PARTICIPANTS

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Thomas J. Fallon – President & Chief Executive Officer
Ita M. Brennan – Chief Financial Officer
David F. Welch – Director, Chief Marketing & Strategy Officer

Other Participants

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Thomas D. Lee – Research Analyst, Goldman Sachs & Co.
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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the first quarter 2011 Investment community conference call for Infinera Corporation. All lines will be in a listen-only mode until the question-and-answer session. [Operator instructions] Today's call is being recorded. If you have any objections, please disconnect at this time.

I would now like to turn the call over to Mr. Bob Blair of Infinera Investor Relations. Sir, you may begin.

Robert Blair, Head-Investor Relations

Thank you.

Today's call will include projections and estimates that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements address the financial condition, results of operations, business initiatives, views on our market and customers, on our products and our competitor's products and prospects of the company in Q2 2010 and beyond and are subject to risks and uncertainties that could cause actual results to materially differ from such forward-looking statements.

Please refer to the company's current press releases and SEC filings including the company's annual report on Form 10-K filed on March 1, 2011 for more information on these risks and uncertainties. Today's press releases including Q1 2011 results and associated financial tables and investor information summary will be available today on the Investors section of Infinera's Website. The company undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this call.

This afternoon's press release and today's conference call also includes certain non-GAAP financial measures. In our earnings release, we announced operating results for the first quarter of 2011, which exclude the impact of restructuring and other related costs and non-cash stock-based compensation expenses. These non-GAAP financial measures are provided to facilitate meaningful year-over-year comparisons. Please see the exhibit of the earnings press table – press release for a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures and an explanation of why these non-GAAP financial measures are useful and how they are used by management.

On this call, we'll also give guidance including guidance for the second quarter of 2011. We have excluded non-cash stock-based compensation expenses from this guidance, because we cannot readily estimate the impact of our future stock price on our future stock-based compensation expenses.

I will now turn the call over to Infinera's President and Chief Executive Officer, Tom Fallon.

Thomas J. Fallon, President & Chief Executive Officer

Good afternoon and thanks for joining us. With me our Chief Strategy Officer, Dave Welch and CFO Ita Brennan.

Our first quarterly results reflect stable bandwidth demand from our terrestrial and subsea customers, evidenced by strong TAM purchases in the quarter.

However, we saw slower new footprint activity in Q1 versus a year ago and certain of our customers and prospects await the introduction of our new higher capacity products later this year and some of them opted for competitive 40 G solutions in the interim on a tactical basis. While our reputation for customer care, high quality and rapid turn up are assuring customer royalty. Our ability to compete for certain capacity sensitive opportunities is impaired by our current lack of a high fiber capacity solution.

In order to address our customers' interim need for 40 G transmission, an advance of the roll out of our 500 gig PIC-base system for 100 G transmission will be introducing our 40 G products in the third quarter. The introduction of this product will enable our DTN System to offer 6.4 terabytes of capacity on a fiber, which we believe will be up to two times the capacity of most competitive offerings in the market.

It is also important to note that we continue to grow the number of network customers, customers who are buying a multi-product Infinera solution. This includes customers deploying either a combination of long haul or metro application from us or combination of terrestrial and sub-sea applications. At the end of Q1 we have had 26 such network customers out of a total of 86 customers worldwide. An important trend as network customers have made a more significant Infinera architectural commitment. We believe we are earning network customers because our portfolio deliver important end-to-end benefits such as simplified network management, improved CapEx through efficient interconnect and improved end-user experience by integrating provisioning and performance monitoring.

In the metro we continued to build additional features and capabilities into our ATN platform and in the second quarter, we will add Ethernet aggregation functionality.

Turning to the optical transport industry. We are in the early stages of a series of significant and complex transitions. We believe the changes create a unique opportunity to successfully launch new products and new architectures, because customers are looking for more efficient and cost effective ways to grow and manage our future networks and to complete for new business. One of the most important of these transitions is the move to higher bit rate transmission, specifically from 10 to 100 G. These higher bit rates are necessitated by the need to increase the carrier's capacity per fiber.

However, this move does raise issues for carrier regarding network economics, both on the cost per bit of transmission and in avoiding the inherent inefficiency of stranded bandwidth when service capacity and wavelength capacity are mismatched in conventional transponder based optical networks.

A second important trend is the move toward converging the layers of the network. The co-ax optical transport and switching into a single platform.

This shift is consistent with Infinera's founding vision for the digital optical network. One of the primary drivers for the move to a conversion network is the ability to deliver router bypass to manage more of the carrier's traffic at the optical layer instead of the traditional and more expensive Router layer. Wider use in the network of intelligent optical switching solutions and bandwidth virtualization allow for a significant reduction in the need for router ports in the core.

These innovative architectural transitions have been publically promoted by many large carriers as well as a number of contents providers because they significantly improve the cost structure of the core network while providing a simplified and scalable architecture. This is an architecture that Infinera customers already have benefited from in our DTN and an integrated OTN switching and optical transport platform.

Infinera is well positioned to benefit from both of these industry transitions and they help accelerate the migration to the next generation higher capacity more intelligent networks.

We believe that our Digital Optical Network architecture based on large-scale PICs enables us to integrate higher bit rates and advanced digital switching functionality more easily and more cost effectively than any traditional solutions based on discrete components. With OTN switching integrated into our DTN since 2004, we are already familiar with and well known to customers for pervasive integrated DWDM switching.

Further, we believe that Infinera offers lowest cost technology for the interconnection of the switching capabilities. By offering a 500 gig PIC based transceiver technology, Infinera will lead the industry with five times the line card capacity of conventional transponder architecture. We feel confident that we are brining our new solutions particularly our 500 gig PIC based system to the market at just the right time to both benefit from and encourage these trends.

At the same time we have continued to focus on extending our road map and technologic leadership by demonstrating a PIC with one terabit of capacity. We also announced our intent of bringing this technology to market to support up to 25 terabits per second of fiber capacity as a future product development milestone.

In the more near-term, we are strong believers in the view that a 500 gig PIC-based solution for 100 G transmission will be the industry's next multi-year network standard and it will offer customers the most cost-effective long-term value for their capacity requirements.

