization of intangible assets were flat in 2017 compared to 2016 due to normal amortization of intangible assets for acquired intangible assets related to our acquisition of Transmode.

#### *Acquisition and Integration Costs*

*2018 Compared to 2017.* Acquisition and integration costs increased by \$15.2 million in 2018 from 2017 as a result of the Acquisition. Acquisition and integration costs consist of legal, financial, employee-related costs and other professional fees.

See Note 6, "Business Combination" to the Notes to Consolidated Financial Statements for more information on the Acquisition.

*2017 Compared to 2016.* Acquisition and integration costs decreased by \$1.5 million in 2017 from 2016 reflecting reduced costs associated with our acquisition of Transmode.

#### *Restructuring and Related*

*2018 Compared to 2017.* In 2018, within operating expenses, we incurred \$12.5 million in restructuring and other related costs, including \$10.4 million of severance and related costs and \$2.6 million of an impairment for a software license, offset by a credit of \$0.5 million to adjust the sublease of impaired facilities. We expect to complete the majority of the actions related to the 2018 Restructuring Plan by the end of 2019.

*2017 Compared to 2016.* In 2017, within operating expenses, we incurred \$16.1 million in restructuring and other related costs, including \$7.9 million of severance related costs, \$7.3 million of facilities impairment costs and test equipment impairments of \$0.9 million. We implemented the majority of these actions related to a restructuring plan in late 2017, with some remaining payments in the first half of 2018.

See Note 9, "Restructuring and Other Related Costs" to the Notes to Consolidated Financial Statements for more information on our restructuring plans.

#### *Other Income (Expense), Net*

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
	(In thousands)		
Interest income .....	\$ 2,428	\$ 3,328	\$ 2,478
Interest expense .....	(22,049)	(14,017)	(12,887)
Other gain (loss), net .....	(9,650)	(2,160)	7,002
Total other income (expense), net .....	<u>\$ (29,271)</u>	<u>\$ (12,849)</u>	<u>\$ (3,407)</u>



*2018 Compared to 2017.* Interest income decreased \$0.9 million in 2018 from 2017 primarily due to a lower average investment balance, partially offset by a higher return on investments. Interest expense for 2018 increased \$8.0 million due to \$6.6 million related to financing lease obligations, which we assumed in connection with the Acquisition, \$0.5 million of interest accrual on cash collateral from a third-party institution and \$0.9 million of higher amortization related to the 2024 Notes. Other gain (loss), net, primarily consisted of a \$5.1 million impairment charge related to our non-marketable equity investment, \$3.0 million loss primarily related to foreign exchange related transactions and a \$2.5 million acquisition funding commitment fee related to the Acquisition. This was offset by a \$1.1 million gain on the sale of non-marketable equity investments.

*2017 Compared to 2016.* Interest income increased \$0.8 million primarily due to a higher return on investments. Interest expense for 2017 increased \$1.1 million due to an increase in amortization of discount and issuance costs related to the \$150.0 million in aggregate principal amount of its 1.75% convertible senior notes due June 1, 2018 (the "2018 Notes"). The change in other gain (loss), net, was primarily due to a \$1.9 million impairment charge on our non-marketable equity investment in 2017 compared to a \$9.0 million gain on the sale of a cost-method investment in 2016.

#### *Benefit From Income Taxes*

On December 22, 2017, the Tax Act was signed into law and significantly revised the U.S. corporate income tax regime by, among other things, lowering corporate income tax rate from 35% to 21% effective January 1, 2018, while also imposing a repatriation tax on deemed repatriated earnings of our foreign subsidiaries in 2017, and implementing a quasi-territorial tax system on future foreign earnings.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act" ("SAB 118"), which addresses the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. We determined an adjustment to deferred tax assets, along with a corresponding adjustment to valuation allowance, was needed. The adjustment resulted in no tax expense impact in connection with the re-measurement of certain deferred tax assets and liabilities from 35% to 21%. Additionally, we provisionally recorded no tax expense in connection with the transition tax on the mandatory deemed repatriation of foreign earnings, based upon an aggregate tax loss of our foreign subsidiaries for the year ended December 30, 2017. We finalized our accounting for the re-measurement of deferred tax balances and transition tax with no adjustment to income tax expense for the year ended December 29, 2018.

The impact of the Tax Act was minimal for the year ended December 29, 2018. We had sufficient current year domestic and foreign subsidiary losses, as well as net operating loss carryforwards that were generated prior to the Tax Act to fully offset taxable income. The Tax Act also introduces a Base Erosion Anti-Abuse Tax ("BEAT"), which is a minimum tax potentially accruable on certain intercompany payments to our foreign subsidiaries. Uncertainty regarding these provisions remain and are subject to further technical guidance. However, we believe that any tax accruable for the BEAT will be nominal in the near-term, based upon our current estimates and our corporate structure.

We recognized an income tax benefit of \$0.7 million on a loss before income taxes of \$215.0 million, an income tax benefit of \$1.4 million on a loss before income taxes of \$195.9 million, and an income tax benefit of \$4.8 million on a loss before income taxes of \$29.2 million in 2018, 2017 and 2016, respectively. The resulting effective tax rates were (0.3)%, (0.7)% and (16.3)% for 2018, 2017 and 2016, respectively. The 2018 and 2017 effective tax rates differ from the expected statutory rate of 21% and 35%, respectively, based on our ability to benefit U.S. loss carryforwards, offset by state income taxes, non-deductible stock-based compensation expenses and foreign taxes provided on foreign subsidiary earnings. The lower 2018 income tax benefit compared to 2017 primarily relates to the lower corporate income tax rate under the Tax Act and lower stock-based compensations as a result of the Acquisition. The lower 2017 income tax benefit compared to 2016 primarily relates to lower acquisition related amortization expenses and lower state income taxes offset by an increase in tax reserves, and an increase in taxable foreign profits in certain jurisdictions.

Because of our U.S. operating loss in 2018, our significant loss carryforward position, and corresponding valuation allowance in all years, we have not been subject to federal or state tax on our U.S. income. If these losses and other tax attributes become fully utilized, our taxes will increase significantly to a more normalized, expected rate on U.S. earnings. The release of transfer pricing reserves in the future will have a beneficial impact to tax expense, but the timing of the impact depends on factors such as expiration of the

statute of limitations or settlements with tax authorities. No significant releases are expected in the near future based on information available at this time.

In determining future taxable income, we make assumptions to forecast federal, state and international operating income, the reversal of temporary differences, and the implementation of any feasible and prudent tax planning strategies. The assumptions require significant judgment regarding the forecasts of future taxable income, and are consistent with our income forecasts used to manage our business.

## Liquidity and Capital Resources

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
	(In thousands)		
Net cash flow provided by (used in):			
Operating activities .....	\$ (99,083)	\$ (21,925)	\$ 38,377
Investing activities .....	\$ 12,624	\$ (54,849)	\$ (8,031)
Financing activities .....	\$ 207,889	\$ 16,486	\$ (2,780)

	Years Ended	
	December 29, 2018	December 30, 2017
	(In thousands)	
Cash and cash equivalents .....	\$ 202,954	\$ 116,345
Investments .....	26,511	183,725
Restricted cash .....	39,383	5,141
	<u>\$ 268,848</u>	<u>\$ 305,211</u>

Cash, cash equivalents and short-term investments consist of highly-liquid investments in certificates of deposits, money market funds, commercial paper, U.S. agency notes, corporate bonds and U.S. treasuries. Long-term investments primarily consist of certificates of deposits, commercial paper, U.S. agency notes, corporate bonds and U.S. treasuries. Our restricted cash balance amounts are primarily pledged as collateral for certain standby letters of credit related to customer performance guarantees, value added tax licenses and property leases. Additionally, our restricted cash balance included funds in escrow related to the cash consideration associated with the Acquisition.

### *Operating Activities*

Net cash used in operating activities was \$99.1 million for 2018, as compared to net cash used in operating activities of \$21.9 million for 2017 and net cash provided by operating activities of \$38.4 million for 2016.

Net loss for 2018 was \$214.3 million, which included non-cash charges of \$172.4 million, compared to a net loss for 2017 of \$194.5 million, which included non-cash charges of \$154.9 million. Net loss for 2016 was \$24.4 million, which included non-cash charges of \$116.3 million.

Net cash used in working capital was \$57.2 million for 2018. Accounts receivables increased by \$21.1 million attributable to higher revenue levels during 2018 and timing of invoicing and collections. Inventory levels increased by \$8.6 million to address strong customer demand for our next-generation ICE4 products, while inventory levels of our prior generation products decreased. Accounts payable decreased by \$0.5 million primarily due to the timing of payments and inventory purchases. Accrued liabilities and other expenses decreased by \$21.5 million primarily due to reduced levels of compensation-related accruals. Additionally, this decrease was attributable to the reduction of customer right of returns, net of an increase in customer prepayments due to our adoption of Topic 606. Deferred revenue increased by \$8.0 million due to maintenance

renewals on our growing installed base, which are typically contracted on an annual or multi-year basis, net of adjustments related to our adoption of Topic 606.

Net cash provided by working capital was \$17.6 million for 2017. Accounts receivables decreased by \$25.8 million attributable to lower revenue levels during 2017. Inventory levels decreased by \$2.7 million reflecting inventory reduction and product rationalization efforts. Accounts payable decreased by \$4.8 million primarily due to reduced inventory purchases and timing of payments. Accrued liabilities and other expenses decreased \$14.4 million primarily due to reduced levels of compensation-related accruals and decreased accrued warranty primarily due to changes in estimated repair and replacement costs, along with improved failure rates. Deferred revenue increased \$16.4 million attributable to commercial arrangements with customers to transition to new products and continued growth in on-going support services for our installed base, which are typically contracted on an annual or multi-year basis.

Net cash used in working capital was \$53.5 million for 2016. Accounts receivables decreased by \$33.9 million as our revenue levels decreased significantly during the second half of 2016. Inventory levels increased by \$64.1 million as a result of stocking more components due to longer lead times with component suppliers, building up our PIC die bank inventory for our current generation of products to allow us to shift manufacturing capacity to our next generation PICs, building up new product inventory, as well as lower shipment volumes. Accounts payable decreased by \$28.3 million primarily due to lower business volume during 2016. Deferred revenue increased \$21.4 million primarily due to higher ongoing support services as we continued to grow our installed base.

#### *Investing Activities*

Net cash provided by investing activities for 2018 was \$12.6 million. Investing activities during 2018 included the net payment of \$102.9 million in connection with the Acquisition, and net proceeds of \$152.2 million associated with sales, maturities and purchases of investments during the year. In addition, we spent \$37.7 million on capital expenditures and received additional proceeds on the sale of our non-marketable equity investments of \$1.1 million.

Net cash used in investing activities for 2017 was \$54.8 million, including \$58.0 million of capital expenditures, of which \$12.4 million was due to our purchase of our module manufacturing facility in Pennsylvania in May 2017. Partially offsetting those spend activities were net proceeds of \$3.2 million associated with purchases, sales, maturities and calls of investments during the year.

Net cash used in investing activities for 2016 was \$8.0 million, including \$43.3 million of capital expenditures and \$7.0 million invested in a cost-method investment. Partially offsetting those spend activities were proceeds from the sale of a cost-method investment of \$23.5 million and net proceeds of \$18.8 million associated with purchases and maturities of investments during the year.

#### *Financing Activities*

Net cash provided by financing activities was \$207.9 million and \$16.5 million for 2018 and 2017, respectively, and net cash used by financing activities was \$2.8 million for 2016. Financing activities in 2018 included proceeds from the issuance of the 2024 Notes of \$391.4 million, offset by the payment for capped call transactions related to the 2024 Notes of \$48.9 million. Financing activities during 2018 also included \$150.0 million for the repayment of the 2018 Notes, which matured on June 1, 2018. Additionally, the Company made principal payments on capital lease obligations of \$1.2 million during the period. The period also included net proceeds from the issuance of shares under our 2007 Employee Stock Purchase Plan ("ESPP") and the exercise of stock options. These proceeds were offset by the minimum tax withholdings paid on behalf of certain employees for net share settlements of restricted stock units ("RSUs").

Financing activities in 2017 included \$18.0 million in net proceeds from the issuance of shares under our ESPP and the exercise of stock options. Proceeds were offset by the minimum tax withholdings paid on behalf of certain employees for net share settlements of RSUs. Additionally, during 2017, in association with the compulsory acquisition proceedings in accordance with Swedish law, we paid \$0.5 million to the minority shareholders of Transmode based on the final determination of the arbitration tribunal.

Financing activities in 2016 included \$16.8 million related to the purchase of the noncontrolling interest upon award of advance title to acquire the remaining 4.2% of Transmode shares related to the Transmode acquisition. Additionally, financing activities in 2016 included net proceeds from the exercise of stock options and

the issuance of shares under our ESPP. These proceeds were offset by the minimum tax withholdings paid on behalf of certain employees for net share settlements of RSUs.

### *Liquidity*

As described above, we utilized a significant amount of cash to close the Acquisition and began to implement the restructuring of the business. We expect to continue utilizing cash during the first three quarters of 2019 as we continue to execute on our integration plan. We believe that our current cash, cash equivalents and investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures, and the cash required as part of the integration of Coriant. If these sources of cash are insufficient to satisfy our liquidity requirements during the year or beyond 12 months, we may require additional capital from equity financing, debt financing or other financings to fund our operations, including integration and restructuring efforts, and to respond to competitive pressures or strategic opportunities, or otherwise. We may not be able to secure timely additional financing on favorable terms, or at all. The terms of any additional financings may place limits on our financial and operating flexibility. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer dilution in their percentage ownership of us, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

In September 2018, we issued the 2024 Notes, which will mature on September 1, 2024, unless earlier repurchased, redeemed or converted. Interest is payable semi-annually in arrears on March 1 and September 1 of each year, commencing March 1, 2019. The net proceeds from the 2024 Notes issuance were approximately \$391.4 million, of which approximately \$48.9 million was used to pay the cost of the capped call transactions. We also used a portion of the remaining net proceeds to fund the cash portion of the purchase price of the Acquisition, including fees and expenses relating thereto, and intend to use the remaining net proceeds for general corporate purposes.

Upon conversion, it is our intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the 2024 Notes. For any remaining conversion obligation, we intend to pay or deliver, as the case may be, either cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. As of December 29, 2018, long-term debt, net, was \$266.9 million, which represents the liability component of the \$402.5 million principal balance, net of \$135.6 million of unamortized debt discount and debt issuance costs. The debt discount and debt issuance costs are currently being amortized over the remaining term until maturity of the 2024 Notes on September 1, 2024. To the extent that the holders of the 2024 Notes request conversion during an early conversion window, we may require funds for repayment of such 2024 Notes prior to their maturity date.

As of December 29, 2018, contractual obligations related to the 2024 Notes are payments of \$8.3 million due in 2019, \$8.6 million due each year from 2020 through 2023, and \$411.1 million due in 2024. These amounts represent principal and interest cash payments over the term of the 2024 Notes. Any future redemption or conversion of the Notes could impact the amount or timing of our cash payments.

For more information regarding the 2024 Notes and the financing lease obligations, see Note 12, "Debt and Financing Lease Obligations" to the Notes to Consolidated Financial Statements.

As of December 29, 2018, we had \$229.5 million of cash, cash equivalents, and short-term investments, including \$89.8 million of cash and cash equivalents held by our foreign subsidiaries. Notwithstanding the effects of the Act in changing the taxation of foreign earnings from a worldwide to a territorial-based system and requirement of a mandatory one-time transition tax on cumulative foreign subsidiaries earnings and profits, we continue to assert that the earnings certain foreign subsidiaries' operations will be indefinitely reinvested outside of the United States, and accordingly, we have not provided for potential foreign withholding taxes that may otherwise be accruable.

## Contractual Obligations

The following is a summary of our contractual obligations as of December 29, 2018:

	Total	Payments Due by Period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
(In thousands)					
Purchase obligations <sup>(1)</sup>	\$ 203,546	\$ 200,939	\$ 1,350	\$ 1,257	\$ —
Operating leases <sup>(2)</sup>	69,421	18,352	21,935	10,831	18,303
Convertible senior notes, including interest...	453,581	8,316	17,106	17,106	411,053
Financing lease obligations <sup>(3)</sup>	51,409	9,346	16,120	10,193	15,750
Total contractual obligations <sup>(4)(5)</sup>	<u>\$ 777,957</u>	<u>\$ 236,953</u>	<u>\$ 56,511</u>	<u>\$ 39,387</u>	<u>\$ 445,106</u>

(1) We have service agreements with our major production suppliers under which we are committed to purchase certain parts.

(2) We lease facilities under non-cancelable operating lease agreements. These leases have varying terms that range from one to 10 years, and contain leasehold improvement incentives, rent holidays and escalation clauses. In addition, some of these leases have renewal options for up to five years. We also have contractual commitments to remove leasehold improvements and return certain properties to a specified condition when the leases terminate. At the inception of a lease with such conditions, we record an asset retirement obligation liability and a corresponding capital asset in an amount equal to the estimated fair value of the obligation. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. An assumption of lease renewal where a renewal option exists is used only when the renewal has been determined to be reasonably assured. The estimated useful life of leasehold improvements is one to 10 years. See Note 13, "Commitments and Contingencies" to the Notes to Consolidated Financial Statements for more information.

(3) We lease two facilities that were assumed with the Acquisition. As a result of purchase accounting, these financing lease obligations were recorded at the present value of the remaining lease payments and expected value of the facility at the end of the occupancy period. The financing lease obligations will continue to be amortized and payments due will be made over the remaining period of the lease terms, which range from seven to 10 years. See Note 12, "Debt and Financing Lease Obligations" to the Notes to Consolidated Financial Statements for more information.

(4) Tax liabilities of \$3.4 million related to uncertain tax positions are not included in the table because we cannot reliably estimate the timing and amount of future payments, if any.

(5) In 2019, we expect to make contributions of \$2.7 million to cover benefit payments to plan participants. Expected future payments to our pension and post employment plan are excluded from the contractual obligation table because they do not represent contractual cash outflow as they are dependent on various factors. See Note 18, "Employee Benefit and Pension Plans" to the Notes to Consolidated Financial Statements for more information.

We had \$30.0 million of standby letters of credit and bank guarantees outstanding as of December 29, 2018. These consisted of \$23.4 million related to customer performance guarantees, \$2.9 million related to property leases, \$1.8 million related to Coriant pre-acquisition restructuring plans, \$1.4 million of value-added tax and customs' licenses and \$0.5 million related to credit cards. Of the aforementioned standby letters of credit and bank guarantees outstanding, \$13.4 million was backed by cash collateral from a third-party institution, and we accrued 5% annual interest on the outstanding cash collateral.

We had \$4.2 million of standby letters of credit and bank guarantees outstanding as of December 30, 2017. These consisted of \$2.2 million related to customer performance guarantees, \$1.3 million value added tax and customs' licenses, and \$0.7 million related to property leases.

## Off-Balance Sheet Arrangements

As of December 29, 2018, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.



## **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require us to make certain estimates, assumptions and judgments that can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. See Note 2, "Significant Accounting Policies" to the Notes to Consolidated Financial Statements, which is included in Item 8. Financial Statements and Supplementary Data, which describes our significant accounting policies and methods used in preparation of our consolidated financial statements. Management believes that the estimates, assumptions and judgments upon which they rely are reasonable based upon information available to them at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, our consolidated financial statements will be affected.

We believe our critical accounting policies and estimates are those related to revenue recognition, stock-based compensation, employee benefit and pension plans, accounting for income taxes, inventory valuation, accrued warranty, business combination, amortization of intangible assets, and impairment of intangibles and goodwill. Management considers these policies critical because they are both important to the portrayal of our financial condition and results of operations, and they require management to make judgments and estimates about inherently uncertain matters.

### **Revenue Recognition**

Effective December 31, 2017, we adopted Topic 606, using the modified retrospective method applied to those contracts that were not completed as of December 31, 2017. Results for the reporting periods after December 31, 2017 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605.

We recognize revenue when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

We determine revenue recognition by applying the following five-step approach:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, we satisfy a performance obligation.

Many of our product sales are sold in combination with installation and deployment services along with initial hardware and software support. Our product sales are also sold at times with spares management, on-site hardware replacement services, network operations management, software subscription services, extended hardware warranty and training. Initial software and hardware support services are generally delivered over a one-year period in connection with the initial purchase. Software warranty provides customers with maintenance releases during the warranty support period and hardware warranty provides replacement or repair of equipment that fails to perform in line with specifications. Software subscription services include software warranty and additionally provides customers with rights to receive unspecified software product upgrades released during the support period.

Spares management and on-site hardware replacement services include the replacement of defective units at customer sites in accordance with specified service level agreements. Network operations management includes the day-to-day operation of a customer's network. These services are generally delivered on an annual basis. We evaluate each promised good and service in a contract to determine whether it represents a distinct performance obligation or should be accounted for as a combined performance obligation.

Services revenue includes software subscription services, installation and deployment services, spares management, on-site hardware replacement services, network operations management, extended hardware warranty and training. Revenue from software subscription services, spares management, on-site hardware replacement services, network operations management and extended hardware warranty contracts is deferred and is recognized ratably over the contractual support period, which is generally one year, as services are



provided over the course of the entire period. Revenue related to training and installation and deployment services is recognized upon completion of the services.

Contracts and customer purchase orders are generally used to determine the existence of an arrangement. In addition, shipping documents and customer acceptances, when applicable, are used to verify delivery and transfer of title. We typically satisfy our performance obligations upon shipment or delivery of product depending on the contractual terms. Payment terms to customers generally range from net 30 to 120 days from invoice, which are considered to be standard payment terms. We assess our ability to collect from our customers based primarily on the creditworthiness and past payment history of the customer.

Customer product returns are generally approved on a case by case basis. Specific reserve provisions are made based upon a specific review of all the approved product returns where the customer has yet to return the products to generate the related sales return credit at the end of a period. Estimated sales returns are recorded as a reduction to revenue.

For sales to resellers, the same revenue recognition criteria apply. It is our practice to identify an end-user prior to shipment to a reseller. We do not offer rights of return or price protection to our resellers.

We report revenue net of any required taxes collected from customers and remitted to government authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

### **Customer Purchase Commitments**

We sell software licenses that provide customers the ability to purchase incremental bandwidth capacity on an already-deployed piece of hardware. IB-enabled systems generally include a specific initial capacity and incremental capacity can be added by the purchase of IB licenses. IB licenses are considered distinct performance obligations because customers can provision additional transmission capacity on demand without the deployment of any incremental equipment.

Some contracts commit the customer to purchase incremental IB licenses within a specified time frame from the initial shipment of the IB enabled hardware. The time frame varies by customer and generally ranges between 12 to 24 months. If the customer does not purchase the additional capacity within the time frame as stated in the contract, we have the right to deliver and invoice such IB licenses to the customer. Under Topic 605, the additional incremental licenses were not included as an element of the initial arrangement because fees for the future purchases were not fixed. Under Topic 606, future committed licenses are considered to be additional performance obligations when a minimum purchase obligation is present, as evidenced by enforceable rights and obligations. As such, we are required to estimate the variable consideration for future IB licenses as part of determining the contract transaction price.

### **Contract Termination Rights**

The contract term is determined on the basis of the period over which the parties to the contract have present enforceable rights and obligations. Certain customer contracts include a termination for convenience clause that allows the customer to terminate services without penalty, upon advance notification. For such contracts, the service duration is limited to the non-cancellable portion of the contract.

### **Variable Consideration**

The consideration associated with customer contracts is generally fixed. Variable consideration includes discounts, rebates, refunds, credits, incentives, penalties, or other similar items. The amount of consideration that can vary is not a substantial portion of total consideration.

Variable consideration estimates are re-assessed at each reporting period until a final outcome is determined. The changes to the original transaction price due to a change in estimated variable consideration will be applied on a retrospective basis, with the adjustment recorded in the period in which the change occurs.

### **Stand-alone Selling Price**

Stand-alone selling price is the price at which an entity would sell a good or service on a stand-alone (or separate) basis at contract inception. Under this model, the observable price of a good or service sold separately provides the best evidence of stand-alone selling price. However, in certain situations, stand-alone selling prices will not be readily observable and the entity must estimate the stand-alone selling price.

When allocating on a relative stand-alone selling price basis, any discount provided in the contract is generally allocated proportionately to all of the performance obligations in the contract.

The majority of products and services offered by us have readily observable selling prices. For products and services that do not, we generally estimate stand-alone selling price using the market assessment approach based on expected selling price and adjust those prices as necessary to reflect our costs and margins. As part of our stand-alone selling price policy, we review product pricing on a periodic basis to identify any significant changes and revise our expected stand-alone selling price assumptions as appropriate.

