

**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 25, 2021**

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.)

6373 San Ignacio Avenue

San Jose, CA 95119

(Address of principal executive offices, including zip code)

(408) 572-5200

(Registrant's telephone number, including area code) Securities registered pursuant to Section 12(g) of the Act: None

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Trading Symbol</u> | <u>Name of exchange on which registered</u> |
|--|-----------------------|---|
| Common shares, par value \$0.001 per share | INFN | The Nasdaq Global Select Market |

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 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 | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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 26, 2021, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1,601,627,017 (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 10% 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 February 18, 2022, 212,810,629 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 2022 Annual Meeting of Stockholders (the "2022 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2022 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 25, 2021

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Part I

ITEM 1. BUSINESS

Overview

Infinera Corporation (“we,” “us,” “our,” “Infinera” or the “Company”) 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, compact modular platforms, optical line systems, coherent optical subsystems, a suite of automation software offerings, and support and professional services.

Our customers include operators of fixed line and mobile networks, including telecommunications service providers, internet content providers (“ICPs”), cable providers, wholesale carriers, research and education institutions, large enterprises, utilities and government entities. Our networking solutions enable our customers to deliver high-bandwidth business and consumer communications services. Our comprehensive portfolio of networking solutions also enables our customers to scale their transport networks as end-user services and applications continue to drive growth in demand for network bandwidth. These end-user services and applications include, but are not limited to, high-speed internet access, business Ethernet services, 4G/5G mobile broadband, 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, vertically integrated 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 single, monolithic semiconductor chip. 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, capacity per fiber, power consumption and space savings. In addition, we design our optical engines to increase the capacity and reach performance by leveraging coherent optical transmission technology. Coherent optical solutions are becoming increasingly important across the network as our customers transition to 800 gigabits per second (“Gb/s”) per wavelength transmission speeds in the core, 400 Gb/s in the metro, and 100 Gb/s in the access market segment. We believe our vertical integration strategy provides a competitive advantage by enabling leading optical performance at higher optical speeds with increased spectral efficiency, greater control over our supply chain, and a lower cost structure.

We have grown our solutions portfolio through internal development as well as acquisitions, including the acquisition of Telecom Holding Parent LLC (“Coriant”), a privately held global supplier of open network solutions for the largest global network operators (the “Acquisition”). These developments positioned us to be one of the leading providers of vertically integrated optical networking solutions in the world with the ability to serve a global customer base with accelerated delivery of the innovative solutions our customers demand. In 2021, we announced an expansion of our portfolio with the introduction of a suite of coherent optical pluggables designed to seamlessly address the rapidly growing market for point-to-point solutions as well as create a new category of point-to-multipoint solutions that can enable a dramatically more cost-efficient network architecture. Based on our XR optics technology, this suite of pluggables builds on Infinera’s history of delivering innovative, highly differentiated, and vertically integrated coherent optical engines.

Our high-speed optical transport platforms are differentiated by our Infinite Capacity Engine (ICE) coherent optical engine technology. Our latest generation of coherent optical engine technology delivers multi-terabit opto-electronic subsystems powered by our fifth-generation PIC and latest generation DSP (the combination of which we market as “ICE6”). ICE6 is capable of delivering 1.6Tb/s (2x 800G Gb/s wavelengths) in a single optical engine. ICE6 will be integrated into various networking platforms in our product portfolio.

Our products are designed to be managed by a suite of software solutions that enable simplified network management, and automated operations. We also provide software-enabled programmability that offers differentiated capabilities such as Instant Bandwidth. Combined with our differentiated hardware solutions, Instant Bandwidth 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 capacity needs evolve.

We believe our systems and subsystems portfolios benefit our customers by providing a unique combination of highly scalable capacity and features that address various transport network applications and ultimately simplify and automate network operations. Our high-performance optical transport solutions leverage the industry shift to open optical network architectures and enable our customers to efficiently and cost-effectively meet bandwidth demand, which continues to grow 30% or more year over year.

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 6373 San Ignacio Avenue, San Jose, CA 95119. Our telephone number is (408) 572-5200. "Infinera," "FlexCoherent," 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 dense wavelength division multiplexing ("DWDM") systems, data is transmitted by using multiple wavelengths of light using different frequencies or colors over a single optical fiber. Customers deploy DWDM 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. Coherent optical technology is the latest innovation in DWDM transmission solutions, dramatically increasing the amount of information a single laser can transmit.

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 advanced optical transport networking solutions. 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;
- growth of edge computing resources closer to end-users;
- increasing use of connected virtual and augmented reality devices; including the adoption of the Metaverse; and
- the IoT, which continues to drive massive growth in the number of network-connected devices.

As network traffic grows, network operators will need to continue to add transmission capacity to existing optical networks or deploy new systems and/or subsystems to address bandwidth demand and offer new end-user services.

We believe we are in the midst of an important shift in transport network architectures that impact the markets we serve. The shift to open and disaggregated networks is increasingly being embraced by the communications industry. Examples of this trend include separation of compute, storage, and networking in data centers, the separation of hardware, operating system and apps in smart phones, hardware/software separation in network function virtualization and hardware and software routing stack routers, and open RAN initiatives for 5G. Industry evolution is now enabling optical networking to leverage these same principles of openness and disaggregation.

Optical networking technology has evolved to enable open networks at the physical and management layer. These technologies allow network operators to move from a traditional vendor locked-in model to a more flexible model where they can choose from a collection of modular, best-of-breed solutions from different suppliers for each network function. Open and standards-based interfaces ease the integration into a unified network architecture.

The shift to open optical networking provides network operators with key benefits that include:

- Accelerated innovation cycles: By leveraging the full innovation capabilities of the optical ecosystem, network operators are able to select best-in-class technologies and vendors

independently throughout the network lifecycle. And solution providers can develop innovative technologies for specific network functions without having to supply end-to-end networking solutions significantly broadening the innovation ecosystem.

- **Optimized network architectures:** By selecting the ideal products and technologies for each layer and domain of the network independently, network operators are able to optimize their optical network for specific applications and services and avoid the constraints of a single-vendor for one-size-fits-all solutions.
- **Improved network economics:** Open optical networks enables cost-per-bit reducing innovations to be quickly deployed throughout the network lifecycle, with customized multi-vendor network designs providing additional scope for cost-optimization as capacity and service demands evolve.

A second shift is happening at the edge of the network, where capacity is growing beyond the ability of traditional, non-coherent optical solutions to address. This increasing demand for coherent solutions is driving the need for innovative edge- and access-optimized coherent solutions. These include more compact, efficient and cost-effective solutions as well as innovative solutions such as XR optics multi-point technology that can enable significant cost savings by enabling simplified network architectures.

Strategy

Our goal is to be the preeminent provider of high-performance transport technologies and solutions that enable customers to cost-efficiently scale network capacity and launch new services in response to increasing end-user bandwidth demand. 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. Our strategy is to continue to evolve our unique optical technology with higher speed and increasingly efficient capabilities, integrating our vertically integrated optical engines across a broad range of our open optical networking systems and expanding our solution set with vertically integrated subsystem and pluggable optical technologies.
- *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 our broad portfolio of systems and subsystems, 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 in-house manufacturing capabilities serve as a competitive advantage from a technology and supply chain perspective, and enable a lower cost structure and thus, higher profitability. To further drive cost structure optimization, we are transforming our supply chain to enable us to move from a fixed cost structure to an increasingly outsourced model that will allow for enhanced flexibility in our delivery capabilities to better support customers, while optimizing our cost leverage.
- *Building open optical networking solutions.* Our strategy is focused on leveraging open optical networking principles, including disaggregated networking solutions and industry-leading optical technology with open application programming interfaces (“APIs”) and standardized data models to offer our customers best-in-class solutions and create insertion opportunities to gain market share. Open optical networking provides benefits for both network operators and innovative solution providers. These benefits include accelerating innovation cycles, enabling optimized and differentiated networking solutions, and the ability to transform network economics.
- *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 differentiated capabilities include 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 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 Instant Bandwidth offerings and introducing automation and programmability capabilities. We are extending management and control capabilities across our entire product portfolio with the addition of a new orchestration solution. This new solution enables customers to utilize end-to-end network resources and the automation of multi-layer, multi-domain and multi-vendor networks. Additionally, based on our customers' desire for more programmable networks, we have added open APIs to our solutions to enable our customers to create more agile and customized automated operations.

Customers, Products and Services

Our customer verticals include:

- Tier 1 carriers for domestic and international networks;
- Tier 2 and Tier 3 carriers;
- ICP and cloud providers;
- cable providers and Multiple System Operators;
- wholesale carriers;
- submarine network operators;
- utilities;
- large enterprise customers;
- research and education institutions; and
- government entities.

In the markets we serve, we believe our customers seek the following solutions to meet growing bandwidth needs, increase their revenue, expand their service offerings and lower the total cost of their operations:

- high-bandwidth solutions that scale optical transmission capacity to meet increasing bandwidth demand while providing efficiency through service granularity;
- flexible, efficient and easy to deploy core-to-edge coherent optical solutions 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; and
- strong encryption at the transport layer.

We sell our products directly to our end-user customers 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 11% and 13% of the Company's revenue in 2020 and 2019, respectively. No other customers accounted for 10% or more of the Company's revenue in 2020 and 2019. No customer accounted for 10% or more of the Company's revenue in 2021.

We have focused our efforts and capital on developing high-performance, vertically integrated transport technologies and solutions that enable customers to cost-efficiently scale network capacity and launch new services in response increasing end-user bandwidth demand. Our products feature industry-leading optical performance for capacity-reach, high service port density, a low power profile, and open automation software that allows fast and simple provisioning of network services.

We believe one of our key differentiating capabilities is our deep vertical integration of high-end optical technology. We have a world-class team of scientists and engineers that is responsible for driving the opto-electronic innovations that are integrated into our coherent transport solutions. Core engineering disciplines include coherent application-specific integrated circuit ("ASIC")/DSP design, PIC design and manufacture, analog ASIC design, advanced packaging design and manufacture, and holistic co-design, including the RF interconnect. Our experts have achieved many industry firsts, including the first large-scale PIC, the first coherent PIC, the first commercial super-channels, the first Nyquist subcarriers, and the first point-to-multipoint coherent technology. Additional innovation highlights include soft-decision forward error correction gain sharing techniques and long-codeword probabilistic constellation shaping. These innovations are the foundation for the superior reach performance of our 1.6 Tb/s-capable ICE6 optical engine and our industry-first point-to-multipoint technology. They have resulted in Infinera setting numerous industry records for optical transmission.

Financially, we believe our in-house developed technology approach coupled with our unique monolithic Indium phosphide, or InP, semiconductor technology 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 also allow us to develop new technologies and solutions that offer our customers innovative ways to solve their business needs.

Product Portfolio

Our hardware product portfolio consists of compact modular platforms, packet-optical platforms, optical line systems, and optical subsystems. Software products include the Infinera Transcend Software Suite, which includes automation and network management software. These products address multiple market segments in the end-to-end transport infrastructure, including metro, long-haul and subsea. Data Center Interconnect ("DCI") is a subset of these markets. We also provide customer support services, including professional service offerings designed to help customers optimize their network assets and migrate legacy services.

Compact Modular Platforms

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 DWDM super-channel output in 2RUs. 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 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 (GX) Series

The Infinera Groove (GX) Series of highly compact, modular, and sled-based platforms includes integrated muxponder and optical line system capabilities optimized to support a variety of transport network applications. With a compact and flexible architectural design, the GX Series supports up to 800 Gb/s per wavelength (via ICE6) to deliver cost-optimized optical reach in metro and long-haul applications, enabling rapid capacity increases as network traffic grows. The GX muxponder solution supports deployment over virtually any optical line system, enabling network operators to easily introduce our best-of-breed, high-performance transmission capabilities over existing infrastructure.

Infinera XT Series

The Infinera XT Series of compact, open and disaggregated platforms, powered by our ICE4, delivers up to 2.4 Tb/s of line-side capacity for metro, DCI, regional and long-haul networks in compact 1RU and 4RU form factors, with ultra-long-haul and submarine reach. These platforms are designed to power cloud scale network services over metro, DCI, long-haul and subsea networks.

Optical Line Systems

Infinera Groove (GX) Series

In addition to muxponder functionality, the Infinera Groove (GX) Series also supports a variety of multi-haul optical line system capabilities. From compact plug-and-play optical function to comprehensive multi-degree

reconfigurable optical add-drop multiplexer ("ROADM") capabilities, the GX Series provides a single configurable system to address virtually any optical networking application. With natively open interfaces, the GX Series supports seamless integration into a variety of networks and open optical applications.

Infinera 7300 Series

The Infinera 7300 Series is an SDN-ready coherent optical transport system. Supporting the latest optical technology, the 7300 Series addresses the needs of regional, long-haul, and ultra-long-haul optical networking, including long, unrepeated single-span and festoon subsea networks. The 7300 Series enables network operators to achieve the highest network resiliency with fast optical protection switching and the use of autonomous and SDN-controlled restoration capabilities.

Infinera FlexILS Open Optical Line System

The Infinera FlexILS open optical line system connects various Infinera and third-party terminal equipment platforms over long-distance fiber optic cable while providing switching, multiplexing, amplification and management channels. The FlexILS solution 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 FlexILS 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 DWDM, OTN and packet switching.

Packet-Optical Platforms

Infinera 7090 Series

The Infinera 7090 Packet Transport Platforms provide both Multiprotocol Label Switching ("MPLS")-Transport Profile ("MPLS-TP") and Carrier Ethernet-based options, addressing applications including business Ethernet services, migration from TDM to packet, and residential and mobile backhaul. The 7090 Series includes MPLS-TP platforms with capacities ranging from 5 Gb/s to 960 Gb/s and Carrier Ethernet-based platforms that provide a range of compact gigabit Ethernet ("GbE") and 10 GbE access devices.

Infinera XTM Series

The Infinera XTM Series packet-optical transport platform enables high-performance metro connectivity solutions with service-aware capabilities optimized for 5G, Fiber Deep, business services and other metro transport applications. The XTM Series offers superior density, lower power consumption and higher scalability for multi-service metro access and aggregation networks, including integrated Layer 1 and Layer 2 support and Time Sensitive Networking features required for 5G mobile x-haul applications. The 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 with differentiated performance. This offering includes Auto-Lambda, a feature that provides a unique solution for deploying access and aggregation networks. Auto-Lambda enables network operators to simply plug DWDM optics into aggregation and access nodes, which allows the packet-optical network element to automatically tune each of the optical signals to the appropriate wavelength.

Infinera 7100 Series

Infinera 7100 Series of packet-optical transport platforms are right-sized and support a flexible mix of transponders, muxponders, packet switching, OTN switching, SONET/SDH switching, and ROADM-based optical line systems, providing compact and flexible transport for metro networks. The 7100 Series includes the 7100 Nano, a 5RU platform optimized for metro transport and the 7100 Pico, a 2RU platform that extends services to the metro edge and enables metro access applications. The 7100 Series also includes the PSX-3S, a 1RU 376 Gb/s packet switch optimized for aggregation and access applications.

Infinera mTera Series

The Infinera mTera Universal Transport Platform is a flexible and efficient network transport solution supporting scalable grooming and an innovative protocol-agnostic switch fabric in which each and every port on virtually every card can be software-configured between OTN and Ethernet. 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 ROADM capabilities and support for the universal switching of OTN, packet and SONET/SDH traffic at the electrical layer.

Infinera XTC Series

The Infinera XTC Series includes multi-terabit packet optical transport platforms that integrate digital OTN switching and optical DWDM transmission. The XTC Series delivers converged packet, OTN, and DWDM for metro core, regional, long-haul, and subsea applications. The XTC Series features ICE4, Instant Bandwidth, and massively simple operations to drive cost reduction and speed time to revenue. 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.

Coherent Optical Subsystems

ICE-XR Coherent Pluggable Optics

ICE-XR is a suite of coherent pluggable optics designed to seamlessly address point-to-point (including ZR+) and point-to-multipoint transport applications from the network edge to the core. The suite of vertically integrated ICE-XR pluggables will offer network operators the performance, scale, efficiency, and manageability critical to infrastructure support for the delivery of differentiated 5G, enhanced broadband, and next-generation cloud and business services. ICE-XR pluggables will support a range of transport rates, including 100G, 400G, and 800G, and utilize industry-standard form factors to enable ease of deployment in a wide variety of networking elements. These networking elements include optical transport platforms, compact modular platforms, routers, switches, servers and mobile radio units.

Software

Transcend Software Suite

Leveraging cloud-native technologies and SDN principles, the Infinera Transcend Software Suite includes a network management system with an intuitive graphical user-interface and pre-defined workflows, a packet-optical domain controller offering network programmability and automation, and a network planning system. The Transcend Software Suite intent-based automation translates service requests into optimized network configurations, while it proactively monitors the network state and service performance data and, when appropriate, takes actions to assure service quality. Transcend implements open and standards-based interfaces, both towards the network elements and towards hierarchical controllers and Operations/Business Support Systems (OSS/BSS), ensuring a seamless integration into the operator's network and operational environment. The Transcend Software Suite provides automation that reduces operational costs, optimizes network assets, speeds time to revenue, and maximizes network and service availability.

System Software

Our networking platforms include system software designed to maximize reliability and streamline automation. This software controls all aspects of system operations, including command processing, system security, policy management, fault monitoring, and alarm reporting. Our system software is designed to be field upgradable, with minimal impact on customer traffic.

Services

In connection with our product offerings, we provide a comprehensive range of professional, support and training services for all Infinera hardware and software products. These services cover all phases of network ownership, from the initial installation through ongoing operations and maintenance activities. Professional services extend to network optimization, expansion and modernization including migration of legacy transport services. Our global services organization is experienced and prepared to efficiently manage complex projects and assist with customer network operations in the face of today's ever-increasing demands for lower operational costs and minimized downtime.

We continue to expand and enhance our services portfolio, organization and capabilities to meet the evolving needs of our customers.

Competition

Our current technologies and platforms support the access, aggregation, 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:

- the ability of products and services to meet customers' immediate and future network requirements;
- price and other commercial terms;
- optical reach and capacity performance;
- features and functionality;
- existing business and customer relationships;
- power consumption, heat dissipation, form factor and density;
- installation and operational simplicity;
- quality and reliability;
- service and support;
- security and encryption requirements;
- scalability and investment protection; and
- product availability and lead times.