We believe that the current strength and demand for 40 G networks is driven by the immediate need of certain carriers to address fiber capacity shortages and a lack of availability of viable 100 G based solution. As our customers deploy 40 G capability we see them doing so on a route-by-route basis rather than for long-term strategic reasons. As we work with potential customers it is clear they are looking to the economics and capacity of 100 G solutions.

Today, I am pleased to announce that due to our continued engineering progress we would be lunching our 500G PIC-based system or 100 G transmission in our fourth quarter of this year, as a prelude to volume shipping with the product in the first half of 2012. To avoid any confusion, I want to clarify our product terminology.

In 2004, we introduced our DTN system based on 100 gig PICs which delivered 10 channels of 10G transmission. The system we will launch in Q4 will be based on 500 gig PICs delivering 5 channels of 100 G transmission.

We believe our 100 G transmission products will be the most significant new product in the history of the company, and it will help us to achieve a similar market success to our 100 gig PIC system introduced six years ago, leveraging radical economics and enabling the simplicity of a Digital Optical Network.

We believe the timing of this launch will allow existing customers and prospects to evaluate our 500 gig PIC-based products with our network plans in 2012. Customer response thus far has been very positive to the differentiating capabilities and features that this new platform will deliver.

Looking at the transition from 40 G to 100 G the latest industry data released from Infinera's forecast that the largest single segment of the market will be 100 G transmission in the 2013 to 2014 timeframe. Furthermore 100 G is expected to be the dominant transmission rate on a dollar basis throughout the second half of this decade and most likely well into the decade after.

If this proves accurate, our introduction of our 500 gig PIC at the very early phase of this 100 G transmission cycle, will play perfectly with our expectation of disrupting the transport market once again with the industry's only digital optical network.

We believe that our technology and product roadmaps provide a clear path to achieving our long-term business model. And we have an urgency to execute on these road maps. As we make progress on our product and technology goals, we fully understand that our current financial performance is unacceptable on a sustained basis. By delivering our technologies and products to the market, we feel confident we'll create competitive advantage for our customers and appropriate returns to our shareholders.

Ita Brennan, will now provide details on our Q1 financial performance and our outlook for the second quarter.

Ita M. Brennan, Chief Financial Officer

Thanks Tom.

I'll review our Q1 actual results and then follow that with our outlook for Q2. This analysis of our Q1 results is based on non-GAAP. All references exclude non-cash stock based compensation and any restructuring costs.

Total GAAP revenues in Q1 were $92.9 million compared to our guidance of $90 million to $97 million and revenues of $117.1 million in Q4. Level 3 was our only 10% customer in the quarter at 14% of revenue.

We saw stable demand for bandwidth from existing customers as they continue to fill out network footprint. However, as expected, we experienced lower revenues from new deployments. TAM shipments for the quarter exceeded our targets of 2,400 units.

We added 4 new customers in the quarter for a total roster of 86. One of the new customers added in Q1 was a new ATN only customer. Three of our existing DTN customers completed new ATN deployments in the quarter, bringing the number of customers now benefiting from the combined DTN/ATN network solution to 22.

Please note we are providing the total number of customer wins for reference this quarter. But as previously indicated, we will be discontinuing this as a regular practice as it is no longer the most meaningful metric for estimating the scale and growth of our business. Instead, we will provide other metrics around certain customer and new product subsets that we believe will be more meaningful in that timeframe.

International revenues amounted to $24.1 million or 26% of total revenues for the quarter. EMEA accounted for $20.3 million or 22% down from 26% in Q4 '10. The level of international business will fluctuate on a quarter-over-quarter basis depending on individual customer buying patterns. We expect the ratio of international revenues to increase in Q2.

Our service revenues for the quarter were $9.4 million, down from $13.5 million in Q4. Services margins increased to approximately 67% from 58% in Q4, reflecting reduced levels of lower margin deployment services sold in the quarter. Overall gross margins in Q1 were 48%, down from 51% in Q4, and this compares to our guidance of 45% to 47%.

As outlined in January in our guidance, margins were negatively impacted by approximately 2% related to new product introduction activities in our PIC FAB and systems manufacturing areas. We expect to continue to incur these expenses through the end of the year, and these costs, depending on revenue levels, will continue to have an approximate 2% to 3% negative gross margin impact each quarter in 2011.

Operating expenses for the quarter were $48.1 million versus our guidance were $50 million and versus $51.9 million in Q4. R&D expenses came in at $27.5 million approximately $0.5 million below our guidance. The remainder of the under-run on expenses resulted from deferred hiring and cost management.

Overall, head count for the quarter was 1,118 versus 1,072 in Q4. Headcount additions primarily occurred in operations and sales as we prepare for the launch of our 100 gig platform. Operating loss for Q1 was $3.6 million. Other income and expense for Q1 was unfavorable at $0.1 million. Net loss for the quarter was $4 million, resulting in a loss per diluted share of $0.04 versus our guidance, which called for a loss of $0.04 to $0.09 per share and versus earnings of $7.6 million in Q4.

Now turning to the balance sheet. Cash, cash equivalents, restricted cash and investments ended the quarter $287 million versus $296 million in Q4. We used $0.9 million of cash from operations in Q1 versus cash generation of $7 million in Q4.

DSOs were 60 days up from 59 days in Q4. Inventory turns were 2.5 versus 2.8 in Q4. Total inventory was $78.3 million down from $81.9 million in Q4. Inventory turns declined 2.5 times primarily due to lower revenue levels in the quarter. Accounts payable days were 39 days down from 43 days in Q4, due to lower inventory received from the quarter, as we continued to utilize inventory on hand.

Capital expenditures were $10.6 million in Q1 versus $5 million in Q4. As discussed last quarter, we expect capital additions to be approximately $40 million for the year, as we add manufacturing capacity and advanced as a launch of the 100 gig products.

Turning to our Q2 outlook. Customers continue to require higher fiber capacity products on portions of our network. We responded to these opportunities by deploying 10 gig capacity now as migration pass to our 40 gig and 100 gig solutions as they become available.

In the interim, we expect our ability to grow revenues will be restrained until we have volume releases of these new products. In addition, we are competing aggressively for new footprint opportunities in order to ensure we have access to feature build outs of these networks, but our higher capacity products are available. In the short-term, we believe these investments in future business will continue to put negative pressure on our margins.

Level 3 is assumed to remain a significant customer for the June quarter as we continue to meet their needs for fast and flexible response time. All of these factors combined results in revenue guidance that is consistent with Q1 level.