### **Capitalization of Costs to Obtain a Contract**

We have assessed the treatment of costs to obtain or fulfill a contract with a customer. Sales commissions have historically been expensed as incurred. Under Topic 606, we capitalize sales commissions related to multi-year service contracts, which are paid for upfront and amortize the asset over the period of benefit, which is the service period. Sales commissions paid on service contract renewals, are commensurate with the sales commissions paid on the initial contracts.

### **Transaction Price Allocated to the Remaining Performance Obligation**

Our remaining performance obligations represent the transaction price allocated to performance obligations that are unsatisfied or partially satisfied, as of period end, consisting of deferred revenue and backlog. Our backlog represents purchase orders received from customers for future product shipments and services that are unsatisfied or partially satisfied as of period end. Our backlog is subject to future events that could cause the amount or timing of the related revenue to change, and, in certain cases, may be canceled without penalty. Orders in backlog may be fulfilled several quarters following receipt or may relate to multi-year support service obligations.

### **Stock-Based Compensation**

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period (generally the vesting period) under the straight-line amortization method. The expected forfeiture rate is estimated based on our historical forfeiture data and compensation costs are recognized only for those equity awards expected to vest. The estimation of the forfeiture rate required judgment, and to the extent actual forfeitures differed from expectations, changes in estimate are recorded as an adjustment in the period when such estimates are revised. We historically recorded stock-based compensation expense by applying the forfeiture rates and adjusted estimated forfeiture rates to actual. During the third fiscal quarter beginning on June 26, 2016, we elected to early adopt ASU 2016-09 and elected to change our accounting policy to account for forfeitures when they occur on a modified retrospective basis.

We make a number of estimates and assumptions in determining stock-based compensation related to stock options including the following:

- The expected term represents the weighted-average period that the stock options are expected to be outstanding prior to being exercised. The expected term is estimated based on our historical data on employee exercise patterns and post vesting termination behavior to estimate expected exercises over the contractual term of grants.
- Expected volatility of our stock is based on the weighted-average implied and historical volatility of Infinera.

We estimate the fair value of the rights to acquire stock under the ESPP using the Black-Scholes option pricing formula. The ESPP provides for consecutive six-month offering periods and we use our own historical volatility data in the valuation of shares that are purchased under the ESPP.

We account for the fair value of RSUs using the closing market price of our common stock on the date of grant. For new-hire grants, RSUs typically vest ratably on an annual basis over four years. For annual refresh grants, RSUs typically vest ratably on an annual basis over three or four years.

We granted performance stock units (“PSUs”) to our executive officers and senior management in 2016, 2017 and 2018 as part of our annual refresh grant process. These PSUs entitle our executive officers and senior management to receive a number of shares of our common stock based on our stock price performance compared to a specified target composite index for the same period. These PSUs vest over the span of one year, two years and three years, and the number of shares to be issued upon vesting ranges from zero to two times the number of PSUs granted depending on the relative performance of our common stock price compared to the targeted composite index. This performance metric is classified as a market condition.

We use a Monte Carlo simulation model to determine the fair value of PSUs on the date of grant. The Monte Carlo simulation model is based on a discounted cash flow approach, with the simulation of a large number of possible stock price outcomes for our stock and the target composite index. The use of the Monte Carlo simulation model requires the input of a number of assumptions including expected volatility of the our stock price, expected volatility of target composite index, correlation between changes in our stock price and changes in the target composite index, risk-free interest rate, and expected dividends as applicable. Expected volatility of our stock is based on the weighted-average historical volatility of our stock. Expected volatility of target composite index is based on the historical and implied data. Correlation is based on the historical relationship between our stock price and the target composite index average. The risk-free interest rate is based upon the treasury zero-coupon yield appropriate for the term of the PSU as of the grant date. The expected dividend yield is zero for us as we do not expect to pay dividends in the future. The expected dividend yield for the target composite index is the annual dividend yield expressed as a percentage of the composite average of the target composite index on the grant date.

In addition, we have granted other PSUs to certain employees that only vest upon the achievement of specific operational performance criteria. We assess the achievement status of these PSUs on a quarterly basis and record the related stock-based compensation expenses based on the estimated achievement payout.

### ***Employee Benefit and Pension Plans***

We operate a number of post-employment plans in Germany, as well as smaller post-employment plans in other countries, including both defined contribution and defined benefit plans. Benefit cost obligations pertaining to these plans are based on assumptions for the discount rate, expected return on plan assets, mortality rates, expected salary increases, health care cost trend rates and attrition rates. The discount rate assumption is based on current investment yields of high-quality fixed-income securities with maturities similar to the expected benefits payment period. Mortality rates help predict the expected life of plan participants. The expected increase in the compensation levels assumption reflects our actual experience and future expectations. The expected long-term return on plan assets is determined based on asset allocations, historical portfolio results, historical asset correlations and management’s expected returns for each asset class. We evaluate our expected return assumptions annually including reviewing current capital market assumptions to assess the reasonableness of the expected long-term return on plan assets. We update the expected long-term return on assets when we observe a sufficient level of evidence that would suggest the long-term expected return has changed.

### ***Accounting for Income Taxes***

On December 22, 2017, SAB 118 was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. We determined an adjustment to deferred tax assets, along with a corresponding adjustment to valuation allowance, was needed. The adjustment resulted in no tax expense impact in connection with the re-measurement of certain deferred tax assets and liabilities from 35% to 21%. Additionally, we provisionally recorded no tax expense in connection with the transition tax on the mandatory deemed repatriation of foreign earnings, based upon an aggregate tax loss of our foreign subsidiaries for the year ended December 30, 2017. We finalized our accounting for the re-measurement of deferred tax balances and transition tax with no adjustment to income tax expense for the year ended December 29, 2018.

As part of the process of preparing our consolidated financial statements, we are required to estimate our taxes in each of the jurisdictions in which we operate. We estimate actual current tax expense together with assessing temporary differences resulting from different treatment of items, such as accruals and allowances not currently deductible for tax purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in our consolidated statements of operations become deductible expenses under applicable income tax laws, or loss or credit carryforwards are utilized. Accordingly, realization of our deferred tax assets is dependent on future taxable income within the respective jurisdictions against which these deductions, losses and credits can be utilized within the applicable future periods.

We must assess the likelihood that some portion or all of our deferred tax assets will be recovered from future taxable income within the respective jurisdictions, and to the extent we believe that recovery does not meet the “more-likely-than-not” standard, we must establish a valuation allowance. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. In evaluating the need for a full or partial valuation allowance, all positive and negative evidence must be considered, including our forecasts of taxable income over the applicable carryforward periods, our current financial performance, our market environment, and other factors. Based on the available objective evidence, at December 29, 2018, management believes it is not more likely than not that the domestic net deferred tax assets will be realizable in the foreseeable future. Accordingly, the domestic net deferred tax assets are subject to a full valuation allowance. To the extent that we determine that deferred tax assets are realizable on a more likely than not basis, and an adjustment is needed, that adjustment will be recorded in the period that the determination is made.

### ***Inventory Valuation***

Inventories consist of raw materials, work-in-process and finished goods and are stated at standard cost adjusted to approximate the lower of actual cost or net realizable value. Costs are recognized utilizing the first-in, first-out method. Net realizable value is based upon an estimated selling price reduced by the estimated cost of disposal. The determination of market value involves numerous judgments including estimated average selling prices based upon recent sales volumes, industry trends, existing customer orders, current contract price, future demand and pricing and technological obsolescence of our products.

Inventory that is obsolete or in excess of our forecasted demand or is anticipated to be sold at a loss is written down to its estimated net realizable value based on historical usage and expected demand. In valuing our inventory costs and deferred inventory costs, we considered whether the net realizable value of inventory delivered or expected to be delivered at less than cost, primarily comprised of common equipment, had declined. We concluded that, in the instances where the net realizable value of inventory delivered or expected to be delivered was less than cost, it was appropriate to value the inventory costs and deferred inventory costs at cost or net realizable value, whichever is lower, thereby recognizing the cost of the reduction in net realizable value of inventory in the period in which the reduction occurred or can be reasonably estimated. We have, therefore, recognized inventory write-downs as necessary in each period in order to reflect inventory at the lower of actual cost or net realizable value.

We consider whether we should accrue losses on firm purchase commitments related to inventory items. Given that the net realizable value of common equipment is below contractual purchase price, we have also recorded losses on these firm purchase commitments in the period in which the commitment is made. When the inventory parts related to these firm purchase commitments are received, that inventory is recorded at the purchase price less the accrual for the loss on the purchase commitment.

### ***Accrued Warranty***

In our contracts with our customers, we warrant that our products will operate substantially in conformity with product specifications. Hardware warranties provide the purchaser with protection in the event that the product does not perform to product specifications. During the warranty period, the purchaser's sole and exclusive remedy in the event of such defect or failure to perform is limited to the correction of the defect or failure by repair, refurbishment or replacement, at our sole option and expense. Our hardware warranty periods generally range from one to five years from date of acceptance for hardware and our software warranty is 90 days. Upon delivery of our products, we provide for the estimated cost to repair or replace products that may be returned under warranty. The hardware warranty accrual is based on actual estimated future returns and cost of repair rates and the application of those estimated rates to our in-warranty installed base. The provision for warranty claims fluctuates depending upon the installed base of products and the failure rates and costs of repair associated with these products under warranty. Furthermore, our costs of repair vary based on repair volume and our ability to repair, rather than replace, defective units, as well as our ability to utilize used units to fulfill warranty obligations. In the event that actual product failure rates and costs to repair differ from our estimates, revisions to the warranty provision are required. In addition, from time to time, specific hardware warranty accruals may be made if unforeseen technical problems arise with specific products. We regularly assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

### ***Business Combination***

Accounting for acquisitions requires management to estimate the fair value of the assets and liabilities assumed, which requires management to make significant estimates, judgments, and assumptions that could materially affect the timing or amounts recognized in its financial statements. These assumptions and estimates include our use of the asset and the appropriate discount rates. Our significant estimates can include, but are not limited to, the future cash flows, the appropriate weighted cost of capital, and discount rates, as well as the estimated useful life of intangible assets, deferred tax assets and liabilities, uncertain tax positions, and tax-related valuation allowance, which are initially estimated as of the acquisition date. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. In addition, unanticipated events and circumstances may occur that may affect the accuracy or validity of such estimates. As a result, during the measurement period, which may be up to one year following the acquisition date, if new information is obtained about facts and circumstances that existed as of the acquisition date, we may record adjustments to the fair value of these assets and liabilities, with the corresponding offset to goodwill.

### ***Amortization of Intangible Assets***

Intangible assets with finite lives are carried at cost, less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets. In-process research and development represents the fair value of incomplete research and development projects that have not reached technological feasibility as of the date of acquisition. Initially, these assets are not subject to amortization. Once projects have been completed they are transferred to developed technology, which are subject to amortization, while assets related to projects that have been abandoned are impaired and expensed to research and development.

### ***Impairment of Intangible Assets and Goodwill***

Goodwill is evaluated for impairment on an annual basis in the fourth quarter of our fiscal year, and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. We have elected to first assess qualitative factors to determine whether it is more likely than not that the fair value of its single reporting unit is less than its carrying amount. If we determine that it is more likely than not that the fair value of its single reporting unit is less than its carrying amount, then the two-step goodwill impairment test will be performed. The first step, identifying a potential impairment, compares the fair value of its single reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step will be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the implied fair value is recognized as an impairment loss. We evaluate events and changes in circumstances that could indicate carrying amounts of purchased intangible assets may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of these assets by determining whether or not the carrying amount will be recovered through undiscounted expected future cash

flows. If the total of the future undiscounted cash flows is less than the carrying amount of an asset, we record an impairment loss for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

### **Recent Accounting Pronouncements**

See Note 2, "Significant Accounting Policies" to the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoptions and effects on us.



## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Foreign Currency Risk**

We operate in international markets, which expose us to market risk associated with foreign currency exchange rate fluctuations between the U.S. dollar and various foreign currencies, the most significant of which are the euro and Swedish kronor (“SEK”). Historically, the majority of our revenue contracts are denominated in U.S. dollars, with the most significant exception being in Europe, where we invoice primarily in euros and SEK. Additionally, a portion of our expenses, primarily the cost of personnel for research and development, sales and sales support to deliver technical support on our products and professional services, and the cost to manufacture, are denominated in foreign currencies, primarily the Indian rupee, the euro, SEK and the British pound. As a result of the Acquisition, we have increased exposure to a broader set of currencies. Revenue resulting from selling in local currencies and costs incurred in local currencies are exposed to foreign currency exchange rate fluctuations that can affect our operating income. As exchange rates vary, operating income may differ from expectations.

We currently enter into foreign currency exchange forward contracts to reduce the impact of currency exchange rate movements on certain transactions, but do not cover all foreign-denominated transactions and therefore do not entirely eliminate the impact of fluctuations in exchange rates that could negatively affect our results of operations and financial condition.

We enter into foreign currency exchange forward contracts to reduce the impact of foreign currency fluctuations on accounts receivable and restricted cash denominated in euros and British pounds. As a result, we do not expect a significant impact to our results from a change in exchange rates on foreign denominated accounts receivable balances and restricted cash in the near-term. Gains and losses on these contracts are intended to offset the impact of foreign exchange rate fluctuations on the underlying foreign currency denominated accounts receivables and restricted cash. Accordingly, the effect of an immediate 10% adverse change in foreign exchange rates on these transactions during 2018 would not be material to our results of operations.

During 2018, we also entered into foreign currency exchange contracts to reduce the volatility of cash flows primarily related to forecasted revenues and expenses denominated in euros, British pounds and SEK. The contracts are generally settled for U.S. dollars, euros and British pounds at maturity under an average rate method agreed to at inception of the contracts. The gains and losses on these foreign currency derivatives are recorded to the consolidated statement of operations line item, in the current period, to which the item that is being economically hedged is recorded. The effect of an immediate 10% adverse change in foreign exchange rates on these transactions during 2018 would not be material to our results of operations.

### **Interest Rate Sensitivity**

We had cash and cash equivalents, investments, and restricted cash totaling \$268.8 million and \$305.2 million as of December 29, 2018 and December 30, 2017, respectively. As of December 29, 2018, we have invested in certificates of deposit, money market funds, commercial paper, U.S. agency notes, corporate bonds and U.S. treasuries. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for speculative purposes. We do not believe that we have any material exposure to changes in the fair value as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. If overall interest rates fell by 10% in 2018 and 2017, our interest income would have declined approximately \$0.2 million and \$0.3 million, respectively, assuming consistent investment levels.

### **Market Risk and Market Interest Risk**

Holder may convert the 2024 Notes prior to maturity upon the occurrence of certain circumstances. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. If our common stock price is above the initial conversion price of \$9.87 upon conversion or at maturity, the amount of cash or shares of common stock required to pay the conversion premium is not fixed and would increase if our common stock price increases.

As of December 29, 2018, the fair value of the 2024 Notes was \$289.0 million. The fair value was determined based on the quoted bid price of the 2024 Notes in an over-the-counter market on December 28, 2018. The 2024 Notes are classified as Level 2 of the fair value hierarchy. The fair value of the 2024 Notes is subject to interest rate risk, market risk and other factors due to the convertible feature. The fair value of the

2024 Notes will generally increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of the 2024 Notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines in value. The interest and market value changes affect the fair value of the 2024 Notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, we do not carry the 2024 Notes at fair value. We present the fair value of the 2024 Notes for required disclosure purposes only.

See Note 12, “Debt and Financing Lease Obligations” to the Notes to Consolidated Financial Statements for further information.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Infinera Corporation

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Infinera Corporation (the Company) as of December 29, 2018 and December 30, 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 29, 2018, and the related notes and the financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 14, 2019 expressed an unqualified opinion thereon.

### Adoption of New Accounting Standard

As discussed in Notes 2 and 3 to the consolidated financial statements, the Company changed its method of accounting for revenue recognition in the year ended December 29, 2018 due to the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ ERNST & YOUNG LLP

We have served as the Company's auditor since 2001.

San Jose, California  
March 14, 2019

## **Report of Ernst & Young LLP, Independent Registered Public Accounting Firm**

To the Stockholders and the Board of Directors of Infinera Corporation

### **Opinion on Internal Control over Financial Reporting**

We have audited Infinera Corporation's internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Infinera Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 29, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 29, 2018 and December 30, 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 29, 2018, and the related notes and the financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements") of the Company and our report dated March 14, 2019 expressed an unqualified opinion thereon.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Telecom Holding Parent LLC ("Coriant"), which is included in the 2018 consolidated financial statements of the Company and constituted approximately 15% of consolidated net revenue for the year ended December 29, 2018 and approximately 44% of consolidated total assets and 36% of consolidated net assets (excluding goodwill and acquired intangibles) as of December 29, 2018. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Coriant.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ ERNST & YOUNG LLP

San Jose, California  
March 14, 2019



**INFINERA CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except par values)

	<b>December 29, 2018</b>	<b>December 30, 2017</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 202,954	\$ 116,345
Short-term investments .....	26,511	147,596
Short-term restricted cash .....	13,229	544
Accounts receivable, net of allowance for doubtful accounts of \$5,084 in 2018 and \$892 in 2017 .....	317,115	126,152
Inventory .....	311,888	214,704
Prepaid expenses and other current assets .....	85,400	42,596
Total current assets .....	957,097	647,937
Property, plant and equipment, net .....	342,820	135,942
Intangible assets .....	233,119	92,188
Goodwill .....	227,231	195,615
Long-term investments .....	—	36,129
Long-term restricted cash .....	26,154	4,597
Other non-current assets .....	14,849	5,262
Total assets .....	\$ 1,801,270	\$ 1,117,670
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 191,187	\$ 58,124
Accrued expenses .....	131,891	39,782
Accrued compensation and related benefits .....	71,152	45,751
Short-term debt .....	—	144,928
Accrued warranty .....	20,103	13,670
Deferred revenue .....	88,534	72,421
Total current liabilities .....	502,867	374,676
Long-term debt, net .....	266,929	—
Long-term financing lease obligation .....	193,538	—
Accrued warranty, non-current .....	20,918	17,239
Deferred revenue, non-current .....	31,768	22,502
Deferred tax liability, non-current .....	13,347	21,609
Other long-term liabilities .....	68,082	16,279
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, \$0.001 par value		
Authorized shares—25,000 and no shares issued and outstanding.....	—	—
Common stock, \$0.001 par value		
Authorized shares—500,000 in 2018 and 2017		
Issued and outstanding shares—175,452 in 2018 and 149,471 in 2017 ..	175	149
Additional paid-in capital .....	1,685,916	1,417,043
Accumulated other comprehensive income (loss) .....	(25,300)	6,254
Accumulated deficit .....	(956,970)	(758,081)
Total stockholders' equity .....	703,821	665,365
Total liabilities and stockholders' equity .....	\$ 1,801,270	\$ 1,117,670

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

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

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Revenue:			
Product .....	\$ 763,555	\$ 610,535	\$ 751,167
Services .....	179,824	130,204	118,968
Total revenue .....	<u>943,379</u>	<u>740,739</u>	<u>870,135</u>
Cost of revenue:			
Cost of product .....	517,765	406,644	413,551
Cost of services .....	78,353	50,480	43,151
Amortization of intangible assets .....	23,475	20,474	19,715
Restructuring and related .....	2,630	19,141	—
Total cost of revenue .....	<u>622,223</u>	<u>496,739</u>	<u>476,417</u>
Gross profit .....	321,156	244,000	393,718
Operating expenses:			
Research and development .....	244,302	224,368	232,143
Sales and marketing .....	124,238	109,511	111,678
General and administrative .....	80,957	70,620	67,612
Amortization of intangible assets .....	29,296	6,160	6,189
Acquisition and integration costs .....	15,530	322	1,870
Restructuring and related .....	12,512	16,106	—
Total operating expenses .....	<u>506,835</u>	<u>427,087</u>	<u>419,492</u>
Loss from operations .....	(185,679)	(183,087)	(25,774)
Other income (expense), net:			
Interest income .....	2,428	3,328	2,478
Interest expense .....	(22,049)	(14,017)	(12,887)
Other gain (loss), net .....	(9,650)	(2,160)	7,002
Total other income (expense), net .....	<u>(29,271)</u>	<u>(12,849)</u>	<u>(3,407)</u>
Loss before income taxes .....	(214,950)	(195,936)	(29,181)
Benefit from income taxes .....	(655)	(1,430)	(4,751)
Net loss .....	<u>(214,295)</u>	<u>(194,506)</u>	<u>(24,430)</u>
Less: Loss attributable to noncontrolling interest .....	—	—	(503)
Net loss attributable to Infinera Corporation .....	<u>\$ (214,295)</u>	<u>\$ (194,506)</u>	<u>\$ (23,927)</u>
Net loss per common share attributable to Infinera Corporation:			
Basic .....	<u>\$ (1.36)</u>	<u>\$ (1.32)</u>	<u>\$ (0.17)</u>
Diluted .....	<u>\$ (1.36)</u>	<u>\$ (1.32)</u>	<u>\$ (0.17)</u>
Weighted average shares used in computing net loss per common share:			
Basic .....	<u>157,748</u>	<u>147,878</u>	<u>142,989</u>
Diluted .....	<u>157,748</u>	<u>147,878</u>	<u>142,989</u>

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

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

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Net loss .....	\$ (214,295)	\$ (194,506)	\$ (24,430)
Other comprehensive income (loss):			
Unrealized gain (loss) on available-for-sale investments .....	327	(209)	297
Foreign currency translation adjustment .....	(26,483)	34,787	(29,625)
Tax effect on items related to available-for-sale investments .....	(85)	—	(119)
Actuarial loss on pension liabilities .....	(5,313)	—	—
Net change in accumulated other comprehensive income (loss)	(31,554)	34,578	(29,447)
Less: Comprehensive loss attributable to noncontrolling interest .....	—	—	(503)
Comprehensive loss attributable to Infinera Corporation .....	<u>\$ (245,849)</u>	<u>\$ (159,928)</u>	<u>\$ (53,374)</u>

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

**INFINERA CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the Years Ended December 31, 2016, December 30, 2017 and December 29, 2018**  
**(In thousands)**

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount						
Balance at December 26, 2015.....	140,197	\$ 140	\$ 1,300,301	\$ 1,123	\$ (539,413)	\$ 762,151	\$ 14,910	\$ 777,061
Stock options exercised .....	825	1	4,094	—	—	4,095	—	4,095
ESPP shares issued..	1,369	1	13,607	—	—	13,608	—	13,608
Shares withheld for tax obligations .....	(287)	—	(3,657)	—	—	(3,657)	—	(3,657)
Restricted stock units released.....	2,917	3	(3)	—	—	—	—	—
Issuance of common stock related to acquisition .....	—	—	—	—	—	—	—	—
Stock-based compensation .....	—	—	42,552	—	—	42,552	—	42,552
Noncontrolling interest investment ....	—	—	—	—	—	—	(14,407)	(14,407)
Squeeze-out Proceedings .....	—	—	(2,812)	—	—	(2,812)	—	(2,812)
Cumulative-effect adjustment from adoption of ASU 2016-09 .....	—	—	—	—	(235)	(235)	—	(235)
Other comprehensive loss .....	—	—	—	(29,447)	—	(29,447)	—	(29,447)
Net loss .....	—	—	—	—	(23,927)	(23,927)	(503)	(24,430)
Balance at December 31, 2016.....	<u>145,021</u>	<u>\$ 145</u>	<u>\$ 1,354,082</u>	<u>\$ (28,324)</u>	<u>\$ (563,575)</u>	<u>\$ 762,328</u>	<u>\$ —</u>	<u>\$ 762,328</u>
Stock options exercised .....	196	—	1,525	—	—	1,525	—	1,525
ESPP shares issued..	2,140	2	16,409	—	—	16,411	—	16,411
Shares withheld for tax obligations .....	(110)	—	(1,034)	—	—	(1,034)	—	(1,034)
Restricted stock units released.....	2,224	2	(2)	—	—	—	—	—
Stock-based compensation .....	—	—	46,063	—	—	46,063	—	46,063
Other comprehensive income .....	—	—	—	34,578	—	34,578	—	34,578
Net loss .....	—	—	—	—	(194,506)	(194,506)	—	(194,506)
Balance at December 30, 2017.....	<u>149,471</u>	<u>\$ 149</u>	<u>\$ 1,417,043</u>	<u>\$ 6,254</u>	<u>\$ (758,081)</u>	<u>\$ 665,365</u>	<u>\$ —</u>	<u>\$ 665,365</u>

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

**INFINERA CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the Years Ended December 31, 2016, December 30, 2017 and December 29, 2018 - (Continued)**  
**(In thousands)**