Competition in the optical transport systems market is intense, with consolidation and geopolitical market shifts creating new competitive dynamics. In the long-haul market, our main competitors include DWDM systems suppliers such as Ciena, Huawei, Nokia and ZTE. In the metro market, we face the same competitors as in long-haul, in addition to Cisco, ADVA Optical Networking, Ribbon Communications, and Fujitsu, among others. In the DCI market we also face competition from vendors that are selling optical components such as pluggable optics directly to customers as opposed to DWDM systems. In addition to our current competitors, other companies have developed, or may in the future develop, system and subsystem products that are, or could be, competitive with our products. This includes companies such as Lumentum, Marvell, II-IV and potential competitors in China. 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 and is organized geographically around the following markets: (i) United States and Canada ("North America"); (ii) Latin America and South America ("LATAM"); (iii) Europe, Middle East and Africa ("EMEA"); and (iv) Asia Pacific and Japan

("APAC"). Within each geographic area, we maintain specific teams or personnel that focus on a particular region, country, customer or market vertical.

Indirect Sales Force. We employ business consultants and resale and logistics partners to assist in our sales efforts, 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 tradeshows 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 photonic integrated circuits, components, systems, sub-systems and software. Our research and development efforts are currently focused in San Jose, California; Allentown, Pennsylvania; Annapolis, Maryland; Bangalore and Ahmedabad, India; Kanata, Canada; Stockholm, Sweden; Munich, Germany; Lisbon, Portugal; Shanghai, PRC; and Espoo, Finland. 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 completed integration of the legacy Infinera and Coriant products into a combined solutions portfolio; and we are investing in leveraging the vertical integration capabilities of Infinera across a broader portion of our 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 more rapidly and meet evolving customer demands. 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.

Human Capital

Integrity, trust, mutual commitment, and respect for diversity are some of Infinera's core values – values brought to life by our talented, diverse, and dedicated global workforce. Employee health and safety are cornerstones of our human capital management, particularly during the COVID-19 pandemic. Our goal is to continuously improve employee engagement and we strive to build and maintain a culture of human connection, individual responsibility, and mutual integrity. We have implemented programs towards these ends. As of December 25, 2021, we had 3,225 employees, with 2,036 of those employees located outside of the United States. None of our U.S. employees are subject to a collective bargaining agreement. Employees in certain foreign jurisdictions are represented by local workers' councils and/or collective bargaining agreements, as required by local laws or customs. We have not experienced any work stoppages, and we consider our employee relationships to be good.

Diversity and Inclusion

At Infinera, we have an inclusive culture, as reflected in the way we treat each other and respect our differences across our global workforce, and how we do business with our customers and partners around the world. We believe that our culture of inclusion and belonging enables us to leverage the strengths of our people to exceed customer expectations and growth objectives. Our global diversity, equity, and inclusion ("DE&I") engagement committee drives our key DE&I initiatives, which include training and development, employee resource groups, and recruiting strategies.

In 2020, we launched Infinera ALL-In, an employee-led, executive sponsored, company-wide effort to promote, facilitate and support sustainable DE&I efforts. This has led to meaningful and measurable results in our approach to diversity, equity, inclusion, and belonging. Infinera ALL-In aims to incorporate DE&I in every aspect of our business and employee experience; to create an environment where everyone in our global community feels valued, respected and supported so that every person has the opportunity to achieve full

potential; to embrace the unique perspectives and experiences of our employees and partners to exceed our globally diverse customer expectations; and to prepare and implement a corporate framework for hiring, developing, and engaging the diverse talent required to maximize our opportunity.

Infinera ALL-In is led by our CEO, CFO, CHRO and other executives and employee leaders from each region in which we have employees and do business. In 2020, Infinera All-In started to coordinate and support new and existing global and local DE&I efforts. In 2021, we expanded our DE&I global team with the addition of local DE&I representatives at our major sites who are helping to develop, support, and scale our DE&I initiatives and employee engagement activities at the local level.

To ensure a holistic approach to DE&I, Infinera ALL-In conducted employee surveys to understand employee perception of our company culture and to determine strategic priorities. Employee input is critical as we continue to build a unified global culture that values local needs and perspectives. These surveys highlighted key areas of DE&I focus for us. They have resulted in the addition of African Descent/Black at Infinera, Latin America and other employee resource groups, and contributed to enhancement to our existing Women at Infinera ("WIN") employee resource group.

WIN was founded in 2018 with the purpose of positively reinforcing women in technology and facilitating engagement and collaboration company-wide. The group works to provide our female employees with access to conferences, social events, and other prominent engagements in the technology industry, as well as to support greater opportunities for career growth, internships, and leadership. In 2019, we created a formal WIN leadership board, which was expanded to a global cross-functional team in 2020. In 2021, we expanded WIN activities and participation, including the introduction of a mentor program, the formation of subcommittees, and a quarterly speakers' program addressing topics including development, attraction, and retention of women.

In 2021, we also introduced DE&I training for our global employee base. Training is issued every quarter on topics such as global diversity and employee's role in workplace diversity. Recruiters and managers participate in additional training on topics such as ensuring a diverse applicant pool and overcoming unconscious bias in the workplace.

As of December 25, 2021, women represented over 18% of our global employees and minorities represented approximately 35% of our U.S. workforce.

We also participate in national and regional initiatives to recruit diverse talent. For example, in Canada, we have an agreement with the Employment and Social Development Agency to increase the percentage of new employees who are members of underrepresented minorities and women. Through this agreement, Infinera Canada is committed to participating in diversity-related events for the purpose of recruiting Canadians and/or Permanent Residents from underrepresented groups. Similarly, in Europe, we are party to European Commission-funded consortium agreements through which we recruit, hire and develop women and minority early-stage researchers.

Compensation, Benefits and Well-being

Our goal is to provide our talented employees with a total compensation package that is market-competitive as validated through data sources. Our total compensation for eligible employees includes base salary, bonuses and equity awards. We intend to maintain ongoing competitiveness for attracting and retaining talent. We continuously improve our human resources information systems for workforce data collection, monitoring and reporting, and expect that this will allow us to improve our understanding of compensation equity around the globe to ensure fair pay. In addition, with our benefits programs, we seek to provide market-competitive benefits as part of our total reward structure for all employees around the globe and their dependents.

As the world responds to the outbreak of the COVID-19 pandemic, we are working to do our part by ensuring the safety of our employees, striving to protect the health and well-being of the communities in which we operate, and providing technology, tips and resources to our customers to help them do their best work while remote. Infinera is a critical infrastructure business with manufacturing facilities in the U.S. and research and development sites in several countries. As such, we have invested in creating physically safe work environments for our essential on-site workforce. We have a global leadership team comprised of local site leaders that meets regularly to support compliance with all local and international guidelines and establish best practices at every site. In the U.S., we have initiated testing for essential on-site employees at no cost to employees and currently require all non-essential employees to work remotely. We regularly quarantine employees who test positive for COVID-19 or are identified as close contacts and provide paid leave to such employees beyond what is required by local laws. We also secured and paid for vaccinations for employees and their families in India.

We are working to help protect our local communities. For example, in 2021, we had employee driven community engagement initiatives to promote education equity and food security in our U.S. and India sites. Leveraging the knowledge of our local site leaders, we continue to evaluate opportunities for similar community initiatives in our other global sites.

In light of the challenges presented by the COVID-19 pandemic to physical, mental, and emotional health, we have renewed our focus on employee well-being. For example, in the U.S., the Employee Assistance Program benefit includes mental health counseling for help with personal issues, childcare and eldercare referrals, financial coaching, legal consultation, and wellness tools. Employees are provided medical, dental, vision, long-term and short-term disability, and life insurance, and employees covered under our health insurance have access to various wellness programs. Employees are provided paid parental leaves as new parents (birth or adoption). Eligible employees are also qualified to receive unlimited flexible time off. Finally, we provide trainings on working with teams in a pandemic and remote environment.

We are committed to providing employees with a healthful and safe work environment by striving to prevent accidents and improve workplace conditions, and continuously working to improve our processes and performance. Our health and safety programs emphasize personal accountability, professional conduct, and regulatory compliance, while our culture fosters a sense of proactivity, caution, and communication.

Growth and Development

We believe that transparency and integrity help foster a culture of professional growth. We continuously evolve our approach to employee communication, from a company-wide perspective to functional communication to smaller team meetings, all the way to one-on-ones. With that in mind, we encourage our employees to share candid feedback about working for our company through feedback channels, including internal channels and on public forums such as Glassdoor.com. Our management utilizes this feedback as we work to consistently improve our employee experience.

Finally, experiential learning is powerful in career development, which is why we provide global job-based learning opportunities including cross-functional transfers and expanded roles. We significantly expanded our learning and development initiatives, with a focus on working in a pandemic environment.

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 California and 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 patents, trade secrets 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 California and our module manufacturing facility in 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 China, Malaysia, Mexico, Hungary and Thailand, and we maintain the capability to redirect select manufacturing activities 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

Our backlog represents purchase orders received from customers for future product shipments and services to be provided in future periods. 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

Our innovative optical engine technology, including our PIC, DSP, module and related technologies, is foundational to our products and we believe it is highly valued by our customers and provides us with a competitive advantage.

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. 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 25, 2021, we held 1,081 U.S. patents and 525 international patents expiring between 2022 and 2041, and held 200 U.S. and 103 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. Although we are not currently involved in litigation for alleged patent infringement, we have been in the recent past and we may be involved in such litigation in the future. See the information set forth under the heading "Legal Matters" in Note 13, Commitments and Contingencies, in Part II, Item 8 for additional information regarding any such 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.

Governmental Regulations

Environmental Laws and Regulations. 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 Directive ("WEEE"), 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.

Other Laws and Regulations. We are subject to U.S. and foreign laws and regulations across the jurisdictions in which we operate. In addition to the environmental laws and regulations discussed above, we are subject to laws and regulations addressing the telecommunications industry, cybersecurity, privacy and data protection, export and import control, trade sanctions, and anti-bribery and anti-corruption. To date, our compliance costs relating to these laws and regulations have not resulted in a material adverse effect on our business, operating results or financial condition.

For further discussion of risks associated with these governmental laws and regulations, see Part I, Item 1A, "Risk Factors – Legal and Regulatory Risk Factors."

Information about our Executive Officers

Our executive officers and their ages and positions as of December 25, 2021, are set forth below:

| Name | Age | Position |
|--------------------|------------|---|
| David W. Heard | 53 | Chief Executive Officer and Director |
| Nancy Erba | 55 | Chief Financial Officer |
| David L. Teichmann | 65 | Chief Legal Officer and Corporate Secretary |
| Nicholas R. Walden | 50 | Senior Vice President, Worldwide Sales |

David W. Heard has served as our Chief Executive Officer and has been a member of our Board of Directors since November 2020. Mr. Heard served as our Chief Operating Officer from October 2018 to November 2020. Mr. Heard previously served as our General Manager, Products and Solutions, from June 2017 to October 2018. 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 an M.B.A. from the University of Dayton, an M.S. in management from Stanford Graduate School of Business, where he was a Sloan Fellow, and a B.A. in production and operations management from Ohio State University.

Nancy Erba has served as our Chief Financial Officer since August 2019 after joining us as Senior Vice President, Strategic Finance earlier in the same month. Prior to joining us, from September 2016 to March 2019, Ms. Erba served as Chief Financial Officer of Immersion Corporation, a leader in touch feedback technology. From February 2015 to October 2015, Ms. Erba was Vice President, Financial Planning and Analysis of Seagate Technology plc, a data storage company. Prior executive roles at Seagate Technology include Division CFO and Vice President of Finance for Strategic Growth Initiatives from 2013 to 2015; Vice President, Business Operations and Planning from 2009 to 2013; Division CFO and Vice President of Finance of the Consumer Solutions Division from 2008 to 2009; and Vice President, Corporate Development from 2006 to 2008. Ms. Erba currently serves on the board of directors of PDF Solutions, Inc., a software and engineering services company. Ms. Erba holds an M.B.A. from Baylor University and a B.A. in mathematics from Smith College.

David L. Teichmann has served as our Chief Legal Officer and Secretary since April 2019. Prior to joining us, Mr. Teichmann served as Executive Vice President, General Counsel and Corporate Secretary of Oclaro, Inc., a maker of optical components and modules for the long-haul, metro and data center markets, from January 2014 until its acquisition by Lumentum in December 2018. From 2007 to 2012, he served as the Executive Vice President, General Counsel and Corporate Secretary of Trident Microsystems, Inc., a public fabless semiconductor company that sold television and set top box integrated circuits. From August 1998 to February 2006, he served as the Senior Vice President, General Counsel and Secretary of GoRemote Internet Communications, Inc., a secure managed global remote access solutions provider, guiding the company through its initial public offering in 1999 and its acquisition by iPass, Inc. in 2006. Mr. Teichmann held various senior legal counsel positions from 1989 to 1998 handling legal matters in Europe, Asia Pacific, Latin America and Canada and began his career with the Fenwick & West law firm. Mr. Teichmann holds a J.D. from the William S. Richardson School of Law at the University of Hawaii, an M.A. in law and diplomacy from the Fletcher School of Law and Diplomacy, and a B.A. in political science from Trinity College.

Nicholas R. Walden has served as our Senior Vice President, Worldwide Sales since January 2020. Mr. Walden served as Senior Vice President, Strategic Accounts from January 2019 to January 2020. He served as Senior Vice President, EMEA Sales from September 2015 to January 2019. Prior to joining us, Mr. Walden served in a variety of senior sales roles at Ciena Corporation from 1999 to 2015, most recently as its Vice President and Managing Director, Regional Carrier Business, EMEA. Mr. Walden studied HVAC Mechanical Engineering at the College of Technology at Reading, Berkshire, United Kingdom.

Available Information

We may use our website (<http://www.infinera.com>), press releases, public conference calls and public webcasts as means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. 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. The SEC also maintains a website that contains our SEC filings. The address of the SEC website is <https://www.sec.gov>.

ITEM 1A. RISK FACTORS

Investing in our securities involves a high degree of risk. A description of the risks and uncertainties associated with our business is set forth below. These risks, together with many other factors described in this report and additional risks and uncertainties not currently known to us or that we currently deem to be immaterial, could adversely affect our operations, performance and financial condition. Our actual results could differ materially from our forward-looking statements.

Risk Factors Summary

The following is a summary of the principal risks that could adversely affect our business, operations and financial results.

Business and Operational Risk Factors

- Our quarterly results may vary significantly from period to period.
- Supply chain issues, including delays, shortages and increased costs, and our dependency on sole source, limited source or high-cost suppliers could harm our business and operating results.
- Any delays in the development, introduction or acceptance of our new products or in releasing enhancements to our existing products may harm our business.
- Our ability to increase our revenue will depend upon continued demand growth for additional network capacity and on customer capital spending details.
- Aggressive business tactics by our competitors may harm our business.
- The markets in which we compete are highly competitive and we may not be able to compete effectively.
- The effects of the COVID-19 pandemic could have a material adverse effect on our business and results of operations.
- Product performance problems or deployment delays could harm our business and reputation.
- If we lose key personnel or fail to attract qualified personnel, our business may be harmed.
- We are dependent on a small number of key customers for a significant portion of our revenue.
- The manufacturing process for our optical engine and the assembly of our products are very complex.
- Increased consolidation among our customers and suppliers in the communications networking industry has had, and could continue to have, an adverse effect on our business and results of operations.
- Actions that we are taking to restructure our business may not be as effective as anticipated.
- We rely on various third-party service partners to help complement our global operations.
- If our contract manufacturers do not perform as we expect, our business may be harmed.
- We must respond to rapid technological change for our products to be successful.
- If we fail to accurately forecast our manufacturing requirements or customer demand, we could incur additional costs.
- Our large customers have substantial negotiating leverage.
- Our sales cycle can be long and unpredictable, which could result in unexpected revenue shortfalls.
- Any strategic transactions that we undertake could disrupt our business and harm our financial condition and operations.

Financial and Macroeconomic Risk Factors

- We may be unable to generate the cash flow necessary to make anticipated capital expenditures, service our debt, or grow our business.
- Inflation may adversely affect us by increasing costs beyond what we can recover through price increases.
- Unfavorable macroeconomic and market conditions may adversely affect our industry, business and financial results.

- If we need additional capital in the future, it may not be available to us on favorable terms, or at all.
- Our international sales and operations subject us to additional risks.
- Our effective tax rate may increase or fluctuate, which could increase our income tax expense and reduce our net income.
- We may be adversely affected by fluctuations in currency exchange rates.
- Our debt obligations may adversely affect our ability to raise additional capital and will be a burden on our future cash resources.
- We may issue additional shares of our common stock in connection with conversions of the Notes.
- The fundamental change provisions of the 2024 Notes and the 2027 Notes may delay or prevent an otherwise beneficial takeover attempt of us.
- The Capped Calls may affect the value of the 2024 Notes and our common stock.
- We are subject to counterparty risk with respect to the Capped Calls.

Legal and Regulatory Risk Factors

- 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.
- Claims by others that we infringe on their intellectual property rights could harm our business.
- 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.
- 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 subject to various governmental export control, trade sanctions and import laws and regulations that could impair our ability to compete in international markets or subject us to liability.
- We are subject to environmental regulations that could adversely affect our business.
- We are subject to global data privacy and data protection laws and regulations that could adversely affect our business or subject us to liability.
- A portion of our revenue is generated by sales to government entities, which are subject to a number of uncertainties, challenges, and risks.
- Our business could be adversely affected if we cannot obtain and maintain required security clearances, or we do not comply with obligations regarding the safeguarding of classified information.
- Failure to comply with anti-bribery and similar laws could subject us to adverse consequences.

General Risk Factors

- The trading price of our common stock has been volatile and is likely to be volatile in the future.
- Future sales of our common stock could cause our stock price to fall.
- 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.
- Exclusive forum provisions in our bylaws will restrict our stockholders' ability to choose the judicial forum for disputes with us or our directors, officers, or employees.
- Events that are outside of our control, such as natural disasters, terrorist attacks or other catastrophic events, could harm our operations.