Our current outlook is for lower gross margins in Q2 based on the following assumptions. Ranges and product mix are expected to have a negative impact of approximately 3% to 4%. TAM shipments are expected to again be at or in excess of our targeted 2,400 units, this will be offset by a higher mix of lower margin common new footprint deployments. We expect the need for increase competitors or our new footprint wins to negatively impact gross margins by approximately 2%.

Finally, our current revenue levels, the impact of our fixed costs including the impact of the new production and the product introduction costs mentioned above on the overall gross margin percentage is more significant.

On operating expenses they are expected to be approximately $50 million for the quarter with R&D accounting for approximately $29 million at this amount. We believe this R&D number represents a high point for the year, as a number of key R&D deliverables are expected to occur in the quarter. We will continue to make the R&D and sales investments necessary just for a successful ramp of our 100 gig platform in 2012. Other costs are being managed carefully until revenue and margin trends improve.

The following guidance for Q2 is based on non-GAAP results and excludes any non-cash stock-based compensation expenses. Revenues of approximately $92 million to $97 million, gross margins of approximately 40%, operating expenses of approximately $50 million, operating and net loss of approximately $11 million to $14 million, and based on estimated average weighted diluted shares outstanding of $110 million, this would lead to a loss per share of approximately $0.10 to $0.12. Please note that the basic share count is expected to be a 105 million for the quarter.

Operator, would you please now open the call up for questions. Thank you.

Thomas J. Fallon, President & Chief Executive Officer

We will take questions now operator.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from George Notter with Jefferies.

<Q – George Notter – Jefferies & Co., Inc.>: Hi, thanks very much guys. I guess I wanted to start out by asking some questions on sort of the new product roadmap here. I guess for starters on the 40 gig line card I guess I had understood that would be available on mid year, you guys are now seeing Q3, maybe we're parsing words do you finally hear, but I guess I'm trying to understand if there has been a slip in the timeframe on 40 gig.

<A – Thomas Fallon – President & Chief Executive Officer>: Yeah George, its Tom here. You know we talked about it last year 40 gig mid year, we have I always kind of operate the company on two schedules, one is a stretched and one is a commit and that's how we typically end up somewhere between those two dates. Our stretch timeframe was kind of a Q2 and our commit was kind of a Q3 internally and so we are roughly operating within the window that I had anticipated. Clearly, I was hoping to get it out closer to Q2, you will see us introduce it in template first part of Q3 versus still in Q3, so I don't want to try to negate that's mid year probably kind of like end of June. But it kind of operating within our window of what we'd expected the engineering deliverable frame of control could be.

<Q – George Notter – Jefferies & Co., Inc.>: Got it. Great. Okay. And is there – is there risk of that timeframe slipping out then? I mean, do you have a high confidence level on the 40-gig line card at this point as Q3?

<A – Thomas Fallon – President & Chief Executive Officer>: Yeah, I think, George, until something is done, there's always some level of risk, but we have a pretty high confidence at this point of our schedules and what we are anticipating taking to market and when. We are out clearly talking to customers at this point and setting expectations about when they can expect product. So we have a pretty high confidence at this point.

<Q – George Notter – Jefferies & Co., Inc.>: Great. Okay. And then shifting gears onto the 100-gig product, and I heard what you said in terms of the timing for 100-gig. I guess I'm trying to understand where you are in terms of milestones at this point. I know that after the PIC development was done you guys still had some ASIC development that was in front of you. You still had a chassis to buildout, line cards, software. I mean, can you talk about where you are in terms of the progression towards completing that product development?

<A – Thomas Fallon – President & Chief Executive Officer>: Yeah, sure. So, if I start with what kind of an end point of a product. Yeah, that's really kind of taking a product to shipment and general availability, and prior to that is FCS, and prior to that is obviously order ability and in a platform like this we often don't do that but for a platform like this, we're going to do a launch.

And all those things mean that from my perspective when we say we are going to launch it in Q4, we now have enough, I would say, engineering evidence across a broad spectrum of the results, whether it's at a PIC level, a PIC factory level, software development level, a hardware development level that we feel comfortable that we can launch this platform in Q4. And that means that – I'm trying to instead of saying there is a particular milestone, it's trying to give an overall measure that we are comfortable with the aggregate progress of the overall system that we should expect – set an expectation that we'll launch this in Q4.

We continue to make progress in all fronts, whether it's software development. Our hardware is vastly in the DVT phase, so it's no longer in design but it's in design validation. There are still obviously milestones that have to be achieved, but we feel very comfortable that we're progressing across broadly all the fronts that the best aggregate kind of milestone will be telling you when we plan on launching it.

<Q – George Notter – Jefferies & Co., Inc.>: Got it. Okay, fair enough. And then, I'm sorry – and correct to say that there are some ASICs that go into this system. I assume those are pretty sizable developments. Those are done then, or is that fair to say or no?

<A – Thomas Fallon – President & Chief Executive Officer>: There is a number of ASICs that are going into the system. Some of the ASICs are completely done. The PIC is in ASIC, it is now in obviously real testing so it's done from a design perspective, we are still validating the reliability. We have other ASICs that are in. I mentioned last time that we had switch ASIC that was completely in and we have since validated, it's fully functional and some – barring some giant surprise, we believe it is completely done.

Other ASICs are still in the bring-up phase. And some ASICs will not come out necessarily in the first release, but in follow-on line cards that we will probably launch at the same time, so people can have an understanding of our overall platform.

So it's very difficult to answer the question are all the ASICs done. They are not all done. But we believe there is substantive enough progress across the suite of them that we are on track to launch the platform in Q4.

<Q – George Notter – Jefferies & Co., Inc.>: Great. And then what's your expectation in terms of the timing of the ramp here? How long will customers test or trial these systems? How will revenue recognition work? Is that something you can take pretty quickly upon commercial deployment or is there a longer acceptance phase, and kind of map out for us how you see that?

<A – Thomas Fallon – President & Chief Executive Officer>: Yeah, I'm going to answer part of it and then I'm going ask Ita to answer the part on revenue recognition.

So, various customers are going to operate differently. I think a range of customers who already are Infinera customers would probably still require a level of lab certification in process and we'll begin that process before we do FCS. And that process can vary by customer from very short to more thorough, up to a quarter probably. For a new customer, that would probably be a longer process than that and that's going to depend, quite frankly, just on who the customer is.