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount						
Balance at December 30, 2017	149,471	\$ 149	\$1,417,043	\$ 6,254	\$ (758,081)	\$ 665,365	\$ —	\$665,365
Stock options exercised .....	229	—	1,701	—	—	1,701	—	1,701
ESPP shares issued .....	2,189	2	15,990	—	—	15,992	—	15,992
Shares withheld for tax obligations .....	(109)	—	(1,144)	—	—	(1,144)	—	(1,144)
Restricted stock units released .....	2,697	3	(3)	—	—	—	—	—
Issuance of common stock related to acquisition .....	20,975	21	129,607	—	—	129,628	—	129,628
Stock-based compensation	—	—	42,905	—	—	42,905	—	42,905
Conversion option related to convertible senior notes, net of allocated costs .....	—	—	128,726	—	—	128,726	—	128,726
Cumulative-effect adjustment from adoption of Topic 606 .....	—	—	—	—	15,406	15,406	—	15,406
Purchase of capped call transactions .....	—	—	(48,909)	—	—	(48,909)	—	(48,909)
Other comprehensive loss	—	—	—	(31,554)	—	(31,554)	—	(31,554)
Net loss .....	—	—	—	—	(214,295)	(214,295)	—	(214,295)
Balance at December 29, 2018	<u>175,452</u>	<u>\$ 175</u>	<u>\$1,685,916</u>	<u>\$ (25,300)</u>	<u>\$ (956,970)</u>	<u>\$ 703,821</u>	<u>\$ —</u>	<u>\$703,821</u>

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

**INFINERA CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
<b>Cash Flows from Operating Activities:</b>			
Net loss .....	\$ (214,295)	\$ (194,506)	\$ (24,430)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization .....	100,494	65,997	61,489
Non-cash restructuring and other related credits .....	7,291	29,237	—
Amortization of debt discount and issuance costs .....	11,161	11,342	10,260
Interest accretion related to financing lease obligation .....	4,694	—	—
Impairment of intangible assets .....	—	252	11,295
Realized gain on sale of non-marketable equity investments .....	(1,050)	—	(8,983)
Impairment of non-marketable equity investment .....	5,110	1,890	—
Stock-based compensation expense .....	43,410	45,720	40,533
Other loss .....	1,304	503	1,741
Changes in assets and liabilities:			
Accounts receivable .....	(21,111)	25,849	33,895
Inventory .....	(8,617)	2,727	(64,095)
Prepaid expenses and other assets .....	(13,458)	(8,194)	(5,501)
Accounts payable .....	(520)	(4,763)	(28,254)
Accrued liabilities and other expenses .....	(21,490)	(14,395)	(11,012)
Deferred revenue .....	7,994	16,416	21,439
Net cash provided by (used in) operating activities .....	(99,083)	(21,925)	38,377
<b>Cash Flows from Investing Activities:</b>			
Purchase of available-for-sale investments .....	(2,986)	(160,215)	(124,077)
Proceeds from sales of available-for-sale investments .....	53,039	10,531	—
Proceeds from maturities and calls of investments .....	102,112	152,876	142,898
Acquisition of business, net of cash acquired .....	(102,899)	—	—
Purchase of non-marketable equity investments .....	—	—	(7,000)
Proceeds from sale of non-marketable equity investments .....	1,050	—	23,483
Purchase of property and equipment .....	(37,692)	(58,041)	(43,335)
Net cash provided by (used in) investing activities .....	12,624	(54,849)	(8,031)
<b>Cash Flows from Financing Activities:</b>			
Proceeds from issuance of debt, net .....	391,431	—	—
Purchase of capped call transactions .....	(48,880)	—	—
Repayment of debt .....	(150,000)	—	—
Principal payments on financing lease obligations .....	(1,211)	—	—
Acquisition of noncontrolling interest .....	—	(471)	(16,771)
Proceeds from issuance of common stock .....	17,693	17,991	17,648
Minimum tax withholding paid on behalf of employees for net share settlement .....	(1,144)	(1,034)	(3,657)
Net cash provided by (used in) financing activities .....	207,889	16,486	(2,780)
Effect of exchange rate changes on cash .....	(579)	4,194	(4,397)
Net change in cash and cash equivalents .....	120,851	(56,094)	23,169
Cash, cash equivalents and restricted cash at beginning of period .....	121,486	177,580	154,411
Cash, cash equivalents and restricted cash at end of period <sup>(1)</sup> .....	<u>\$ 242,337</u>	<u>\$ 121,486</u>	<u>\$ 177,580</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for income taxes, net of refunds .....	\$ 6,692	\$ 5,690	\$ 6,625
Cash paid for interest .....	\$ 3,554	\$ 2,639	\$ 2,776
<b>Supplemental schedule of non-cash investing and financing activities:</b>			
Transfer of inventory to fixed assets .....	\$ 3,787	\$ 4,950	\$ 5,597
Common stock issued in connection with acquisition .....	\$ 129,628	\$ —	\$ —



(1) Reconciliation of cash, cash equivalents and restricted cash to the consolidated balance sheets:

	<u>December 29, 2018</u>	<u>December 30, 2017</u>	<u>December 31, 2016</u>
	(In thousands)		
Cash and cash equivalents .....	\$ 202,954	\$ 116,345	\$ 162,641
Short-term restricted cash .....	13,229	544	8,490
Long-term restricted cash .....	26,154	4,597	6,449
Total cash, cash equivalents and restricted cash .....	<u>\$ 242,337</u>	<u>\$ 121,486</u>	<u>\$ 177,580</u>

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

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Basis of Presentation**

Infinera Corporation (“Infinera” or the “Company”), headquartered in Sunnyvale, California, was founded in December 2000 and incorporated in the State of Delaware. Infinera is a global supplier of networking solutions comprised of networking equipment, software and services. The Company’s portfolio of solutions includes optical transport platforms, converged packet-optical transport platforms, optical line systems and disaggregated router platforms, as well as software-defined networking, network management and routing software.

During the fourth quarter of 2018, the Company completed the acquisition of all the outstanding limited liability company interests (the “Units”) of Telecom Holding Parent LLC (“Coriant”), a Delaware limited liability company and wholly-owned subsidiary of Coriant Investor LLC, a Delaware limited liability company (“Seller”), pursuant to the Unit Purchase Agreement (the “Purchase Agreement”) by and among the Company, Seller and Oaktree Optical Holdings, L.P., a Delaware limited partnership (“Lender”) (the “Acquisition”). The Acquisition was accounted for as a business combination, and accordingly, the Company has consolidated the financial results of Coriant with its financial results for the period from October 1, 2018, the date the acquisition closed (the “Acquisition Date”) through December 31, 2018.

The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the last Saturday of December in each year. Accordingly, fiscal years 2018 and 2017 were 52-week years that ended on December 29, 2018 and December 30, 2017, respectively. Fiscal year 2016 was a 53-week year that ended on December 31, 2016. The next 53-week year will end on December 31, 2022.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. The Company reclassified certain amounts reported in previous periods to conform to the current presentation. Effective in the fourth quarter of 2018, the Company elected to present amortization of intangible assets as separate line items within cost of revenue and operating expenses. Additionally, the Company elected to present acquisition and integration costs as a separate line item within operating expenses. As a result, the costs previously reflected in cost of revenue and operating expenses were reclassified to “Amortization of intangible assets” and “Acquisition and integration costs” within total cost of revenue and total operating expenses. Prior period amounts have been revised to conform to the current period presentation. This change in presentation does not affect the Company’s total cost of revenue or total operating expenses.

The following table shows reclassified amounts to conform to the current period's presentation:

	Years Ended					
	December 30, 2017			December 31, 2016		
	Previously Reported	Change in Presentation Reclassification	Current Presentation	Previously Reported	Change in Presentation Reclassification	Current Presentation
<b>Cost of revenue:</b>						
Cost of product.....	\$ 427,118	\$ (20,474)	\$ 406,644	\$ 433,266	\$ (19,715)	\$ 413,551
Cost of services ...	50,480	—	50,480	43,151	—	43,151
Amortization of intangible assets <sup>(1)</sup> .....	N/A	20,474	20,474	N/A	19,715	19,715
Restructuring and related .....	19,141	—	19,141	—	—	—
Total .....	<u>\$ 496,739</u>	<u>\$ —</u>	<u>\$ 496,739</u>	<u>\$ 476,417</u>	<u>\$ —</u>	<u>\$ 476,417</u>
<b>Operating expenses:</b>						
Research and development .....	\$ 224,299	\$ 69	\$ 224,368	\$ 232,291	\$ (148)	\$ 232,143
Sales and marketing .....	116,057	(6,546)	109,511	118,858	(7,180)	111,678
General and administrative .....	70,625	(5)	70,620	68,343	(731)	67,612
Amortization of intangible assets <sup>(1)</sup> .....	N/A	6,160	6,160	N/A	6,189	6,189
Acquisition and integration costs <sup>(1)</sup> .....	N/A	322	322	N/A	1,870	1,870
Restructuring and related .....	16,106	—	16,106	—	—	—
Total .....	<u>\$ 427,087</u>	<u>\$ —</u>	<u>\$ 427,087</u>	<u>\$ 419,492</u>	<u>\$ —</u>	<u>\$ 419,492</u>

<sup>(1)</sup> These lines were not previously reported in the consolidated statements of operations.

## 2. Significant Accounting Policies

### Use of Estimates

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). These accounting principles require the Company to make certain estimates, assumptions and judgments that can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates, assumptions and judgments made by management include revenue recognition, stock-based compensation, inventory valuation, accrued warranty, business combinations and accounting for income taxes. Other estimates, assumptions and judgments made by management include restructuring and other related costs, allowances for sales returns, allowances for doubtful accounts, pension, useful life of acquired intangibles and recoverability of property, plant and equipment, fair value measurement of the liability component of the convertible senior notes, non-marketable equity investments and derivative instruments. Management believes that the estimates, assumptions and judgments upon which they rely are reasonable based upon information available to them at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, the Company's consolidated financial statements will be affected.

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Revenue Recognition***

Effective December 31, 2017, the Company adopted Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("Topic 606"), using the modified retrospective method applied to those contracts that were not completed as of December 31, 2017. Results for the reporting periods after December 31, 2017 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historical accounting under Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition" ("Topic 605").

The Company recognizes revenue when control of the promised goods or services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The Company determines revenue recognition by applying the following five-step approach:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

Many of the Company's product sales are sold in combination with installation and deployment services along with initial hardware and software support. The Company's product sales are also sold at times with spares management, on-site hardware replacement services, network operations management, software subscription services, extended hardware warranty and training. Initial software and hardware support services are generally delivered over a one-year period in connection with the initial purchase. Software warranty provides customers with maintenance releases during the warranty support period and hardware warranty provides replacement or repair of equipment that fails to perform in line with specifications. Software subscription services include software warranty and additionally provides customers with rights to receive unspecified software product upgrades released during the support period.

Spares management and on-site hardware replacement services include the replacement of defective units at customer sites in accordance with specified service level agreements. Network operations management includes the day-to-day operation of a customer's network. These services are generally delivered on an annual basis. The Company evaluates each promised good and service in a contract to determine whether it represents a distinct performance obligation or should be accounted for as a combined performance obligation.

Services revenue includes software subscription services, installation and deployment services, spares management, on-site hardware replacement services, network operations management, extended hardware warranty and training. Revenue from software subscription services, spares management, on-site hardware replacement services, network operations management and extended hardware warranty contracts is deferred and is recognized ratably over the contractual support period, which is generally one year, as services are provided over the course of the entire period. Revenue related to training and installation and deployment services is recognized upon completion of the services.

Contracts and customer purchase orders are generally used to determine the existence of an arrangement. In addition, shipping documents and customer acceptances, when applicable, are used to verify delivery and transfer of title. The Company typically satisfies its performance obligations upon shipment or delivery of product depending on the contractual terms. Payment terms to customers generally range from net 30 to 120 days from invoice, which are considered to be standard payment terms. The Company assesses its ability to collect from its customers based primarily on the creditworthiness and past payment history of the customer.

Customer product returns are generally approved on a case by case basis. Specific reserve provisions are made based upon a specific review of all the approved product returns where the customer has yet to return the products to generate the related sales return credit at the end of a period. Estimated sales returns are recorded as a reduction to revenue.

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

For sales to resellers, the same revenue recognition criteria apply. It is the Company's practice to identify an end-user prior to shipment to a reseller. The Company does not offer rights of return or price protection to its resellers.

The Company reports revenue net of any required taxes collected from customers and remitted to government authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

**Customer Purchase Commitments**

The Company sells software licenses that provide customers the ability to purchase incremental bandwidth capacity on an already-deployed piece of hardware. Infinera Instant Bandwidth ("IB") enabled systems generally include a specific initial capacity and incremental capacity can be added by the purchase of IB licenses. IB licenses are considered distinct performance obligations because customers can provision additional transmission capacity on demand without the deployment of any incremental equipment.

Some contracts commit the customer to purchase incremental IB licenses within a specified time frame from the initial shipment of the IB enabled hardware. The time frame varies by customer and generally ranges between 12 to 24 months. If the customer does not purchase the additional capacity within the time frame as stated in the contract, the Company has the right to deliver and invoice such IB licenses to the customer. Under ASC 605, the additional incremental licenses were not included as an element of the initial arrangement because fees for the future purchases were not fixed. Under Topic 606, future committed licenses are considered to be additional performance obligations when a minimum purchase obligation is present, as evidenced by enforceable rights and obligations. As such, the Company is required to estimate the variable consideration for future IB licenses as part of determining the contract transaction price.

**Contract Termination Rights**

The contract term is determined on the basis of the period over which the parties to the contract have present enforceable rights and obligations. Certain customer contracts include a termination for convenience clause that allows the customer to terminate services without penalty, upon advance notification. For such contracts, the service duration is limited to the non-cancellable portion of the contract.

**Variable Consideration**

The consideration associated with customer contracts is generally fixed. Variable consideration includes discounts, rebates, refunds, credits, incentives, penalties, or other similar items. The amount of consideration that can vary is not a substantial portion of total consideration.

Variable consideration estimates are re-assessed at each reporting period until a final outcome is determined. The changes to the original transaction price due to a change in estimated variable consideration will be applied on a retrospective basis, with the adjustment recorded in the period in which the change occurs.

**Stand-alone Selling Price**

Stand-alone selling price is the price at which an entity would sell a good or service on a stand-alone (or separate) basis at contract inception. Under this model, the observable price of a good or service sold separately provides the best evidence of stand-alone selling price. However, in certain situations, stand-alone selling prices will not be readily observable and the entity must estimate the stand-alone selling price.

When allocating on a relative stand-alone selling price basis, any discount provided in the contract is generally allocated proportionately to all of the performance obligations in the contract.

The majority of products and services offered by the Company have readily observable selling prices. For products and services that do not, the Company generally estimates stand-alone selling price using the market assessment approach based on expected selling price and adjust those prices as necessary to reflect the Company's costs and margins. As part of its stand-alone selling price policy, the Company reviews product pricing on a periodic basis to identify any significant changes and revise its expected stand-alone selling price assumptions as appropriate.

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Shipping and Handling**

The Company treats shipping and handling activities as costs to fulfill the Company's promise to transfer products. Shipping and handling fees billed to customers are recorded as a reduction to cost of product.

**Capitalization of Costs to Obtain a Contract**

The Company has assessed the treatment of costs to obtain or fulfill a contract with a customer. Sales commissions have historically been expensed as incurred. Under Topic 606, the Company capitalizes sales commissions related to multi-year service contracts, which are paid for upfront, and amortizes the asset over the period of benefit, which is the service period. Sales commissions paid on service contract renewals, are commensurate with the sales commissions paid on the initial contracts.

**Transaction Price Allocated to the Remaining Performance Obligation**

The Company's remaining performance obligations represent the transaction price allocated to performance obligations that are unsatisfied or partially satisfied as of period end, consisting of deferred revenue and backlog. The Company's backlog represents purchase orders received from customers for future product shipments and services that are unsatisfied or partially satisfied as of period end. The Company's backlog is subject to future events that could cause the amount or timing of the related revenue to change, and, in certain cases, may be canceled without penalty. Orders in backlog may be fulfilled several quarters following receipt or may relate to multi-year support service obligations.

**Stock-Based Compensation**

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period (generally the vesting period) under the straight-line amortization method. The expected forfeiture rate is estimated based on the Company's historical forfeiture data and compensation costs are recognized only for those equity awards expected to vest. The estimation of the forfeiture rate required judgment, and to the extent actual forfeitures differed from expectations, changes in estimate are recorded as an adjustment in the period when such estimates are revised. The Company historically recorded stock-based compensation expense by applying the forfeiture rates and adjusted estimated forfeiture rates to actual. During the third fiscal quarter beginning on June 26, 2016, the Company elected to early adopt ASU 2016-09 and elected to change its accounting policy to account for forfeitures when they occur on a modified retrospective basis.

The Company makes a number of estimates and assumptions in determining stock-based compensation related to stock options including the following:

- The expected term represents the weighted-average period that the stock options are expected to be outstanding prior to being exercised. The expected term is estimated based on the Company's historical data on employee exercise patterns and post vesting termination behavior to estimate expected exercises over the contractual term of grants.
- Expected volatility of the Company's stock is based on the weighted-average implied and historical volatility of the Company.

The Company estimates the fair value of the rights to acquire stock under its 2007 Employee Stock Purchase Plan (the "ESPP") using the Black-Scholes option pricing formula. The ESPP provides for consecutive six-month offering periods and the Company uses its own historical volatility data in the valuation of shares that are purchased under the ESPP.

The Company accounts for the fair value of restricted stock units ("RSUs") using the closing market price of the Company's common stock on the date of grant. For new-hire grants, RSUs typically vest ratably on an annual basis over four years. For annual refresh grants, RSUs typically vest ratably on an annual basis over three or four years.

The Company granted performance stock units ("PSUs") to its executive officers and senior management in 2016, 2017 and 2018 as part of the Company's annual refresh grant process. These PSUs

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

entitle the Company's executive officers and senior management to receive a number of shares of the Company's common stock based on its stock price performance compared to a specified target composite index for the same period. These PSUs vest over the span of one year, two years and three years, and the number of shares to be issued upon vesting ranges from zero to two times the number of PSUs granted depending on the relative performance of the Company's common stock price compared to the targeted composite index. This performance metric is classified as a market condition.

The Company uses a Monte Carlo simulation model to determine the fair value of PSUs on the date of grant. The Monte Carlo simulation model is based on a discounted cash flow approach, with the simulation of a large number of possible stock price outcomes for the Company's stock and the target composite index. The use of the Monte Carlo simulation model requires the input of a number of assumptions including expected volatility of the Company's stock price, expected volatility of target composite index, correlation between changes in the Company's stock price and changes in the target composite index, risk-free interest rate, and expected dividends as applicable. Expected volatility of the Company's stock is based on the weighted-average historical volatility of its stock. Expected volatility of target composite index is based on the historical and implied data. Correlation is based on the historical relationship between the Company's stock price and the target composite index average. The risk-free interest rate is based upon the treasury zero-coupon yield appropriate for the term of the PSU as of the grant date. The expected dividend yield is zero for the Company as it does not expect to pay dividends in the future. The expected dividend yield for the target composite index is the annual dividend yield expressed as a percentage of the composite average of the target composite index on the grant date.

In addition, the Company has granted other PSUs to certain employees that only vest upon the achievement of specific operational performance criteria. The Company assesses the achievement status of these PSUs on a quarterly basis and records the related stock-based compensation expenses based on the estimated achievement payout.

***Employee Benefit and Pension Plans***

The Company operates a number of post-employment plans in Germany, as well as smaller post-employment plans in other countries, including both defined contribution and defined benefit plans. Benefit cost and obligations pertaining to these plans are based on assumptions for the discount rate, expected return on plan assets, mortality rates, expected salary increases, health care cost trend rates and attrition rates. The discount rate assumption is based on current investment yields of high-quality fixed-income securities with maturities similar to the expected benefits payment period. Mortality rates help predict the expected life of plan participants. The expected increase in the compensation levels assumption reflects the Company's actual experience and future expectations. The expected long-term return on plan assets is determined based on asset allocations, historical portfolio results, historical asset correlations and management's expected returns for each asset class. The Company evaluates its expected return assumptions annually including reviewing current capital market assumptions to assess the reasonableness of the expected long-term return on plan assets. The Company updates the expected long-term return on assets when the Company observes a sufficient level of evidence that would suggest the long-term expected return has changed.

***Research and Development***

All costs to develop the Company's hardware products are expensed as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. Generally, the Company's software products are released soon after technological feasibility has been established. As a result, costs subsequent to achieving technological feasibility have not been significant and all software development costs have been expensed as incurred.

***Advertising***

All advertising costs are expensed as incurred. Advertising expenses in 2018, 2017 and 2016 were \$0.9 million, \$1.8 million and \$1.9 million, respectively.



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***Accounting for Income Taxes***

On December 22, 2017, the Securities and Exchange Commission (the “SEC”) staff issued Staff Accounting Bulletin No. 118, “Income Tax Accounting Implications of the Tax Cuts and Jobs Act” (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the U.S. Tax Cuts and Jobs Act (the “Tax Act”). The Company determined an adjustment to deferred tax assets, along with a corresponding adjustment to valuation allowance, was needed. The adjustment resulted in no tax expense impact in connection with the re-measurement of certain deferred tax assets and liabilities from 35% to 21%. Additionally, the Company provisionally recorded no tax expense in connection with the transition tax on the mandatory deemed repatriation of foreign earnings, based upon an aggregate tax loss of its foreign subsidiaries for the year ended December 30, 2017. The Company finalized its accounting for the re-measurement of deferred tax balances and transition tax with no adjustment to income tax expense for the year ended December 29, 2018.

As part of the process of preparing the Company's consolidated financial statements, it is required to estimate its taxes in each of the jurisdictions in which it operates. The Company estimates actual current tax expense together with assessing temporary differences resulting from different treatment of items, such as accruals and allowances not currently deductible for tax purposes. These differences result in deferred tax assets and liabilities, which are included in its consolidated balance sheets. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in its consolidated statements of operations become deductible expenses under applicable income tax laws or loss, or credit carryforwards are utilized. Accordingly, realization of the Company's deferred tax assets is dependent on future taxable income within the respective jurisdictions against which these deductions, losses and credits can be utilized within the applicable future periods.

The Company must assess the likelihood that some portion or all of its deferred tax assets will be recovered from future taxable income within the respective jurisdictions, and to the extent the Company believes that recovery does not meet the “more-likely-than-not” standard, it must establish a valuation allowance. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management judgment is required in determining its provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. In evaluating the need for a full or partial valuation allowance, all positive and negative evidence must be considered, including the Company's forecasts of taxable income over the applicable carryforward periods, its current financial performance, its market environment, and other factors. Based on the available objective evidence, at December 29, 2018, management believes it is not more likely than not that the domestic net deferred tax assets will be realizable in the foreseeable future. Accordingly, the domestic net deferred tax assets are subject to a full valuation allowance. To the extent that the Company determines that deferred tax assets are realizable on a more likely than not basis, and an adjustment is needed, that adjustment will be recorded in the period that the determination is made.

***Foreign Currency Translation and Transactions***

The Company considers the functional currencies of its foreign subsidiaries to be the local currency. Assets and liabilities recorded in foreign currencies are translated at the exchange rate as of the balance sheet date, and costs and expenses are translated at average exchange rates in effect during the period. Equity transactions are translated using historical exchange rates. The effects of foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

For all non-functional currency account balances, the re-measurement of such balances to the functional currency will result in either a foreign exchange transaction gain or loss, which is recorded to other gain (loss), net, in the same period that the re-measurement occurred. Aggregate foreign exchange transactions recorded in 2018, 2017 and 2016 were losses of \$2.5 million, \$0.3 million and \$1.8 million, respectively.

The Company enters into foreign currency exchange forward contracts to reduce the impact of foreign exchange fluctuations on earnings from accounts receivable balances denominated in euros and British pounds, and restricted cash denominated in euros.

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The Company also enters into foreign currency exchange contracts to reduce the volatility of cash flows primarily related to forecasted revenues and expenses denominated in euros, British pounds and Swedish kronor ("SEK"). The contracts are generally settled for U.S. dollars, euros and British pounds at maturity under an average rate method agreed to at inception of the contracts. The gains and losses on these foreign currency derivatives are recorded to the consolidated statement of operations line item, in the current period, to which the item that is being economically hedged is recorded.