For a more complete discussion of the material risks facing our business, see below.

Business and Operational Risk Factors

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, analyst or our expectations.

Our quarterly results and, in particular, our revenue, gross margins, operating expenses, operating margins and net income (loss), have historically varied significantly 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. 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.

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 or to secure long-term customer relationships, as well as the timing of purchases by our key customers;
- changes in customers' budgets for optical transport network purchases and changes or variability in their purchasing cycles;
- the price, quality and timing of delivery of key components from suppliers, including any price or shipping cost increases or delays in the supply of components that may result from the effects of the COVID-19 pandemic, as well as impacts due to consolidations amongst our suppliers;
- fluctuations in our customer, product or geographic mix, including the impact of new customer deployments, which typically carry lower gross margins, customer consolidation, which may affect our ability to grow revenue, and products powered by our next-generation technologies, which initially tend to be lower margin due to higher per unit production costs and greater variability in production yields;
- the timing, market acceptance and rate of adoption of our new product releases and our competitors' new product releases;
- our ability to manage manufacturing costs, maintain or improve quality, and increase volumes and yields on products manufactured in our internal manufacturing facilities, each of which has been impacted by the effects of the COVID-19 pandemic;
- our ability to successfully restructure or transform our operations within our anticipated time frame and realize our anticipated savings;
- 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, as well as aggressive pricing tactics by our competitors;
- our ability to manage inventory while timely meeting customer demand and avoiding charges for excess or obsolete inventory;
- readiness of customer sites for installation of our products as well as the availability of third-party service partners to provide contract engineering and installation services for us, each of which has been impacted by the effects of the COVID-19 pandemic;

- any delay in collecting or failure to collect accounts receivable;
- the timing of revenue recognition and revenue deferrals;
- any future changes in U.S. GAAP or new interpretations of existing accounting rules;
- the impact of a significant natural disaster, 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 are located near major earthquake fault lines, in areas of high fire risk and in a designated flood zone; and
- general economic and political conditions in domestic and international markets, including those related to any policy changes by the federal government and/or by the presidential administration in the United States, and other factors beyond our control, including the ongoing effects of the COVID-19 pandemic and related response measures.

Supply chain issues, including delays, shortages and increased costs, and our dependency on sole source, limited source or high-cost suppliers could harm our business and operating results.

We are reliant on our global supply chain for the production of components for our products. The global supply chain has experienced disruptions that began in 2020 as a result of the COVID-19 pandemic, leading to delays, shortages and increased costs. Beginning with the fourth quarter of fiscal 2020 and accelerating in the first quarter of fiscal 2021, these disruptions continued to negatively impact our revenue and our results of operations through the fourth quarter of fiscal 2021. For example, shortages of certain key components adversely affected our ability to deliver products to customers in a timely manner, and price increases by our suppliers negatively affected our gross margin. The global supply chain for components for our products, especially for semiconductor components, continues to experience shortages, longer lead times and increased costs. These shortages, delays and increased costs are expected to continue into fiscal 2022. We cannot predict with certainty the scope or magnitude of the impact that these supply chain disruptions will have on our business and results of operations. Any efforts that we make to mitigate supply chain issues, such as by making additional purchase commitments over a longer time period with our suppliers or by holding higher levels of inventory, could negatively impact our financial results if we do not accurately forecast customer demand or if our customers change their purchasing patterns in response to the evolving supply chain environment. Further, the lead times required for these mitigation efforts may not allow us to meet increased customer demand in a timely manner.

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 generally 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. In addition, these same suppliers may decide to no longer manufacture or support specific components necessary for some of our legacy products, which could lead to our inability to fulfill demand without increased engineering and material costs necessary to replace such components. 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 within a suitable time frame to be able to operate our business, or at all.

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. Due to cross dependencies, any supply chain disruptions could negatively impact the demand for our products in the short term. 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 certain products 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.

Any delays in the development, introduction or acceptance of our new products or in releasing enhancements to our existing products may harm our business.

Our products are based on complex technologies, including, in many cases, the development of next-generation PICs, DSPs and specialized ASICs, each of which are key components of our optical engines. In addition, we may also depend on technologies from outside suppliers, all of which may cause us to experience unanticipated delays in developing, improving, manufacturing or deploying our 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, which 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. For example, sustained restrictions on the ability of our engineers to work in our offices and laboratories as a result of COVID-19-related restrictions imposed by governments, or us, has made and could continue to make it more difficult for our engineers to collaborate as effectively as desired in the development of new products, which could affect development schedules. If we do not develop and successfully introduce or enhance products in a timely manner, including the successful development of our next generation optical engine, our competitive position will suffer.

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, weakening economic conditions as has been precipitated by the effects of the COVID-19 pandemic, changes in government regulations relating to telecommunications and data networks, customer or other reasons, could have a material adverse effect on our business, financial condition and results of operations.

Aggressive business tactics by our competitors may harm our business.

The markets that we compete in are extremely competitive, which 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.

The markets in which we compete are highly competitive and we may not be able to compete effectively.

The packet-optical equipment market is competitive. Our main competitors include DWDM system suppliers, such as ADVA Optical Networking, Ciena Corporation, Cisco Systems, Ribbon Communications Inc., Huawei Technologies Co., Ltd., Nokia and ZTE. In addition, there are several other companies that offer one or more products that partially compete with our offerings. Moreover, other companies have developed, 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. For example, in March 2021, Cisco completed its acquisition of optical communications supplier Acacia Communications.

Competition in the markets we serve is based on any one or a combination of the following factors:

- price and other commercial terms;
- functionality and optical performance;
- 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.

Some of our competitors have substantially greater name recognition and technical, financial and marketing resources. 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 and/or have the ability to provide financing to customers, which 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 could, therefore, have an inherent advantage in selling products to those customers.

We also compete with low-cost producers that may increase pricing pressure on us and with 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.

The effects of the COVID-19 pandemic could have a material adverse effect on our business and results of operations.

The COVID-19 pandemic has caused disruptions to our business and operations to date and could have a material adverse effect on our business and results of operations in the future. The COVID-19 global pandemic has adversely affected the economies of many countries and has resulted in significant governmental measures to control the spread of COVID-19, including, among others, restrictions on travel, business operations and the movement of people in many regions of the world in which we operate, and the imposition of shelter-in-place or similarly restrictive work-from-home orders impacting many of our offices and employees, including those located in the United States.

As a result of these governmental measures and pursuant to recommended safety guidelines, we have temporarily closed or substantially limited the presence of personnel in our offices in several impacted locations, implemented travel restrictions and withdrawn from various industry events. Our work-from-home policy has at times contributed to delays in certain operational processes, including our routine quarterly financial statement close process in the first quarter of 2020, and may have an impact on our operational processes in the future. We have experienced disruption and delays in our global supply chain and manufacturing operations, logistics operations and customer support operations, including shipping delays, higher transport costs, and certain limitations on our ability to access customer fulfillment and service sites. We are dependent on sole source and limited source suppliers for several key components, and we have experienced capacity issues, longer lead times, increased costs and shortages with certain component suppliers, including for semiconductors, impacting our operational processes and results of operations. During fiscal 2020 and the first quarter of fiscal 2021, we experienced disruptions in customer demand due to delays in the customer certification process resulting from customer facility closures or access restrictions. Some of these disruptions negatively impacted our revenue and our results of operations.

The impact of the COVID-19 pandemic on our business and results of operations in fiscal 2022 remains uncertain and is dependent in part on future vaccination and infection rates, the emergence of new strains of the virus, the continued effectiveness and availability of vaccinations, and broader global macroeconomic developments. We may face further disruptions or restrictions on our ability to source, manufacture or distribute our products due to existing or additional governmental restrictions in multiple countries on business operations and movement of people and products. If we experience pronounced disruptions in our operations or in our ability to service our customers, including due to COVID-19 infections or quarantines among our employees and service providers, or if we face curtailed customer demand, these factors may materially adversely impact our business and results of operations. We could also face negative impacts on our liquidity and capital resources during fiscal 2022 due to the effects of the COVID-19 pandemic and its impacts on our customers, third-party service providers and capital markets.

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 hardware, software, 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 or 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 also suffer degradation of performance and reliability over time.

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, and we may not have adequate compensating remedies against such 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, such as site access limitations due to the COVID-19 pandemic. 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, fail to add new customers, and consequently harm our financial results.

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. 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, and competition for these individuals is intense in our industry, especially in the San Francisco Bay Area where we are headquartered and, increasingly, in certain cities and regions where we have operations outside the United States as well. In addition, 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. These risks may be exacerbated due to labor market changes resulting from the COVID-19 pandemic. For example, in fiscal 2021 we experienced increased turnover in our workforce as compared to prior years, and we may need to increase compensation levels in fiscal 2022 to attract and retain qualified personnel. In addition, we do not have long-term employment contracts or key person life insurance covering any of our key personnel. If we are unable to attract and retain qualified personnel, we may be unable to manage our business effectively, and our results of operations could suffer.

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.

A relatively small number of customers accounts for a large percentage of our revenue from period to period. For example, for the year ended December 25, 2021, our top ten customers accounted for approximately 42% of our total revenue. For fiscal 2020, our top ten customers accounted for approximately 43% of our total revenue. For fiscal 2019, our top ten customers accounted for approximately 46% of our total revenue. Our business will likely be harmed if any of our key customers, for whatever reason, substantially reduce, delay or stop their orders from 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. In most cases, our sales are made to these customers pursuant to standard purchase agreements, which may be canceled or reduced readily, rather than long-term purchase commitments that would require these customers to purchase any minimum or guaranteed volumes orders. 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. In addition, we must regularly compete for and win business with existing and new customers across all of our customer segments.

In addition, the negative effects of the COVID-19 pandemic on global economic conditions may affect the network spending, procurement strategies, or business practices of our key customers. If any of our key customers experience a loss in revenue due to the impact of the COVID-19 pandemic on their consumer or enterprise customers, they may reduce or delay capital spending generally or with respect to our products, which could materially adversely affect our business and results of operations.

The manufacturing process for our optical engine and the assembly of our finished products are 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 optical engine, including the PICs, DSPs and specialized ASICs, and the assembly of our finished products are 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 could severely 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, like the COVID-19 pandemic, work stoppage or otherwise, for any extended period of time would cause our business, financial condition and results of operations 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.

Increased consolidation among our customers and suppliers in the communications networking industry has had, and could continue to have, an adverse effect on 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 in the past. During 2016, Charter Communications acquired Time Warner Cable, Inc. and Altice acquired Cablevision. During 2017, Verizon acquired XO Communications and CenturyLink acquired 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 continued to consolidate. For example, Lumentum acquired Oclaro in 2018 and II-VI acquired Finisar in 2019. In June 2021, the stockholders of Coherent and II-VI approved a proposal for Coherent to be acquired by II-VI. 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 for certain components and materials that are required to manufacture our products.

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.

During 2020 and 2021, we undertook certain restructuring initiatives, including the 2020 Restructuring Plan and the 2021 restructuring of certain international research and development functions, in order to reduce expenses, reallocate resources to align more closely with our evolving business model, and improve operating efficiencies. These activities might not produce the full expense reduction, resource realignment and efficiency benefits we expect, which could harm our business. Further, any anticipated benefits from these restructuring initiatives may be realized later than expected or not at all, and the ongoing costs of implementing these measures may be greater than anticipated. In addition, as a result of these restructuring actions, our ability to execute on product development, address key market opportunities and/or meet customer demand could be materially and adversely affected.

We rely on various third-party service partners to help complement our global operations, and failure to adequately manage these relationships could adversely impact our financial results and relationships with customers.

We rely on a number of third-party service partners, both domestic and international, to complement our global operations. We rely upon these partners for certain installation, maintenance, logistics and support functions. In addition, as our customers increasingly seek to rely on vendors to perform additional services relating to the design, construction and operation of their networks, the scope of work performed by our service partners is likely to increase and may include areas where we have less experience providing or managing such services. We must successfully identify, assess, train and certify qualified service partners in order to ensure the proper installation, deployment and maintenance of our products. The vetting and certification of these partners can be costly and time-consuming, and certain partners may not have the same operational history, financial resources and scale as we have. Additionally, certain service partners may provide similar services for other companies, including our competitors. We may not be able to manage our relationships with our service partners effectively, and we cannot be certain that they will be able to deliver services in the manner or time required, that we will be able to maintain the continuity of their services, or that they will adhere to our approach to ethical business practices. Our service partners may also experience challenges in providing services to us as a result of the impact of the COVID-19 pandemic. We may also be exposed to a number of risks or challenges relating to the performance of our service partners, including:

- delays in recognizing revenue;

- liability for injuries to persons, damage to property or other claims relating to the actions or omissions of our service partners;
- our services revenue and gross margin may be adversely affected; and
- our relationships with customers could suffer.

If we do not effectively manage our relationships with third-party service partners, or if they fail to perform these services in the manner or time required, our financial results and relationships with our customers could be adversely affected.

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 would guarantee product availability, or the continuation of particular pricing or payment terms. We face a number of risks due to 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;
- potential variability of pricing or payment terms due to agreement length;
- counterparty risk, particularly if our contract manufacturers are sensitive to inflation and interest-rate risk;
- risks and uncertainties associated with the locations or countries where our products are manufactured, including potential manufacturing disruptions caused by geopolitical events, military actions, work stoppages or other social factors, natural disasters or other environmental factors, or international health emergencies, such as the COVID-19 pandemic;
- limited warranties on components; and
- potential misappropriation of our intellectual property.

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. If we are required to change or qualify a new contract manufacturer, we could lose revenue and damage our customer relationships.

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.

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 vary significantly for materials and components, including ASICs, that we need to order for the manufacture of our products 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 lengthened lead times for certain components, and we are currently seeing longer lead times with certain components due to industry-wide supply chain challenges, which makes forecasting more challenging. We may be required to purchase increased levels of such components to satisfy our delivery commitments to our customers as a result of longer lead times for components. 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, cause delays in shipments and our ability to recognize revenue, and result in potential loss of customers to competitors. 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.

Our large customers have substantial negotiating leverage, which may cause us to agree to terms and conditions that result in lower average selling prices and potentially increased cost of sales leading to lower gross margin, each of which would harm our results of operations.

Many of our customers are large service providers and ICPs 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 sought and may continue to seek advantageous pricing, payment and other commercial terms. We have agreed 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.

Continued and increased inflation could decrease the profitability of customer contracts, particularly those with extended payment terms, that are not indexed to inflation. 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.

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. We have seen a lengthening of our sales cycle as a result of the COVID-19 pandemic, due to delays in the customer certification process for our products resulting from customer facility closures or access restrictions. Because our sales cycle is long, we are likely to recognize higher inflation-related costs before recognizing the benefits of any price increases that we implement for our products. Moreover, the costs associated with our sales cycle may increase faster than our ability to increase prices. In addition, changes in regulatory requirements or uncertainty associated with the regulatory environment could delay or impede investment in network infrastructures and adversely affect our business, financial condition and results of operations.

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, including the need for the customer to obtain external financing. If sales expected from customers for a particular quarter are not realized in that quarter or at all, our revenue will be negatively impacted.

Any acquisitions or strategic transaction that we undertake could disrupt our business and harm our financial condition and results of operations.

We have made strategic acquisitions of businesses, technologies and other assets in the past, including most recently the Acquisition. We may engage in acquisitions, divestitures or other strategic transactions in the future. In order to undertake certain of these transactions, 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 efficiencies and strategic benefits of such transactions, 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 investors and securities analysts react unfavorably to a strategic transaction or if the integration or the anticipated financial and strategic benefits of such transactions are not realized as rapidly as or to the extent anticipated by investors and securities analysts.

Acquisitions, divestitures or other strategic transactions 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. Divestitures can also result in contractual, employment or intellectual property liability related to divested assets. 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, divestitures or other strategic transactions 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;
- challenges in divesting assets and intellectual property without negatively affecting our retained business lines;
- 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 or exiting existing markets; and
- loss of key employees.

Our failure to adequately manage the risks associated with an acquisition, divestment or strategic transaction could have an adverse effect on our business, financial condition and results of operations.

Financial and Macroeconomic Risk Factors

We may be unable to generate the cash flow necessary to make anticipated capital expenditures, service our debt or grow our business.

We may not be able to generate sufficient cash flow from operations to make anticipated capital expenditures, to enable us to service our debt or grow our business. For example, in each of the fiscal years since the completion of the Acquisition, we have had a net loss and negative cash flows from operations and we may continue to incur losses and negative cash flows from operations in the future periods. Our ability to pay our expenses, service our debt and fund planned capital expenditures will depend on our future performance, which will be affected by general economic, competitive, legislative, political, regulatory, public health issues and other factors beyond our control, and our ability to continue to realize synergies and anticipated cost savings. If we are unable to generate sufficient cash flow from operations to service our debt or to make anticipated capital expenditures, we may be required to sell assets, reduce capital expenditures, borrow additional funds or evaluate alternatives for efficiently funding our capital expenditures and ongoing operations, including the issuance of equity, equity-linked and debt securities.

Inflation may adversely affect us by increasing costs beyond what we can recover through price increases.

Recently, inflation has increased throughout the U.S. economy. Inflation can adversely affect us by increasing the costs of labor, supplies and other costs of doing business. In an inflationary environment, our ability to raise prices enough to match the rate of inflation may be constrained by customer resistance and competitive concerns, as well as industry-specific and other economic conditions, which would reduce our profit margins. We have experienced, and continue to experience, increases in the prices of labor, supplies and other costs of doing business. Continued inflationary pressures could impact our profitability.

Unfavorable macroeconomic and market conditions may adversely affect our industry, business and financial results.

In the past, unfavorable macroeconomic and market conditions have resulted in sustained periods of decreased demand for optical communications products and 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;
- our customers facing financial difficulties, including bankruptcy;
- 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.

The effects of the COVID-19 pandemic have negatively affected the economies of many countries and have created significant uncertainty regarding global macroeconomic conditions. The COVID-19 pandemic has also led to increased disruption and volatility in capital markets, credit markets, and supply chains. These

conditions may also result in the tightening of credit markets, which could limit or delay our customers' ability to obtain necessary financing for their purchases of our products.