We get – we see customers, some customers who basically do nothing more than testing in our lab to certify products and we see other customers who will go through a very rigorous process where they have to test it in their lab and then they'll do a first office application and then basically certify the product post that. So it's not an easy answer to answer in one fashion. I would expect a range of some that would be early and some would be much more extended. Ita, if you could answer on the rev rec portion, I'd appreciate it.

<A – Ita Brennan – Chief Financial Officer>: Yeah, I mean I think on the rev rec, it will somewhat follow that pattern, right. Existing customers will have kind of established acceptance criteria, a lot of it will be on kind of shipments and installations at this stage. For new customers, where there is a trial and deployment, probably some testing at the end of that, it will take longer, right. So I think our existing customer revenue stream can come fairly quickly after shipments, for new customers it may take longer.

<Q – George Notter – Jefferies & Co., Inc.>: Got it. So then from the time you GA this thing, I guess, to revenue – and you guys are certainly a lot closer to this than I am, I guess I'm trying to just ballpark it. Do you think it is six months for the earliest customers from GA and then 12 for new customers or – any kind of range you can put on this?

<A – Thomas Fallon – President & Chief Executive Officer>: My suspicion is once we FCS we will start to see some revenue within a quarter will be my belief.

<A – Ita Brennan – Chief Financial Officer>: Certainly with the existing customers that's doable.

<Q – George Notter – Jefferies & Co., Inc.>: Great. Okay, fair enough. Thank you very much for the time.

<A – Ita Brennan – Chief Financial Officer>: Thanks, George.

Operator: Our next question comes from Simona Jankowski with Goldman Sachs.

<Q – Thomas Lee – Goldman Sachs & Co.>: Hi, this is Tom Lee on behalf of Simona. So just a couple of quick questions. So, I mean is this fair to assume that in the 40G market we are seeing a little bit of a land grab with vendors, I guess, targeting footprint expansion in hopes of 100G upgrade opportunities? And just, I guess, kind of to piggyback off that, given kind of the timing of your – of your 40G product, just curious to kind of – get kind of your confidence level in terms of the 100G [ph] past-due and (27:05) if you feel – still feel like that's pretty open for you with the 100G product line coming out next year?

<A – Thomas Fallon – President & Chief Executive Officer>: Yes, I heard two questions. Is there kind of a land grab with 40G currently and how comfortable do we feel with our timing of 100G.

<Q – Thomas Lee – Goldman Sachs & Co.>: Exactly.

<A – Thomas Fallon – President & Chief Executive Officer>: Clearly there is requirements. Good news for [indiscernible] (27:28), there's requirements for more fiber capacity. People are willing to spend money and needing to spend money to increase their ability to carry more bandwidth. We consistently still see as a preference, a strong preference, universal preference, going to a 100G as soon as possible. But there are customers who have decided that 10G is insufficient today, so they're moving to 40G because a 100F does not provide either the market proven volume yet or the economics that are necessary for it to create the mass market.

So I think that – I don't know if there is a land grab going on, there is some fundamental and continued growth in the need for bandwidth. There's a continued shortage of certain fiber in certain networks and 40G is a reasonable solution for that. I think that – so there is a land grab, I don't know, there is opportunity out there and if we had 40G today, we'll be selling it, if we had a 100G, we'd be selling that also.

With regard to 100G, are we comfortable with our time, I'll make two comments. One, we are comfortable with the schedules that we've laid out and I'm very comfortable that we are going to be what I would consider to be very early stages of a 100G market that is going to last for a very long time. The number of 100G waves sold today is very, very small. No matter which reports or analysts you look at, most of the deployments of 100G really don't begin until 2013 and 2014. I think by having our customers be aware of our technology today, by our customers being able to see the product in the very near term, and us launching it in Q4, we are going to be positioned at the very early phase of a very long 100G cycle. And I – like I said in the note, I couldn't be more comfortable with the timing that I think the market requirement and our availability are quite frankly perfectly aligned.

<Q – Thomas Lee – Goldman Sachs & Co.>: Got you. And then, I guess, with your new product do you feel if you – as I think about kind of domestic versus international, what do you feel like do you see as kind of the biggest opportunity, or do you feel like it's pretty wide open in both here and international markets?

<A – Thomas Fallon – President & Chief Executive Officer>: You know from a domestic perspective we have been very fortunate to earn a very substantive leadership position in market share. And I think that by introducing both our 40-gig to allow our customers to upgrade and earn new customer footprint, and by introducing a new platform with 100-gig, we're well positioned to recreate the same type of North America presence that we've had for the last several years. I think last year, we had 37% market share in long haul transport in North America.

And I think internationally, we are making good progress, but I would say there's more opportunity to grow that market share internationally. Europe, we continue to make, I think, steady progress and slow and steady progress. In APAC, we have just hired a new leader for our APAC arena that I think will bring very good insight into the industry, good relationships in the industry, and I believe that we're at a good foundational point of starting to grow the APAC business. We have some very good relationships there. We just have to turn that into dollar opportunities.

<Q – Thomas Lee – Goldman Sachs & Co.>: Got you, got you, okay. And then maybe if I could just shift gears to the income statement, more just on OpEx, I think last quarter you gave guidance, I guess, for total OpEx, if I'm not mistaken $204 million, $205 million range. Just curious if for the full year, does that still stand and then I think on the R&D side, I think you had said like $110 million to $115 million?

<A – Ita Brennan – Chief Financial Officer>: Yeah, I mean I think there is still good guardrails for what we set out for the year. I mean obviously with the revenue where it is, we are trying to kind of reduce that and put pressure on that outside of key sales and R&D and operations head count where we really need to do that. To support the 100 Gig, we have deferred hiring, et cetera, and we'll continue to do that. So I think the $50 million for this quarter, we're definitely trying to stay in that window for the year and also obviously looking for opportunities to kind of take some more cost out.

<Q – Thomas Lee – Goldman Sachs & Co.>: Got you. Okay. Thank you.

Operator: Our next question comes from Kevin Dennean with Citi. Mr. Dennean, your line is open.

<Q – Kevin Dennean – Citigroup Global Markets (United States)>: Hi, can you hear me okay?

<A – Ita Brennan – Chief Financial Officer>: Yeah, we can now.