***Cash, Cash Equivalents and Short-term and Long-term Investments***

The Company considers all highly liquid instruments with an original maturity at the date of purchase of 90 days or less to be cash equivalents. These instruments may include cash, money market funds, commercial paper and U.S. treasuries. The Company also maintains a portion of its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Cash, cash equivalents and short-term investments consist of highly-liquid investments in certificates of deposits, money market funds, commercial paper, U.S. agency notes, corporate bonds and U.S. treasuries. Long-term investments primarily consist of certificates of deposits, commercial paper, U.S. agency notes, corporate bonds and U.S. treasuries. The Company considers all debt instruments with original maturities at the date of purchase greater than 90 days and remaining time to maturity of one year or less to be short-term investments. The Company classifies debt instruments with remaining maturities greater than one year as long-term investments, unless the Company intends to settle its holdings within one year or less and in such case it is considered to be short-term investments. The Company determines the appropriate classification of its marketable securities at the time of purchase and re-evaluates such designations as of each balance sheet date.

Available-for-sale investments are stated at fair market value with unrealized gains and losses recorded in accumulated other comprehensive income (loss) in the Company's consolidated balance sheets. The Company evaluates its available-for-sale marketable debt securities for other-than-temporary impairments and records any credit loss portion in other income (expense), net, in the Company's consolidated statements of operations. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity and for any credit losses incurred on these securities. Gains and losses are recognized when realized in the Company's consolidated statements of operations under the specific identification method.

***Fair Value Measurement***

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

The Company measures its cash equivalents, foreign currency exchange forward contracts, and debt securities at fair value and classifies its securities in accordance with the fair value hierarchy on a recurring

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basis. The Company's money market funds and U.S. treasuries are classified within Level 1 of the fair value hierarchy and are valued based on quoted prices in active markets for identical securities.

The Company classifies the following assets within Level 2 of the fair value hierarchy as follows:

**Certificates of Deposit**

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

**Commercial Paper**

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

**U.S. Agency Notes**

The Company reviews trading activity and pricing for its U.S. agency notes as of the measurement date. When sufficient quoted pricing for identical securities is not available, the Company uses market pricing and other observable market inputs for similar securities obtained from a number of industry standard data providers. These inputs represent quoted prices for similar assets in active markets or these inputs have been derived from observable market data.

**Corporate Bonds**

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

**Foreign Currency Exchange Forward Contracts**

As discussed in Note 5, "Derivative Instruments" to the Notes to Consolidated Financial Statements, the Company mainly holds non-speculative foreign exchange forward contracts to hedge certain foreign currency exchange exposures. The Company estimates the fair values of derivatives based on quoted market prices or pricing models using current market rates. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies.

**Pension**

As a result of the Acquisition, the Company acquired a number of post-employment plans in Germany, as well as a number of smaller post-employment plans in other countries, including both defined contribution and defined benefit plans. The defined benefit plans expose the Company to actuarial risks such as investment risk, interest rate risk, life expectancy risk and salary risk. The characteristics of the defined benefit plans and the risks associated with them vary depending on legal, fiscal, and economic requirements.

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The Company classifies the following assets and liabilities within Level 3 of the fair value hierarchy and applies fair value accounting on a non-recurring basis, only if impairment is indicated:

**Facilities-related Charges**

The Company estimates the fair value of its facilities-related charges associated with the 2017 Restructuring Plan (as defined in Note 9, "Restructuring and Other Related Costs" to the Notes to Consolidated Financial Statements), based on estimated future discounted cash flows and unobservable inputs, which included the amount and timing of estimated sublease rental receipts that the Company could reasonably obtain over the remaining lease term and the discount rate.

**Non-marketable Equity Investment**

Beginning the first quarter of 2018, the Company adopted Accounting Standards Update No. 2016-01, "Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"), which requires equity investments to be measured at fair value with changes in fair value recognized in net income. As a result of adopting this new standard, the Company's non-marketable equity securities formerly classified as cost-method investments are now measured and recorded using the measurement alternative. Equity securities measured and recorded using the measurement alternative are recorded at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes. Adjustments resulting from impairments and qualifying observable price changes are recorded in other income (expense), net, in the accompanying consolidated statements of operations. No initial adoption adjustment was recorded for these instruments since the standard was required to be applied prospectively for securities measured using the measurement alternative. These analyses require management to make assumptions and estimates regarding industry and economic factors, future operating results and discount rates.

The Company regularly evaluates the carrying value of its equity investment for impairment. When a qualitative assessment indicates that impairment exists, the Company measures the investment at fair value.

**Accounts Receivable and Allowances for Doubtful Accounts**

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company reviews its aging by category to identify significant customers or invoices with known dispute or collectability issues. The Company makes judgments as to its ability to collect outstanding receivables based on various factors including ongoing customer credit evaluations and historical collection experience. The Company provides an allowance for receivable amounts that are potentially uncollectible and when receivables are determined to be uncollectible, amounts are written off.

**Allowances for Sales Returns**

Customer product returns are approved on a case by case basis. Specific reserve provisions are made based upon a specific review of all the approved product returns where the customer has yet to return the products to generate the related sales return credit at the end of a period. Estimated sales returns are provided for as a reduction to revenue. At December 29, 2018, December 30, 2017 and December 31, 2016, revenue was reduced for estimated sales returns by \$4.3 million, \$0.9 million and \$0.6 million, respectively.

**Concentration of Risk**

Financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash equivalents, short-term investments, long-term investments and accounts receivable. Investment policies have been implemented that limit investments to investment-grade securities.

The risk with respect to accounts receivable is mitigated by ongoing credit evaluations that the Company performs on its customers. As the Company continues to expand its sales internationally, it may experience increased levels of customer credit risk associated with those regions. Collateral is generally not required for accounts receivable but may be used in the future to mitigate credit risk associated with customers located in certain geographical regions.

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As of December 29, 2018, no customers accounted for over 10% of the Company's net accounts receivable balance. As of December 30, 2017, two customers accounted for over 10% of the Company's net accounts receivable balance. One customer accounted for approximately 11% of the Company's net accounts receivable balance, and another customer, which completed a merger in late 2017, was a combination of two of the Company's historically larger customers, accounted for approximately 16% of the Company's net accounts receivable balance.

To date, a few of the Company's customers have accounted for a significant portion of its revenue. One customer accounted for approximately 15% of the Company's revenue in 2018. One other customer, which completed a merger in late 2017 as mentioned above, was a combination of two of the Company's historically larger customers who merged in 2017 and accounted for approximately 13% and 18% of the Company's revenue in 2018 and 2017, respectively. These two historically larger customers each individually accounted for approximately 16% and 8% of the Company's revenue in 2016, respectively. No other customers accounted for over 10% of the Company's revenue for 2017 or 2016.

The Company depends on sole source or limited source suppliers for several key components and raw materials. The Company generally purchases these sole source or limited source components and raw materials through standard purchase orders and does not have long-term contracts with many of these limited-source suppliers. While the Company seeks to maintain sufficient reserve stock of such components and raw materials, the Company's business and results of operations could be adversely affected if any of its sole source or limited source suppliers suffer from capacity constraints, lower than expected yields, deployment delays, work stoppages or any other reduction or disruption in output.

***Derivative Instruments***

The Company is exposed to foreign currency exchange rate fluctuations in the normal course of its business. As part of its risk management strategy, the Company uses derivative instruments, specifically forward contracts, to reduce the impact of foreign exchange fluctuations on earnings. The forward contracts are with one high-quality institution and the Company monitors the creditworthiness of the counter parties consistently. The Company's objective is to offset gains and losses resulting from these exposures with gains and losses on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting fair values of assets. None of the Company's derivative instruments contain credit-risk related contingent features, any rights to reclaim cash collateral or any obligation to return cash collateral. The Company does not have any leveraged derivatives. The Company does not use derivative contracts for trading or speculative purposes.

The Company enters into foreign currency exchange forward contracts to manage its exposure to fluctuations in foreign exchange rates that arise primarily from its euro and British pound denominated receivables and euro denominated restricted cash balance amounts that are pledged as collateral for certain standby letters of credit. Gains and losses on these contracts are intended to offset the impact of foreign exchange rate changes on the underlying foreign currency denominated accounts receivables and restricted cash, and therefore, do not subject the Company to material balance sheet risk. The Company also enters into foreign currency exchange contracts to reduce the volatility of cash flows primarily related to forecasted revenues and expenses denominated in euros, British pounds and SEK. These contracts are generally settled for U.S. dollars, euros and British pounds at maturity under an average rate method agreed to at inception of the contracts. The forward contracts are with one high-quality institution and the Company consistently monitors the creditworthiness of the counterparty.

The Company has entered into factoring agreements, to sell certain receivables to unrelated third-party financial institutions. These transactions are accounted for in accordance with Accounting Standards Codification Topic 860, "Transfers and Servicing" ("ASC 860"). ASC 860 and result in a reduction in accounts receivable because the agreements transfer effective control over and risk related to the receivables to the buyers. The Company's factoring agreements do not allow for recourse in the event of uncollectibility, and the Company does not retain any interest in the underlying accounts receivable once sold.



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***Inventory Valuation***

Inventories consist of raw materials, work-in-process and finished goods and are stated at standard cost adjusted to approximate the lower of actual cost or net realizable value. Costs are recognized utilizing the first-in, first-out method. Net realizable value is based upon an estimated selling price reduced by the estimated cost of disposal. The determination of market value involves numerous judgments including estimated average selling prices based upon recent sales volumes, industry trends, existing customer orders, current contract price, future demand and pricing and technological obsolescence of the Company's products.

Inventory that is obsolete or in excess of the Company's forecasted demand or is anticipated to be sold at a loss is written down to its estimated net realizable value based on historical usage and expected demand. In valuing its inventory costs and deferred inventory costs, the Company considered whether the net realizable value of inventory delivered or expected to be delivered at less than cost, primarily comprised of common equipment, had declined. The Company concluded that, in the instances where the net realizable value of inventory delivered or expected to be delivered was less than cost, it was appropriate to value the inventory costs and deferred inventory costs at cost or net realizable value, whichever is lower, thereby recognizing the cost of the reduction in net realizable value of inventory in the period in which the reduction occurred or can be reasonably estimated. The Company has, therefore, recognized inventory write-downs as necessary in each period in order to reflect inventory at the lower of actual cost or net realizable value.

The Company considers whether it should accrue losses on firm purchase commitments related to inventory items. Given that the net realizable value of common equipment is below contractual purchase price, the Company has also recorded losses on these firm purchase commitments in the period in which the commitment is made. When the inventory parts related to these firm purchase commitments are received, that inventory is recorded at the purchase price less the accrual for the loss on the purchase commitment.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost. This includes enterprise-level business software that the Company customizes to meet its specific operational needs. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. An assumption of lease renewal where a renewal option exists is used only when the renewal has been determined to be reasonably assured. Repair and maintenance costs are expensed as incurred. The estimated useful life for each asset category is as follows:

	<u>Estimated Useful Lives</u>
Building .....	20 to 41 years
Laboratory and manufacturing equipment .....	1.5 to 10 years
Furniture and fixtures .....	3 to 10 years
Computer hardware and software .....	1.5 to 7 years
Leasehold and building improvements .....	1 to 10 years

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable or that the useful life is shorter than originally estimated. If impairment indicators are present and the projected future undiscounted cash flows are less than the carrying value of the assets, the carrying values are reduced to the estimated fair value. If assets are determined to be recoverable, but the useful lives are shorter than originally estimated, the carrying value of the assets is depreciated over the newly determined remaining useful lives.

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***Accrued Warranty***

The Company warrants that its products will operate substantially in conformity with product specifications. Hardware warranties provide the purchaser with protection in the event that the product does not perform to product specifications. During the warranty period, the purchaser's sole and exclusive remedy in the event of such defect or failure to perform is limited to the correction of the defect or failure by repair, refurbishment or replacement, at the Company's sole option and expense. The Company's hardware warranty periods generally range from one to five years from date of acceptance for hardware and the Company's software warranty is 90 days. Upon delivery of the Company's products, the Company provides for the estimated cost to repair or replace products that may be returned under warranty. The hardware warranty accrual is based on actual historical returns and cost of repair experience and the application of those historical rates to the Company's in-warranty installed base. The provision for warranty claims fluctuates depending upon the installed base of products and the failure rates and costs of repair associated with these products under warranty. Furthermore, the Company's costs of repair vary based on repair volume and its ability to repair, rather than replace, defective units. In the event that actual product failure rates and costs to repair differ from the Company's estimates, revisions to the warranty provision are required. In addition, from time to time, specific hardware warranty accruals may be made if unforeseen technical problems arise with specific products. The Company regularly assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

***Business Combination***

Accounting for acquisitions requires the Company's management to estimate the fair value of the assets and liabilities assumed, which requires management to make significant estimates, judgments, and assumptions that could materially affect the timing or amounts recognized in its financial statements. These assumptions and estimates include the Company's use of the asset and the appropriate discount rates. The Company's significant estimates can include, but are not limited to, the future cash flows, the appropriate weighted cost of capital, and discount rates, as well as the estimated useful life of intangible assets, deferred tax assets and liabilities, uncertain tax positions, and tax-related valuation allowance, which are initially estimated as of the acquisition date. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. In addition, unanticipated events and circumstances may occur that may affect the accuracy or validity of such estimates. As a result, during the measurement period, which may be up to one year following the acquisition date, if new information is obtained about facts and circumstances that existed as of the acquisition date, the Company may record adjustments to the fair value of these assets and liabilities, with the corresponding offset to goodwill.

***Amortization of Intangible Assets***

Intangible assets with finite lives are carried at cost, less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets. In-process research and development represents the fair value of incomplete research and development projects that have not reached technological feasibility as of the date of acquisition. Initially, these assets are not subject to amortization. Once projects have been completed they are transferred to developed technology, which are subject to amortization, while assets related to projects that have been abandoned are impaired and expensed to research and development.

***Impairment of Intangible Assets and Goodwill***

Goodwill is evaluated for impairment on an annual basis in the fourth quarter of the Company's fiscal year, and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. The Company has elected to first assess qualitative factors to determine whether it is more likely than not that the fair value of its single reporting unit is less than its carrying amount. If the Company determines that it is more likely than not that the fair value of its single reporting unit is less than its carrying amount, then the two-step goodwill impairment test will be performed. The first step, identifying a potential impairment, compares the fair value of its single reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step will be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the implied fair value is recognized as an impairment loss. The Company evaluates events and changes in circumstances that could indicate carrying amounts of purchased



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intangible assets may not be recoverable. When such events or changes in circumstances occur, the Company assesses the recoverability of these assets by determining whether or not the carrying amount will be recovered through undiscounted expected future cash flows. If the total of the future undiscounted cash flows is less than the carrying amount of an asset, the Company records an impairment loss for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

***Restructuring and Other Related Costs***

The Company records costs associated with exit activities related to restructuring plans in accordance with ASC 420, "Exit or Disposal Cost Obligations." Liabilities for costs associated with an exit or disposal activity are recognized in the period in which the liability is incurred. The timing of the associated cash payments is dependent upon the type of exit cost and extends over an approximately four-year period. The Company records restructuring cost liabilities in "Accrued Expenses" and "Other Long-term Liabilities" in the Consolidated Balance Sheet.

Restructuring costs include termination costs, facility consolidation and closure costs, equipment write-downs and inventory write-downs. One-time termination benefits are recognized as a liability at estimated fair value when the approved plan of termination has been communicated to employees, unless employees must provide future service, in which case the benefits are recognized ratably over the future service period. Ongoing termination benefits arrangements are recognized as a liability at estimated fair value when the amount of such benefits becomes estimable and payment is probable. For the facility-related restructuring costs, the Company recognizes a liability upon exiting all or a portion of a leased facility and meeting cease-use and other requirements. The amount of restructuring costs is based on the fair value of the lease obligation for the abandoned space, which includes a sublease assumption that could be reasonably obtained.

Restructuring charges require significant estimates and assumptions, including sublease income and expenses for severance and other employee separation costs. Management estimates involve a number of risks and uncertainties, some of which are beyond control, including future real estate market conditions and the Company's ability to successfully enter into subleases or termination agreements with terms as favorable as those assumed when arriving at its estimates. The Company monitors these estimates and assumptions on at least a quarterly basis for changes in circumstances and any corresponding adjustments to the accrual are recorded in its statement of operations in the period when such changes are known.

***Recent Accounting Pronouncements***

In December 2017, the SEC staff issued SAB 118, which allowed the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. In March 2018, the Financial Accounting Standards Board (the "FASB") issued ASU 2018-05, "Amendments to SEC Paragraphs Pursuant to SAB 118" and added such SEC guidance to Accounting Standards Codification 740, "Income Taxes, codified under the title: Income Tax Accounting Implications of the Tax Cuts and Jobs Act." The Company determined an adjustment to deferred tax assets, along with a corresponding adjustment to valuation allowance, was needed. The adjustment resulted in no tax expense impact in connection with the re-measurement of certain deferred tax assets and liabilities from 35% to 21%. Additionally, we provisionally recorded no tax expense in connection with the transition tax on the mandatory deemed repatriation of foreign earnings, based upon an aggregate tax loss of our foreign subsidiaries for the year ended December 30, 2017. The Company finalized its accounting for the re-measurement of deferred tax balances and transition tax with no adjustment to income tax expense for the year ended December 29, 2018.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"), which amends the scope of modification accounting for share-based payment arrangements, and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Topic 718. The Company's adoption of ASU 2017-09 during its first quarter of 2018 had no impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. As such, restricted cash and restricted cash equivalents should be

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included with cash and cash equivalents when reconciling the beginning-of-period and ending-of-period total amounts shown on the statement of cash flows. The Company adopted ASU 2016-18 during the first quarter of fiscal 2018, using the retrospective transition approach. Restricted cash in the prior period has been included with cash and cash equivalents when reconciling the beginning and ending total amounts on the statement of cash flows for the year ended December 30, 2017 and December 31, 2016, to conform to the current period presentation. The adoption of ASU 2016-18 did not have a material impact on the cash flow activity presented on the Company's consolidated statements of cash flows. See the consolidated statements of cash flows for a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts on the consolidated statements of cash flows.

In May 2016, the FASB issued Accounting Standards Update No. 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update)" ("ASU 2016-11"), which rescinds various standards codified as part of Topic 605, Revenue Recognition in relation to the adoption of Topic 606. These rescissions include changes to topics pertaining to revenue and expense recognition for freight services in process, accounting for shipping and handling fees and costs, and accounting for consideration given by a vendor to a customer. The Company adopted ASU 2016-11 during the first quarter of 2018. See Note 3, "Revenue Recognition" to the Notes to Consolidated Financial Statements for more information.

On December 31, 2017, the Company adopted Topic 606, which provides guidance for revenue recognition that superseded the revenue recognition requirements in Topic 605 and most industry specific guidance. Under Topic 606, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company adopted Topic 606 under the modified retrospective transition method, applying the amendments to prospective reporting periods and applied to those contracts that were not completed as of December 31, 2017. Results for reporting periods beginning after December 31, 2017 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under Topic 605. See Note 3, "Revenue Recognition" to the Notes to Consolidated Financial Statements for more information.

In January 2016, the FASB issued ASU 2016-01, which requires equity investments to be measured at fair value with changes in fair value recognized in the income statement and simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The Company adopted ASU 2016-01 during its first quarter of 2018 and the adoption did not have a material impact on its consolidated financial statements. See Note 4, "Fair Value Measurements" to the Notes to Consolidated Financial Statements for more information.

***Accounting Pronouncements Not Yet Effective***

In August 2018, the FASB issued Accounting Standards Update No. 2018-15 ("ASU 2018-15"), "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The update provides guidance for determining if a cloud computing arrangement is within the scope of internal-use software guidance, and would require capitalization of certain implementation costs. ASU 2018-15 is effective for the Company in its first quarter of 2020, with early adoption permitted. The Company is currently evaluating the impact the adoption of ASU 2018-15 will have on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-14 ("ASU 2018-14"), "Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans." The update eliminates, adds, and modifies certain disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. ASU 2018-14 is effective for the Company in its first quarter of 2021, with early adoption permitted. The Company is currently evaluating the impact the adoption of ASU 2018-14 will have on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13 ("ASU 2018-13"), "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." The update eliminates, adds, and modifies certain disclosure requirements for fair value

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measurements. ASU 2018-13 is effective for the Company in its first quarter of 2020 and early adoption is permitted of the entire standard or only the provisions that eliminate or modify disclosure requirements. The Company is currently evaluating the impact the adoption of ASU 2018-13 will have on its consolidated financial statements.

In June 2018, the FASB issued Accounting Standards Update No. 2018-07, "Improvements to Non-employee Share-Based Payment Accounting" ("ASU 2018-07"), which simplifies the accounting for share-based payments granted to non-employees for goods and services. Under ASU 2018-07, certain guidance on such payments to non-employees would be aligned with the requirements for share-based payments granted to employees. The guidance will be effective for the Company's first quarter of 2019 and early adoption is permitted. As the Company does not have material non-employee awards, it does not expect the adoption of ASU 2018-07 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). The guidance eliminates Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. ASU 2017-04 will be effective for the Company's annual or any interim goodwill impairment tests in its first quarter of fiscal 2020. The Company is currently evaluating the impact the adoption of ASU 2017-04 will have on its consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which requires measurement and recognition of expected credit losses for financial assets held. This guidance is effective for the Company in its first quarter of fiscal 2020 and early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which amends the existing accounting standards for leases. The new standard requires lessees to record a right-of-use asset and a corresponding lease liability on the balance sheet (with the exception of short-term leases). For lessees, leases will continue to be classified as either operating or financing in the income statement. This guidance is effective for the Company in its first quarter of fiscal 2019. ASU 2016-02 is required to be applied with a modified retrospective approach and requires application of the new standard at the beginning of the earliest comparative period presented. In July 2018, the FASB issued Accounting Standards Update 2018-11 "Leases (Topic 842): Targeted Improvements," ("ASU 2018-11"), which provides lessees an additional (and optional) transition method to apply the new leasing standard to all open leases at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In December 2018, the FASB issued Accounting Standards Update 2018-20, "Narrow-Scope Improvements for Lessors," which contains certain narrow scope improvements to the guidance issued in ASU 2016-02. The Company is currently evaluating the other possible impacts the adoption of ASU 2016-02, ASU 2018-11 and ASU 2018-20 will have on its consolidated financial statements.

### **3. Revenue Recognition**

#### ***Topic 606 Adoption***

The Company recorded a net reduction to the opening balance of its accumulated deficit of \$15.4 million as of December 31, 2017 due to the cumulative impact of adopting Topic 606, with the impact primarily related to its services revenue. The impact to revenue for the year ended December 29, 2018 was an increase of \$6.7 million as a result of applying Topic 606. The details of the significant changes and quantitative impact of the Company's adoption of Topic 606 are set out below.

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**Capitalization of Costs to Obtain a Contract**

As of December 29, 2018, the ending balance of the Company's capitalized costs to obtain a contract was \$0.4 million. The Company's amortization expense was not material for the year ended December 29, 2018.

**Disaggregation of Revenue**

The following table presents the Company's revenue disaggregated by revenue source (in thousands):

	Years Ended		
	December 29, 2018	December 30, 2017 <sup>(1)</sup>	December 31, 2016 <sup>(1)</sup>
Product .....	\$ 763,555	\$ 610,535	\$ 751,167
Services .....	179,824	130,204	118,968
Total revenue .....	<u>\$ 943,379</u>	<u>\$ 740,739</u>	<u>\$ 870,135</u>

<sup>(1)</sup> Prior period amounts have not been adjusted under the modified retrospective method of adopting Topic 606.

The Company sells its products directly to customers who are predominantly service providers and to channel partners that sell on its behalf. The following tables present the Company's revenue disaggregated by geography, based on the shipping address of the customer and by sales channel (in thousands):

	Years Ended		
	December 29, 2018	December 30, 2017 <sup>(1)</sup>	December 31, 2016 <sup>(1)</sup>
United States .....	\$ 476,784	\$ 428,592	\$ 541,889
Other Americas .....	44,581	20,070	40,036
Europe, Middle East and Africa .....	309,989	234,972	243,783
Asia Pacific .....	112,025	57,105	44,427
Total revenue .....	<u>\$ 943,379</u>	<u>\$ 740,739</u>	<u>\$ 870,135</u>

	Years Ended		
	December 29, 2018	December 30, 2017 <sup>(1)</sup>	December 31, 2016 <sup>(1)</sup>
Direct .....	\$ 838,931	\$ 693,472	\$ 809,681
Indirect .....	104,448	47,267	60,454
Total revenue .....	<u>\$ 943,379</u>	<u>\$ 740,739</u>	<u>\$ 870,135</u>

<sup>(1)</sup> Prior period amounts have not been adjusted under the modified retrospective method of adopting Topic 606.