Our customers may delay or cancel their purchases or increase the time they take to pay or default on their payment obligations due to lack of liquidity in the capital markets, the continued uncertainty in the global economic environment or inflationary concerns, 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.

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.

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. For example, in September 2018, we issued convertible senior notes due September 1, 2024 (the "2024 Notes") to pay the cost of related capped call transactions, as discussed below, to fund the cash portion of the purchase price of the Acquisition, and for general corporate purposes. In August 2019 and as amended thereafter, we entered into the Amended Credit Agreement with Wells Fargo Bank and BMO Harris Bank N.A. to provide additional working capital flexibility to manage our business, utilizing the Credit Facility. In addition, in March 2020 we issued convertible senior notes due March 1, 2027 (the "2027 Notes" and, together with the 2024 Notes, the "Notes") to raise additional funds for general corporate purposes, including working capital to fund growth and potential strategic projects. For additional risks related to the Notes, please see "Common Stock and Indebtedness Risk Factors" below. In August 2020, we entered into the Sales Agreement with Jefferies LLC ("Jefferies") under which we issued and sold through Jefferies, acting as agent and/or principal, shares of our common stock having an aggregate offering price of \$96.3 million, to raise funds for general corporate purposes, including working capital and capital expenditures. We may require additional capital from equity or equity-linked 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, and may be affected by the impacts of the COVID-19 pandemic on capital markets. 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.

Our international sales and operations subject us to additional risks that may harm our operating results.

Sales of our products into international markets continue to be an important part of our business. During 2021, 2020 and 2019, we derived approximately 53%, 54% and 52%, 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 the Americas, EMEA (with offices in the Middle East) and APAC (including China). In addition, we have established development centers in Canada, China, Finland, Germany, India, Portugal 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 having global operations, the sudden disruption of the supply chain and/or the manufacture of our customer's components caused by events outside of our control could impact our results of operations by impairing our ability to timely and efficiently deliver our products or provide installation and maintenance services to our customers. For example, the global COVID-19 pandemic has disrupted and is expected to continue to disrupt the global supply chain for certain components necessary for our products and could continue to threaten the health and safety of our employees.

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, contractual limitations, or customer specifications impacting 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;
- potentially adverse tax consequences;
- natural disasters, acts of war or terrorism, and health crises, including the COVID-19 pandemic;
- changes to free trade agreements, trade protection measures, tariffs, export compliance, domestic preference procurement requirements, qualification to transact business and additional regulatory requirements, including changes related to policy and other changes made by the federal government in the United States; and
- effects of changes in currency exchange rates, particularly relative increases in the exchange rate of the U.S. dollar compared to 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 U.S. Foreign Corrupt Practices Act of 1977, as amended (the "FCPA"), and the UK Bribery Act, antitrust or competition laws, anti-money laundering laws, various trade controls, national security related regulations, 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 (the "E.U.") and, in particular, the United Kingdom's exit from the E.U., could slow economic growth in the region, affect foreign exchange rates, and could have a negative impact on near-term economic activity, leading to 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, adversely affecting our business, financial condition and results of operations.

Our effective tax rate may increase or fluctuate, which could increase our income tax expense and reduce our net income.

Our effective tax rate and the amount of our taxable income could be subject to volatility or 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 to the financial accounting rules for income taxes;
- the tax effects of acquisitions; and
- the resolution of issues arising from tax audits.

For example, the Biden administration has proposed tax reform legislation to increase the U.S. corporate income tax rate, increase U.S. taxation of international business operations and impose a global minimum tax, which could result in increased marginal corporate tax rates. The global minimum tax is also supported by numerous countries and the Organization for Economic Cooperation and Development ("OECD"). Such countries, the OECD and other organizations are also actively considering changes to existing tax laws or have proposed or enacted new laws that could increase our tax obligations in countries where we do business or cause us to change the way we operate our business. Any changes in federal, state or international tax laws or tax rulings could adversely affect our effective tax rate and our 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 currently enter into foreign currency exchange forward contracts to reduce the impact of foreign currency fluctuations on certain non-functional currency account balances. 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 on our results of operations and financial condition.

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.

As of December 25, 2021, the outstanding aggregate principal amount of the 2024 Notes and the 2027 Notes was \$402.5 million and \$200.0 million, respectively. 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 each series 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 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. 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 are 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 each series of 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 any series of Notes could depress the market price of our common stock.

The fundamental change provisions of the 2024 Notes and the 2027 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 or 2027 Notes, holders of the applicable series of Notes will have the right, at their option, to require us to repurchase all or a portion of their Notes of such series. In addition, if such fundamental change also constitutes a make-whole fundamental change, the conversion rate for the applicable series of Notes may be increased upon conversion of the such series of 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 any series of 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 Calls 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 (the "Capped Calls") with certain financial institutions who are 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 Calls.

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.

Legal and Regulatory Risk Factors

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 results of operations. 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 on their intellectual property rights 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, non-practicing 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 in technology implementation 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 asserted, 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, in the past 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 lawsuits 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 Part II, Item 8 under the heading "Legal Matters".

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 results of operations.

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 results of operations.

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, financial condition and results of operations.

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 may be considered proprietary or confidential information. This sensitive data includes certain personal information and other data relating to our employees and others. We also utilize third-party service providers to host, transmit, or otherwise process data in connection with our business activities, including our supply chain processes, operations, and communications. Companies, especially in the technology industry, have been increasingly subject to a wide variety of security incidents, cyber attacks, malicious activity, including ransomware, malware and viruses, and other attempts to gain unauthorized access and disrupt systems and the confidentiality, security, and integrity of information, and we and our third-party service providers and suppliers have faced and may continue to face security threats and attacks from a variety of sources. In response to the COVID-19 pandemic, many of our employees are working from home and accessing our corporate network via remote devices, which may be less secure than those used in our offices and thus could increase the potential for such events to occur.

While the secure maintenance of this information and the security of our systems 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 or otherwise compromised due to operator error, malfeasance or other system disruptions. It may be difficult to anticipate or immediately detect such security incidents or breaches and to prevent or mitigate damage caused as a result. Accordingly, a data breach, security incident, cyber-attack, attack using ransomware or other malware, or any other unauthorized access to systems used in our business or unauthorized acquisition, disclosure, or other processing of our information or other information that we or our third-party vendors maintain or otherwise process could compromise our intellectual property, disrupt our operations, and result in loss of or unauthorized access to or acquisition, disclosure, modification, misuse, corruption, unavailability, or destruction of proprietary or confidential information. While we continually work to safeguard our internal network systems and validate the security of our third-party suppliers and 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 or incidents, and we cannot guarantee that our systems and networks or our third-party service providers' systems and networks have not been breached or that they or any components of our supply chain do not contain exploitable defects or bugs, including defects or bugs that could result in a breach of or disruption to our systems and networks or the systems and networks of third parties that support our operations. We and third-party service providers also may face difficulties or delays in identifying or responding to security breaches and other security-related incidents. 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, malware and communications from look-alike corporate domains. For example, in the fourth quarter of fiscal 2021, we experienced a phishing attack that resulted in an immaterial loss. While these have not had a material effect on our business or our network security to date, security incidents involving access to or improper use of our systems, networks or products, or those of third-party service providers, could compromise confidential or otherwise protected information, result in unauthorized acquisition, disclosure, modification, misuse, corruption, unavailability, or destruction of data, cause payments to be diverted to fraudulent accounts, or otherwise disrupt our operations. These security incidents, or any reports or perceptions that they have occurred, could cause us to incur significant costs and expenses to remediate and otherwise respond to any actual or suspected the incident, subject us to regulatory actions and investigations, disrupt key business operations, open us up to claims, demands, and liability, and divert attention of management and key information technology resources, any of which could cause significant harm to our business and reputation. Even the perception of inadequate security may damage our reputation and negatively impact our business. Further, we could be required to expend significant capital and other resources to address any data security incident or breach and to attempt to prevent future security incidents and breaches.

Although we maintain insurance coverage that may cover certain liabilities in connection with some security breaches and other security incidents, we cannot be certain our insurance coverage will be adequate for liabilities actually incurred, including any consequential damages that may arise from such security incidents, that insurance will continue to be available to us on commercially reasonable terms (if at all) or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, or denials of coverage could have a material adverse effect on our business, including our financial condition, results of operations and reputation.

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 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. If we are unable to implement effective key operation controls around financial processes and successfully manage and monitor manual processes, 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. In addition, prior to the Acquisition, we maintained separate internal controls over financial reporting with different financial reporting processes and different ERP systems, and Coriant, as a private company, was not required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. Any issues with our integrated ERP system may cause time delays and impact our ability to undertake financial reporting in a timely manner.

We are subject to various governmental export control, trade sanctions, and import laws and regulations that could impair our ability to compete in international markets or subject us to liability if we violate these controls.

In some cases, our products are subject to U.S. and foreign export control laws and regulations that may limit where and to whom we are permitted to sell our products, including the Export Administration Regulations administered by the U.S. Department of Commerce, and our activities may be subject to trade and economic sanctions, including those administered by the United States Department of the Treasury's Office of Foreign Assets Control (collectively, "Trade Controls"). As such, a license may be required to export or re-export our products, or provide related services, to certain countries and end-users, and for certain end-uses. Further, our products incorporating encryption functionality may be subject to special controls applying to encryption items and/or certain reporting requirements.

We have procedures in place designed to ensure our compliance with Trade Controls, with which failure to comply could subject us to both civil and criminal penalties, including substantial fines, possible incarceration

of responsible individuals for willful violations, possible loss of our export or import privileges, and reputational harm. Further, the process for obtaining necessary licenses may be time-consuming or unsuccessful, potentially causing delays in sales or losses of sales opportunities. Trade Controls are complex and dynamic regimes, and monitoring and ensuring compliance can be challenging, particularly given that our products are widely distributed throughout the world and are available for download without registration. Although we have no knowledge that our activities have resulted in violations of Trade Controls, any failure by us or our partners to comply with applicable laws and regulations would have negative consequences for us, including reputational harm, government investigations, and penalties.

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. For example, in 2018 and 2019, the United States imposed tariffs on a large variety of products originating from China, including some on components that are supplied to us from China. Depending upon the duration and implementation of these and future tariffs, as well as our ability to mitigate their impact, these tariffs could materially affect our business, including in the form of increased cost of goods sold, increased pricing for customers, and reduced sales. At this time, it remains unclear what additional actions, if any, will be taken by the governments of the United States or China with respect to such trade and tariff matters. 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 results of operations.

We are subject to environmental regulations that could adversely affect our business.

We are subject to environmental rules and regulations or other social initiatives that impact how and where we manufacture our products. In particular, our manufacturing operations use substances that are regulated by various federal, state, local, foreign and international laws and regulations governing health, safety and the environment, including WEEE, RoHS and REACH regulations adopted by the E.U. From time to time, the E.U. restricts or considers restricting certain substances under these Directives. For example, indium phosphide is currently being considered for restriction under RoHS. Any restriction of indium phosphide or any other substance integral to our systems could materially adversely affect our business, financial condition and operating results. In addition, if we experience a problem complying with these laws and regulations, it could cause an interruption or delay in our manufacturing operations or it could cause us to incur liabilities or costs related to health, safety or environmental remediation or compliance. We could also be subject to liability if we do not handle these substances in compliance with safety standards for handling, storage and transportation and applicable laws and regulations. If we experience a problem or fail to comply with such safety standards or laws and regulations, our business, financial condition and operating results may be harmed.

We are subject to global data privacy and data protection laws and regulations that could adversely affect our business or subject us to liability.

Data privacy and data protection is an area of increasing focus for our customers, governmental regulators and privacy advocates, and many jurisdictions, including the E.U., the United States, China and other regions, are evaluating or have implemented regulations relating to cybersecurity, privacy and data protection, which can affect the market and requirements for networking and communications equipment. For example, the General Data Protection Regulation ("GDPR") in effect in the E.U., and similar regulatory standards in effect in the United Kingdom, the Personal Information Protection Law ("PIPL") in China, the California Consumer Privacy Act ("CCPA") and the California Privacy Rights Act ("CPRA"), and enacted or proposed legislation in other jurisdictions have created new compliance obligations with respect to data handling and processing.

We cannot fully predict the impact of the GDPR, the PIPL, the CCPA, the CPRA or other laws or regulations, including those enacted in the future, relating to cybersecurity, privacy or data protection on our business or operations. These laws and regulations have required us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply, and we expect to continue to

incur such costs and expenses in the future. Any failure to comply with such laws and regulations could result in claims, litigation, and regulatory proceedings, as well as damage to our customer relationships. These could result in substantial costs, diversion of resources, fines, penalties, and other damages, and harm to our reputation. Any of these could harm our business, financial condition and results of operations.

A portion of our revenue is generated by sales to government entities, which are subject to a number of uncertainties, challenges, and risks.

We currently sell many of our solutions to various government entities, and we may in the future increase sales to government entities. Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive, and time consuming, often requiring significant upfront time and expense without any assurance that we will complete a sale. In the event that we are successful in being awarded a government contract, such award may be subject to appeals, disputes, or litigation, including, but not limited to, bid protests by unsuccessful bidders. Government demand and payment for our solutions may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our solutions. Government entities may also have statutory, contractual, or other legal rights to terminate contracts for convenience or due to a default. For purchases by the U.S. federal government, the government may require certain products to be manufactured in the United States and other high-cost manufacturing locations, and we may not manufacture all products in locations that meet government requirements, and as a result, our business and results of operations may suffer. Contracts with governmental entities may also include preferential pricing terms, including, but not limited to, "most favored customer" pricing.

Additionally, we may be required to obtain special certifications to sell some or all of our solutions to government or quasi-government entities. Such certification requirements for our solutions may change, thereby restricting our ability to sell into the federal government sector until we have attained the revised certification. If our products and subscriptions are late in achieving or fail to achieve compliance with these certifications and standards, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our products to such governmental entities, or be at a competitive disadvantage, which would harm our business, financial condition and results of operations. There are no assurances that we will find the terms for obtaining such certifications to be acceptable or that we will be successful in obtaining or maintaining the certifications.

As a government contractor or subcontractor, we must comply with laws, regulations, and contractual provisions relating to the formation, administration, and performance of government contracts and inclusion on government contract vehicles, which affect how we and our partners do business with government agencies. As a result of actual or perceived noncompliance with government contracting laws, regulations, or contractual provisions, we may be subject to non-ordinary course audits and internal investigations which may prove costly to our business financially, divert management time, or limit our ability to continue selling our products and services to our government customers. These laws and regulations may impose other added costs on our business, and failure to comply with these or other applicable regulations and requirements, including non-compliance in the past, could lead to claims for damages from our channel partners, downward contract price adjustments or refund obligations, civil or criminal penalties, and termination of contracts and suspension or debarment from government contracting for a period of time with government agencies. Any such damages, penalties, disruption, or limitation in our ability to do business with a government would adversely impact, and could have a material adverse effect on, our business, financial condition, results of operations, public perception, and growth prospects.

Our business could be adversely affected if our employees cannot obtain and maintain required security clearances or we cannot maintain a required facility security clearance, or we do not comply with legal and regulatory obligations regarding the safeguarding of classified information.

Our U.S. government contract revenue includes income derived from contracts that require our employees to maintain various levels of security clearances, and may require us to maintain a facility security clearance, to comply with Department of Defense ("DoD") requirements. The DoD has strict security clearance requirements for personnel who perform work in support of classified programs. In general, access to classified information, technology, facilities, or programs are subject to additional contract oversight and potential liability. In the event of a security incident involving classified information, technology, facilities, programs, or personnel holding clearances, we may be subject to legal, financial, operational, and reputational harm. We are limited in

our ability to provide specific information about these classified programs, their risks, or any disputes or claims relating to such programs. As a result, investors have less insight into our classified programs than our other businesses and therefore less ability to fully evaluate the risks related to our classified business or our business overall. Obtaining and maintaining security clearances for employees involves a lengthy process, and it is difficult to identify, recruit, and retain employees who already hold security clearances. If our employees are unable to obtain security clearances in a timely manner, or at all, or if our employees who hold security clearances are unable to maintain their clearances or terminate employment with us, then a customer requiring classified work could terminate an existing contract or decide not to renew the contract upon its expiration. To the extent we are not able to obtain or maintain a facility security clearance, we may not be able to bid on or win new classified contracts, and existing contracts requiring a facility security clearance could be terminated.

Failure to comply with anti-bribery, anti-corruption, anti-money laundering laws, and similar laws, could subject us to penalties and other adverse consequences.

We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the United Kingdom Bribery Act 2010, and possibly other anti-bribery and anti-money laundering laws in the United States and in countries outside of the United States in which we conduct our activities. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly to generally prohibit companies, their employees, agents, representatives, business partners, and third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector.

We sometimes leverage third parties to sell our products and conduct our business abroad. We, our employees, agents, representatives, business partners or third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for the corrupt or other illegal activities of these employees, agents, representatives, business partners or third-party intermediaries even if we do not explicitly authorize such activities. We cannot assure you that all of our employees and agents will not take actions in violation of applicable law, for which we may be ultimately held responsible. As we increase our international sales and business, our risks under these laws may increase.

These laws also require that we keep accurate books and records and maintain internal controls and compliance procedures designed to prevent any such actions. While we have policies and procedures to address compliance with such laws, we cannot assure you that none of our employees, agents, representatives, business partners or third-party intermediaries will take actions in violation of our policies and applicable law, for which we may be ultimately held responsible.

Any allegations or violation of the FCPA or other applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, sanctions, settlements, prosecution, enforcement actions, fines, damages, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, all of which may have an adverse effect on our reputation, business, results of operations, and prospects. Responding to any investigation or action will likely result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees.

General Risk Factors

The trading price of our common stock has been volatile and may 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, by our competitors or by our customers;
- market conditions in our industry, the industries of our customers and the economy as a whole, including global trade tariffs and fluctuations in currency exchange rates, interest rates or inflation rates;
- social, geopolitical, environmental or health factors, including pandemics or widespread health epidemics such as the COVID-19 pandemic; 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 results of operations. 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.

Future sales of our common stock could cause our stock price to fall.

We have sold, and plan in the future to sell, shares of our common stock in underwritten offerings and have established, and may in the future establish, "at-the-market" offering programs pursuant to which we may offer and sell shares of our common stock. Sales of securities have resulted and will continue to result in dilution of our existing stockholders, and such sales could cause our stock price to fall.