<Q – Kevin Dennean – Citigroup Global Markets (United States)>: Okay, great, thank you, sorry about that. Tom, acknowledging your comment that 40G is really seeing kind of route specific deployment as opposed to a broader based adoption, do you think that the commercial – just the commercial availability of 40G product is putting pressure on the 10G market?

<A – Thomas Fallon – President & Chief Executive Officer>: I think that people are interested in continuing to grow their network to make sure that they can handle the incremental demands that all of the new video and 4G, et cetera, are bringing to the world. And 40 Gig is a good interim solution. I think the challenge is that 40G does not yet have the economics that are necessary to make people want to adopt it as broadly, it does not still have 10G economics and the view is 100G will have better economics and achieve better 10G equivalent economics of a [ph] 440G (33:06) does.

And secondarily, I mean 100G is starting to happen so they don't have to wait very well. So I do think that there are some pricing pressure that's being applied in the market if somebody is interested in moving to 40G, we are certainly responding with commercial opportunities on 10G pricing to have them deferred that decision until we can bring 40G out or our 100G program and I suspect that is not unique to us.

<Q – Kevin Dennean – Citigroup Global Markets (United States)>: Okay. That is helpful. Thank you. As a follow-up, when the 40G product does launch for Infinera, how should we think about the gross margin profile on that product relative to your existing 10G business, putting aside the June quarter guide, which I think has a lot of specific issues around it?

<A – Ita Brennan – Chief Financial Officer>: Yeah, I mean I think, you know, when the 40 Gig product comes out for us, obviously, it will be a new line card with new volumes and so on. So, I think certainly initially, it's not going to have the same margin profile as the 10 Gig module at a SKU level, right?

<Q – Kevin Dennean – Citigroup Global Markets (United States)>: I'm sorry, at what level?

<A – Ita Brennan – Chief Financial Officer>: At a part number level and module to module basis.

<Q – Kevin Dennean – Citigroup Global Markets (United States)>: Yeah.

<A – Ita Brennan – Chief Financial Officer>: Right. I think if you – if it's going into an existing network into existing footprint, there will be no comments, it's better to be deployed with that and that will offset some of that margin impact. If it's going into kind of new footprints and new opportunities, then I think it will probably have more – less favorable margins than what we are seeing on kind of the 10 Gig products today.

And how the mix of that plays out, it's really not clear yet, and it will depend on kind of where those deployments are.

<Q – Kevin Dennean – Citigroup Global Markets (United States)>: Okay, great. I'm sorry, go ahead.

<A – Thomas Fallon – President & Chief Executive Officer>: Our 40G product will have kind of the same kind of margin that the rest of the industry would have based upon discrete technology that we're buying from other people that are available in the market. It will have PIC economics and that's not the intent of our 40G solution. Our PIC economics are designed to bring radical cost structures to the industry and the discrete solution should be roughly on par with what the industry should bear for 40G.

<Q – Kevin Dennean – Citigroup Global Markets (United States)>: Tom, just to follow up on that comment, I mean it's kind of hard to see what other companies' gross margins are given that there are not many pure plays out there. So how would you describe the gross margin profile for discrete 40G right now?

<A – Thomas Fallon – President & Chief Executive Officer>: I would describe the industry as an industry that typically bears a margin structure of high 30s to low 40 point of margin industry.

<Q – Kevin Dennean – Citigroup Global Markets (United States)>: Okay.

<A – Thomas Fallon – President & Chief Executive Officer>: I'd say, we have set our companies long-term business model is to achieve 50 points in margin and we need to do that to offset obviously being vertically integrated. We've had certainly few proof points of being in the high 40s to low 50s, but I think our industry ranges from probably the low 30s if you are a commodity player to roughly 40% as an industry would be my estimate. Dave, you want to make a comment on it?

<A – David Welch – Director, Chief Marketing & Strategy Officer>: Yeah, I think the gross margins of PIC-based systems in general are going to be inherently several points higher, we would expect when we look at the model and that they could in the range of somewhere between 3 to 5 points better gross margins [ph] than discrete-based product line (36:44).

<Q – Kevin Dennean – Citigroup Global Markets (United States)>: Great. Thank you very much.

Operator: Our next question comes from Rod Hall with JPMorgan. Mr. Hall, your line is open.

<Q – Rod Hall – JPMorgan Securities LLC>: Yeah, hi, guys. Thanks for taking my question. Sorry about that. I just wanted to check in on the order books for the 40 Gig product and maybe just see if you guys could talk a little bit about what the expressed interest is in the 40 Gig product at this point. Can you give us any number of customers that have – I guess, of your existing customers what proportion of them have said they might be interested in it or have it in labs testing it now? And then I've got a follow-up to that.

<A – David Welch – Director, Chief Marketing & Strategy Officer>: I won't be able to address, this is Dave Welch. And I won't be able to address in a maybe the detail you're looking for, but most of our customers as we've stated before are comfortable with the 10 Gig deployments and holding up for the 100 Gig deployments when the PIC basis have some doubt because of the overall network cost benefits that will come with that platform. As we stated before, there are aspects in route-by-route basis, there were current customer base that do need more capacity than 10 Gig can offer. And those are the customer that we will be focusing in on in the second half of this year to deploy our 40 Gig products for. And I think question is, I'm not sure we can quantify what fraction of that of our customer base is doing that but majority of our customers are able to and willing to wait for a 100 Gig solution. I don't know if that answered your question or not?

<Q – Rod Hall – JPMorgan Securities LLC>: Yeah, I mean it sounds like the data is not right here, so thanks for giving us some color on that anyway. The other thing I wanted to ask and I'm not sure if anybody has asked this yet, but is the – can you comment on the expected impact from the Level 3 acquisition of Global Crossing? What do you guys think the impact to you is there? Can you quantify it at all for us?

<A – Thomas Fallon – President & Chief Executive Officer>: Yeah, so we certainly can't quantify it because it's – first of all, the acquisition is certainly not complete yet. I don't think it's forecasted will be done by until the end of this year. But if you look at it the way we look at it, Level 3 continues to be a significant customer of ours. Global Crossing has and continues to be a significant customer of ours. I think it puts us in a good position that they have two networks with common equipment and as networks get bigger, the value of having an intelligent network grows.