**Contract Balances**

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers (in thousands):

	December 29, 2018	At Adoption
Accounts receivable, net .....	\$ 317,115	\$ 135,245
Contract assets .....	\$ 24,981	\$ 2,825
Deferred revenue .....	\$ 120,302	\$ 75,458

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Revenue recognized for the year ended December 29, 2018 that was included in the deferred revenue balance at the beginning of the reporting period was \$44.4 million. Changes in the contract asset and liability balances during the year ended December 29, 2018 were primarily impacted by the Acquisition during the fourth quarter of 2018.

***Transaction Price Allocated to the Remaining Performance Obligation***

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially satisfied) at the end of the reporting period (in thousands):

	2019	2020	2021	2022	2023	Thereafter	Total
Revenue expected to be recognized in the future as of December 29, 2018 .....	\$ 375,707	\$ 53,258	\$ 18,904	\$ 6,434	\$ 2,716	\$ 1,193	\$ 458,212

***Impacts on Financial Statements***

The following tables summarize the impact of adopting Topic 606 on the Company's consolidated statement of operations for the year ended December 29, 2018 and the Company's consolidated balance sheet as of December 31, 2017 (in thousands):

	Year Ended December 29, 2018		
	As Reported	Adjustments	Balances Without Adoption of Topic 606
<b>Income Statement</b>			
<b>Revenue</b>			
Product .....	\$ 763,555	\$ (10,680)	\$ 752,875
Services .....	179,824	3,946	183,770
	\$ 943,379	\$ (6,734)	\$ 936,645
<b>Costs and expenses</b>			
Cost of revenue .....	\$ 622,223	\$ 1,687	\$ 623,910
<b>Net loss</b> .....	\$ (214,295)	\$ (8,421)	\$ (222,716)
<b>Net loss per share - basic and diluted</b> .....	\$ (1.36)	\$ (0.05)	\$ (1.41)

The increase in revenue from the adoption of Topic 606 was primarily related to an increase in product revenue for certain customers as a result of recognition upon transfer of control in advance of milestone invoicing. The adoption of Topic 606 did not have a material impact to the Company's consolidated financial statements for the year ended December 29, 2018.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<u>Balance at December 30, 2017</u>	<u>Adjustments due to Topic 606</u>	<u>As Adjusted Balance at December 31, 2017</u>
<b>Balance Sheet</b>			
<b>Assets</b>			
Accounts receivable, net .....	\$ 126,152	\$ 9,093	\$ 135,245
Inventory .....	\$ 214,704	\$ (239)	\$ 214,465
Prepaid expenses and other assets .....	\$ 43,339	\$ 2,731	\$ 46,070
<b>Liabilities</b>			
Accrued expenses .....	\$ 39,782	\$ 15,645	\$ 55,427
Deferred revenue .....	\$ 94,923	\$ (19,465)	\$ 75,458
<b>Equity</b>			
Accumulated deficit .....	\$ (758,081)	\$ 15,406	\$ (742,675)

**4. Fair Value Measurements**

The following tables represent the Company's fair value hierarchy for its marketable securities measured at fair value on a recurring basis (in thousands):

	<u>As of December 29, 2018</u>			<u>As of December 30, 2017</u>		
	<u>Fair Value Measured Using</u>			<u>Fair Value Measured Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<b>Assets</b>						
Money market funds .....	\$10,347	\$ —	\$ 10,347	\$20,371	\$ —	\$ 20,371
Certificates of deposit .....	—	—	—	—	240	240
Commercial paper .....	—	—	—	—	26,912	26,912
Corporate bonds .....	—	23,512	23,512	—	118,558	118,558
U.S. agency notes .....	—	2,999	2,999	—	5,480	5,480
U.S. treasuries .....	23,987	—	23,987	35,408	—	35,408
Total assets .....	<u>\$34,334</u>	<u>\$ 26,511</u>	<u>\$ 60,845</u>	<u>\$55,779</u>	<u>\$151,190</u>	<u>\$206,969</u>
<b>Liabilities</b>						
Foreign currency exchange forward contracts .....	\$ —	\$ (91)	\$ (91)	\$ —	\$ (204)	\$ (204)

During 2018 and 2017, there were no transfers of assets or liabilities between Level 1 and Level 2. As of December 29, 2018 and December 30, 2017, none of the Company's existing securities were classified as Level 3 securities.

The Company classifies its equity investments and certain facilities-related charges within Level 3 of the fair value hierarchy and applies fair value accounting on a nonrecurring basis when impairment indicators exist or upon the existence of observable fair values. The fair values are classified as Level 3 measurements due to the significance of unobservable inputs. These analyses require management to make assumptions and estimates regarding industry and economic factors, future operating results and discount rates.

**Equity Investments**

In 2016, the Company invested \$7.0 million in a privately-held company. As of December 29, 2018 and December 30, 2017, the Company's equity investment balance was zero and \$5.1 million, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

During 2017, the Company recorded impairment charges of \$1.9 million to adjust the carrying value of its investment to estimated fair value. During the fourth quarter of 2018, this privately-held company had ceased operations and was undergoing liquidation as of December 29, 2018. As a result, the Company determined that the fair value of its investment was zero and wrote off the remaining carrying value of \$5.1 million in 2018.

In addition, in 2016, the Company recognized a gain of \$9.0 million from the sale of an existing non-marketable equity investment.

The Company used the guideline public company method and the guideline transaction method of the market approach to determine the implied total equity value on a minority interest basis.

**Facilities-related Charges**

In connection with the 2017 Restructuring Plan, the Company calculated the fair value of the \$7.3 million in facilities-related charges based on estimated future discounted cash flows and classified the fair value as a Level 3 measurement due to the significance of unobservable inputs, which included the amount and timing of estimated sublease rental receipts that the Company could reasonably obtain over the remaining lease term and the discount rate. See Note 9, "Restructuring and Other Related Costs" to the Notes to Consolidated Financial Statements for more information on the 2017 Restructuring Plan.

**Cash and Cash Equivalents**

Cash, cash equivalents and investments were as follows (in thousands):

	<b>December 29, 2018</b>			
	<b>Adjusted Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Cash .....	\$ 168,620	\$ —	\$ —	\$ 168,620
Money market funds .....	10,347	—	—	10,347
U.S. treasuries .....	23,986	1	—	23,987
Total cash and cash equivalents .....	<u>\$ 202,953</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 202,954</u>
U.S. agency notes .....	3,000	—	(1)	2,999
Corporate bonds .....	23,603	—	(91)	23,512
Total short-term investments .....	<u>\$ 26,603</u>	<u>\$ —</u>	<u>\$ (92)</u>	<u>\$ 26,511</u>
Total cash, cash equivalents and investments .....	<u>\$ 229,556</u>	<u>\$ 1</u>	<u>\$ (92)</u>	<u>\$ 229,465</u>



**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	December 30, 2017			
	Adjusted Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash .....	\$ 87,991	\$ —	\$ —	\$ 87,991
Money market funds .....	20,371	—	—	20,371
U.S. treasuries .....	7,984	—	(1)	7,983
Total cash and cash equivalents .....	<u>\$ 116,346</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ 116,345</u>
Certificates of deposit .....	240	—	—	240
Commercial paper .....	26,924	—	(12)	26,912
Corporate bonds .....	90,685	—	(155)	90,530
U.S. agency notes .....	2,500	—	(11)	2,489
U.S. treasuries .....	27,495	—	(70)	27,425
Total short-term investments .....	<u>\$ 147,844</u>	<u>\$ —</u>	<u>\$ (248)</u>	<u>\$ 147,596</u>
Corporate bonds .....	28,186	—	(158)	28,028
U.S. agency notes .....	3,002	—	(11)	2,991
Total long-term investments .....	<u>\$ 31,188</u>	<u>\$ —</u>	<u>\$ (169)</u>	<u>\$ 31,019</u>
Total cash, cash equivalents and investments .....	<u>\$ 295,378</u>	<u>\$ —</u>	<u>\$ (418)</u>	<u>\$ 294,960</u>

As of December 29, 2018, the Company's available-for-sale investments have a contractual maturity term of up to 9 months. Gross realized gains and losses on short-term and long-term investments were insignificant for all periods. The specific identification method is used to account for gains and losses on available-for-sale investments.

As of December 29, 2018, the Company had \$229.5 million of cash, cash equivalents and short-term investments, including \$89.8 million of cash and cash equivalents held by its foreign subsidiaries. The Company's cash in foreign locations is used for operational and investing activities in those locations, and the Company does not currently have the need or the intent to repatriate those funds to the United States.

## 5. Derivative Instruments

### *Foreign Currency Exchange Forward Contracts*

The Company transacts business in various foreign currencies and has international sales, cost of sales, and expenses denominated in foreign currencies, and carries foreign-currency-denominated monetary assets and liabilities, subjecting the Company to foreign currency risk. The Company's primary foreign currency risk management objective is to protect the U.S. dollar value of future cash flows and minimize the volatility of reported earnings. The Company utilizes foreign currency forward contracts, primarily short term in nature.

Historically, the Company enters into foreign currency exchange forward contracts to manage its exposure to fluctuation in foreign exchange rates that arise from its euro and British pound denominated receivables and restricted cash balances. Gains and losses on these contracts are intended to offset the impact of foreign exchange rate fluctuations on the underlying foreign currency denominated accounts receivables and restricted cash, and therefore, do not subject the Company to material balance sheet risk.

The Company also enters into foreign currency exchange contracts to reduce the volatility of cash flows primarily related to forecasted revenues and expenses denominated in euros, British pounds and SEK. The contracts are generally settled for U.S. dollars, euros and British pounds at maturity under an average rate method agreed to at inception of the contracts. The gains and losses on these foreign currency derivatives are recorded to the consolidated statement of operations line item, in the current period, to which the item that is being economically hedged is recorded.

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As of December 29, 2018, the Company posted \$0.9 million of collateral on its derivative instruments to cover potential credit risk exposure. This amount is classified as other long-term restricted cash on the accompanying consolidated balance sheets.

The before-tax effect of foreign currency exchange forward contracts was a gain of \$0.7 million for 2018, a loss of \$3.5 million for 2017 and a loss of \$0.9 million in 2016, included in other gain (loss), net, in the consolidated statements of operations. In each of these periods, the impact of the gross gains and losses were offset by foreign exchange rate fluctuations on the underlying foreign currency denominated amounts.

As of December 29, 2018, the Company did not designate foreign currency exchange forward contracts as hedges for accounting purposes and accordingly, changes in the fair value are recorded in the accompanying consolidated statements of operations. These contracts were with one high-quality institution and the Company consistently monitors the creditworthiness of the counterparties.

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

	As of December 29, 2018			As of December 30, 2017		
	Gross Notional <sup>(1)</sup>	Prepaid Expenses and Other Assets	Other Accrued Liabilities	Gross Notional <sup>(1)</sup>	Prepaid Expenses and Other Assets	Other Accrued Liabilities
Foreign currency exchange forward contracts .....						
Related to euro denominated receivables .....	\$ 40,068	\$ —	\$ (52)	\$ 24,794	\$ —	\$ (202)
Related to British pound denominated receivables .....	6,412	—	(38)	—	—	—
Related to euro denominated restricted cash .....	\$ 240	\$ —	\$ (1)	\$ 252	\$ —	\$ (2)
Total .....		<u>\$ —</u>	<u>\$ (91)</u>		<u>\$ —</u>	<u>\$ (204)</u>

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

**Accounts Receivable Factoring**

The Company sells certain designated trade account receivables based on factoring arrangements to a large international banking institution. Pursuant to the terms of the arrangements, the Company accounts for these transactions in accordance with ASC 860. The Company's factor purchases trade accounts receivables on a non-recourse basis and without any further obligations. Trade accounts receivables balances sold are removed from the consolidated balance sheets and cash received are reflected as cash provided by operating activities in the consolidated statements of cash flow. The difference between the fair value of the Company's trade receivables and the proceeds received is recorded as interest expense in the Company's consolidated statements of operations, and for the year ended December 29, 2018, the Company's recognized factoring related interest expense was approximately \$0.1 million. The gross amount of trade accounts receivables sold for the year ended December 29, 2018 totaled approximately \$12.6 million. Prior to the Acquisition, the Company had not entered into any factoring arrangements.

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**6. Business Combination**

On the Acquisition Date, the Company acquired 100% ownership of Coriant. The Acquisition positions the Company as one of the largest providers of vertically integrated transport networking solutions in the world, enhances the Company's ability to serve a global customer base and accelerates delivery of the innovative solutions its customers demand. This Acquisition also positions the Company to expand the breadth of customer applications it can address, including metro aggregation and switching, disaggregated transport and routing, and software-enabled multi-layer network management and control. The Acquisition was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, "Business Combinations" and consisted of the following (in thousands, except shares):

Cash .....	\$	154,192
Equity consideration <sup>(1)</sup> .....		129,628
Total .....	\$	<u>283,820</u>

<sup>(1)</sup> Based on the closing price of the Company's common stock of \$6.18 on October 1, 2018, the \$129.6 million equity consideration represents the fair value of 21 million shares of the Company's common stock issued to Coriant shareholders in accordance with the Purchase Agreement.

The Company financed the cash portion of the purchase price of the Acquisition with the net proceeds from its offering of the \$402.5 million of 2.125% convertible senior notes due September 1, 2024 (the "2024 Notes"). See Note 12, "Debt and Financing Lease Obligations" to the Notes to Consolidated Financial Statements for more information.

In 2018, the Company expensed acquisition-related costs in the amount of \$8.3 million in operating expenses.

The Company allocated the fair value of the purchase price of the acquisition to the tangible and intangible assets acquired as well as liabilities assumed, based on their estimated fair values. The excess of the purchase price over the fair values of these identifiable assets and liabilities was recorded as goodwill. The following table summarizes the Company's preliminary allocation of the purchase consideration based on the fair value of assets acquired and liabilities assumed at the Acquisition Date (in thousands):

Cash and cash equivalents .....	\$	15,549
Restricted cash .....		25,743
Accounts receivable .....		170,466
Inventory .....		96,067
Property, plant and equipment, net .....		217,991
Other assets .....		39,145
Intangible assets, net .....		200,700
Goodwill .....		48,235
Financing lease obligation .....		(194,700)
Deferred revenue .....		(43,502)
Other liabilities .....		(291,874)
Total net assets .....	\$	<u>283,820</u>

The Company expects to finalize the allocation of the purchase consideration as soon as practicable, pending finalization of income taxes and any other adjustments related to acquired assets or liabilities, but no later than 12 months from the Acquisition Date.

The following table presents details of the identifiable assets acquired at the Acquisition Date (in thousands):

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	Fair Value	Estimated Useful Life (Years)
Customer relationships and backlog .....	\$ 111,400	8
Developed technology .....	70,550	5
In-process technology .....	17,750	n/a
Trade name .....	1,000	1
Total .....	<u>\$ 200,700</u>	

Goodwill generated from this business combination is primarily attributable to the synergies from combining the operations of Coriant with that of the Company, which resulted in strengthening the Company's ability to serve a global customer base and accelerate delivery of product solutions. The goodwill recorded in the Acquisition is not expected to be deductible for income tax purposes.

The amounts of revenue and net loss of Coriant included in the Company's consolidated statement of operations from the Acquisition Date to December 29, 2018 was \$139.6 million and \$71.8 million, respectively.

The following table presents the unaudited pro forma financial information for the years ended December 29, 2018 and December 30, 2017 as though the companies were combined as of January 1, 2017 (in millions):

	Years Ended	
	December 29, 2018	December 30, 2017
Revenue .....	\$ 1,441	\$ 1,488
Net loss .....	\$ (421)	\$ (370)

The pro forma financial information for the years ended December 29, 2018 and December 30, 2017 has been calculated after applying the Company's accounting policies and adjusting the results of Coriant to reflect the acquisition costs incurred and the additional amortization that would have been charged assuming the fair value adjustments to tangible and intangible assets had been applied on January 1, 2017, together with the consequential tax effects. The pro forma financial information is for informational purposes only and is not indicative of the results of the operations that would have been achieved if the Acquisition had taken place at the beginning of the Company's fiscal year 2017.

## **7. Goodwill and Intangible Assets**

### **Goodwill**

Goodwill is recorded when the purchase price of an acquisition exceeds the fair value of the net tangible and identified intangible assets acquired.

The following table presents details of the Company's goodwill for the year ended December 29, 2018 (in thousands):

Balance as of December 30, 2017 .....	\$ 195,615
Goodwill acquired .....	48,235
Foreign currency translation adjustments .....	(16,619)
Accumulated impairment loss .....	—
Balance as of December 29, 2018 .....	<u>\$ 227,231</u>

The gross carrying amount of goodwill may change due to the effects of foreign currency fluctuations as a portion of these assets are denominated in foreign currency.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Intangible Assets***

The following table presents details of the Company's intangible assets as of December 29, 2018 and December 30, 2017 (in thousands):

	December 29, 2018			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life (In Years)
Intangible assets with finite lives:				
Trade names .....	\$ 1,000	\$ (250)	\$ 750	NMF*
Customer relationships and backlog .....	158,110	(42,478)	115,632	3.5
Developed technology .....	166,355	(67,368)	98,987	1.7
Total intangible assets with finite lives .....	\$ 325,465	\$ (110,096)	\$ 215,369	5.2
Acquired in-process technology .....	17,750	—	17,750	
Total intangible assets .....	\$ 343,215	\$ (110,096)	\$ 233,119	

\*NMF = Not meaningful

	December 30, 2017			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life (In Years)
Intangible assets with finite lives:				
Customer relationships .....	\$ 51,050	\$ (15,007)	\$ 36,043	5.6
Developed technology .....	104,708	(48,563)	56,145	2.7
Total intangible assets with finite lives .....	\$ 155,758	\$ (63,570)	\$ 92,188	3.9

In connection with the Acquisition, the Company acquired intangible assets for a total of \$200.7 million, which is included in the gross carrying amount of intangible assets as of December 29, 2018. See Note 6, "Business Combination" to the Notes to Consolidated Financial Statements for more information.

The gross carrying amount of intangible assets and the related amortization expense of intangible assets may change due to the effects of foreign currency fluctuations as a portion of these assets are denominated in foreign currency. Amortization expense was \$52.8 million and \$26.6 million for the years ended December 29, 2018 and December 30, 2017, respectively.

Intangible assets are carried at cost less accumulated amortization. Amortization expenses are recorded to the appropriate cost and expense categories. During 2017, the Company recorded an impairment charge to research and development expenses of \$0.3 million related to other intangible assets, which the Company has determined that the carrying value will not be recoverable. During the first quarter of 2017, the Company transferred \$0.3 million of its in-process technology to developed technology, which is being amortized over a useful life of five years.

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table summarizes the Company's estimated future amortization expense of intangible assets with finite lives as of December 29, 2018 (in thousands):

	Fiscal Years					2023 and Thereafter
	Total	2019	2020	2021	2022	
Total future amortization expense .....	\$ 215,369	\$ 60,512	\$ 44,979	\$ 32,044	\$ 29,497	\$ 48,337

**8. Balance Sheet Details**

**Restricted Cash**

The Company's restricted cash balance is primarily comprised of certificates of deposit and money market funds, of which the majority is not insured by the Federal Deposit Insurance Corporation. These amounts primarily collateralize the Company's issuances of standby letters of credit and bank guarantees. Additionally, the Company held \$10.0 million in escrow related to the cash consideration associated with the Acquisition.

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

	December 29, 2018	December 30, 2017
<b>Inventory:</b>		
Raw materials .....	\$ 74,435	\$ 27,568
Work in process .....	57,232	59,662
Finished goods .....	180,221	127,474
Total .....	\$ 311,888	\$ 214,704
<b>Property, plant and equipment, net:</b>		
Computer hardware .....	\$ 15,633	\$ 13,881
Computer software <sup>(1)</sup> .....	40,923	32,521
Laboratory and manufacturing equipment .....	304,889	246,380
Land and building .....	187,184	12,347
Furniture and fixtures .....	2,587	2,474
Leasehold and building improvements .....	46,038	43,475
Construction in progress .....	32,997	34,816
Subtotal .....	\$ 630,251	\$ 385,894
Less accumulated depreciation and amortization <sup>(2)</sup> .....	(287,431)	(249,952)
Total .....	\$ 342,820	\$ 135,942

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	December 29, 2018	December 30, 2017
<b>Accrued expenses:</b>		
Loss contingency related to non-cancelable purchase commitments .....	\$ 26,042	\$ 6,379
Professional and other consulting fees .....	10,442	5,305
Taxes payable .....	23,249	3,707
Accrued rebate and customer prepay liability .....	14,301	3,406
Restructuring accrual .....	13,097	5,490
Acquisition-related funds in escrow .....	10,000	—
Short-term financing lease obligation .....	4,718	—
Other accrued expenses .....	30,042	15,495
Total .....	<u>\$ 131,891</u>	<u>\$ 39,782</u>

(1) Included in computer software at December 29, 2018 and December 30, 2017 were \$13.1 million and \$11.4 million, respectively, related to enterprise resource planning (“ERP”) systems that the Company implemented. The unamortized ERP costs at December 29, 2018 and December 30, 2017 were \$3.9 million and \$4.7 million, respectively.

(2) Depreciation expense was \$47.7 million, \$39.4 million and \$35.5 million (which includes depreciation of capitalized ERP costs of \$2.2 million, \$1.7 million and \$1.2 million, respectively) for 2018, 2017 and 2016, respectively.

**9. Restructuring and Other Related Costs**

In December of 2018, the Company implemented a restructuring initiative (the “2018 Restructuring Plan”) as part of a comprehensive review of the Company’s operations and ongoing integration activities in order to optimize resources for future growth, improve efficiencies and address redundancies following the Acquisition. As part of the 2018 Restructuring Plan, the Company hopes to reduce expenses, streamline the organization, and eliminate fixed costs to align more closely with its needs going forward. The Company expects to be complete with activities related to the 2018 Restructuring Plan by the end of 2019.

In the fourth quarter of 2017, the Company implemented a plan to restructure its worldwide operations (the “2017 Restructuring Plan”) in order to reduce expenses and establish a more cost-effective structure that better aligns the Company’s operations with its long-term strategies. As part of the 2017 Restructuring Plan, the Company is making several changes it believes will help its research and development efficiency, with consolidation of its development sites, including closure of its Beijing, China design center, process changes to more broadly leverage the Company’s engineering resources across regions and product line development, and prioritization of research and development initiatives. Outside of engineering, the Company has also made changes to allow it to operate more efficiently as it scales the business, including reducing the Company’s facilities footprint and writing off certain equipment that will not be utilized in the future. Finally, the Company realigned its inventory levels to match its new technology cadence and go to market strategies. As of December 30, 2017, the 2017 Restructuring Plan had been substantially completed, with some remaining payments in the first half of 2018.

In connection with the Acquisition, the Company assumed restructuring liabilities associated with Coriant’s previous restructuring and reorganization plans consisting of termination benefits primarily comprised of severance payments. These costs are recorded at estimated fair value.

The following table presents restructuring and other related costs included in cost of revenue and operating expenses in the accompanying consolidated statements of operations under the 2018 Restructuring Plan, Coriant’s previous restructuring and reorganization plans, and the 2017 Restructuring Plan (in thousands):



**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	Year Ended December 29, 2018	
	Cost of Revenue	Operating Expenses
Severance and related expenses .....	\$ 2,630	\$ 10,413
Facilities .....	—	(544)
Asset impairment .....	—	2,643
Total .....	\$ 2,630	\$ 12,512

	Year Ended December 30, 2017	
	Cost of Revenue	Operating Expenses
Severance and related expenses .....	\$ 1,510	\$ 7,931
Facilities .....	—	7,300
Asset impairment .....	4,004	875
Inventory write-downs .....	13,627	—
Total .....	\$ 19,141	\$ 16,106

Restructuring liabilities are reported within accrued expenses and other long-term liabilities in the accompanying consolidated balance sheets (in thousands):

	December 30, 2017	Assumed Liabilities from the Acquisition	Charges	Cash	Non-cash Settlements and Other	December 29, 2018
Severance and related expenses .....	\$ 3,672	14,748	\$ 13,043	\$ (11,172)	\$ (449)	\$ 19,842
Facilities .....	6,947	—	(544)	(2,062)	(75)	4,266
Asset impairment.....	—	—	2,643	—	(2,400)	243
Total .....	\$ 10,619	\$ 14,748	\$ 15,142	\$ (13,234)	\$ (2,924)	\$ 24,351

As of December 29, 2018, the Company's restructuring liability was comprised of \$19.8 million of severance and related expenses, of which \$13.9 million is related to assumed restructuring liabilities associated with Coriant's previous restructuring and reorganization plans and is expected to be paid by 2022. The remaining \$5.9 million is primarily related to the 2018 Restructuring Plan and is expected to be substantially paid by the end of 2019. The Company's restructuring liability as of December 29, 2018 also comprised of \$4.3 million related to facility closures, with leases through January 2022, and \$0.2 million related term license agreements that were determined to have no future use. The Company expects the payments related to these term license agreements to be fully paid by the third quarter of 2019.