In addition, if our existing stockholders sell, or indicate an intent to sell, a large number of shares of our common stock in the public market, it could cause our stock price to fall. We may also issue shares of common stock or securities convertible into our common stock from time to time in connection with financings, acquisitions, investments or otherwise. Any such issuance would result in dilution to our existing stockholders and could cause our stock price to fall.

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;
- 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.

Our amended and restated bylaws designate the Court of Chancery of the State of Delaware and the federal district courts of the United States of America as the exclusive forums for substantially all disputes between us and our stockholders, which will restrict our stockholders' ability to choose the judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation or our bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine.

These provisions would not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the U.S. federal courts have exclusive jurisdiction. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. Our stockholders cannot waive compliance with the federal securities laws and the rules and regulations thereunder. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions.

These exclusive choice of forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. If a court were to find such exclusive-forum provisions to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of which could harm our business.

Events that are outside our control, such as natural disasters, human violence 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, fires, floods and other natural disasters. Further, attacks and violence 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, targeted attack or other man-made or natural catastrophe were to destroy any part of our or our contract manufacturers' or suppliers' facilities, destroy or disrupt vital infrastructure systems, or interrupt our operations or supply chain for any extended period of time, our business, financial condition and results of operations would be harmed.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our headquarters are located in San Jose, California, which consist of approximately 82,000 square feet under lease. As of December 25, 2021, we leased approximately 57,000 square feet for research and development and manufacturing in Sunnyvale, California.

In addition to the leased buildings in San Jose and Sunnyvale, California, we also lease approximately 823,000 square feet of office spaces for research and development centers and for sales, service and support in various countries within (i) North America; (ii) LATAM; (iii) EMEA; and (iv) APAC.

All of these leases expire between 2022 and 2031. We also own a facility in Allentown, Pennsylvania. We intend to adjust our facility space to meet our requirements and we believe that suitable additional or substitute space will be available as needed to accommodate our business needs for our operations. We believe that our existing facilities are adequate to meet our business needs through the next 12 months.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under the heading "Legal Matters" in Note 13, Commitments and Contingencies, in Part II, Item 8 of this Annual Report on Form 10-K is incorporated herein by reference.

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 February 15, 2022, there were 83 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.

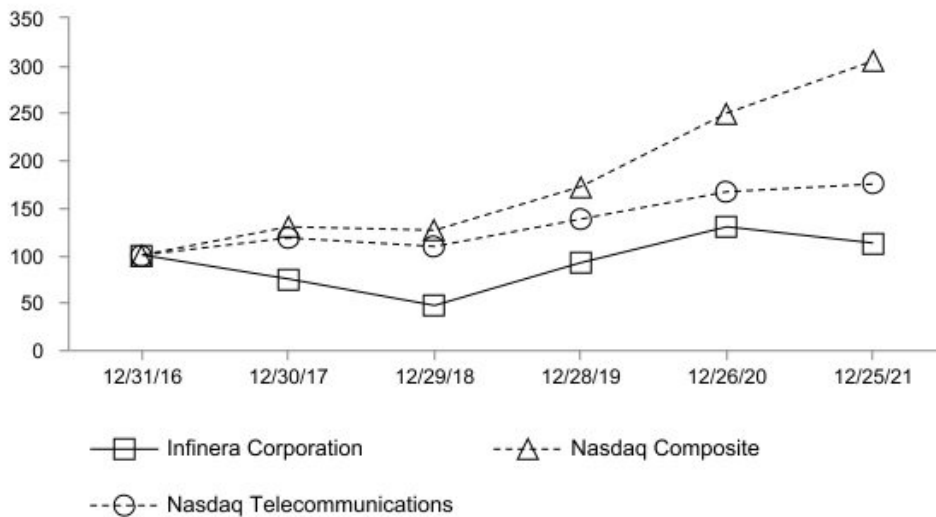
We have not paid any cash dividends on our common stock and do not intend to pay any cash dividends on our common stock in the near future.

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 31, 2016 and its relative performance is tracked through December 25, 2021. 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 us 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



* Assumes \$100 invested on December 31, 2016 in our common stock, 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. [RESERVED]

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, but are not limited to, our expectations regarding revenue, gross margin, operating expenses, cash flows and other financial items; the severity, magnitude, duration and effects of the COVID-19 pandemic; the extent to which the COVID-19 pandemic and related impacts will materially and adversely affect our business operations, financial performance, results of operations, financial position, stock price and personnel; achievement of strategic objectives; any statements regarding our plans, strategies and objectives; statements regarding the Acquisition; progress of the 2021 Restructuring Plan and remaining payments under the same and the 2020 Restructuring Plan; the impact of new customer network footprint on our gross margin; statements regarding our ERP systems; the effects of seasonal patterns in our business; factors that may affect our operating results; anticipated customer acceptance of our solutions; statements concerning new products or services, including new product features; our beliefs about who we may compete with and how we are differentiated from those competitors; statements regarding our production capacity and facilities requirements; statements related to capital expenditures; statements related to working capital and liquidity; our ability to realize deferred tax assets; statements related to future economic conditions, performance, market growth, competitor consolidation or our sales cycle; our ability to identify, attract and retain highly skilled personnel; statements regarding our corporate culture; our ability to protect our technology and intellectual property, the frequency of claims related to our intellectual property and the value of our intellectual property; statements related to our convertible senior notes and credit facility; statements related to the impact of tax regulations; statements related to the proliferation and impact of environmental regulation; statements related to the effects of litigation on our financial position, results of operations or cash flows; statements related to factors beyond our control, such as natural disasters, acts of war or terrorism, epidemics and pandemics; statements related to new accounting standards; statements as to industry trends and other matters that do not relate strictly to historical facts; and statements of assumptions underlying any of the foregoing. These statements are often identified using words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will," or "would," 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 Part I, 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 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, disaggregated router platforms, and a suite of networking and automation software offerings, and support and professional services.

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 enables our customers to scale their transport networks as end-user services and applications continue to drive growth in demand for network bandwidth. These end-user services and applications include, but are not limited to, high-speed internet access, business ethernet services, 4G/5G mobile broadband, 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. 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 low 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. We believe our vertical integration strategy becomes increasingly more valuable as our customers transition to 800 Gb/s per wavelength transmission speeds and beyond, as the combination of our optical integration, DSP, and tightly integrated packaging enables a leading optical performance at higher optical speeds. Over time, 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. We achieved this expansion both by developing products internally and through acquisitions of Transmode AB in 2015 and Coriant in 2018. In particular, our acquisition of Coriant enhanced our ability to serve a global customer base and also enabled us to expand the breadth of customer applications we can address, including metro aggregation and switching, disaggregated routing, and software-enabled multi-layer network management and control.

Our high-speed optical transport platforms are differentiated by the Infinite Capacity Engine (ICE), our optical engine technology. Our latest generation of coherent optical engine technology delivers multi-terabit opto-electronic subsystems powered by our fifth-generation PIC and latest generation DSP (the combination of which we market as "ICE6"). ICE6 is capable of delivering 800 Gb/s over a single wavelength and will be integrated into various networking platforms in our product portfolio.

As part of the Acquisition, we expanded our high-speed optical transport portfolio with 600 Gb/s transmission capabilities powered by our CloudWave T technology, which enabled us to expand the high-speed transmission applications we can address.

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. Combined with our differentiated hardware solutions, Instant Bandwidth 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 end-to-end 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.

Impact of COVID-19 Pandemic

COVID-19 was declared a global pandemic in March 2020. We have been and will continue monitoring and adjusting our operations, as appropriate, in response to the COVID-19 pandemic.

Employees

We have taken a number of precautionary steps to safeguard our business and our employees from the effects of the outbreak of COVID-19, including temporarily closing or substantially limiting the presence of personnel in our offices in several impacted locations, implementing travel restrictions and withdrawing from various industry events. Since a large percentage of our workforce is accustomed to online work environments and online collaboration tools, we are able to remain productive and in contact with one another and our customers and vendors. For those employees who may need to be in offices, laboratory and manufacturing environments, or at business partner sites to perform their roles, we are taking appropriate measures to protect their health and safety and create and maintain a safe working environment. However, sustained restrictions on the ability of our engineers to work in our offices as a result of restrictions imposed by governments, or us, has

made and could continue to make it more difficult for them to collaborate as effectively as desired in the development of new products, which has in the past and may continue to affect development schedules in the future.

Business Operations

In addition, we have implemented certain business continuity plans in response to the COVID-19 pandemic in order to minimize any business disruption and to protect our supply chain, customer fulfillment sites and support operations. Although we believe these actions have mitigated the impact of the COVID-19 pandemic on our business, we have experienced some disruption and delays in our supply chain and manufacturing operations, logistics, and customer support operations, including shipping delays, higher transport costs, and certain limitations on our ability to access customer fulfillment and service sites. We are dependent on sole source and limited source suppliers for several key components, and we have experienced capacity issues, longer lead times and increased costs with certain of these component suppliers, impacting our operational processes and results of operations. We have also seen disruptions in customer demand, including due to delays in the customer certification process resulting from customer facility closures or access restrictions. During 2021, some of these disruptions negatively impacted our revenue and our results of operations. The impact of the COVID-19 pandemic on our business and results of operations in 2022 remains uncertain and is dependent in part on future infection rates, the emergence of new strains of the virus, the effectiveness and availability of vaccinations, and broader global macroeconomic developments.

We continue to monitor the COVID-19 pandemic and actively assess potential implications to our business, supply chain and customer demand. If the COVID-19 pandemic or its adverse effects become more severe or prevalent or are prolonged in the locations where we, our customers, suppliers or contract manufacturers conduct business, or we experience more pronounced disruptions in our operations, or in economic activity and demand generally, our business and results of operations in future periods could be materially adversely affected.

Liquidity and Capital Resources

We have implemented measures to preserve cash and enhance liquidity, including significantly reducing business travel, strategically managing capital expenditures, and delaying or eliminating discretionary spending. We are also focused on managing our working capital needs, maintaining as much flexibility as possible around timing of taking and paying for inventory and manufacturing our products while managing potential changes or delays in installations.

While we believe we have enough cash to operate our business for the next 12 months, if the impact of the COVID-19 pandemic to our business and financial position is more extensive than expected, we may need additional capital to enhance liquidity and working capital. We have historically been successful in our ability to secure other sources of financing, such as accessing capital markets, and implementing other cost reduction initiatives such as restructuring, delaying or eliminating discretionary spending to satisfy our liquidity needs. However, our access to these sources of capital could be materially and adversely impacted and we may not be able to receive terms as favorable as we have historically received. Capital markets have been volatile and there is no assurance that we would have access to capital markets at a reasonable cost, or at all, at times when capital is needed. In addition, some of our existing debt has restrictive covenants that may limit our ability to raise new debt, which would limit our ability to access liquidity by those means without obtaining the consent of our lenders.

On August 12, 2020, we entered into the Sales Agreement with Jefferies under which we issued and sold through Jefferies, acting as agent and/or principal, shares of our common stock having an aggregate offering price of \$96.3 million, to raise funds for general corporate purposes, including working capital and capital expenditures. During the fiscal year ended December 26, 2020, we sold 12,000,000 shares of common stock under the Sales Agreement, for net proceeds of approximately \$93.4 million, after paying Jefferies a sales commission of approximately \$2.9 million related to services provided as the sales agent with respect to the sales of those shares.

Financial and Business Highlights

Total revenue was \$1,425.2 million in 2021 as compared to \$1,355.6 million in 2020, a 5% increase. The year over year increase in revenue was driven by growth in our ICP vertical and from our other service

provider customers in EMEA and the United States. In addition, we saw growth in our cable vertical in EMEA. This growth was partially offset by lower revenue from certain Tier 1 customers. In 2022, we anticipate benefiting from a diversified customer base and see several prospective opportunities to grow revenue by driving adoption of new and existing solutions. Our results will depend on overall market conditions and, as is typical, quarter-over-quarter revenue could be volatile, affected by the ongoing pandemic and more generally, customer buying patterns, supply chain disruptions and the timing of customer network deployments.

Gross margin increased to 35% in 2021 from 31% in 2020. The year over year increase in gross margin was primarily driven by pricing discipline and cost reduction initiatives as well as increased revenue from vertically-integrated products. In addition, 2021 included lower amortization, integration and restructuring costs, which were higher in 2020 following the Acquisition. In 2022, we intend to continue to improve our fixed cost structure and practice pricing discipline. Additionally, we expect to continue expanding our vertical integration capabilities across more of our product portfolio utilizing our ICE6 platform, which we believe will lower our cost structure and drive continued margin improvement over time.

Operating expenses increased to \$585.5 million in 2021 from \$564.0 million in 2020, a 4% increase. This increase was primarily attributable to higher employee-related costs, including the restoration of our employee bonus program following its COVID-19-related suspension in 2020 and costs related to bringing our new technologies to market and investments in future technologies. These increases were partially offset by lower integration and restructuring costs, which were higher in 2020 following the Acquisition. In 2022, we intend to continue to balance prudent cost management with investments in technology innovation and other activities that will drive our future growth.

One customer accounted for approximately 11% of our revenue in 2020. No other customers accounted for over 10% of our revenue in 2021 or 2020.

We primarily sell our products through our direct sales force, with the remainder sold indirectly through channel partners. We derived 77% of our revenue from direct sales to customers in both 2021 and 2020. In the future, we expect to continue generating a majority of our revenue from direct sales.

We are headquartered in San Jose, California, with employees located throughout North America, LATAM, EMEA and APAC.

Results of Operations

The following sets forth, for the periods presented, certain consolidated statements of operations information (in thousands, except percentages):

| | Years Ended | | | | | |
|---------------------------------------|-------------------|--------------------|-------------------|--------------------|-------------|----------|
| | December 25, 2021 | % of total revenue | December 26, 2020 | % of total revenue | Change | % Change |
| Revenue: | | | | | | |
| Product | \$ 1,099,376 | 77 % | \$ 1,045,551 | 77 % | \$ 53,825 | 5 % |
| Services | 325,829 | 23 % | 310,045 | 23 % | 15,784 | 5 % |
| Total revenue | \$ 1,425,205 | 100 % | \$ 1,355,596 | 100 % | \$ 69,609 | 5 % |
| Cost of revenue: | | | | | | |
| Product | \$ 732,071 | 51 % | \$ 751,465 | 55 % | \$ (19,394) | (3) % |
| Services | 174,008 | 12 % | 160,118 | 12 % | 13,890 | 9 % |
| Amortization of intangible assets | 19,621 | 1 % | 29,247 | 2 % | (9,626) | (33) % |
| Acquisition and integration costs | — | — % | 1,828 | — % | (1,828) | (100) % |
| Restructuring and other related costs | 1,531 | — % | 4,146 | — % | (2,615) | (63) % |
| Total cost of revenue | \$ 927,231 | 65 % | \$ 946,804 | 69 % | \$ (19,573) | (2) % |
| Gross profit | \$ 497,974 | 35 % | \$ 408,792 | 31 % | \$ 89,182 | 22 % |

| | Years Ended | | | | | |
|---------------------------------------|-------------------|--------------------|-------------------|--------------------|-------------|----------|
| | December 26, 2020 | % of total revenue | December 28, 2019 | % of total revenue | Change | % Change |
| Revenue: | | | | | | |
| Product | \$ 1,045,551 | 77 % | \$ 1,011,488 | 78 % | \$ 34,063 | 3 % |
| Services | 310,045 | 23 % | 287,377 | 22 % | 22,668 | 8 % |
| Total revenue | \$ 1,355,596 | 100 % | \$ 1,298,865 | 100 % | \$ 56,731 | 4 % |
| Cost of revenue: | | | | | | |
| Product | \$ 751,465 | 55 % | \$ 735,059 | 57 % | \$ 16,406 | 2 % |
| Services | 160,118 | 12 % | 146,916 | 11 % | 13,202 | 9 % |
| Amortization of intangible assets | 29,247 | 2 % | 32,583 | 3 % | (3,336) | (10) % |
| Acquisition and integration costs | 1,828 | — % | 28,449 | 2 % | (26,621) | (94) % |
| Restructuring and other related costs | 4,146 | — % | 29,935 | 2 % | (25,789) | (86) % |
| Total cost of revenue | \$ 946,804 | 69 % | \$ 972,942 | 75 % | \$ (26,138) | (3) % |
| Gross profit | \$ 408,792 | 31 % | \$ 325,923 | 25 % | \$ 82,869 | 25 % |

Revenue

2021 Compared to 2020. Product revenue increased by \$53.8 million, or 5%, in 2021 from 2020. This increase was primarily driven by aforementioned growth from ICP customers and other service provider

customers in EMEA and the United States, as well as certain cable customers in EMEA. This increase was partially offset by lower revenue from certain Tier 1 customers.

Services revenue increased by \$15.8 million, or 5%, in 2021 from 2020. This increase was attributable to an increase in professional services revenue primarily from network installations. This was partially offset by a decrease in amortized services maintenance revenue as our installed product base has continued to transition to our newer product offerings.

2020 Compared to 2019. Product revenue increased by \$34.1 million, or 3%, in 2020 from 2019. This increase was primarily driven by growth from key customers in APAC and the United States. This increase was partially offset by lower revenue from our cable vertical and a large European customer which had strong revenue related to new deployments in the second half of 2019.

Services revenue increased by \$22.7 million, or 8%, in 2020 from 2019. This increase was attributable to an increase in amortized services maintenance revenue, driven by a new customer and growth in existing customer renewals, and an increase in professional services revenue primarily from network installations.

In line with typical seasonality in our industry, we expect our total revenue will be lower in the first quarter of 2022 as compared to the fourth quarter of 2021, as our customers determine and implement their 2022 budgets.