So I think that the fact and Infinera infrastructure and that our network is an intelligent infrastructure would help them scale their business efficiently. Having said that, I clearly think this is a capital-intensive industry for them and one of the reasons that they would combine is so that they could lower the amount of CapEx that they would need to spend as two independent companies.

So I think that we're going to be well positioned to earn business. I think our installed base and relationship with both companies is an advantage. But I do believe that over a longer period of time they will spend less money than they would have independently.

I do believe, however, that's healthy for the industry. The industry needs to consolidate, so that there are more profitable companies in the industry.

<Q – Rod Hall – JPMorgan Securities LLC>: Okay, thanks a lot for that Tom.

Operator: Our next question comes from Sanjiv Wadhwani with Stifel, Nicolaus.

<Q – Sanjiv Wadhwani – Stifel, Nicolaus & Co., Inc.>: Thanks so much. Tom, I was little bit confused and I apologize if you – I know you address some of this. I'm a little confused about the 500 gig PIC release in Q4 versus what's going to happen in the first half of next year. I don't know if we can just sort of go through it again as to what's exactly going to happen in Q4?

<A – Thomas Fallon – President & Chief Executive Officer>: Sure. So if you remember, our previous guidance was that we would introduce this new platform in volume in 2012. That was kind of the full gambit of what we said, and we gave some kind of engineering milestones and gave proof points of our confidence that that was going to happen.

This time, we have said that we are going to launch, which is basically announce – describe to the industry, to our customers very publicly what this product is, what the features of this product are, what the pricing of this product is, and all the availability in Q4. And that's so that we can accelerate when we will bring this product to market, which we have now said will be in volume in the first half of 2012.

So the goal of launching this platform in the end of this year is to allow customers a more comfortable way of making 2012 capital investment decisions around this architecture sooner.

<Q – Sanjiv Wadhwani – Stifel, Nicolaus & Co., Inc.>: Got it. That's helpful. So is it fair to say when you launch it in the first half in volume, clearly it's going to be available for testing in labs before then. And I don't know if you can give a timeframe as to when that might happen actually?

<A – Thomas Fallon – President & Chief Executive Officer>: We will have that kind of data at the launch.

<Q – Sanjiv Wadhwani – Stifel, Nicolaus & Co., Inc.>: Okay.

<A – Thomas Fallon – President & Chief Executive Officer>: But I – you should have a [ph] perspective (42:10) that is some time maybe up to a quarter before we FCS it, our customers will start having it in their labs for their own internal testing.

<Q – Sanjiv Wadhwani – Stifel, Nicolaus & Co., Inc.>: Got it. That's helpful. Appreciate you giving clarity there.

And then, Level 3 obviously grew sequentially, and then looks like it's going to continue to be an important customer in Q2. Any impact that you guys are seeing at all, maybe not, from the decision last year to go with Huawei? I'm just trying to get any clarity on that.

<A – Thomas Fallon – President & Chief Executive Officer>: Well, I mean clearly, as we've said before, Level 3 has articulated that they have moved, I think, now to a kind of a two vendor strategy. We continue to have a very good relationship with Level 3. We continue to have the opportunity to win new business and new routes.

But Huawei is clearly being deployed in their network. And it's because they are doing it at a CapEx level that quite frankly we don't think anybody can make money at. I think that Level 3 would agree that we offer much lower operating and total cost, but at a CapEx level, they find that solution is very compelling for parts of their application.

But we continue to win business, we continue to have a very good relationship and we're going to continue to work to be their primary supplier.

<Q – Sanjiv Wadhwani – Stifel, Nicolaus & Co., Inc.>: Appreciate that. Thanks so much.

Operator: Our next question comes from Alex Henderson with Miller Tabak.

<Q – Alex Henderson – Miller Tabak & Co. LLC>: Hey, guys. So I just wanted to talk a little bit about what you're hearing from your customers as you are discussing these programs with them, and to what extent you are seeing an acceleration in activity in the market generally.

In other words, if I were to look at the aggregate number of proposals that are running around in the field, have you seen an acceleration or a change in the pace and tone and scale of the transactions that are in the field? Not necessarily for your product, but in general?

<A – David Welch – Director, Chief Marketing & Strategy Officer>: So I think that's a general question of are we seeing more and more activity? Do we expect to see acceleration of the spend in long haul DWDM space? How do I interpret your question?

<Q – Alex Henderson – Miller Tabak & Co. LLC>: Well, clearly it has been 12, 13 years since we did the last cycle – the upgrade from 2.5 to 10. We are at the point now where finally there are alternative technologies hitting the market. Is that resulting in an acceleration of activity of companies saying, okay, now is the time to make this bigger investment, and therefore, seeing proposals that are larger and more numerous than you had seen in prior periods?

<A – David Welch – Director, Chief Marketing & Strategy Officer>: I think there are two things we are seeing. There is a – some of the large telecom providers over the course of next 18 months are going to product upgrade cycles.

At a total dollars spent within DWDM space, I think it's averaged over multiple quarters, is on a general smooth trend.

So that is seeing bandwidth growth that are in the – on average 30%, 40% per year bandwidth growth. And that's driving the absolute dollars of pre-installed system versus new systems.

However, they will probably be – I think less so in 2011, but in 12 and 13 there are some major system overhauls that are being contemplated that would make that dollar shift move from legacy type of gear towards next-generation gear.

<Q – Alex Henderson – Miller Tabak & Co. LLC>: The second part of the same question is to an extent that you're seeing activity in the field. Now are customers pushing to make decisions quickly because they want to get involved with this upgrade earlier? Or are they basically saying we'll wait until 2012 and pushing off the decision? Are you seeing a material impact on your bidding process as a result of people wanting to make decisions faster?

<A – David Welch – Director, Chief Marketing & Strategy Officer>: I think the customer base is seeing that the 100 gig technology is coming in faster.

And you know we've talked about in the past this structure of what we call 40 gig squeeze, if you will. They see the 100 gig technology as the technology that they would prefer to get to. That is creating some uncertainty on number of the customers of whether they can hold off their capacity demands until they get to that technology.

And certainly we see that from – our customers, as we indicated earlier, preferred to wait for the 100 gig technologies and not go through a interim product cycle in order to get there. And so to that extent, I think that as – they're taking their systems – they're driving to higher level of capacity – of deployed capacity in pre-existing systems before going out and deploying new footprint and new systems.