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**10. Accumulated Other Comprehensive Income (Loss)**

Accumulated other comprehensive income (loss) includes certain changes in equity that are excluded from net income (loss). The following table sets forth the changes by component for the periods presented (in thousands):

	Unrealized Gain (Loss) on Available- for-Sale Securities	Foreign Currency Translation	Accumulated Tax Effect	Actuarial Gain (Loss) on Pension	Total
Balance at December 26, 2015 .....	\$ (506)	\$ 2,389	\$ (760)	\$ —	\$ 1,123
Other comprehensive income (loss) before reclassifications .....	297	(29,625)	(119)	—	(29,447)
Amounts reclassified from accumulated other comprehensive loss .....	—	—	—	—	—
Net current-period other comprehensive income (loss) .....	297	(29,625)	(119)	—	(29,447)
Balance at December 31, 2016 .....	<u>\$ (209)</u>	<u>\$ (27,236)</u>	<u>\$ (879)</u>	<u>\$ —</u>	<u>\$ (28,324)</u>
Other comprehensive income (loss) before reclassifications .....	(209)	34,787	—	—	34,578
Amounts reclassified from accumulated other comprehensive loss .....	—	—	—	—	—
Net current-period other comprehensive income (loss) .....	(209)	34,787	—	—	34,578
Balance at December 30, 2017 .....	<u>\$ (418)</u>	<u>\$ 7,551</u>	<u>\$ (879)</u>	<u>\$ —</u>	<u>\$ 6,254</u>
Other comprehensive income (loss) before reclassifications .....	327	(26,483)	(85)	(5,547)	(31,788)
Amounts reclassified from accumulated other comprehensive loss .....	—	—	—	234	234
Net current-period other comprehensive income (loss) .....	327	(26,483)	(85)	(5,313)	(31,554)
Balance at December 29, 2018 .....	<u>\$ (91)</u>	<u>\$ (18,932)</u>	<u>\$ (964)</u>	<u>\$ (5,313)</u>	<u>\$ (25,300)</u>

**11. Basic and Diluted Net Loss Per Common Share**

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed using net loss and the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the assumed exercise of outstanding stock options, assumed release of outstanding RSUs and PSUs, and assumed issuance of common stock under the ESPP using the treasury stock method. Potentially dilutive common shares also include the assumed conversion of the 2024 Notes from the conversion spread (as further discussed in Note 12, "Debt and Financing Lease Obligations" to the Notes to Consolidated Financial Statements), and \$150.0 million in aggregate principal amount of its 1.75% convertible senior notes due June 1, 2018 (the "2018 Notes") from the conversion spread (as further discussed in Note 11, "Convertible Senior Notes" to the Notes to Consolidated Financial Statements disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017). The Company would include the dilutive effects of the 2024 Notes in the calculation of diluted net income per common share if the average market price is above the conversion price. Upon conversion of the 2024 Notes, it is the Company's intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the 2024 Notes being converted, therefore, only the conversion spread relating to the 2024 Notes would be included in the Company's diluted earnings per share calculation unless their effect is anti-dilutive. The Company includes the common shares underlying PSUs in the calculation of diluted net income per common share only when they become contingently issuable.

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Net loss .....	\$ (214,295)	\$ (194,506)	\$ (23,927)
Weighted average common shares outstanding - basic and diluted .....	157,748	147,878	142,989
Net loss per common share - basic and diluted .....	\$ (1.36)	\$ (1.32)	\$ (0.17)

The Company incurred net losses during 2018, 2017 and 2016, and as a result, potential common shares from stock options, RSUs, PSUs and the assumed release of outstanding shares under the ESPP were not included in the diluted shares used to calculate net loss per share, as their inclusion would have been anti-dilutive. Additionally, due to the net loss position during these periods, the Company excluded the potential shares issuable upon conversion of the 2024 Notes and the 2018 Notes in the calculation of diluted earnings per share, as their inclusion would have been anti-dilutive.

The following table sets forth the potentially dilutive shares excluded from the computation of the diluted net loss per share because their effect was anti-dilutive (in thousands):

	As of		
	December 29, 2018	December 30, 2017	December 31, 2016
Stock options outstanding .....	1,134	1,461	2,042
Restricted stock units .....	7,792	6,856	5,302
Performance stock units .....	1,284	1,420	896
Employee stock purchase plan shares .....	940	810	1,010
Total .....	<u>11,150</u>	<u>10,547</u>	<u>9,250</u>

## 12. Debt and Financing Lease Obligations

### **2.125% Convertible Senior Notes due September 1, 2024**

In September 2018, the Company issued the 2024 Notes due on September 1, 2024, unless earlier repurchased, redeemed or converted. The 2024 Notes are governed by a base indenture dated as of September 11, 2018 and a first supplemental indenture dated as of September 11, 2018 (together, the "Indenture"), between the Company and U.S. Bank National Association, as trustee. The 2024 Notes are unsecured, and the Indenture does not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of the Company's other securities by the Company.

Interest is payable semi-annually in arrears on March 1 and September 1 of each year, commencing March 1, 2019. The net proceeds to the Company were approximately \$391.4 million, of which approximately \$48.9 million was used to pay the cost of the capped call transactions with certain financial institutions ("Capped Calls"). The Company also used a portion of the remaining net proceeds to fund the cash portion of the purchase price of the Acquisition (as discussed in Note 6, "Business Combination" to the Notes to Consolidated Financial Statements), including fees and expenses relating thereto, and intends to use the remaining net proceeds for general corporate purposes.

The Capped Calls have an initial strike price of \$9.87 per share, subject to certain adjustments, which corresponds to the initial conversion price of the 2024 Notes. The Capped Calls have initial cap prices of \$15.19 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, 40.8 million shares of common stock. The capped call transactions are expected generally to reduce or offset potential dilution to the Company's common stock upon any conversion of the 2024 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 2024 Notes, as the case may be, with such reduction and/or offset subject to a cap. The Capped Calls expire on various dates

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

between July 5, 2024 and August 29, 2024. The Capped Calls were recorded as a reduction of the Company's stockholders' equity in the accompanying consolidated balance sheets.

Upon conversion, it is the Company's intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the 2024 Notes. For any remaining conversion obligation, the Company intends to pay or deliver, as the case may be, either cash, shares of its common stock, or a combination of cash and shares of its common stock, at the Company's election. The initial conversion rate is 101.2812 shares of common stock per \$1,000 principal amount of 2024 Notes, subject to anti-dilution adjustments, which is equivalent to a conversion price of approximately \$9.87 per share of common stock.

Throughout the term of the 2024 Notes, the conversion rate may be adjusted upon the occurrence of certain events, including for any cash dividends. Holders of the 2024 Notes will not receive any cash payment representing accrued and unpaid interest upon conversion of a 2024 Note. Accrued but unpaid interest will be deemed to be paid in full upon conversion rather than canceled, extinguished or forfeited. Prior to June 1, 2024, holders may convert their 2024 Notes under the following circumstances:

- during any fiscal quarter commencing after the fiscal quarter ended on December 29, 2018 (and only during such fiscal quarter) if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of 2024 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day;
- if the Company calls the 2024 Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date;
- upon the occurrence of specified corporate events described under the Indenture, such as a consolidation, merger or binding share exchange; or
- at any time on or after June 1, 2024 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2024 Notes at any time, regardless of the foregoing circumstances.

If the Company undergoes a fundamental change as defined in the Indenture governing the 2024 Notes, holders may require the Company to repurchase for cash all or any portion of their 2024 Notes at a repurchase price equal to 100% of the principal amount of the 2024 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, upon the occurrence of a "make-whole fundamental change" (as defined in the Indenture), the Company may, in certain circumstances, be required to increase the conversion rate by a number of additional shares for a holder that elects to convert its 2024 Notes in connection with such make-whole fundamental change.

The net carrying amounts of the debt obligation were as follows (in thousands):

	<b>December 29, 2018</b>
Principal .....	\$ 402,500
Unamortized discount <sup>(1)</sup> .....	(127,264)
Unamortized issuance cost <sup>(1)</sup> .....	(8,307)
Net carrying amount .....	\$ 266,929

<sup>(1)</sup> Unamortized debt conversion discount and issuance costs will be amortized over the remaining life of the 2024 Notes, which is approximately 69 months.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

As of December 29, 2018, the carrying amount of the equity component of the 2024 Notes was \$128.7 million.

In accounting for the issuance of the 2024 Notes, the Company separated the 2024 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the 2024 Notes. The equity component is not re-measured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount (“debt discount”) is amortized to interest expense over the term of the 2024 Notes.

The Company allocated the total issuance costs incurred to the liability and equity components of the 2024 Notes based on their relative values. Issuance costs attributable to the liability component were recorded as a reduction to the liability portion of the Notes and will be amortized as interest expense over the term of the 2024 Notes. The issuance costs attributable to the equity component were netted with the equity component in stockholders’ equity.

The Company recorded a deferred tax liability of \$30.9 million in connection with the issuance of the 2024 Notes, and a corresponding reduction in valuation allowance. The impact of both was recorded to stockholders’ equity.

The Company determined that the embedded conversion option in the 2024 Notes does not require separate accounting treatment as a derivative instrument because it is both indexed to the Company’s own stock and would be classified in stockholder’s equity if freestanding.

The following table sets forth total interest expense recognized related to the 2024 Notes (in thousands):

	<b>Year Ended</b>
	<b>December 29, 2018</b>
Contractual interest expense .....	\$ 2,613
Amortization of debt issuance costs .....	5,716
Amortization of debt discount .....	373
Total interest expense .....	\$ 8,702

For the year ended December 29, 2018, the debt discount and debt issuance costs were amortized, using an annual effective interest rate of 10.07%, to interest expense over the term of the 2024 Notes.

As of December 29, 2018, the fair value of the 2024 Notes was \$289.0 million. The fair value was determined based on the quoted bid price of the 2024 Notes in an over-the-counter market on December 28, 2018. The 2024 Notes are classified as Level 2 of the fair value hierarchy.

Based on the closing price of the Company’s common stock of \$3.92 on December 28, 2018, the if-converted value of the Notes did not exceed their principal amount.

**1.75% Convertible Senior Notes due June 1, 2018**

In May 2013, the Company issued the 2018 Notes, which matured on June 1, 2018. Upon maturity of the 2018 Notes, the Company repaid in full all \$150.0 million in aggregate principal amount and the final coupon interest of \$1.3 million.

The net carrying amount of the debt obligation as of December 30, 2017 was as follows (in thousands):

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Principal .....	\$	150,000
Unamortized discount .....		(4,670)
Unamortized issuance cost .....		(402)
Net carrying amount .....	<u>\$</u>	<u>144,928</u>

As of December 30, 2017, the carrying amount of the equity component of the 2018 Notes was \$43.3 million.

The following table sets forth total interest expense recognized related to the 2018 Notes (in thousands):

	Years Ended	
	December 29, 2018	December 30, 2017
Contractual interest expense .....	\$ 1,094	\$ 2,625
Amortization of debt issuance costs .....	402	898
Amortization of debt discount .....	4,671	10,444
Total interest expense .....	<u>\$ 6,167</u>	<u>\$ 13,967</u>

The coupon rate was 1.75%. For the year ended December 29, 2018 and the year ended December 30, 2017, the debt discount and debt issuance costs were amortized, using an annual effective interest rate of 10.23%, to interest expense over the term of the 2018 Notes.

***Financing Lease Obligations***

The Company evaluated two sale-leaseback transactions that were executed by Coriant in the past and assumed by Infinera in the Acquisition. It was determined that these transactions did not qualify for sale-leaseback accounting under ASC 840-40, "Leases - Sale-Leaseback Transactions."

The Company leases a facility (land and all attached real property) in Naperville, Illinois that was sold to a third party and subsequently leased back. This was determined to be a failed sale-leaseback due to a \$31.5 million imposition reimbursement payment to be made over 10 years, which was linked to the total building income generated each year. As a result of purchase accounting, the financing lease obligation was recorded at the present value of the remaining lease payments and expected value of the facility at the end of the occupancy period. The financing lease obligation will continue to be amortized over the remaining period of the lease term. The assets will continue to be depreciated over their remaining useful lives.

Additionally, the Company leases a facility (land and all attached real property) in Finland, which was sold to a third party and subsequently leased back. The lease was determined to be a failed sale-leaseback due to the deposit being considered a form of collateral. The amount of the deposit was equal to one year of rental payments, whereas typical deposits are approximately two to three months of rental payments. As a result of purchase accounting, the financing lease obligation was recorded at the present value of the remaining lease payments and expected value of the facility at the end of the occupancy period. The financing lease obligation will continue to be amortized over the remaining period of the lease term. The assets will continue to be depreciated over their remaining useful lives.

The amount recognized for interest and depreciation expense going forward will substantially exceed the Company's periodic rental payments. The average discount rate for the year ended December 29, 2018 was 7.0%. During the year ended December 29, 2018, depreciation expense and interest expense related to these failed sale-leaseback transactions were \$1.0 million and \$6.5 million, respectively. The Company's rental payments during the year ended December 29, 2018 were \$2.3 million.

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**13. Commitments and Contingencies**

***Operating Leases***

The Company leases facilities under non-cancelable operating lease agreements. These leases have varying terms that range from one to 10 years, and contain leasehold improvement incentives, rent holidays and escalation clauses. In addition, some of these leases have renewal options for up to five years. The Company has contractual commitments to remove leasehold improvements and return certain properties to a specified condition when the leases terminate. At the inception of a lease with such conditions, the Company records an asset retirement obligation liability and a corresponding capital asset in an amount equal to the estimated fair value of the obligation. Asset retirement obligations were \$5.4 million and \$3.5 million as of December 29, 2018 and December 30, 2017, respectively. These obligations are classified as other long-term liabilities on the accompanying consolidated balance sheets.

The Company recognizes rent expense on a straight-line basis over the lease period factoring in leasehold improvement incentives, rent holidays and escalation clauses. Rent expense for all leases was \$12.1 million, \$12.0 million and \$11.0 million for 2018, 2017 and 2016, respectively. The Company recorded sublease rental income of \$0.9 million in 2018. The Company did not have any sublease rental income for 2017 and 2016.

Future annual minimum operating lease payments at December 29, 2018 were as follows (in thousands):

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Thereafter</u>	<u>Total</u>
Operating lease payments .....	\$ 18,352	\$ 14,047	\$ 7,888	\$ 5,926	\$ 4,905	\$ 18,303	\$ 69,421

In the fourth quarter of 2017, the Company implemented the 2017 Restructuring Plan, which included vacating certain leased facilities. See Note 9, "Restructuring and Other Related Costs" to the Notes to Consolidated Financial Statements for more information.

***Financing Lease Obligations***

The Company leases two facilities that were assumed with the Acquisition. As a result of purchase accounting, these financing lease obligations were recorded at the present value of the remaining lease payments and expected value of the facility at the end of the occupancy period. The financing lease obligations will continue to be amortized over the remaining period of the lease terms, which range from seven to 10 years. See Note 12, "Debt and Financing Lease Obligations" to the Notes to Consolidated Financial Statements for more information.

Future annual minimum financing lease payments at December 29, 2018 were as follows (in thousands):

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Thereafter</u>	<u>Total</u>
Financing lease obligations .....	\$ 9,346	\$ 9,454	\$ 6,666	\$ 5,728	\$ 4,465	\$ 15,750	\$ 51,409

***Purchase Commitments***

The Company has agreements with its major production suppliers, where the Company is committed to purchase certain parts. As of December 29, 2018, December 30, 2017 and December 31, 2016, these non-cancelable purchase commitments were \$203.5 million, \$96.1 million and \$111.9 million, respectively. The significant increase of purchase commitments in 2018 was due to the Acquisition.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Future purchase commitments at December 29, 2018 were as follows (in thousands):

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Thereafter</u>	<u>Total</u>
Purchase obligations .....	\$ 200,939	\$ 751	\$ 599	\$ 500	\$ 757	\$ —	\$ 203,546

The contractual obligation tables above exclude tax liabilities of \$3.4 million related to uncertain tax positions because the Company cannot reliably estimate the timing and amount of future payments, if any.

**Legal Matters**

On November 23, 2016, Oyster Optics, LLC (“Oyster Optics”) filed a complaint against the Company in the United States District Court for the Eastern District of Texas. The complaint asserts U.S. Patent Nos. 6,469,816, 6,476,952, 6,594,055, 7,099,592, 7,620,327 (the “’327 patent”), 8,374,511 (the “’511 patent”) and 8,913,898 (the “’898 patent”) (collectively, the “Oyster Optics patents in suit”). The complaint seeks unspecified damages and a permanent injunction. The Company filed its answer to Oyster Optics’ complaint on February 3, 2017. The Company filed two petitions for Inter Partes Review (“IPR”) of the ’898 patent with the U.S. Patent and Trademark Office (“USPTO”). Other defendants have filed IPR petitions in connection with the remaining Oyster Optics patents in suit. The USPTO instituted two IPRs of the ’511 patent and two IPRs of ’898 patent but denied IPR petitions in connection with the ’327 patent. A Markman decision was issued on December 5, 2017 and fact discovery closed on December 22, 2017. Oyster Optics dropped the ’511 and ’898 patents, leaving only a few claims in the ’327 patent at issue in the case. On May 15, 2018, Oyster Optics filed a new patent infringement complaint in the United States District Court for the Eastern District of Texas, naming the Company as a defendant. In its new complaint, Oyster Optics alleges infringement of the ’327 patent, U.S. Patent No. 9,749,040 and the ’898 patent. On June 8, 2018, the court granted the parties’ joint motion to sever and consolidate the first-filed lawsuit with the later filed case. The Company filed its answer to the new complaint on July 16, 2018. A case management conference was held on September 11, 2018, and the court set a trial date for November 4, 2019. On October 26, 2018, the Company filed an amended answer to include a license defense. On November 29, 2018, the Company filed a motion for summary judgment based on the license defense. The Company is currently unable to predict the outcome of this litigation and therefore cannot reasonably estimate the possible loss or range of loss, if any, arising from this matter.

On March 24, 2017, Core Optical Technologies, LLC (“Core Optical”) filed a complaint against the Company in the United States District Court for the Central District of California. The complaint asserts U.S. Patent No. 6,782,211 (the “Core Optical patent in suit”). The complaint seeks unspecified damages and a permanent injunction. The Company believes that it does not infringe any valid and enforceable claim of the Core Optical patent in suit, and intends to defend this action vigorously. The Company filed its answer to Core Optical’s complaint on September 25, 2017. A Markman hearing was held on May 9, 2018 and the court has set a trial for March 2019. On June 14, 2018, the Company filed a petition for IPR of the Core Optical patent in suit in the USPTO. Core Optical contacted the Company on July 19, 2018 to propose that the case be stayed pending the IPR. The Company agreed to Core Optical’s proposal, and the parties filed a joint motion to stay, which the court granted on July 31, 2018. On October 17, 2018, Core Optical filed a response to the Company’s IPR petition. On January 14, 2019, the USPTO denied the Company’s IPR petition, and on February 13, 2019, the Company filed a request for rehearing in the USPTO requesting reconsideration of the dismissal of the Company’s IPR petition. The Company is unable to predict the outcome of this litigation at this time and therefore cannot reasonably estimate the possible loss or range of loss, if any, arising from this matter.

On June 8, 2017, a Civil Investigative Demand was issued to Coriant pursuant to a False Claims Act investigation by the U.S. government as to whether there has been any violation of 31 U.S.C. §3729. Coriant provided documents and other responses to the U.S. government, and the Company will continue to cooperate in the ongoing investigation.

In addition to the matters described above, the Company is subject to various legal proceedings, claims and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, the Company does not expect that the ultimate costs to resolve these matters will have a material effect on its consolidated financial position, results of operations or cash flows.

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Loss Contingencies***

The Company is subject to the possibility of various losses arising in the ordinary course of business. These may relate to disputes, litigation and other legal actions. In the preparation of its quarterly and annual financial statements, the Company considers the likelihood of loss or the incurrence of a liability, including whether it is probable, reasonably possible or remote that a liability has been incurred, as well as the Company's ability to reasonably estimate the amount of loss, in determining loss contingencies. In accordance with U.S. GAAP, an estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company regularly evaluates current information to determine whether any accruals should be adjusted and whether new accruals are required. As of December 29, 2018 and December 30, 2017, the Company has accrued the estimated liabilities associated with certain loss contingencies.

***Indemnification Obligations***

From time to time, the Company enters into certain types of contracts that contingently require it to indemnify parties against third party claims. The terms of such indemnification obligations vary. These contracts may relate to: (i) certain real estate leases under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; and (ii) certain agreements with the Company's officers, directors and certain key employees, under which the Company may be required to indemnify such persons for liabilities.

In addition, the Company has agreed to indemnify certain customers for claims made against the Company's products, where such claims allege infringement of third party intellectual property rights, including, but not limited to, patents, registered trademarks, and/or copyrights. Under the aforementioned intellectual property indemnification clauses, the Company may be obligated to defend the customer and pay for the damages awarded against the customer under an infringement claim as well as the customer's attorneys' fees and costs. These indemnification obligations generally do not expire after termination or expiration of the agreement containing the indemnification obligation. In certain cases, there are limits on and exceptions to the Company's potential liability for indemnification. The Company cannot estimate the amount of potential future payments, if any, that it might be required to make as a result of these agreements. The maximum potential amount of any future payments that the Company could be required to make under these indemnification obligations could be significant.

As permitted under Delaware law and the Company's charter and bylaws, the Company has agreements whereby it indemnifies certain of its officers and each of its directors. The term of the indemnification period is for the officer's or director's lifetime for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements could be significant; however, the Company has a director and officer insurance policy that may reduce its exposure and enable it to recover all or a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal.

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**14. Guarantees**

***Product Warranties***

Activity related to product warranty was as follows (in thousands):

	<b>December 29, 2018</b>	<b>December 30, 2017</b>
Beginning balance .....	\$ 30,909	\$ 40,342
Charges to operations .....	28,685	18,283
Utilization .....	(18,028)	(14,985)
Change in estimate <sup>(1)</sup> .....	(545)	(12,731)
Balance at the end of the period .....	<u>\$ 41,021</u>	<u>\$ 30,909</u>

<sup>(1)</sup> The Company records product warranty liabilities based on the latest quality and cost information available as of the date the revenue is recorded. The changes in estimate shown here are due to changes in overall actual failure rates, the mix of new versus used units related to replacement of failed units, and changes in the estimated cost of repair. As the Company's products mature over time, failure rates and repair costs generally decline leading to favorable changes in warranty reserves. In addition, during 2017, due to product quality improvements, the Company revised certain estimates used in calculating its product warranties that resulted in a one-time reduction to the warranty accrual of \$2.2 million.

***Letters of Credit and Bank Guarantees***

The Company had \$30.0 million of standby letters of credit and bank guarantees outstanding as of December 29, 2018. These consisted of \$23.4 million related to customer performance guarantees, \$1.4 million of value-added tax and customs' licenses, \$2.9 million related to property leases, \$1.8 million related to Coriant pre-acquisition restructuring plans and \$0.5 million related to credit cards.

Of the aforementioned standby letters of credit and bank guarantees outstanding, \$13.4 million was backed by cash collateral from a third-party institution, and the Company accrues 5% annual servicing fee on the outstanding cash collateral. The Company had \$4.2 million of standby letters of credit and bank guarantees outstanding as of December 30, 2017. These consisted of \$0.7 million related to property leases, \$2.2 million related to customer performance guarantees, and \$1.3 million related to a value added tax and customs authorities' licenses.

As of December 29, 2018 and December 30, 2017, the Company has a line of credit for approximately \$1.6 million to support the issuance of letters of credit, of which zero had been issued and outstanding, for both periods. The Company has pledged approximately \$4.9 million and \$5.2 million of assets of a subsidiary to secure this line of credit and other obligations as of December 29, 2018 and December 30, 2017, respectively.

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**15. Stockholders' Equity**

***2007 Equity Incentive Plan, 2016 Equity Incentive Plan and Employee Stock Purchase Plan***

In February 2007, the Company's board of directors adopted the 2007 Equity Incentive Plan (the "2007 Plan") and the Company's stockholders approved the 2007 Plan in May 2007. The Company reserved a total of 46.8 million shares of common stock for issuance under the 2007 Plan. Upon stockholder approval of the 2016 Equity Incentive Plan (the "2016 Plan"), the Company has ceased granting equity awards under the 2007 Plan, however the 2007 Plan will continue to govern the terms and conditions of the outstanding options and awards previously granted under the 2007 Plan. As of December 29, 2018, options to purchase 1.1 million shares of the Company's common stock were outstanding and 1 million RSUs were outstanding under the 2007 Plan.