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 25, 2021 | % of total revenue | December 26, 2020 | % of total revenue | Change | % Change |
| Total revenue by geography | | | | | | |
| Domestic | \$ 663,808 | 47 % | \$ 630,422 | 47 % | \$ 33,386 | 5 % |
| International | 761,397 | 53 % | 725,174 | 53 % | 36,223 | 5 % |
| | <u>\$ 1,425,205</u> | <u>100 %</u> | <u>\$ 1,355,596</u> | <u>100 %</u> | <u>\$ 69,609</u> | <u>5 %</u> |
| Total revenue by sales channel | | | | | | |
| Direct | \$ 1,099,632 | 77 % | \$ 1,039,976 | 77 % | \$ 59,656 | 6 % |
| Indirect | 325,573 | 23 % | 315,620 | 23 % | 9,953 | 3 % |
| | <u>\$ 1,425,205</u> | <u>100 %</u> | <u>\$ 1,355,596</u> | <u>100 %</u> | <u>\$ 69,609</u> | <u>5 %</u> |

| | Years Ended | | | | | |
|---------------------------------------|---------------------|--------------------|---------------------|--------------------|------------------|------------|
| | December 26, 2020 | % of total revenue | December 28, 2019 | % of total revenue | Change | % Change |
| Total revenue by geography | | | | | | |
| Domestic | \$ 630,422 | 47 % | \$ 628,075 | 48 % | \$ 2,347 | — % |
| International | 725,174 | 53 % | 670,790 | 52 % | 54,384 | 8 % |
| | <u>\$ 1,355,596</u> | <u>100 %</u> | <u>\$ 1,298,865</u> | <u>100 %</u> | <u>\$ 56,731</u> | <u>4 %</u> |
| Total revenue by sales channel | | | | | | |
| Direct | \$ 1,039,976 | 77 % | \$ 1,032,527 | 79 % | \$ 7,449 | 1 % |
| Indirect | 315,620 | 23 % | 266,338 | 21 % | 49,282 | 19 % |
| | <u>\$ 1,355,596</u> | <u>100 %</u> | <u>\$ 1,298,865</u> | <u>100 %</u> | <u>\$ 56,731</u> | <u>4 %</u> |

2021 Compared to 2020. Domestic revenue increased by \$33.4 million, or 5%, in 2021 compared to 2020, primarily due to strong growth from ICP and other service provider customers, which was partially offset by declines from certain Tier 1 customers.

International revenue increased by \$36.2 million, or 5%, in 2021 compared to 2020. In this period, EMEA revenue increased due to growth in our other service provider, cable and ICP verticals and in Other Americas due to certain large new deployments in our cable vertical. This growth was partially offset by a decline in APAC as we had certain large deployments in the second half of 2020.

Direct revenue increased by \$59.7 million, or 6%, in 2021 compared to 2020, primarily due to the aforementioned revenue growth in EMEA and the United States and Other Americas. This was partially offset by revenue declines in APAC.

Indirect revenue increased \$10.0 million, or 3%, primarily due to our growth in international revenue, where in certain regions we typically sell through channel partners as opposed to selling directly to customers.

2020 Compared to 2019. Domestic revenue increased by \$2.3 million in 2020 compared to 2019, primarily due to strong growth from ICP customers. In 2020, the growth from our ICP vertical was nearly offset by moderate declines from certain cable and Tier 1 customers.

International revenue increased by \$54.4 million, or 8%, in 2020 compared to 2019. In this period, revenue in APAC increased strongly due to certain large new deployments. We also enjoyed growth in Other Americas and in EMEA in 2020.

Indirect revenue increased \$49.3 million, or 19%, primarily due to our growth in international revenue, where in certain regions we typically sell through channel partners as opposed to selling directly to customers.

Cost of Revenue and Gross Margin

2021 Compared to 2020. Gross margin increased to 35% in 2021 from 31% in 2020. In this period, our margins benefited from improved product mix including increased revenue from vertically-integrated products as well as reductions in integration-related expenses and restructuring costs.

2020 Compared to 2019. Gross margin increased to 31% in 2020 from 25% in 2019. In this period, our margins benefited from reductions in integration-related expenses and restructuring costs. We also reduced costs attributable to completing site and systems consolidations over the course of 2019.

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.

Amortization of Intangible Assets

2021 Compared to 2020. Amortization of intangible assets decreased by \$9.6 million in 2021 from 2020 primarily due to certain technologies becoming fully amortized in 2020.

2020 Compared to 2019. Amortization of intangible assets decreased by \$3.3 million in 2020 from 2019 due to certain technologies becoming fully amortized in 2020. The decrease was partially offset by capitalization of in-process technology to developed technology in late 2019.

Acquisition and Integration Costs

2021 Compared to 2020. Acquisition and integration costs decreased by \$1.8 million in 2021 from 2020 due to the substantial completion of our integration efforts in 2020.

2020 Compared to 2019. Acquisition and integration costs decreased by \$26.6 million in 2020 from 2019. This reduction has been the result of lower integration-related headcount, third-party contractors, and vendor spend during 2020 as we have largely completed our integration efforts.

Restructuring and Other Related Costs

2021 Compared to 2020. Restructuring and other related costs decreased \$2.6 million in 2021 from 2020 reflecting the substantial completion of our Munich-related restructuring activities in 2020, which was part of our 2018 Restructuring Plan, partially offset by expenses associated with the 2021 Restructuring Plan.

2020 Compared to 2019. In 2020, within cost of revenue, we incurred \$4.1 million in restructuring and other related costs, including \$4.0 million of severance and related costs and \$0.1 million of asset impairment charges and impaired facilities charges. The restructuring and other related costs decreased by \$25.8 million due to the substantial completion of restructuring initiatives under the 2018 Restructuring Plan in 2020. This decrease was partially offset by additional costs under the 2020 Restructuring Plan initiated in the second quarter of 2020.

See Note 9, "Restructuring and Other Related Costs" to the Notes to Consolidated Financial Statements for more information on our restructuring plans.

Operating Expenses

The following table summarizes our operating expenses for the periods presented (in thousands, except percentages):

| | Years Ended | | | | | |
|---------------------------------------|-------------------|--------------------|-------------------|--------------------|------------------|------------|
| | December 25, 2021 | % of total revenue | December 26, 2020 | % of total revenue | Change | % Change |
| Research and development | \$ 299,894 | 21 % | \$ 265,634 | 20 % | \$ 34,260 | 13 % |
| Sales and marketing | 138,829 | 10 % | 129,604 | 10 % | 9,225 | 7 % |
| General and administrative | 115,415 | 8 % | 112,240 | 8 % | 3,175 | 3 % |
| Amortization of intangible assets | 17,455 | 1 % | 18,581 | 1 % | (1,126) | (6) % |
| Acquisition and integration costs | 614 | — % | 13,346 | 1 % | (12,732) | (95) % |
| Restructuring and other related costs | 13,246 | 1 % | 24,586 | 2 % | (11,340) | (46) % |
| Total operating expenses | <u>\$ 585,453</u> | <u>41 %</u> | <u>\$ 563,991</u> | <u>42 %</u> | <u>\$ 21,462</u> | <u>4 %</u> |

| | Years Ended | | | | | |
|---------------------------------------|-------------------|--------------------|-------------------|--------------------|---------------------|---------------|
| | December 26, 2020 | % of total revenue | December 28, 2019 | % of total revenue | Change | % Change |
| Research and development | \$ 265,634 | 20 % | \$ 287,977 | 22 % | \$ (22,343) | (8) % |
| Sales and marketing | 129,604 | 10 % | 151,423 | 12 % | (21,819) | (14) % |
| General and administrative | 112,240 | 8 % | 126,351 | 10 % | (14,111) | (11) % |
| Amortization of intangible assets | 18,581 | 1 % | 27,280 | 2 % | (8,699) | (32) % |
| Acquisition and integration costs | 13,346 | 1 % | 42,271 | 3 % | (28,925) | (68) % |
| Restructuring and other related costs | 24,586 | 2 % | 40,851 | 3 % | (16,265) | (40) % |
| Total operating expenses | <u>\$ 563,991</u> | <u>42 %</u> | <u>\$ 676,153</u> | <u>52 %</u> | <u>\$ (112,162)</u> | <u>(17) %</u> |

The following table summarizes the stock-based compensation expense included in our operating expenses for the periods presented (in thousands):

| | Years Ended | | |
|----------------------------|-------------------|-------------------|-------------------|
| | December 25, 2021 | December 26, 2020 | December 28, 2019 |
| Research and development | \$ 18,554 | \$ 16,863 | \$ 17,457 |
| Sales and marketing | 12,345 | 10,907 | 8,413 |
| General and administration | 12,985 | 13,906 | 10,460 |
| Total | <u>\$ 43,884</u> | <u>\$ 41,676</u> | <u>\$ 36,330</u> |

Research and Development Expenses

2021 Compared to 2020. Research and development expenses increased by \$34.3 million, or 13%, in 2021 from 2020. The increase was primarily attributable to higher employee-related costs and equipment and software spending related to investments in future technologies. In 2022, we expect to make additional targeted

innovation investments in research and development to support our strategy of expanding our vertically integrated product portfolio, including bringing new products to market quickly.

2020 Compared to 2019. Research and development expenses decreased by \$22.3 million, or 8%, in 2020 from 2019. The decrease was primarily attributable to lower employee-related costs and lower travel costs due to the COVID-19 pandemic. The decreases were partially offset by higher outside services spend associated with bringing our new technologies to market. As employee-related costs have declined, we have continued to make targeted innovation investments in research and development to support our strategy of expanding our vertically integrated product portfolio, including bringing new products to market quickly.

Sales and Marketing Expenses

2021 Compared to 2020. Sales and marketing expenses increased by \$9.2 million, or 7%, in 2021 from 2020. This increase was driven by higher employee-related costs including higher commissions and other costs, primarily driven by higher bookings. The 2021 increase was partially offset by lower travel and marketing-related expenses.

2020 Compared to 2019. Sales and marketing expenses decreased by \$21.8 million, or 14%, in 2020 from 2019. This decrease was driven by lower travel and marketing-related expenses, primarily driven by the impact of the COVID-19 pandemic. We also had lower employee-related spend during these periods, primarily due to workforce reduction initiatives. The 2020 decrease was partially offset by higher stock-based compensation expenses.

General and Administrative Expenses

2021 Compared to 2020. General and administrative expenses increased by \$3.2 million, or 3%, in 2021 from 2020. The increase was attributable to higher employee-related costs, primarily driven by an increase in bonus expenses, and litigation settlements in the second and third quarters of 2021. This was partially offset by lower professional fees and depreciation.

2020 Compared to 2019. General and administrative expenses decreased by \$14.1 million, or 11%, in 2020 from 2019. The decrease was attributable to lower outside services spend stemming from cost management initiatives, lower employee-related expenses, lower travel expenses due to the COVID-19 pandemic, and a litigation settlement in the second quarter of 2019.

Amortization of Intangible Assets

2021 Compared to 2020. Amortization of intangible assets decreased by \$1.1 million in 2021 from 2020 primarily due to higher amortization of customer relationships and backlog by \$1.5 million in 2020. Customer relationships and backlog are amortized over the expected customer lives.

2020 Compared to 2019. Amortization of intangible assets decreased by \$8.7 million in 2020 from 2019 primarily due to higher amortization of customer relationships and backlog by \$8.1 million in 2019. Customer relationships and backlog is amortized over the expected customer lives.

Acquisition and Integration Costs

2021 Compared to 2020. Acquisition and integration costs decreased by \$12.7 million in 2021 from 2020 primarily due to the completion of our integration efforts related to the Acquisition in the first quarter of 2021.

2020 Compared to 2019. Acquisition and integration costs decreased by \$28.9 million in 2020 from 2019 due to the substantial completion of our integration efforts in 2020.

Restructuring and Other Related Costs

2021 Compared to 2020. Restructuring and other related costs decreased by \$11.3 million in 2021 compared to 2020. The severance and related costs decreased by \$9.4 million due to the substantial completion of our Munich-related restructuring activities in 2020, and a decrease of \$1.9 million in facilities and related impairments.

2020 Compared to 2019. Restructuring and other related costs decreased by \$16.3 million in 2020 compared to 2019. The severance and related costs decreased by \$11.2 million due to the substantial completion of restructuring initiatives under the 2018 Restructuring Plan in 2020. This decrease was partially offset by additional costs under the 2020 Restructuring Plan initiated in the second quarter of 2020. Facilities-related impairment charges decreased by \$4.9 million due to impairment of a facility in Naperville, Illinois in 2019. The decrease was by offset additional impairment charges on our facility in Naperville and impairment of certain other leased facilities recorded in 2020.

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 25, 2021 | December 26, 2020 | December 28, 2019 |
| | (In thousands) | | |
| Interest income | \$ 455 | \$ 118 | \$ 1,139 |
| Interest expense | (49,099) | (46,728) | (31,657) |
| Other gain (loss), net | (22,667) | 1,121 | (2,907) |
| Total other income (expense), net | <u>\$ (71,311)</u> | <u>\$ (45,489)</u> | <u>\$ (33,425)</u> |

2021 Compared to 2020.

Interest income was respectively immaterial.

Interest expense increased by \$2.4 million, primarily due to increased accretion of debt discount and amortization of debt issuance costs on the 2027 Notes and the 2024 Notes, contractual interest on the 2027 Notes, and a nonrecurring interest credit from a supplier in 2020. This increase was partially offset by a decrease in interest expense on the Credit Facility, which was repaid in January 2021, and the Finance Assistance Agreement, which was repaid in April 2021, and a decrease in other interest related charges.

The increase in other gain (loss), net, was a loss of \$23.8 million primarily due to increase in unrealized foreign exchange losses driven by foreign currency exchange rate changes.

2020 Compared to 2019.

Interest income decreased by \$1.0 million in 2020 compared to 2019, primarily due to the liquidation of investments in 2019.

Interest expense increased by \$15.1 million, primarily due to amortization of debt discount and debt issuance costs of \$6.3 million and contractual interest of \$4.0 million on the new convertible debt issued in March 2020, a \$1.9 million increase in amortization of debt discount and debt issuance costs on the 2024 Notes (as described below), a \$0.9 million increase in interest on a financing assistance arrangement obtained in May 2019, and a \$3.7 million increase in interest and other related charges related to the Credit Facility (as described and defined below) obtained in August 2019, and as amended. This increase was offset by a \$1.4 million of interest credit from a supplier and reduction in miscellaneous interest charges of \$0.3 million.

The change in other gain (loss), net, in 2020 from 2019 was \$4.0 million due to a decrease in foreign exchange losses, primarily driven by the favorable foreign currency exchange rate changes.

Provision for Income Taxes

We recognized an income tax expense of \$12.0 million on a loss before income taxes of \$158.8 million, \$6.0 million on a loss before income taxes of \$200.7 million, and an income tax benefit of \$3.0 million on a loss before income taxes of \$383.7 million in 2021, 2020 and 2019, respectively. The resulting effective tax rates were (7.5)%, (3.0)% and 0.8% for 2021, 2020 and 2019, respectively. The 2021 and 2020 effective tax rates differ from the expected statutory rate of 21% based on our ability to benefit from our U.S. loss carryforwards, offset by state income taxes, non-deductible stock-based compensation expenses and foreign taxes provided on foreign

subsidiary earnings. The increase in 2021 income tax provision compared to 2020 is due to additional foreign earnings.

Because of our U.S. operating loss in 2021, significant loss carryforward position, and corresponding valuation allowance in all years, other than separate filing state taxes and minimum taxes, we have not been subject to federal or state tax on our U.S. income because of the availability of loss carryforwards. 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. Any potential release of transfer pricing reserves in the future would 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.

Liquidity and Capital Resources

| | Years Ended | | |
|--------------------------------------|-------------------|-------------------|-------------------|
| | December 25, 2021 | December 26, 2020 | December 28, 2019 |
| | (In thousands) | | |
| Net cash flow provided by (used in): | | | |
| Operating activities | \$ 28,128 | \$ (112,300) | \$ (167,350) |
| Investing activities | \$ (41,379) | \$ (39,009) | \$ (12,609) |
| Financing activities | \$ (101,544) | \$ 334,162 | \$ 71,910 |

| | Years Ended | |
|-----------------|-------------------|-------------------|
| | December 25, 2021 | December 26, 2020 |
| | (In thousands) | |
| Cash | \$ 190,611 | \$ 298,014 |
| Restricted cash | 11,910 | 17,369 |
| | <u>\$ 202,521</u> | <u>\$ 315,383</u> |

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.

Operating Activities

Net cash provided by operating activities was \$28.1 million for 2021, as compared to net cash used in operating activities of \$112.3 million for 2020 and net cash used in operating activities of \$167.4 million for 2019.

Net loss for 2021 was \$170.8 million, which included non-cash charges of \$193.8 million such as depreciation, stock-based compensation, amortization of intangibles assets, operating lease expense, restructuring charges and related costs, and amortization of debt discount and debt issuance costs, compared to a net loss of \$206.7 million in 2020, which included non-cash charges of \$206.2 million. Net cash provided by working capital was \$5.1 million in 2021. Accounts receivable increased by \$45.8 million due to higher billings to customers and timing of collections. Inventory levels increased by \$28.0 million due to longer lead time on supply which requires more inventory on hand and higher service inventory to meet customer service level agreements. Prepaid and other assets decreased by \$0.4 million primarily due to timing of value-added tax and income tax payments and increase in customer contract assets. Accounts payable increased by \$32.3 million primarily due to timing of payments to suppliers. Accrued liabilities and other expenses increased by \$39.3 million primarily due to accrual of 2021 corporate bonus, restructuring liabilities, tax liabilities, purchases of shares of our common stock under our 2007 Employee Stock Purchase Plan (the "ESPP") in 2021 and no accrual for 2020 corporate bonus. Deferred revenue increased by \$7.8 million due to higher maintenance renewals during the period attributable to expanding our installed base. Maintenance contracts are typically contracted on an annual or multi-year basis.

Net loss for 2020 was \$206.7 million, which included non-cash charges of \$206.2 million such as depreciation, stock-based compensation, amortization of intangibles, operating lease expense, restructuring charges and related costs, and amortization of debt discount and debt issuance costs, compared to a net loss of \$386.6 million in 2019, which included non-cash charges of \$227.5 million. Net cash used in working capital was \$111.8 million in 2020. Accounts receivable decreased by \$32.2 million due to cash collections. Inventory levels decreased by \$71.4 million due to management efforts to reduce inventory. Prepaid and other assets increased by \$36.1 million primarily due to timing of value-added tax and income tax payments and increase in customer contract assets. Accounts payable decreased by \$93.4 million primarily due to more timely payments to suppliers. Accrued liabilities and other expenses decreased by \$107.7 million primarily due to the payment of the 2019 corporate bonus, restructuring liabilities, tax liabilities, purchases of shares of our common stock under our 2007 Employee Stock Purchase Plan (the "ESPP") in 2020 and no accrual for 2020 corporate bonus. Deferred revenue increased by \$21.9 million due to higher maintenance renewals during the period attributable to expanding our installed base. Maintenance contracts are typically contracted on an annual or multi-year basis.