<Q – Alex Henderson – Miller Tabak & Co. LLC>: Okay, the last question is on – just to repeat of what happened in the prior question. You talked about the time you're getting the product to your customers. But you didn't talk to how long you think the test cycle from the time it reaches their labs to the time you'd actually see revenue recognition. Are you still talking a couple – two, three quarters in that process?

<A – David Welch – Director, Chief Marketing & Strategy Officer>: I think Tom's comment was from the time that we FCS to the time we see some revenue from it is within a quarter. And it depends very much on the type of customers we supply. Customers that will have fully certified by the time we FCS it, and there will be other customers that will require a six month test cycle before they would accept it.

So that transition – they will continue to deploy the current existing product – 10 and 40 gig product – while they are certifying the 100 gig. We expect that transition to be reasonably smooth, but revenue will come from our – when we introduce the 100 gig product relatively quickly.

<Q – Alex Henderson – Miller Tabak & Co. LLC>: Okay. Thank you.

Operator: Our next question comes from Subu Subrahmanyan with Sanders Morris.

<Q – Natarajan Subrahmanyan – Sanders Morris Harris>: Thank you. I had two questions. First on OTN switching and the whole packet optical industry. And then the new products we are seeing. Can you talk a little bit about – I mean you supply terabit, and on the 5 terabit OTN switch, with what kind of packet capabilities you might have on your transport platform?

And the other question is on 40G. Tom, can you broadly talk about – you talked about the 40G squeeze in the past. But if you look at the market today, what percentage of wavelengths is being shipped at 40G in the long haul? What percentage of dollars is 40G versus 10G? Can you give us a snapshot?

And how do you expect next year – some combination of 10, 40 and 100 – how you would expect your business to look?

<A – Thomas Fallon – President & Chief Executive Officer>: Well, as a couple of questions there. One, is what do we see from the 10G kind of volume and 40G volumes.

I think the 10G volumes have been relatively flat in the industry and are forecasted to be on a port basis relatively flat. But probably 10% to 15% price compression per year in the industry. And I think that's probably what we can expect.

I think from the port perspective on 40G what we're seeing is increase certainly. I think that the recent number I see here is about 5,000, maybe at the top ports per quarter. But that's a combination of coherent and non-coherent ports, so not all serving the long haul.

I still consider or see that for long-haul 40G, it carries a premium to 10G pricing of probably somewhere in the 4x to 5x range at least.

I think that our industry right now has got an interesting number of changes that are happening – 40G, 40G coherent, 100G coherent, OTN packet. With all these changes, I think it both creates a lot of opportunity, but it also potentially defers some of the buying decisions, while these strategies are vetted out to make sure the industry knows how – the customer knows how they're going to spend their money.

And this is the first time our industry has experienced this for quite a while. And I think that that's quite frankly good news for our industry, and particularly good news for us, as our – we will benefit from the customer base evaluating the value of 40G coherent and the value of 100G coherent, and the value of OTN, which we think, as I mentioned before, is really what our product is all about.

So I think that next year, we'll see probably a predominant amount of our volume still being 10G. That's what the largest volume in the industry is. I think that we will get a reasonable share of 40G, but I do think next year 100G will start being a substantive amount of revenue in the industry, though probably not that great on a port basis. I think on a port basis the 100G market for long-haul is estimated to be in the 1,000 port range for next year.

Our job is to do two things, one get a substantial portion of those 1,000 ports, but more importantly is to accelerate the industry to 100G ports and pick-up a large portion of that.

So getting things to market early, but also creating PIC economics and OTN economics for the customer base will help accelerate the 100G adoption. And that to me is the most important thing we can do.

David, if you could answer the packet question, I'd appreciate it.

<A – David Welch – Director, Chief Marketing & Strategy Officer>: Yeah, I think the – your question is asking for what is – how do we think about packaging our products. We're not at a point where we're going to do a product introduction as – of our next generation platform. So I don't want to get into specific details of what will be on that system.

However, we introduced the concept of Digital Optical Networks five years ago, which was the concept of having digital bandwidth management integrated with the optical transport layer. We've been very successful and showing that that has a significant added value in a network. We believe that packet is part of the roadmap of the Digital Optical Network of – as we go through the evolution and phases of that technology developing. So we're certainly absolutely going to pay attention to it; but at this time, we're not going to make a product announcement about what capabilities or when.

<Q – Natarajan Subrahmanyan – Sanders Morris Harris>: Understood. And Tom, if I could follow-up on your point, so if you look at dollar spent today in the long-haul, do you think we are at the crossover point? Though port is obviously on 40G or lower than 10G in terms of dollars. And in the long-haul are we getting close to parity between 40G and 10G in the long-haul?

<A – Thomas Fallon – President & Chief Executive Officer>: On gross dollar spent? Not on price per 10G equivalent but on gross dollar spent?

<Q – Natarajan Subrahmanyan – Sanders Morris Harris>: On gross dollar spent.

<A – Thomas Fallon – President & Chief Executive Officer>: I would say, we're probably getting fairly close. I'll have to follow-up exactly back with you, but I suspect the industry is probably getting fairly close.

<Q – Natarajan Subrahmanyan – Sanders Morris Harris>: And therefore [ph] maybe (53:43) your addressable market is only really top of the long-haul market in dollars spent is 40G. I mean until you get your 40G line card, you're really only addressing half of the market – of 40G is becoming half of the market. Is that a fair way to think about it?

<A – David Welch – Director, Chief Marketing & Strategy Officer>: Well I think the buying cycle of our customers are such that as Tom indicated, we will be bringing out our 40G product in Q3, they are in the process of integrating that into their buying plan now – aspect. I think the – when you look at the market numbers you'll get from the research analysts, you have to be a little careful also because the line system which is identical between 10 gig, 40 gig and a 100 gig, it tends to work the relative dollars in any one particular market for that. Those dollars are frankly neutral to the 10 gig or 40 gig market. So the total dollar available to the 10 gig market is certainly more than the ratio of the transponder values.

<A – Thomas Fallon – President & Chief Executive Officer>: And I also think it's a very important to segment out and Dave is right. I mean every time our customer today buys a line system from us that is a 40G ready line system or a 100G ready. So that is money that we are not losing to the market. But if you pull back and say who is buying 40G? Approximately half of it is going to China, and I don't care if we have 40G for free. We're not going to sell any to China. So we're not losing half of an available market, half of the available market is close to us.