In February 2016, the Company's board of directors adopted the 2016 Plan and the Company's stockholders approved the 2016 Plan in May 2016. In May 2018, the Company's stockholders approved an amendment to the 2016 Plan to increase the number of shares authorized for issuance under the 2016 Plan by 1.5 million shares. As of December 29, 2018, the Company reserved a total of 15.4 million shares of common stock for issuance of stock options, RSUs and PSUs to employees, non-employees, consultants and members of the Company's board of directors, pursuant to the 2016 Plan, plus any shares subject to awards granted under the 2007 Plan that, after the effective date of the 2016 Plan, expire, are forfeited or otherwise terminate without having been exercised in full to the extent such awards were exercisable, and shares issued pursuant to awards granted under the 2007 Plan that, after the effective date of the 2016 Plan, are forfeited to or repurchased by the Company due to failure to vest. The 2016 Plan has a maximum term of 10 years from the date of adoption, or it can be earlier terminated by the Company's board of directors.

The ESPP was adopted by the board of directors in February 2007 and approved by the stockholders in May 2007. The ESPP was last amended by the stockholders in May 2018 to increase the shares authorized under the ESPP to a total of approximately 21.1 million shares of common stock. The ESPP has a 20-year term. Eligible employees may purchase the Company's common stock through payroll deductions at a price equal to 85% of the lower of the fair market values of the stock as of the beginning or the end of six-month offering periods. An employee's payroll deductions under the ESPP are limited to 15% of the employee's compensation and employees may not purchase more than \$25,000 of stock during any calendar year.

***Shares Reserved for Future Issuances***

Common stock reserved for future issuance was as follows (in thousands):

	<b>December 29, 2018</b>
Outstanding stock options and awards .....	8,990
Reserved for future option and award grants .....	8,728
Reserved for future ESPP .....	4,835
Total common stock reserved for stock options and awards .....	<u>22,553</u>

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Stock-based Compensation Plans**

The Company has stock-based compensation plans pursuant to which the Company has granted stock options, RSUs and PSUs. The Company also has an ESPP for all eligible employees. The following tables summarize the Company's equity award activity and related information (in thousands, except per share data):

	Number of Options	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value
<b>Outstanding at December 26, 2015</b> .....	<b>2,511</b>	<b>\$ 7.26</b>	<b>\$ 28,288</b>
Options granted .....	—	\$ —	
Options exercised .....	(825)	\$ 4.97	\$ 4,433
Options canceled .....	(31)	\$ 12.46	
<b>Outstanding at December 31, 2016</b> .....	<b>1,655</b>	<b>\$ 8.30</b>	<b>\$ 965</b>
Options granted .....	—	\$ —	
Options exercised .....	(196)	\$ 7.78	\$ 373
Options canceled .....	(62)	\$ 14.11	
<b>Outstanding at December 30, 2017</b> .....	<b>1,397</b>	<b>\$ 8.11</b>	<b>\$ 1</b>
Options granted .....	—	\$ —	
Options exercised .....	(229)	\$ 7.43	\$ 496
Options canceled .....	(53)	\$ 11.57	
<b>Outstanding at December 29, 2018</b> .....	<b>1,115</b>	<b>\$ 8.09</b>	<b>\$ —</b>
<b>Exercisable at December 29, 2018</b> .....	<b>1,115</b>	<b>\$ 8.09</b>	<b>\$ —</b>

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
<b>Outstanding at December 26, 2015</b> .....	<b>4,932</b>	<b>\$ 12.76</b>	<b>\$ 91,285</b>
RSUs granted .....	2,992	\$ 13.94	
RSUs released .....	(2,303)	\$ 11.06	\$ 26,407
RSUs canceled .....	(328)	\$ 13.90	
<b>Outstanding at December 31, 2016</b> .....	<b>5,293</b>	<b>\$ 14.10</b>	<b>\$ 44,939</b>
RSUs granted .....	4,281	\$ 9.66	
RSUs released .....	(2,198)	\$ 13.56	\$ 20,791
RSUs canceled .....	(585)	\$ 13.24	
<b>Outstanding at December 30, 2017</b> .....	<b>6,791</b>	<b>\$ 11.55</b>	<b>\$ 42,988</b>
RSUs granted .....	3,756	\$ 10.52	
RSUs released .....	(2,642)	\$ 12.12	\$ 26,457
RSUs canceled .....	(1,159)	\$ 11.12	
<b>Outstanding at December 29, 2018</b> .....	<b>6,746</b>	<b>\$ 10.83</b>	<b>\$ 26,446</b>

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	Number of Performance Stock Units	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
<b>Outstanding at December 26, 2015</b> .....	<b>731</b>	<b>\$ 12.35</b>	<b>\$ 13,540</b>
PSUs granted .....	647	\$ 15.28	
PSU performance earned <sup>(1)</sup> .....	234	\$ 12.28	
PSUs released .....	(614)	\$ 11.34	\$ 8,077
PSUs canceled .....	(94)	\$ 15.18	
<b>Outstanding at December 31, 2016</b> .....	<b>904</b>	<b>\$ 14.13</b>	<b>\$ 7,672</b>
PSUs granted .....	916	\$ 10.88	
PSUs released .....	(26)	\$ 11.83	\$ 225
PSUs canceled .....	(427)	\$ 12.20	
<b>Outstanding at December 30, 2017</b> .....	<b>1,367</b>	<b>\$ 16.28</b>	<b>\$ 8,651</b>
PSUs granted .....	521	\$ 9.79	
PSUs released .....	(55)	\$ 15.93	\$ 411
PSUs canceled .....	(704)	\$ 16.01	
<b>Outstanding at December 29, 2018</b> .....	<b>1,129</b>	<b>\$ 16.10</b>	<b>\$ 4,425</b>
<b>Expected to vest as of December 29, 2018</b> .....	<b>17</b>		<b>\$ 65</b>

<sup>(1)</sup> Represents the additional PSUs awarded resulting from the achievement of performance goals above the performance targets established at grant.

The aggregate intrinsic value of unexercised options is calculated as the difference between the closing price of the Company's common stock of \$3.92 at December 28, 2018 and the exercise prices of the underlying stock options. The aggregate intrinsic value of the options which have been exercised is calculated as the difference between the fair market value of the common stock at the date of exercise and the exercise price of the underlying stock options. The aggregate intrinsic value of unreleased RSUs and unreleased PSUs is calculated using the closing price of the Company's common stock of \$3.92 at December 28, 2018. The aggregate intrinsic value of RSUs and PSUs released is calculated using the fair market value of the common stock at the date of release.

The following table presents total stock-based compensation cost for instruments granted but not yet amortized, net of estimated forfeitures, of the Company's equity compensation plans as of December 29, 2018. These costs are expected to be amortized on a straight-line basis over the following weighted-average periods (in thousands, except for weighted-average period):

	Unrecognized Compensation Expense, Net	Weighted- Average Period (in years)
RSUs .....	\$ 54,006	2.48
PSUs .....	\$ 6,649	1.41

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table summarizes information about options outstanding at December 29, 2018.

Exercise Price	Options Outstanding			Vested and Exercisable Options	
	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
	(In thousands)	(In years)		(In thousands)	
\$6.71 - \$ 7.25 .....	183	0.72	\$ 7.01	183	\$ 7.01
\$7.45 - \$ 7.53 .....	185	0.94	\$ 7.47	185	\$ 7.47
\$7.68 - \$ 8.19 .....	192	1.48	\$ 8.08	192	\$ 8.08
\$ 8.58 .....	485	2.12	\$ 8.58	485	\$ 8.58
\$9.02 - \$9.28 .....	70	1.60	\$ 9.19	70	\$ 9.19
	1,115	1.55	\$ 8.09	1,115	\$ 8.09

**Employee Stock Options**

The Company did not grant any stock options during 2018, 2017 or 2016. Stock option exercises are settled with newly issued shares of common stock approved by stockholders for inclusion under the 2007 Plan. Amortization of stock-based compensation expense related to stock options in 2018, 2017 and 2016 was insignificant.

**Employee Stock Purchase Plan**

The fair value of the ESPP shares was estimated at the date of grant using the following assumptions:

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Volatility .....	48% - 62%	47% - 51%	56% - 67%
Risk-free interest rate .....	1.90% - 2.31%	0.81% - 1.16%	0.51% - 0.52%
Expected life .....	0.5 years	0.5 years	0.5 years
Estimated fair value .....	\$2.47 - \$3.13	\$2.44 - \$3.46	\$3.16 - \$4.53

The Company's ESPP activity for the following periods was as follows (in thousands):

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Stock-based compensation expense .....	\$ 5,478	\$ 6,049	\$ 6,094
Employee contributions .....	\$ 15,992	\$ 16,410	\$ 13,609
Shares purchased .....	2,189	2,140	1,369

**Restricted Stock Units**

The Company granted RSUs to employees and members of the Company's board of directors to receive shares of the Company's common stock. All RSUs awarded are subject to each individual's continued service to the Company through each applicable vesting date. The Company accounted for the fair value of the RSUs using the closing market price of the Company's common stock on the date of grant. Amortization of stock-based compensation expense related to RSUs in 2018, 2017 and 2016 was approximately \$29.2 million, \$30.5 million and \$29.6 million, respectively.



**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Performance Stock Units**

Pursuant to the 2007 Plan, the Company has granted PSUs to certain of the Company's executive officers, senior management and certain employees. All PSUs awarded are subject to each individual's continued service to the Company through each applicable vesting date and if the performance metrics are not met within the time limits specified in the award agreements, the PSUs will be canceled.

A number of PSUs granted to the Company's executive officers and senior management are based on the total shareholder return of the Company's common stock price as compared to the total shareholder return of the S&P North American Technology Multimedia Networking Index ("SPGIIPTR") over the span of one year, two years and three years. The number of shares to be issued upon vesting of these PSUs range from zero to two times the target number of PSUs granted depending on the Company's performance against the SPGIIPTR.

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Index volatility .....	33%	33% - 34%	18%
Infinera volatility .....	58% - 59%	55% - 56%	55%
Risk-free interest rate .....	2.37% - 2.40%	1.41% - 1.63%	0.95% - 1.07%
Correlation with index .....	0.04 - 0.48	0.10 - 0.49	0.58 - 0.59
Estimated fair value .....	\$14.99 - \$19.46	\$15.23 - \$17.35	\$10.31 - \$16.62

In addition, the Company has granted other PSUs to certain employees that only vest upon the achievement of specific operational performance criteria.

The following table summarizes by grant year, the Company's PSU activity for the year ended December 29, 2018 (in thousands):

	<b>Total Number of Performance Stock Units</b>	<b>Grant Year</b>			
		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Outstanding at December 30, 2017</b> .....	1,367	77	420	869	—
PSUs granted .....	521	—	—	—	521
PSUs released .....	(55)	—	—	—	(55)
PSUs canceled .....	(704)	(77)	(210)	(388)	(29)
<b>Outstanding at December 29, 2018</b> .....	1,129	—	210	481	437

<sup>(1)</sup> Represents the additional PSUs awarded resulting from the achievement of performance goals above the performance targets established at grant since the original grants were at 100% of target amounts.

Amortization of stock-based compensation expense related to PSUs in 2018, 2017 and 2016 was approximately \$8.2 million, \$9.5 million and \$6.6 million, respectively.

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Stock-based Compensation Expense**

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

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Stock-based compensation effects in inventory .....	\$ 4,750	\$ 5,255	\$ 4,911
<b>Stock-based compensation effects in net loss before income taxes</b>			
Cost of revenue .....	\$ 1,635	\$ 3,065	\$ 2,966
Research and development .....	16,270	15,845	13,732
Sales and marketing .....	10,869	11,288	11,043
General and administrative .....	9,649	10,776	9,295
	<u>\$ 38,423</u>	<u>\$ 40,974</u>	<u>\$ 37,036</u>
Cost of revenue—amortization from balance sheet <sup>(1)</sup> .....	4,986	4,746	3,497
Total stock-based compensation expense .....	<u>\$ 43,409</u>	<u>\$ 45,720</u>	<u>\$ 40,533</u>

<sup>(1)</sup> Represents stock-based compensation expense deferred to inventory in prior periods and recognized in the current period.

**16. Income Taxes**

The following is a geographic breakdown of the benefit from income taxes (in thousands):

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Current:			
Federal .....	\$ —	\$ —	\$ 32
State .....	186	69	861
Foreign .....	6,832	4,679	2,288
Total current .....	<u>\$ 7,018</u>	<u>\$ 4,748</u>	<u>\$ 3,181</u>
Deferred:			
Federal .....	\$ (546)	\$ —	\$ —
State .....	—	—	—
Foreign .....	(7,127)	(6,178)	(7,932)
Total deferred .....	<u>\$ (7,673)</u>	<u>\$ (6,178)</u>	<u>\$ (7,932)</u>
Total benefit from income taxes .....	<u>\$ (655)</u>	<u>\$ (1,430)</u>	<u>\$ (4,751)</u>

Loss before provision for income taxes from international operations was \$135.5 million, \$22.6 million and \$23.1 million for the years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively.

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The provisions for (benefit from) income taxes differ from the amount computed by applying the statutory federal income tax rates as follows:

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Expected tax (benefit) at federal statutory rate .....	(21.0)%	(35.0)%	(35.0)%
State taxes, net of federal benefit .....	0.1 %	— %	2.2 %
Research credits .....	(1.8)%	(1.8)%	(8.9)%
Stock-based compensation .....	0.8 %	6.0 %	22.3 %
Change in valuation allowance .....	18.1 %	26.8 %	(5.9)%
Foreign rate differential .....	2.9 %	3.3 %	9.4 %
Other .....	0.6 %	— %	(0.4)%
Effective tax rate .....	<u>(0.3)%</u>	<u>(0.7)%</u>	<u>(16.3)%</u>

The Company recognized an income tax benefit of \$0.7 million on a loss before income taxes of \$215.0 million, an income tax benefit of \$1.4 million on a loss before income taxes of \$195.9 million and an income tax benefit of \$4.8 million on a loss before income taxes of \$29.2 million in fiscal years 2018, 2017 and 2016, respectively. The resulting effective tax rates were (0.3)%, (0.7)% and (16.3)% for 2018, 2017 and 2016, respectively. The 2018 and 2017 effective tax rates differ from the expected statutory rate of 21% based on the Company's ability to benefit U.S. loss carryforwards, offset by state income taxes, non-deductible stock-based compensation expenses and foreign taxes provided on foreign subsidiary earnings. The lower 2018 income tax benefit compared to 2017 primarily relates to lower corporate income tax rate due to the Tax Act and lower stock-based compensation as a result of the Acquisition of Coriant. The lower 2017 income tax benefit compared to 2016 primarily relates to lower acquisition related amortization expenses and lower state income taxes offset by an increase in tax reserves, and an increase in taxable foreign profits in certain jurisdictions. Because of the Company's U.S. operating loss in 2018, significant loss carryforward position, and corresponding valuation allowance in all years, the Company has not been subject to federal or state tax on the Company's U.S. income because of the availability of loss carryforwards. If these losses and other tax attributes become fully utilized, the Company's taxes will increase significantly to a more normalized, expected rate on U.S. earnings. The release of transfer pricing reserves in the future will have a beneficial impact to tax expense, but the timing of the impact depends on factors such as expiration of the statute of limitations or settlements with tax authorities.

On December 22, 2017, the Tax Act was signed into law. The Tax Act significantly revises the U.S. corporate income tax regime by, among other things, lowering the federal corporate income tax rate from 35% to 21% effective January 1, 2018, while also imposing a repatriation tax on deemed repatriated earnings of the Company's foreign subsidiaries in 2017, and implementing a quasi-territorial tax system on future foreign earnings.

The Tax Act created the global intangible low-taxed income ("GILTI") provision, beginning in 2018. The GILTI provision requires that certain income earned by foreign subsidiaries must be included currently in the gross income of the foreign subsidiaries U.S. shareholder. Under U.S. GAAP, the Company is allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). The Company has elected to account for the tax using the period cost method. The Company had no GILTI impacts for 2018 given the foreign subsidiaries' losses.

On December 22, 2017, SAB 118 was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company determined an adjustment to deferred tax assets, along with a corresponding adjustment to valuation allowance, was needed. The adjustment resulted in no tax expense impact in connection with the re-measurement of certain deferred tax assets and liabilities from 35% to 21%. Additionally, the Company provisionally recorded no tax expense in connection with the transition tax on the mandatory deemed repatriation

**INFINERA CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

of foreign earnings, based upon an aggregate tax loss of its foreign subsidiaries for the year ended December 30, 2017. The Company finalized its accounting for the re-measurement of deferred tax balances and transition tax with no adjustment to income tax expense for the year ended December 29, 2018.

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows, reduced by the effects of the change in the U.S. corporate tax rate from 35% to 21%, as applicable (in thousands):

	Years Ended	
	December 29, 2018	December 30, 2017
Deferred tax assets:		
Net operating losses .....	\$ 257,928	\$ 66,122
Research and foreign tax credits .....	221,943	74,434
Nondeductible accruals .....	50,312	28,801
Inventory valuation .....	39,430	29,197
Property, plant and equipment .....	2,591	1,919
Intangible assets .....	—	3
Stock-based compensation .....	4,825	6,325
Total deferred tax assets .....	<u>\$ 577,029</u>	<u>\$ 206,801</u>
Valuation allowance .....	(493,157)	(205,241)
Net deferred tax assets .....	<u>\$ 83,872</u>	<u>\$ 1,560</u>
Deferred tax liabilities:		
Accrual and reverse - lease .....	(16,802)	—
Depreciation .....	(199)	(67)
Accruals, reserves and prepaid expenses .....	(784)	(1,154)
Acquired intangible assets .....	(49,406)	(20,348)
Convertible senior notes .....	(29,419)	(1,191)
Total deferred tax liabilities .....	<u>\$ (96,610)</u>	<u>\$ (22,760)</u>
Net deferred tax liabilities .....	<u>\$ (12,738)</u>	<u>\$ (21,200)</u>

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company must consider all positive and negative evidence, including the Company's forecasts of taxable income over the applicable carryforward periods, its current financial performance, its market environment, and other factors in evaluating the need for a full or partial valuation allowance against its net U.S. deferred tax assets. Based on the available objective evidence, management believes it is not more likely than not that the domestic net deferred tax assets will be realizable in the foreseeable future. Accordingly, the Company has provided a full valuation allowance against its domestic deferred tax assets, net of deferred tax liabilities, as of December 29, 2018 and December 30, 2017. To the extent that the Company determines that deferred tax assets are realizable on a more likely than not basis, and an adjustment is needed, that adjustment will be recorded in the period that the determination is made and would generally decrease the valuation allowance and record a corresponding benefit to earnings.

As of December 29, 2018, the Company has net operating loss carryforwards of approximately \$592.7 million for federal tax purposes, \$356.0 million for Luxembourg tax purposes, \$57.4 million for Finland tax purposes, \$495.0 million for other state tax purposes, with material state net operating loss carryforwards being \$111.6 million for California tax purposes and \$55.6 million for Illinois. The carryforward balance reflects

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

expected generation of both federal and state net operating losses for the year ended December 29, 2018. Federal net operating loss carryforwards generated before 2018 will begin to expire in 2027 while certain unutilized California losses have expired in 2017. Additionally, the Company has federal research and development, foreign tax credits, and federal low income housing credit, and California research and development credits available to reduce future income taxes payable of approximately \$179.6 million and \$60.3 million, respectively, as of December 29, 2018. Infinera Canada Inc., an indirect wholly owned subsidiary, has Scientific Research and Experimental Development Expenditures (“SRED”) credits available of \$2.3 million to offset future Canadian income tax payable as of December 29, 2018. Coriant Portugal has research and investment tax credits so-called, SIFIDE, of \$5.3 million to offset future Portugal's income tax payable as of December 29, 2018. Federal credits will begin to expire in the year 2022 if not utilized and California research credits have no expiration date. Canadian SRED credits will begin to expire in the year 2032 if not fully utilized. Portugal SIFIDE credits will begin to expire in the year 2021.

Under the Tax Reform Act of 1986, the amount of benefit from net operating loss and tax credit carryforwards may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50 percent as defined over a three-year testing period. As of December 29, 2018, the Company had determined that while ownership changes had occurred in the past, the resulting limitations were not significant enough to impact the utilization of the tax attributes against its taxable profits earned to date.

Prior to the enactment of the Tax Act, the Company's policy with respect to undistributed foreign subsidiaries' earnings was to consider those earnings to be indefinitely reinvested. Under the Tax Act, undistributed earnings of foreign subsidiaries are deemed to be repatriated for U.S. corporate tax purposes and a one-time toll tax at a reduced U.S. corporate tax rate was applicable in 2017. However, because of the aggregated net tax loss of the Company's foreign subsidiaries, no tax was accruable in 2017. If and when funds are actually distributed in the form of dividends or otherwise, foreign withholding taxes may be applicable in some jurisdictions. The Company's policy with respect to certain undistributed foreign subsidiaries' earnings is to continue to consider those earnings to be indefinitely reinvested and therefore the Company has not accrued such withholding taxes.

The aggregate changes in the balance of gross unrecognized tax benefits were as follows (in thousands):

	December 29, 2018	December 30, 2017	December 31, 2016
Beginning balance .....	\$ 19,786	\$ 22,282	\$ 19,130
Tax position related to current year .....			
Additions .....	2,296	2,234	2,548
Tax positions related to prior years .....			
Additions .....	2,981	—	1,292
Reductions .....	(40)	(4,728)	—
Lapses of statute of limitations .....	(406)	(2)	(688)
Ending balance .....	<u>\$ 24,617</u>	<u>\$ 19,786</u>	<u>\$ 22,282</u>

As of December 29, 2018, the cumulative unrecognized tax benefit was \$24.6 million, of which \$21.3 million was netted against deferred tax assets that would have otherwise been subjected with a full valuation allowance. Of the total unrecognized tax benefit as of December 29, 2018, approximately \$3.3 million, if recognized, would impact the Company's effective tax rate.

As of December 29, 2018, December 30, 2017 and December 31, 2016, the Company had \$1.2 million, \$0.7 million and \$0.5 million, respectively, of accrued interest or penalties related to unrecognized tax benefits, of which less than \$0.2 million was included in the Company's provision for income taxes in each of the years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively. The Company's policy is

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

to include interest and penalties related to unrecognized tax benefits within the Company's provision for income taxes.

The Company is potentially subject to examination by the Internal Revenue Service and the relevant state income taxing authorities under the statute of limitations for years 2002 and forward.

The Company has received assessments of tax resulting from transfer pricing examinations in India for most years in the range of fiscal years ending March 2005 through March 2015. While some of the assessment years have been settled with no change from the original tax return position, the Company intends to appeal all remaining assessment years, and does not expect a significant adjustment to unrecognized tax benefits as a result of these inquiries. The Company believes that the resolution of these disputed issues will not have a material impact on its financial statements.

Included in the balance of income tax liabilities, accrued interest and penalties at December 28, 2018 is \$0.2 million related to tax positions for which it is reasonably possible that the statute of limitations will expire in various jurisdictions within the next twelve months.

**17. Segment Information**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Company's Chief Executive Officer ("CEO"). The Company's CEO reviews financial information presented on a consolidated basis, accompanied by information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. The Company has one business activity as a provider of optical transport networking equipment, software and services. Accordingly, the Company is considered to be in a single reporting segment and operating unit structure.

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

**Property, plant and equipment, net**

	<b>December 29, 2018</b>	<b>December 30, 2017</b>
United States .....	\$ 288,614	\$ 128,582
Other Americas .....	2,370	661
Europe, Middle East and Africa .....	38,273	3,527
Asia Pacific and Japan .....	13,563	3,172
Total property, plant and equipment, net .....	<u>\$ 342,820</u>	<u>\$ 135,942</u>

**18. Employee Benefit and Pension Plans**

***Defined Contribution Plans***

The Company has established a savings plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). As allowed under Section 401(k) of the Internal Revenue Code, the 401(k) Plan provides tax-deferred salary contributions for eligible U.S. employees. Employee contributions are limited to a maximum annual amount as set periodically by the Internal Revenue Code. The Company made voluntary cash contributions and matched a portion of employee contributions of \$2.3 million, \$2.2 million and \$2.1 million for 2018, 2017 and 2016, respectively. Expenses related to the 401(k) Plan were insignificant for each of the years 2018, 2017 and 2016.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

In connection with the Company's acquisition of Transmode during the third quarter of 2015, the Company has an ITP pension plan covering its Swedish employees. Commitments for old-age and survivors' pension for salaried employees in Sweden are vested through an insurance policy. Expenses related to the ITP pension plan were \$2.8 million for 2018, \$3.3 million for 2017 and \$2.6 million for 2016.