Net loss for 2019 was \$386.6 million, which included non-cash charges of \$227.5 million, compared to a net loss for 2018 of \$214.3 million, which included non-cash charges of \$172.4 million. Net cash used in working capital was \$8.3 million for 2019. Accounts receivables increased by \$35.4 million attributable to higher revenue levels during 2019 and the timing of invoicing and collections. Inventory levels increased by \$42.8 million to address strong customer demand for our ICE4 products, and additional inventory to support our manufacturing transition and integration efforts. Prepaid and other assets increased by \$93.6 million primarily due to timing of tax payments, and increase in customer contract assets. Accounts payable increased by \$83.3 million primarily to support integration initiatives and the increase in inventory. Accrued liabilities and other expenses increased by \$54.7 million primarily due to increased compensation-related expenses and timing of tax payments. Deferred revenue increased by \$25.7 million due to maintenance renewals on our growing installed base, which are typically contracted on an annual or multi-year basis.

Investing Activities

Net cash used in investing activities for 2021 was \$41.4 million for the purchase of property and equipment.

Net cash used in investing activities for 2020 was \$39.0 million for the purchase of property and equipment.

Net cash used in investing activities for 2019 was \$12.6 million. Investing activities during 2019 included the net escrow payment of \$10.0 million in connection with the Acquisition, and net proceeds of \$26.6 million associated with sales, maturities and purchases of investments during the year. In addition, we spent \$30.2 million on capital expenditures and received additional proceeds on the sale of our non-marketable equity investments of \$1.0 million.

Financing Activities

Net cash used in financing activities was \$101.5 million for 2021. Financing activities in 2021 included repayments of \$77.0 million under the Credit Facility and \$24.6 million under the financing assistance arrangement, and payments of \$1.6 million for finance lease obligations and \$7.3 million for term license purchases. The period also included net proceeds of \$16.5 million from the issuance of shares under our ESPP and the exercise of stock options. These proceeds were offset by tax withholdings of \$7.2 million paid on behalf of certain employees for net share settlements of restricted stock units ("RSUs").

Net cash provided by financing activities was \$334.2 million for 2020. Financing activities in 2020 included net proceeds of \$92.9 million from our common stock "at-the-market" offering program (net of commissions and other charges), \$194.5 million from issuance of the 2027 Notes and \$55.0 million from the Credit Facility (as described below). Payments during this period included \$8.0 million under the Credit Facility, \$5.3 million under the financing assistance arrangement, \$2.5 million in debt issuance cost, \$1.6 million for finance lease obligations and \$5.7 million for term license purchase. The period also included net proceeds from the issuance of shares under our 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").

Net cash provided by financing activities was \$71.9 million for 2019. Financing activities in 2019 included proceeds of \$8.6 million from issuance of debt associated with mortgaging one of our facilities, \$48.1 million from a new revolving line of credit obtained in August 2019 and subsequently amended in December 2019

(as described under "Liquidity and Capital Resources-Liquidity" below) and \$24.3 million under a financing assistance arrangement with third-party contract manufacturer. Financing activities during 2019 also included \$20.0 million for the repayment of the revolving line of credit. The period also included net proceeds from the issuance of shares under our 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 RSUs.

Liquidity

We believe that our current cash, along with the Credit Facility (as defined below) will be sufficient to meet our anticipated cash needs for working capital and capital expenditures, payments under the financing assistance arrangement with the third-party contract manufacturer, and the interest payments on the Notes and the Credit Facility for at least 12 months. While we believe we have enough cash to operate our business for the next 12 months, if the impact of the COVID-19 pandemic to our business and financial position is more extensive than expected and the existing sources of cash are insufficient to satisfy our liquidity requirements, we may require additional capital from equity or debt financings to fund our operations, to respond to competitive pressures or strategic opportunities, or otherwise. In addition, we are continuously evaluating alternatives for efficiently funding our capital expenditures and ongoing operations. We may, from time to time engage in a variety of financing transactions for such purposes. 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 or equity-linked securities, 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.

On August 12, 2020, we entered into the Sales Agreement with Jefferies LLC ("Jefferies") under which the Company issued and sold through Jefferies, acting as agent and/or principal, shares of our common stock having an aggregate offering price of \$96.3 million. During the fiscal year ended December 26, 2020, we issued and sold 12,000,000 shares of our common stock under the Sales Agreement, for net proceeds of approximately \$93.4 million, after paying Jefferies a sales commission of approximately \$2.9 million related to those shares. We used the net proceeds for general corporate purposes, including working capital and capital expenditures.

On March 9, 2020, we issued the 2027 Notes, which will mature on March 1, 2027, unless earlier repurchased, redeemed or converted. Interest is payable semi-annually in arrears on March 1 and September 1 of each year, commencing on September 1, 2020. The net proceeds from the 2027 Notes issuance were approximately \$194.5 million and we intend to use the net proceeds for general corporate purposes, including working capital to fund growth and potential strategic projects.

Upon conversion, it is our intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the 2027 Notes. For any remaining conversion obligation, we intend to 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. As of December 25, 2021, long-term debt, net, included \$140.3 million outstanding for the 2027 Notes, which represents the liability component of the \$200.0 million principal balance, net of \$59.7 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 2027 Notes on March 1, 2027. To the extent that the holders of the 2027 Notes request conversion during an early conversion window, we may require funds for repayment of such 2027 Notes prior to their maturity date.

As of December 25, 2021, contractual obligations related to the 2027 Notes are payments of \$5.0 million due each year from 2022 through 2026 and \$202.5 million due in 2027. These amounts represent principal and interest cash payments over the term of the 2027 Notes. Any future redemption or conversion of the Notes could impact the amount or timing of our cash payments. For more information regarding the 2027 Notes, see Note 12, "Debt" to the Notes to Consolidated Financial Statements.

On August 1, 2019, we entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank. The Credit Agreement provides for a senior secured asset-based revolving credit facility of up to \$100 million (the "Credit Facility"), which we may draw upon from time to time. The Credit agreement included an option to increase the total commitments under the Credit Facility by up to an additional \$50 million, subject to certain conditions. The Credit Agreement provides for a \$50 million letter of credit sub-facility and a \$10 million swing loan sub-facility.

On December 23, 2019, we exercised our option to increase the total commitments under the Credit Facility and entered into an Increase Joinder and Amendment Number One to Credit Agreement (the

“Amendment”), with BMO Harris Bank N.A. and Wells Fargo Bank, as administrative agent. The amendment increased the total commitments under the Credit Facility to \$150 million.

The proceeds of the loans under the Credit Agreement, as amended by the Amendment (the “Amended Credit Agreement”) may be used to pay the fees, costs and expenses incurred in connection with the Amended Credit Agreement and for working capital and general corporate purposes. The Credit Facility matures, and all outstanding loans become due and payable, on March 5, 2024. Availability under the Credit Facility is based upon periodic borrowing base certifications valuing certain inventory and accounts receivable, as reduced by certain reserves. The Credit Facility is secured by first-priority security interest (subject to certain exceptions) in inventory, certain related assets, specified deposit accounts, and certain other accounts in certain domestic subsidiaries.

Loans under the Amended Credit Agreement bear interest, at our option, at either a rate based on the London Interbank Offered Rate (“LIBOR”) for the applicable interest period or a base rate, in each case plus a margin. The margin ranges from 2.00% to 2.50% for LIBOR rate loans and 1.00% to 1.50% for base rate loans, depending on the utilization of the Credit Facility. The fee payable on the unused portion of the Credit Facility ranges from 0.375% to 0.625% per annum, also based on the current utilization of the Credit Facility. Letters of credit issued pursuant to the Credit Facility will accrue a fee at a per annum rate equal to the applicable LIBOR rate margin times the average amount of the letter of credit usage during the immediately preceding quarter in addition to the fronting fees, commissions and other fees. As of December 25, 2021, we had no outstanding borrowings under the Credit Facility, see Note 12, “Debt” to the Notes to Consolidated Financial Statements.

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, which commenced on 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, cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. As of December 25, 2021, long-term debt, net, was \$329.3 million, which represents the liability component of the \$402.5 million principal balance, net of \$73.2 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 25, 2021, contractual obligations related to the 2024 Notes are payments of \$8.6 million due each year from 2022 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, see Note 12, “Debt” to the Notes to Consolidated Financial Statements.

As of December 25, 2021, we had \$202.5 million of cash and restricted cash including \$77.6 million of cash held by our foreign subsidiaries. Our policy with respect to undistributed foreign subsidiaries' earnings is to consider those earnings to be indefinitely reinvested. As a result of the enactment in the United States of the Tax Cuts and Jobs Act of 2017, if and when funds are actually distributed in the form of dividends or otherwise, we expect minimal tax consequences, except for foreign withholding taxes, which would be applicable in some jurisdictions.

We had stand by letter of credit and bank guarantees as of the years ended December 25, 2021 and December 26, 2020, respectively.

See Note 14, “Guarantees” to the Notes to Consolidated Financial Statements for further information.

Contractual Obligations

The following is a summary of our contractual obligations as of December 25, 2021 and December 26, 2020 (in thousands):

| | December 25, 2021 | December 26, 2020 | Change | % Change |
|---|---------------------|---------------------|-------------------|-------------|
| Operating leases ⁽¹⁾ | \$ 90,887 | \$ 121,898 | \$ (31,011) | (25) % |
| Financing lease obligations | 2,337 | 2,683 | (346) | (13) % |
| Purchase obligations ⁽²⁾ | 591,540 | 291,365 | 300,175 | 103 % |
| 2027 Notes, including interest ⁽³⁾ | 227,500 | 232,500 | (5,000) | (2) % |
| 2024 Notes, including interest ⁽³⁾ | 428,159 | 436,712 | (8,553) | (2) % |
| Mortgage payable, including interest | 8,392 | 9,570 | (1,178) | (12) % |
| Financing assistance agreement, including interest ⁽⁴⁾ | — | 26,263 | (26,263) | (100) % |
| Asset-based revolving credit facility ⁽⁴⁾ | — | 77,750 | (77,750) | (100) % |
| Total contractual obligations⁽⁵⁾ | \$ 1,348,815 | \$ 1,198,741 | \$ 150,074 | 13 % |

- (1) We lease facilities under non-cancelable operating lease agreements. These leases have varying terms that range from one to 11 years, and contain leasehold improvement incentives, rent holidays and escalation clauses. In addition, some of these leases have renewal options for up to six years. We also have contractual commitments to remove leasehold improvements and return certain properties to a specified condition when the leases terminate. In 2021 certain operating leases had expired. See Note 13, "Commitments and Contingencies" to the Notes to Consolidated Financial Statements for more information.
- (2) We have service agreements with certain production suppliers under which we are committed to purchase certain parts. The increase in purchase obligations compared with the end of fiscal 2020 was due to increased lead-time commitments required to secure supply and pricing for certain product components.
- (3) For additional information regarding our asset-based revolving credit facility and 2027 and 2024 Notes, see Note 12, "Debt" to the Notes to Consolidated Financial Statements.
- (4) Our financing assistance agreement and asset-based revolving facility were repaid during 2021. See Note 12, "Debt" to the Notes to Consolidated Financial Statements for more information.
- (5) Certain commitments and contingencies are not included in the table because we cannot reliably estimate the timing and amount of future payments, if any. For example, tax liabilities of \$14.9 million related to uncertain tax positions and expected future payments to our pension and post-employment plans are excluded from the contractual obligation table because they do not represent contractual cash outflows 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 relating to our pension and post-retirement benefit plans.

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 Part II, Item 8 of this Annual Report on Form 10-K. 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, accounting for income taxes, and inventory valuation. 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

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. Instant Bandwidth-enabled systems generally include a specific initial capacity and incremental capacity can be added by the purchase of Instant Bandwidth licenses. Instant Bandwidth 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 Instant Bandwidth licenses within a specified time frame from the initial shipment of the Instant Bandwidth-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 Instant Bandwidth licenses to the customer. 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 Instant Bandwidth 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-cancelable 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.

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.

Accounting for Income Taxes

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 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 our 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 forecast 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 25, 2021, 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.

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.

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 is the euro. Historically, the majority of our revenue contracts were 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, the SEK and the British pound. As a result of the Acquisition, we have increased our 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 certain non-functional currency denominated account balances primarily 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 non-functional account balances 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 non-functional currency account balances. Accordingly, the effect of an immediate 10% adverse change in foreign exchange rates on these transactions during 2021 would not be material to our results of operations.

Interest Rate Risk

We had cash and restricted cash totaling \$202.5 million and \$315.4 million as of December 25, 2021 and December 26, 2020, respectively. The unrestricted cash is held for working capital purposes. We do not enter into investments for speculative purposes. The effect of an immediate 10% adverse change in interest rates would not be material to our results of operations.

In September 2018 and March 2020, we issued the 2024 Notes and 2027 Notes, respectively (collectively, the "Notes"). The 2024 and 2027 Notes have a fixed annual interest rate of 2.125% and 2.50%, respectively, and, therefore, we do not have economic interest rate exposure on the 2024 and 2027 Notes. However, the fair values of the 2027 Notes are subject to interest rate risk, credit risk and other factors due to the convertible feature. The fair value of the Notes will generally increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of the Notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines in value. The fair value of the Notes will generally increase as our credit worthiness improves and decrease when our creditworthiness weakens. The interest and market value changes affect the fair value of the 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 Notes at fair value. We present the fair value of the Notes for required disclosure purposes only. As of December 25, 2021, the fair value of the 2024 and 2027 Notes was \$472.1 million and \$293.4 million, respectively. The fair value was determined based on the estimated fair value or quoted bid price as applicable of the 2024 and 2027 Notes in an over-the-counter market on December 23, 2021. The Notes are classified as Level 2 of the fair value hierarchy.

Holders may convert the 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 or \$7.66 for the 2024 and 2027 Notes, respectively, 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.

See Note 12, "Debt" 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 the 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 25, 2021 and December 26, 2020, 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 25, 2021, 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 25, 2021 and December 26, 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 25, 2021, 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 25, 2021, 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 February 23, 2022 expressed an unqualified opinion thereon.

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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Inventory Valuation

Description of the Matter

At December 25, 2021, the Company's inventory balance was \$291.4 million and represented 18.4% of total assets. As discussed in Note 2 of the consolidated financial statements, the Company assesses the valuation of inventories, including raw materials, work-in-process, and finished goods, in each reporting period. Obsolete inventory or inventory in excess of management's forecasted demand is written down to its estimated net realizable value if less than cost.

Auditing management's estimates for excess and obsolete inventory involved subjective auditor judgement because the estimates rely on a number of factors that are affected by market and economic conditions outside the Company's control. In particular, the excess and obsolete inventory calculations are sensitive to significant assumptions, including forecasted demand for the Company's products.

*How We Addressed the
Matter in Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls over the Company's excess and obsolete inventory reserve process. This included controls over management's assessment of the forecasted demand for their products and the completeness and accuracy of the data underlying the excess and obsolete inventory valuation.

Our audit procedures included, among others, evaluating the significant assumptions including forecasted demand and the accuracy and completeness of the underlying data management used to value excess and obsolete inventory. We compared the cost of on-hand inventories to customer demand forecasts and historical sales and evaluated adjustments to sales forecasts for specific product considerations, such as technological changes or alternative uses. We also assessed the historical accuracy of management's estimates and performed sensitivity analyses over the significant assumptions to evaluate the changes in the excess and obsolete inventory estimates that would result from changes in the underlying assumptions.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2001.

San Jose, California

February 23, 2022

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 25, 2021, 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 25, 2021, 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 25, 2021 and December 26, 2020, 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 25, 2021, 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") and our report dated February 23, 2022 expressed an unqualified opinion thereon.