The other big portion of the 40G is going to AT&T and Verizon. We haven't won AT&T and Verizon yet. So it's not a choice of can they buy our 10 gig or our 40G or our 100G. That market is not available to us today. So if you were to ask me what percentage of our truly available market are we losing today because it, it's a very small percentage. Now that doesn't mean that we aren't anxious to recover that. But I don't want you to walk away saying that either we're losing half the market opportunity today or when we bring out 40G that half the market doubles. It's not true.

<Q – Natarajan Subrahmanyan – Sanders Morris Harris>: Fair enough. I was thinking in aggregate market terms, but certainly with your customer mix I understand that percentage is quite different.

<A – Thomas Fallon – President & Chief Executive Officer>: And recognize China is nobody but the Chinese is customer mix, right? That's a big portion of the 40G market.

<Q – Natarajan Subrahmanyan – Sanders Morris Harris>: All right. Thank you.

<A – Ita Brennan – Chief Financial Officer>: Thanks, Subu.

<A – David Welch – Director, Chief Marketing & Strategy Officer>: Next question?

Operator: Our next question comes from Michael Genovese with MKM Partners.

<Q – Michael Genovese – MKM Partners LLC>: Hi, great. Thank you very much. Can you hear me?

<A – David Welch – Director, Chief Marketing & Strategy Officer>: Hi, Michael, yes.

<Q – Michael Genovese – MKM Partners LLC>: Okay, great. Ita, in your comments – in your guidance it sounds like in the second quarter you expect to sell more common equipment than you did in the first quarter and I was wondering if you could comment on what that is. Is that 10G – new 10G chassis going out? Is that more weighted towards terrestrial or under seas?

<A – Ita Brennan – Chief Financial Officer>: I think it's a combination. We're going to sell common equipment line system, which will be 10 gig, 40 gig and a 100 gig ready, right? So it's not the actual common equipment – the line systems that we're putting in are not linked to a wavelength or a transmission speed, right? So we are seeing a number of and you'll see this in our customer account next quarter – of fairly sizable opportunities, some subsea content and terrestrial content.

So I think it's a good thing to see kind of a – some of that common equipment back in the mix, because the last couple of quarters you know where we've had the 50%, 51% gross margins, we haven't had that, that same level of common equipment.

<Q – Michael Genovese – MKM Partners LLC>: Okay, and then on those gross margins – with Kevin's question earlier, that discussion made me wonder, does the long-term business model of the company change? I mean, at 10G you had laid out a certain revenue level you need to get to, and 50% gross margins to get to an operating margin target. And it sounded to me, although I may be interpreting – reading too much into it, you are saying with 100G the gross margin sounded like it wouldn't necessarily reach that 50%. Am I reading too much into that or is there a different business model for the company at 100 versus 10?

<A – Ita Brennan – Chief Financial Officer>: Yeah. No, we're not changing the business model at all. In fact, we think the 100 gig product, with all of its kind of added switching and greater level of switching and bandwidth management capabilities is actually a driver towards that business model, all right? I think the discussion with Kevin where our margins is very much focused on the 40 gig products and the discrete 40 gig, but once we get back to PIC-based 100 gig system and we believe that very much contributes toward achieving that business model.

<A – Thomas Fallon – President & Chief Executive Officer>: I'll make two comments on addition to that. We are at the most expensive phase right now of bringing to market our 100G platform. We're having to invest in new manufacturing capacity both for a system and for the PIC. So we're building capacity today that will be utilized across the next decade.

The second thing is the 100G cycle is probably going to be 15 to 20 years or more. The 10G cycle started in 1997, so we're what, 13 years into it. We didn't bring out our 10 gig solution to 2005, so we caught it in the middle of the cycle. We should have a very good opportunity coming in at the early part of the cycle making the capital investment at the early part of the cycle that we can actually have a very, very good business model as these volumes take into industry. We can accelerate the demand and I'm actually – as Ita pointed out, I think the 100 gig opportunity is the first time that we actually get to test our business model.

<Q – Michael Genovese – MKM Partners LLC>: Right. And if I could just slip one in before the end. Thanks, Tom. On 40G, your early opening comments sounded extremely confident, you're talking about interim 40G deployments on a tactical basis with competitive solutions. You sound very confident about your competitive position in your customer base.

And I just want to ask you the question, I mean, do you think that if they choose somebody else for 40G, does that not change the competitive situation in the account? How do you – what makes you so confident that these guys are all going to come back for 100G with Infinera?

<A – Thomas Fallon – President & Chief Executive Officer>: I'm never confident that if we lose somebody they come back. I crawl a wall of worry around that every day I want to make our customers satisfied. The reason I feel confidence and please, I don't take it as arrogance or lackadaisicalness. Everybody we talk to wants 100G today at 100G economics, with the proven ability to go to market in volume. That just doesn't exist today. But everybody wants it, and everybody can see it in the relatively near term, two years ago there was big questions of whether it's going to be 40G or 100G, even a year ago there was some question.

I don't think that there was a question today. Either when I talk to customers, potential customers or see a universe of industry analysis, there is a fairly consistent story that they want a 100G at good 10 gig type of economics, six times 10 gig economics or even 10 times 10 gig economics quite frankly.

So I feel pretty comfortable that the consistent story is that the world wants to move to a 100G. At the same time, we are going to deliver a world-class 40G product, that's for our installed base so that you can upgrade their network absolutely the most cost effective way.

There is no customer we have that can upgrade to a 40G network more efficiently than to upgrade our platform with our line card because it is already installed, it is already 100% in use and all you have to do is buy an upgrade line card. So we're going to be very sensitive to making sure that's a good long term decision for them also. But I think that if we – if somebody makes 100G PIC today, I still think it's an early enough time in the industry that those decisions are going to have an opportunity for second vendoring. I just think it's a very, very early part of this 100G deployment.

<Q – Michael Genovese – MKM Partners LLC>: Okay, great. Thanks a lot. Good luck.

Thomas J. Fallon, President & Chief Executive Officer

Thank you. And I want to thank you for joining us today and for your questions and continued interest in Infinera. We look forward to keeping you informed of our progress. Thank you.

Operator: Thank you for joining today's conference. That does conclude the call at this time. All participants may disconnect.