The Company also provides defined contribution plans in certain foreign countries where required by local statute or at the Company's discretion. For the year ended December 29, 2018, the Company had \$2.5 million related to post-retirement costs.

**Pension Plans**

**Pension and Post-Retirement Benefit Plans**

As a result of the Acquisition during the fourth quarter of 2018, the Company acquired a number of post-employment plans in Germany, as well as a number of smaller post-employment plans in other countries, including both defined contribution and defined benefit plans. The defined benefit plans expose the Company to actuarial risks such as, investment risk, interest rate risk, life expectancy risk and salary risk. The characteristics of the defined benefit plans and the risks associated with them vary depending on legal, fiscal, and economic requirements.

**Obligations and Funded Status**

The following table sets forth the changes in benefits obligations and the fair value of plan assets of the Company's benefit plans (in thousands):

	<b>December 29, 2018</b>
<b>Benefit obligation as of Acquisition Date</b> .....	<u>\$ 106,474</u>
Service cost .....	466
Interest cost .....	512
Benefits paid .....	(194)
Actuarial loss .....	236
Foreign currency exchange rate changes .....	(2,870)
<b>Benefit obligation at December 29, 2018<sup>(1)</sup></b> .....	<u>\$ 104,624</u>
<b>Fair value of plan assets as of Acquisition Date</b> .....	<u>\$ 69,614</u>
Actual return on plan assets .....	653
Actuarial loss .....	(5,319)
Foreign currency exchange rate changes .....	(1,884)
<b>Fair value of plan assets at December 29, 2018</b> .....	<u>\$ 63,064</u>
<b>Net liability recognized</b> .....	<u>\$ 41,560</u>

<sup>(1)</sup> The Company's accumulated benefit obligation was \$100.2 million at December 29, 2018.

The net liability is included in the line item other long-term liabilities in the Company's consolidated balance sheets.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table presents net amounts of non-current assets and current and non-current liabilities for the Company's pension and other post-retirement benefit plans recognized on its consolidated balance sheet (in thousands):

	<b>December 29, 2018</b>
Other non-current assets .....	\$ 63,064
Current liabilities .....	(901)
Other long-term liabilities .....	(103,723)
Net liability recognized .....	\$ (41,560)

**Components of Net Periodic Benefit Cost**

Net periodic benefit cost for the Company's pension and other post-retirement benefit plans for the Acquisition Date through December 29, 2018 consisted of the following (in thousands):

Service cost .....	\$ 466
Interest cost .....	512
Expected return on plan assets .....	(653)
Amortization of actuarial loss .....	234
Total net periodic benefit cost .....	\$ 559

Actuarial gains and losses are amortized using a corridor approach. The gain/loss corridor is equal to 10% of the greater of the pension benefit obligation and the market-related value of assets. Gains and losses in excess of the corridor are generally amortized over the average future working lifetime of the pension plan participants. All components of net periodic benefit cost are recorded in operating expense of the Company's consolidated statements of operations.

The following table sets forth the changes in accumulated other comprehensive income for the Company's benefit plans (pre-tax) (in thousands):

	<b>December 29, 2018</b>
Beginning balance as of Acquisition Date .....	\$ —
Net actuarial loss arising in current year .....	(5,562)
Amortization of net actuarial loss <sup>(1)</sup> .....	234
Foreign currency translation gain .....	15
Ending balance .....	\$ (5,313)

<sup>(1)</sup> The actuarial loss in for the year ended December 29, 2018 was caused primarily by the change in the discount rate. Amounts in accumulated other comprehensive income expected to be recognized as components of net periodic pension cost during fiscal year 2019 is \$1.7 million (pre-tax).

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Assumptions**

Certain weighted-average assumptions used in computing the benefit obligations are as follows:

	<u>December 29, 2018</u>
Discount rate .....	2.07%
Salary growth rate .....	2.25%
Pension growth rate .....	2.00%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published German statistics and experience. These assumptions translate into an average remaining life expectancy in years for a pensioner retiring at age 65:

	<u>2019 Life Expectancy</u>
Retiring at the end of the reporting period .....	20.5
Male .....	20.0
Female .....	23.6

**Investment Policy**

The financial position of the Company's funded status is the difference between the fair value of plan assets and projected benefit obligations. Volatility in funded status occurs when asset values change differently from liability values and can result in fluctuations in costs in financial reporting. The Company's investment policies and strategies are designed to increase the rate of assets to plan liabilities at an appropriate level of funded status volatility. Asset allocation decisions are recommended by the trustees for the specific plan and agreed to by the Company's management. Investment objectives are designed to generate returns that will enable the plan to meet its future obligations. The Company's management reviews the investment strategy and performance semi-annually and discuss alternatives to manage volatility.

**Basis for Expected Long-Term Rate of Return on Plan Assets**

The expected long-term rate of return on plan assets reflects the expected returns for each major asset class in which the plan invests and the weight of each asset class in the target mix. Expected asset returns reflect the current yield on government bonds, risk premiums for each asset class and expected real returns which considers each country's specific inflation outlook. The expected return is set using a low to medium risk profile and to meet the market expectations over a longer period of time to meet the obligations in the future.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Fair Value of Plan Assets**

The following tables present the fair value of plan assets for pension and other benefit plans by major asset category as of December 29, 2018 (in thousands).

	As of December 29, 2018		
	Fair Value Measured Using		
	Level 1	Level 2	Total
Cash .....	\$ 686	\$ —	\$ 686
Equity fund .....	—	32,513	32,513
Insurance contracts .....	—	24,852	24,852
Mixed fund .....	—	4,114	4,114
Pension fund .....	—	899	899
Total plan assets at fair value .....	\$ 686	\$ 62,378	\$ 63,064

*Valuation Techniques*

The following describes the valuation techniques used to measure the fair value of the assets shown in the table above. Equity funds are invested in traded securities and are recorded at market value as of the balance sheet date. Insurance contracts are recorded at cash surrender value of the policies. Mixed fund and pension fund are valued at the amounts as provided by the insurance companies who manage the funds and represent fair market value at the date of the balance sheet.

*Transfers Between Levels*

Any transfers between levels in the fair value hierarchy are recognized as of the end of the reporting period. No material transfers between levels occurred from the Acquisition Date through December 29, 2018.

**Future Contributions**

In fiscal year 2019, the Company does not expect to make any contributions to its pension and post-retirement benefit plans.

**Cash Flows**

Estimated future benefit payments under the Company's pension plans as of December 29, 2018 are as follows (in thousands):

2019 .....	\$ 2,660
2020 .....	\$ 2,579
2021 .....	\$ 3,911
2022 .....	\$ 4,284
2023 .....	\$ 3,667
2024 to 2027 .....	\$ 20,954

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**19. Financial Information by Quarter (Unaudited)**

The following table sets forth the Company's unaudited quarterly consolidated statements of operations data for 2018 and 2017. The data has been prepared on the same basis as the audited consolidated financial statements and related notes included in this report. The table includes all necessary adjustments, consisting only of normal recurring adjustments that the Company considers necessary for a fair presentation of this data.

	For the Three Months Ended (Unaudited)							
	2018				2017			
	Dec. 29	Sep. 29	Jun. 30	Mar. 31	Dec. 30	Sep. 30	Jul. 1	Apr. 1
	(In thousands, except per share data)							
Revenue:								
Product .....	\$ 249,608	\$ 167,030	\$ 175,288	\$ 171,629	\$ 160,543	\$ 159,579	\$ 143,360	\$ 147,053
Services .....	82,450	33,383	32,939	31,052	35,273	33,001	33,461	28,469
Total revenue .....	<u>332,058</u>	<u>200,413</u>	<u>208,227</u>	<u>202,681</u>	<u>195,816</u>	<u>192,580</u>	<u>176,821</u>	<u>175,522</u>
Cost of revenue:								
Cost of product <sup>(1)</sup> .....	197,251	112,276	105,914	102,324	110,512	106,413	95,267	94,452
Cost of services .....	39,409	13,075	13,039	12,831	13,708	12,951	11,687	12,134
Amortization of intangible assets <sup>(1)</sup> .....	8,315	4,876	4,943	5,341	5,169	5,390	5,035	4,880
Restructuring and related .....	2,580	7	26	17	19,141	—	—	—
Total cost of revenue .....	<u>247,555</u>	<u>130,234</u>	<u>123,922</u>	<u>120,513</u>	<u>148,530</u>	<u>124,754</u>	<u>111,989</u>	<u>111,466</u>
Gross profit .....	84,503	70,179	84,305	82,168	47,286	67,826	64,832	64,056
Operating expenses .....	198,728	95,337	105,924	106,846	117,793	102,074	105,337	101,883
Loss from operations .....	(114,225)	(25,158)	(21,619)	(24,678)	(70,507)	(34,248)	(40,505)	(37,827)
Other income (expense), net .....	(19,231)	(7,317)	(443)	(2,280)	(4,449)	(2,772)	(2,846)	(2,782)
Loss before income taxes .....	(133,456)	(32,475)	(22,062)	(26,958)	(74,956)	(37,020)	(43,351)	(40,609)
Provision for (benefit from) income taxes .....	12	135	(124)	(678)	(971)	211	(512)	(158)
Net loss .....	<u><u>\$(133,468)</u></u>	<u><u>\$(32,610)</u></u>	<u><u>\$(21,938)</u></u>	<u><u>\$(26,280)</u></u>	<u><u>\$(73,985)</u></u>	<u><u>\$(37,231)</u></u>	<u><u>\$(42,839)</u></u>	<u><u>\$(40,451)</u></u>
Net loss per common share								
Basic .....	<u><u>\$ (0.76)</u></u>	<u><u>\$ (0.21)</u></u>	<u><u>\$ (0.14)</u></u>	<u><u>\$ (0.17)</u></u>	<u><u>\$ (0.50)</u></u>	<u><u>\$ (0.25)</u></u>	<u><u>\$ (0.29)</u></u>	<u><u>\$ (0.28)</u></u>
Diluted .....	<u><u>\$ (0.76)</u></u>	<u><u>\$ (0.21)</u></u>	<u><u>\$ (0.14)</u></u>	<u><u>\$ (0.17)</u></u>	<u><u>\$ (0.50)</u></u>	<u><u>\$ (0.25)</u></u>	<u><u>\$ (0.29)</u></u>	<u><u>\$ (0.28)</u></u>

<sup>(1)</sup> Prior periods have been adjusted to conform with the current period's presentation. See Note 1, "Organization and Basis of Presentation" to the Notes to Consolidated Financial Statements for additional information.

The Company operates and reports financial results on a fiscal year of 52 or 53 weeks ending on the last Saturday of December in each year. Accordingly, fiscal years 2018 and 2017 were 52-week years that ended on December 29, 2018 and December 30, 2017, respectively. Fiscal year 2016 was a 53-week year that ended on December 31, 2016. The quarters for fiscal years 2018 and 2017 were 13-week quarters, and the quarters for fiscal year 2016 were 13-week quarters, except the last quarter was a 14-week quarter.

Effective December 31, 2017, the Company adopted Topic 606, using the modified retrospective method applied to those contracts that were not completed as of December 31, 2017. Results for the reporting periods after December 31, 2017 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historical accounting under Topic 605.

As a result of the 2017 Restructuring Plan implemented during the fourth quarter of 2017, the Company incurred charges of \$19.1 million within cost of revenue, including inventory write-downs of \$13.6 million, manufacturing equipment impairments of \$4.0 million, and severance related charges of \$1.5 million. Within

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

operating expenses, the Company recorded charges of \$16.1 million, including \$7.9 million of severance related costs, \$7.3 million of facilities impairment costs and test equipment impairments of \$0.9 million.

During the fourth quarter of 2017, the carrying amount of the Company's non-marketable equity securities exceeded its fair value and the decline in value was determined to be other-than-temporary. As a result, the Company recorded an impairment charge of \$1.9 million during this period.

During the third and fourth quarters of 2018, the Company determined that its non-marketable equity securities were impaired, resulting in impairment charges of \$4.3 million and \$0.8 million, respectively, to adjust the carrying value to estimated fair value.

During the fourth quarter of 2018, the Company completed the Acquisition, which was accounted for as a business combination, and accordingly, the Company has consolidated the financial results of Coriant with its financial results for the period from the Acquisition Date through December 31, 2018. For more information, see Note 6, "Business Combination" to the Notes to Consolidated Financial Statements.

As a result of the 2018 Restructuring Plan implemented during the fourth quarter of 2018, the Company incurred charges of \$1.6 million within cost of revenue associated with severance-related costs. Within operating expenses, the Company recorded restructuring charges of \$10.8 million, including \$8.6 million of severance-related costs, \$1.9 million of asset impairment costs and \$0.3 million of facilities-related costs. For more information on the Company's restructuring plans, see Note 9, "Restructuring and Other Related Costs" to the Notes to Consolidated Financial Statements.

Additionally, during the fourth quarter of 2018, the Company incurred charges of \$1.0 million within cost of revenue associated with severance-related costs related to Coriant's previous restructuring and reorganization plans, which the Company assumed with the Acquisition.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), which are required in accordance with Rule 13a-14 of the Exchange Act. This "Controls and Procedures" section includes information concerning the internal controls and controls evaluation referred to in the certifications.

**Evaluation of Disclosure Controls and Procedures**

An evaluation was performed by our management, with the participation of our CEO and our CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our CEO and CFO concluded that, as of December 29, 2018, our disclosure controls and procedures are effective.

## **Inherent Limitations on Effectiveness of Controls**

Our management, including the CEO and CFO, does not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in business conditions or deterioration in the degree of compliance with policies or procedures.

## **Changes in Internal Control over Financial Reporting**

During the fourth quarter of fiscal 2018, we made changes to internal control over financial reporting related to the valuation of used service and support inventory as well as the reserve methodology for excess service and support inventory. These changes included updates to our service inventory reserve methodology and the addition of a new internal control related to the valuation of used service inventory.

## **Management's Report on Internal Control Over Financial Reporting**

Our management, with the participation of our CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

Management assessed the effectiveness of our internal control over financial reporting as of December 29, 2018, the end of our fiscal year. Management based its assessment on the framework established in the 2013 *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO framework"). Management's assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed by our internal audit and finance personnel utilizing the 2013 COSO framework.

As discussed in Note 6, "Business Combination" to the Notes to Consolidated Financial Statements, we completed the business combination of Coriant on October 1, 2018. We have excluded Coriant from our assessment of the effectiveness of our internal control over financial reporting as of December 29, 2018. In accordance with guidance issued by the SEC, companies are permitted to exclude business combinations from their final assessment of internal control over financial reporting during the year of acquisition while integrating the acquired operations. The acquired business represented approximately 15% of consolidated net revenue for the year ended December 29, 2018, approximately 44% of consolidated total assets and 36% of consolidated net assets (excluding goodwill and acquired intangibles) as of December 29, 2018.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of our fiscal year 2018 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. GAAP.

The effectiveness of our internal control over financial reporting as of the end of fiscal year 2018 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report, which is included elsewhere herein.

## **ITEM 9B. OTHER INFORMATION**

None.

### PART III

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K. For information pertaining to our executive offers, refer to the section entitled “Executive Officers” in Part 1, Item 1 of this Annual Report on Form 10-K.

As part of our system of corporate governance, our board of directors has adopted a code of business conduct and ethics. The code applies to all of our employees, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions), agents and representatives, including our independent directors and consultants, who are not employees of Infinera, with regard to their Infinera-related activities. The full text of our code of business conduct and ethics is posted on our web site at <http://www.infinera.com>. We intend to disclose future amendments to certain provisions of our code of business conduct and ethics, or waivers of such provisions, applicable to any principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions or our directors on our web site identified above. The inclusion of our web site address in this report does not include or incorporate by reference the information on our web site into this report.

#### **ITEM 11. EXECUTIVE COMPENSATION**

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

#### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.



## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

#### (a)(1) Consolidated Financial Statements

This Annual Report on Form 10-K contains the following financial statements which appear under Part II, Item 8 of this Form 10-K on the pages noted below:

	Page
Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm .....	64
Consolidated Balance Sheets .....	67
Consolidated Statements of Operations .....	68
Consolidated Statement of Comprehensive Income (Loss) .....	69
Consolidated Statements of Stockholders' Equity .....	70
Consolidated Statements of Cash Flows .....	72
Notes to Consolidated Financial Statements .....	74

#### (a)(2) Financial Statement Schedule

#### Schedule II: Valuation and Qualifying Accounts

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
	(In thousands)		
<b>Deferred tax asset, valuation allowance</b>			
Beginning balance .....	\$ 205,241	\$ 200,476	\$ 169,240
Additions .....	355,166	31,759	31,913
Reductions .....	(67,250)	(26,994)	(677)
Ending balance .....	\$ 493,157	\$ 205,241	\$ 200,476
<b>Allowance for doubtful accounts</b>			
Beginning balance .....	\$ 892	\$ 772	\$ 630
Additions .....	929	138	772
Additions due to the Acquisition .....	3,263	—	—
Reductions .....	—	(18)	(630)
Ending balance .....	\$ 5,084	\$ 892	\$ 772

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the consolidated financial statements or notes thereto.

#### (a)(3) Exhibits.

See Index to Exhibits. The Exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this Annual Report on Form 10-K.

### ITEM 16. FORM 10-K SUMMARY

None.

## INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
2.1	Unit Purchase Agreement by and among Infinera Corporation, Coriant Investor LLC and Oaktree Optical Holdings, L.P., dated July 23, 2018, incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K/A (No. 001-33486), filed with the SEC on July 27, 2018.
3.1	Amended and Restated Certificate of Incorporation, incorporated herein by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on June 12, 2007.
3.2	Amended and Restated Bylaws, incorporated herein by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on February 29, 2016.
4.1	Form of Common Stock Certificate, incorporated herein by reference to Exhibit 4.1 of the Registrant's Form S-1/A (No. 333-140876), filed with the SEC on April 27, 2007.
4.2	Base Indenture, dated as of September 11, 2018, by and between Infinera Corporation and U.S. Bank National Association, incorporated herein by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on September 12, 2018.
4.3	First Supplemental Indenture, dated as of September 11, 2018, by and between Infinera Corporation and U.S. Bank National Association, incorporated herein by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on September 12, 2018.
4.4	Form of 2.125% Convertible Senior Notes due 2024 (included in Exhibit 4.3 hereto).
10.1*	Form of Indemnification Agreement between Registrant and each of its directors and executive officers, incorporated herein by reference to Exhibit 10.1 of the Registrant's Form S-1 (No. 333-140876), filed with the SEC on February 26, 2007.
10.2*	2007 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.3 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on February 18, 2015.
10.3*	Infinera Corporation Amended and Restated 2007 Employee Stock Purchase Plan, incorporated herein by reference to Exhibit 10.1 of the Registrant's Form S-8 (No. 333-225887), filed with the SEC on June 26, 2018.
10.4*	Form of Amended and Restated 2007 Employee Stock Purchase Plan Global Subscription Agreement, incorporated herein by reference to Exhibit 10.2 of the Registrant's Form S-8 (No. 333-225887), filed with the SEC on June 26, 2018.
10.5*	Bonus Plan, incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on 8-K (No. 001-33486), filed with the SEC on February 14, 2011.
10.6*	Form of Section 16 Officer Restricted Stock Unit Agreement under the 2007 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.7 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on February 18, 2015.
10.7*	Form of Section 16 Officer Performance Share Agreement under the 2007 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.8 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on February 18, 2015.
10.8*	Form of Director Restricted Stock Unit Agreement under the 2007 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on February 18, 2015.
10.9*	Form of Stock Option Agreement under the 2007 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q (No. 001-33486), filed with the SEC on May 5, 2010.
10.10*	Form of Chief Executive Officer Amended and Restated Change of Control Severance Agreement, incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on February 22, 2018.
10.11*	Form of Section 16 Officer Amended and Restated Change of Control Severance Agreement, incorporated herein by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on February 22, 2018.
10.12*	Executive Clawback Policy, incorporated herein by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on January 17, 2013.
10.13*	Executive Severance Policy, incorporated herein by reference to Exhibit 10.19 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on February 18, 2015.

<b>Exhibit No.</b>	<b>Description</b>
10.14*	Infinera Corporation Amended and Restated 2016 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on May 31, 2018.
10.15*	Form of Notice of Grant of Restricted Stock Units under the Amended and Restated 2016 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.4 of the Registrant's Form S-8 (No. 333-225887), filed with the SEC on June 26, 2018.
10.16*	Form of Notice of Grant of Restricted Stock Units for Directors under the 2016 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on May 17, 2016.
10.17*	Form of Notice of Grant of Performance Shares under the 2016 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on May 17, 2016.
10.18	Underwriting Agreement, dated as of September 6, 2018, by and between Infinera Corporation and Morgan Stanley & Co. LLC, as manager of the underwriter named therein, incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on September 12, 2018.
10.19	Form of Capped Call Confirmation, incorporated herein by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on September 12, 2018.
21.1	Subsidiaries.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.

\*\* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Securities Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 14, 2019

### Infinera Corporation

By:                                 /s/ BRAD D. FELLER                                  
**Brad D. Feller**  
**Chief Financial Officer**  
**Principal Financial and Accounting Officer**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas J. Fallon and Brad D. Feller, and each of them individually, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Name and Signature</u>	<u>Title</u>	<u>Date</u>
<u>          /s/ THOMAS J. FALLON          </u> <b>Thomas J. Fallon</b>	Chief Executive Officer, Principal Executive Officer and Director	March 14, 2019
<u>          /s/ BRAD D. FELLER          </u> <b>Brad D. Feller</b>	Chief Financial Officer, Principal Financial and Accounting Officer	March 14, 2019
<u>          /s/ DAVID F. WELCH, PH.D.          </u> <b>David F. Welch, Ph.D.</b>	Co-founder, Chief Innovation Officer and Director	March 14, 2019
<u>          /s/ KAMBIZ Y. HOOSHMAND          </u> <b>Kambiz Y. Hooshmand</b>	Chairman of the Board	March 14, 2019
<u>          /s/ JOHN P. DAANE          </u> <b>John P. Daane</b>	Director	March 14, 2019
<u>          /s/ GREG P. DOUGHERTY          </u> <b>Greg P. Dougherty</b>	Director	March 14, 2019
<u>          /s/ MARCEL GANI          </u> <b>Marcel Gani</b>	Director	March 14, 2019
<u>          /s/ PAUL J. MILBURY          </u> <b>Paul J. Milbury</b>	Director	March 14, 2019
<u>          /s/ RAJAL M. PATEL          </u> <b>Rajal M. Patel</b>	Director	March 14, 2019
<u>          /s/ MARK A. WEGLEITNER          </u> <b>Mark A. Wagleitner</b>	Director	March 14, 2019

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE  
ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Thomas J. Fallon, certify that:

1. I have reviewed this Annual Report on Form 10-K of Infinera Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 14, 2019

By: \_\_\_\_\_  
/s/ THOMAS J. FALLON  
**Thomas J. Fallon**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE  
ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Brad D. Feller, certify that:

1. I have reviewed this Annual Report on Form 10-K of Infinera Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 14, 2019

By: \_\_\_\_\_ /s/ BRAD D. FELLER  
**Brad D. Feller**  
**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**

**INFINERA CORPORATION**  
**Written Statement of Chief Executive Officer**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Thomas J. Fallon, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended, that, to my knowledge on the date hereof:

- (a) the Annual Report on Form 10-K of Infinera Corporation for the year ended December 29, 2018 (the "Annual Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Infinera Corporation.

Date: March 14, 2019

/s/ THOMAS J. FALLON

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**Thomas J. Fallon**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Infinera Corporation and will be retained by Infinera Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

This certification "accompanies" the Annual Report on Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Annual Report on Form 10-K), irrespective of any general incorporation language contained in such filing.



**INFINERA CORPORATION**  
**Written Statement of Chief Financial Officer**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Brad D. Feller, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended, that, to my knowledge on the date hereof:

- (a) that the Annual Report on Form 10-K of Infinera Corporation for the year ended December 29, 2018 (the "Annual Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Infinera Corporation.

Date: March 14, 2019

/s/ BRAD D. FELLER

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**Brad D. Feller**  
**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Infinera Corporation and will be retained by Infinera Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

This certification "accompanies" the Annual Report on Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Annual Report on Form 10-K), irrespective of any general incorporation language contained in such filing.