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

February 23, 2022

INFINERA CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except par values)

| | December 25, 2021 | December 26, 2020 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 190,611 | \$ 298,014 |
| Short-term restricted cash | 2,840 | 3,293 |
| Accounts receivable, net | 358,954 | 319,428 |
| Inventory | 291,367 | 269,307 |
| Prepaid expenses and other current assets | 147,989 | 171,831 |
| Total current assets | 991,761 | 1,061,873 |
| Property, plant and equipment, net | 160,218 | 153,133 |
| Operating lease right-of-use assets | 45,338 | 68,851 |
| Intangible assets, net | 86,574 | 124,882 |
| Goodwill | 255,788 | 273,426 |
| Long-term restricted cash | 9,070 | 14,076 |
| Other long-term assets | 38,475 | 36,256 |
| Total assets | <u>\$ 1,587,224</u> | <u>\$ 1,732,497</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 216,404 | \$ 175,762 |
| Accrued expenses and other current liabilities | 147,029 | 150,550 |
| Accrued compensation and related benefits | 88,021 | 52,976 |
| Short-term debt, net | 533 | 101,983 |
| Accrued warranty | 23,204 | 19,369 |
| Deferred revenue | 137,297 | 133,246 |
| Total current liabilities | 612,488 | 633,886 |
| Long-term debt, net | 476,789 | 445,996 |
| Long-term accrued warranty | 21,106 | 21,339 |
| Long-term deferred revenue | 31,612 | 29,810 |
| Long-term deferred tax liability | 2,364 | 4,164 |
| Long-term operating lease liabilities | 54,326 | 76,126 |
| Other long-term liabilities | 64,768 | 94,892 |
| 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 2021 and 500,000 in 2020 | | |
| Issued and outstanding shares—211,381 in 2021 and 201,397 in 2020 | 211 | 201 |
| Additional paid-in capital | 2,026,098 | 1,965,245 |
| Accumulated other comprehensive loss | (4,496) | (11,898) |
| Accumulated deficit | (1,698,042) | (1,527,264) |
| Total stockholders' equity | 323,771 | 426,284 |
| Total liabilities and stockholders' equity | <u>\$ 1,587,224</u> | <u>\$ 1,732,497</u> |

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 25, 2021 | December 26, 2020 | December 28, 2019 |
| Revenue: | | | |
| Product | \$ 1,099,376 | \$ 1,045,551 | \$ 1,011,488 |
| Services | 325,829 | 310,045 | 287,377 |
| Total revenue | <u>1,425,205</u> | <u>1,355,596</u> | <u>1,298,865</u> |
| Cost of revenue: | | | |
| Cost of product | 732,071 | 751,465 | 735,059 |
| Cost of services | 174,008 | 160,118 | 146,916 |
| Amortization of intangible assets | 19,621 | 29,247 | 32,583 |
| Acquisition and integration costs | — | 1,828 | 28,449 |
| Restructuring and other related costs | 1,531 | 4,146 | 29,935 |
| Total cost of revenue | <u>927,231</u> | <u>946,804</u> | <u>972,942</u> |
| Gross profit | 497,974 | 408,792 | 325,923 |
| Operating expenses: | | | |
| Research and development | 299,894 | 265,634 | 287,977 |
| Sales and marketing | 138,829 | 129,604 | 151,423 |
| General and administrative | 115,415 | 112,240 | 126,351 |
| Amortization of intangible assets | 17,455 | 18,581 | 27,280 |
| Acquisition and integration costs | 614 | 13,346 | 42,271 |
| Restructuring and other related costs | 13,246 | 24,586 | 40,851 |
| Total operating expenses | <u>585,453</u> | <u>563,991</u> | <u>676,153</u> |
| Loss from operations | (87,479) | (155,199) | (350,230) |
| Other income (expense), net: | | | |
| Interest income | 455 | 118 | 1,139 |
| Interest expense | (49,099) | (46,728) | (31,657) |
| Other income (loss), net | (22,667) | 1,121 | (2,907) |
| Total other income (expense), net | <u>(71,311)</u> | <u>(45,489)</u> | <u>(33,425)</u> |
| Loss before income taxes | (158,790) | (200,688) | (383,655) |
| Provision for income taxes | 11,988 | 6,035 | 2,963 |
| Net loss | <u>(170,778)</u> | <u>(206,723)</u> | <u>(386,618)</u> |
| Net loss per common share: | | | |
| Basic | <u>\$ (0.82)</u> | <u>\$ (1.10)</u> | <u>\$ (2.16)</u> |
| Diluted | <u>\$ (0.82)</u> | <u>\$ (1.10)</u> | <u>\$ (2.16)</u> |
| Weighted average shares used in computing net loss per common share: | | | |
| Basic | <u>207,377</u> | <u>188,216</u> | <u>178,984</u> |
| Diluted | <u>207,377</u> | <u>188,216</u> | <u>178,984</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 25, 2021 | December 26, 2020 | December 28, 2019 |
| Net loss | \$ (170,778) | \$ (206,723) | \$ (386,618) |
| Other comprehensive income (loss), net of tax: | | | |
| Change in unrealized gain on available-for-sale investments | — | — | 91 |
| Foreign currency translation adjustment | (8,561) | 29,040 | (9,376) |
| Actuarial gain (loss) on pension liabilities | 12,580 | (8,183) | (1,692) |
| Amortization of net actuarial loss | 3,383 | 1,884 | 1,638 |
| Net change in accumulated other comprehensive income (loss) | 7,402 | 22,741 | (9,339) |
| Comprehensive loss | \$ (163,376) | \$ (183,982) | \$ (395,957) |

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

INFINERA CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 25, 2021, December 26, 2020 and December 28, 2019

(In thousands)

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
|---|--------------|--------|----------------------------------|--|------------------------|-------------------------------|
| | Shares | Amount | | | | |
| Balance at December 29, 2018 | 175,452 | \$ 175 | \$ 1,685,916 | \$ (25,300) | \$ (956,970) | \$ 703,821 |
| ESPP shares issued | 2,897 | 3 | 12,049 | — | — | 12,052 |
| Shares withheld for tax obligations | (98) | — | (425) | — | — | (425) |
| Restricted stock units released | 2,883 | 3 | — | — | — | 3 |
| Stock-based compensation | — | — | 43,344 | — | — | 43,344 |
| Cumulative-effect adjustment from adoption of Topic 842 | — | — | — | — | 23,697 | 23,697 |
| Other comprehensive loss | — | — | — | (9,339) | — | (9,339) |
| Net loss | — | — | — | — | (386,618) | (386,618) |
| Balance at December 28, 2019 | 181,134 | \$ 181 | \$ 1,740,884 | \$ (34,639) | \$ (1,319,891) | \$ 386,535 |
| Shares of common stock sold in at-the market equity offering, net of issuance costs | 12,000 | \$ 12 | \$ 92,852 | \$ — | \$ — | \$ 92,864 |
| Stock options exercised | 474 | — | 3,995 | — | — | 3,995 |
| Retirement of common shares purchased upon exercise of options | (254) | — | (2,255) | — | — | (2,255) |
| ESPP shares issued | 3,001 | 3 | 15,343 | — | — | 15,346 |
| Shares withheld for tax obligations | (330) | — | (2,013) | — | — | (2,013) |
| Restricted stock units released | 5,372 | 5 | — | — | — | 5 |
| Stock-based compensation | — | — | 48,642 | — | — | 48,642 |
| Cumulative-effect adjustment from adoption of Topic 326 | — | — | — | — | (650) | (650) |
| Conversion option related to convertible senior notes, net of allocated costs | — | — | 67,797 | — | — | 67,797 |
| Other comprehensive income | — | — | — | 22,741 | — | 22,741 |
| Net loss | — | — | — | — | (206,723) | (206,723) |
| Balance at December 26, 2020 | 201,397 | \$ 201 | \$ 1,965,245 | \$ (11,898) | \$ (1,527,264) | \$ 426,284 |
| ESPP shares issued | 2,272 | \$ 2 | \$ 16,164 | \$ — | \$ — | \$ 16,166 |
| Stock option exercised | 46 | — | 332 | — | — | 332 |
| Restricted stock units released | 8,474 | 8 | — | — | — | 8 |
| Shares withheld for tax obligations | (808) | — | (7,178) | — | — | (7,178) |
| Stock-based compensation | — | — | 51,535 | — | — | 51,535 |
| Other comprehensive income | — | — | — | 7,402 | — | 7,402 |
| Net loss | — | — | — | — | (170,778) | (170,778) |
| Balance at December 25, 2021 | 211,381 | \$ 211 | \$ 2,026,098 | \$ (4,496) | \$ (1,698,042) | \$ 323,771 |

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

INFINERA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Years Ended | | |
|---|-------------------|-------------------|-------------------|
| | December 25, 2021 | December 26, 2020 | December 28, 2019 |
| Cash Flows from Operating Activities: | | | |
| Net loss | \$ (170,778) | \$ (206,723) | \$ (386,618) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 83,583 | 100,140 | 119,824 |
| Non-cash restructuring charges and other related costs | 6,805 | 5,471 | 13,937 |
| Amortization of debt discount and issuance costs | 32,455 | 28,115 | 19,162 |
| Operating lease expense | 14,993 | 18,556 | 31,141 |
| Stock-based compensation expense | 51,812 | 49,461 | 43,294 |
| Other, net | 4,147 | 4,438 | 178 |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (45,783) | 32,150 | (35,395) |
| Inventory | (28,022) | 71,424 | (42,840) |
| Prepaid expenses and other current assets | (424) | (36,127) | (93,621) |
| Accounts payable | 32,304 | (93,411) | 83,272 |
| Accrued expenses and other current liabilities | 39,283 | (107,704) | 54,658 |
| Deferred revenue | 7,753 | 21,910 | 25,658 |
| Net cash provided by (used in) operating activities | 28,128 | (112,300) | (167,350) |
| Cash Flows from Investing Activities: | | | |
| Proceeds from sales of available-for-sale investments | — | — | 1,499 |
| Proceeds from maturities of investments | — | — | 25,085 |
| Acquisition of business, net of cash acquired | — | — | (10,000) |
| Proceeds from sale of non-marketable equity investments | — | — | 1,009 |
| Purchase of property and equipment, net | (41,379) | (39,009) | (30,202) |
| Net cash used in investing activities | (41,379) | (39,009) | (12,609) |
| Cash Flows from Financing Activities: | | | |
| Proceeds from issuance of common stock from at-the-market equity offering, net of issuance costs of \$3,380 | — | 92,916 | — |
| Proceeds from issuance of 2027 Notes | — | 194,500 | — |
| Proceeds from mortgage payable | — | — | 8,584 |
| Proceeds from short-term borrowings | — | — | 24,310 |
| Proceeds from revolving line of credit | — | 55,000 | 48,125 |
| Repayment of third-party manufacturing funding | (24,610) | (5,346) | — |
| Repayment of revolving line of credit | (77,000) | (8,000) | (20,000) |
| Repayment of mortgage payable | (350) | (233) | (300) |
| Payment of debt issuance cost | — | (2,455) | (273) |
| Principal payments on financing lease obligations | (1,631) | (1,587) | (163) |
| Payment of term license obligation | (7,272) | (5,692) | — |
| Proceeds from issuance of common stock | 16,497 | 17,072 | 12,053 |
| Tax withholding paid on behalf of employees for net share settlement | (7,178) | (2,013) | (426) |
| Net cash (used in) provided by financing activities | (101,544) | 334,162 | 71,910 |
| Effect of exchange rate changes on cash | 1,933 | (267) | (1,491) |
| Net change in cash | (112,862) | 182,586 | (109,540) |
| Cash and restricted cash at beginning of period | 315,383 | 132,797 | 242,337 |
| Cash and restricted cash at end of period ⁽¹⁾ | <u>\$ 202,521</u> | <u>\$ 315,383</u> | <u>\$ 132,797</u> |

Supplemental disclosures of cash flow information:

| | | | | | | |
|---------------------------------|----|--------|----|--------|----|--------|
| Cash paid for income taxes, net | \$ | 18,703 | \$ | 5,039 | \$ | 16,944 |
| Cash paid for interest | \$ | 18,261 | \$ | 15,638 | \$ | 9,564 |

Supplemental schedule of non-cash investing and financing activities:

| | | | | | | |
|--|----|-------|----|--------|----|-------|
| Transfer of inventory to fixed assets | \$ | 2,279 | \$ | 1,083 | \$ | 2,961 |
| Third-party manufacturer funding for transfer expenses incurred | \$ | — | \$ | — | \$ | 6,960 |
| Unpaid debt issuance cost | \$ | — | \$ | — | \$ | 2,493 |
| Property and equipment included in accounts payable and accrued liabilities | \$ | 9,011 | \$ | — | \$ | 3,838 |
| Unpaid term licenses (included in accounts payable, accrued liabilities and other long term liabilities) | \$ | 9,339 | \$ | 12,478 | \$ | — |

(1) Reconciliation of cash and restricted cash to the consolidated balance sheets:

| | <u>December 25, 2021</u> | <u>December 26, 2020</u> | <u>December 28, 2019</u> |
|--------------------------------|--------------------------|--------------------------|--------------------------|
| | (In thousands) | | |
| Cash | \$ 190,611 | \$ 298,014 | \$ 109,201 |
| Short-term restricted cash | 2,840 | 3,293 | 4,339 |
| Long-term restricted cash | 9,070 | 14,076 | 19,257 |
| Total cash and restricted cash | <u>\$ 202,521</u> | <u>\$ 315,383</u> | <u>\$ 132,797</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 San Jose, 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, and a suite of networking and automation software offerings.

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 2021, 2020 and 2019 were 52-week years that ended on December 25, 2021, December 26, 2020 and December 28, 2019, respectively. The next 53-week year will end on December 31, 2022.

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”). The consolidated financial statements include all adjustments necessary for a fair presentation of the Company's annual results. All adjustments are of a normal recurring nature.

The consolidated financial statements include the accounts for the Company and its subsidiaries and affiliates in the Company which the Company has a controlling financial interest or is the primary beneficiary. All inter-company balances and transactions have been eliminated. The Company reclassified certain amounts reported in previous periods to conform to the current presentation.

2. Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management 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 reporting periods. Significant estimates, assumptions and judgments made by management include revenue recognition, inventory valuation, and accounting for income taxes. Other less significant estimates, assumptions and judgments made by management include stock-based compensation, employee benefit and pension plans, manufacturing partner and supplier liabilities, allowances for sales returns, allowances for credit losses, useful life of intangibles and property, plant and equipment, impairment loss related to lease abandonment, accrued warranty, operating and finance lease liabilities, restructuring and other related costs, fair value measurement of the debt component of the convertible senior notes, and loss contingencies. The Company bases its assumptions on historical experience and also on assumptions that it believes are reasonable. Actual results could differ materially from those estimates. The Company expects uncertainties around its key accounting estimates to continue to evolve depending on the duration and degree of impact associated with the outbreak of a novel strain of the coronavirus (“COVID-19”). These estimates may change as new events occur and additional information emerges, and such changes are recognized or disclosed in the Company's consolidated financial statements.

Revenue Recognition

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.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

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-enabled systems generally include a specific initial capacity and incremental capacity can be added by the purchase of Instant Bandwidth licenses. Instant Bandwidth 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 Instant Bandwidth licenses within a specified time frame from the initial shipment of the Instant Bandwidth-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 Instant Bandwidth licenses to the customer. 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 Instant Bandwidth 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-cancelable portion of the contract.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

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 Company accounts for forfeitures as they occur.

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's 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 over 18 months to three years.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company granted performance shares ("PSUs") to its executive officers and senior management. The PSUs granted during 2018 to the Company's executive officers and senior management are based on the Total Shareholder Return ("TSR") of the Company's common stock price relative to the TSR of the individual companies listed in the S&P North American Technology Multimedia Networking Index (the "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 individual companies listed in the SPGIIPTR. This performance metric is classified as a market condition.

PSUs granted to the Company's executive officers and senior management during 2019, 2020 and 2021 are based on performance criteria related to a specific financial target over the span of a three-year performance period. These PSUs may become eligible for vesting to begin before the end of the three year performance period, if the applicable financial target is met. The number of shares to be issued upon vesting of these PSUs is capped at the target number of PSUs granted. 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.

The Company uses a Monte Carlo simulation model to determine the fair value of PSUs with market conditions. 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 a 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 the 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 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.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Advertising

All advertising costs are expensed as incurred. Advertising expenses in 2021, 2020 and 2019 were \$1.6 million, \$1.3 million, and \$1.5 million, respectively.

Accounting for Income Taxes

As part of the process of preparing its consolidated financial statements, the Company 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 consolidated balance sheets. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in consolidated statements of operations become deductible expenses under applicable income tax laws or loss, or credit carryforwards are utilized. Accordingly, realization of 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 our 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 forecast of taxable income over the applicable carryforward periods, its current financial performance, its market environment, and other factors. 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, revenue, 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 and consolidated statements of comprehensive income (loss).

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 income (loss), net, in the Company's consolidated statement of operations, in the same period that the re-measurement occurred. Aggregate foreign exchange transactions recorded in 2021, 2020 and 2019 were losses of \$17.2 million, \$0.2 million, and \$3.7 million, respectively.

The Company enters into foreign currency exchange forward contracts to reduce the impact of foreign exchange fluctuations on earnings from certain non-functional currency account balances denominated primarily in euros and British pounds.

Cash

Cash consists primarily of cash in bank deposit accounts which, at times, a portion may exceed federally insured limits. The Company has not experienced any losses in such accounts.

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.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 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 foreign currency exchange forward contracts and debt securities at fair value and classifies them in accordance with the fair value hierarchy on a recurring basis.

Foreign Currency Exchange Forward Contracts

As discussed in Note 6, "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.

Facilities-related Charges

The Company estimates the fair value of its facilities-related charges associated with its restructuring plans, based on estimated future discounted cash flows and unobservable inputs, which includes the amount and timing of estimated sublease rental receipts that the Company can reasonably obtain over the remaining lease term and the discount rate.

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.

Refer to Note 18, "Employee Benefit and Pension Plans" to the Notes to Consolidated Financial Statements, for more information on fair value of plan assets by major asset category.

Accounts Receivable and Allowances for Credit Losses

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for estimated credit losses resulting from the inability of its customers to make required payments and reviewed the allowance quarterly. The Company determines expected credit losses by performing credit evaluations of its customers' financial condition, establishing both a general reserve and specific reserve for customers in adverse financial condition and adjusting for its expectations of changes in conditions that may impact the collectability of outstanding receivables. The Company considers a customer's receivable balance past due when the amount is due beyond the credit terms extended. The Company considers factors such as historical experience, credit quality, age of the accounts receivable balances, and geographic or country-specific risks. Amounts are written off when receivables are determined to be uncollectible.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 25, 2021, December 26, 2020 and December 28, 2019, revenue was reduced for estimated sales returns by \$0.8 million, \$2.4 million, and \$3.5 million, respectively.

Concentration of Risk

Financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash, restricted cash, foreign exchange contracts and accounts receivable.

The risk with respect to foreign exchange contracts is mitigated by entering into these contracts with a large high-quality financial institution and the Company monitors the creditworthiness of the counterparty consistently.

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.

As of December 25, 2021, no customer accounted for over 10% of the Company's accounts receivable balance, net on the consolidated balance sheets. As of December 26, 2020, one customer accounted for over 10% of the Company's accounts receivable balance, net on the consolidated balance sheets.

One customer accounted for approximately 11% and 13% of the Company's revenue in 2020 and 2019, respectively. No other customers accounted for 10% or more of the Company's revenue in 2020 and 2019. No customer accounted for 10% or more of the Company's revenue in 2021.

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 high-quality institutions and the Company monitors the creditworthiness of the counterparties 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. 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 euro and British pounds. Gains and losses on these contracts are intended to offset the impact of foreign exchange rate changes on the underlying account balances, and therefore, do not subject the Company to material balance sheet risk.

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 ASC 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 uncollectability, and the Company does not retain any interest in the underlying accounts receivable once sold.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 and certain software licenses. 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 certain. Repair and maintenance costs are expensed as incurred. The estimated useful life for each asset category is as follows:

| | Estimated Useful Lives |
|--|-------------------------------|
| Building | 20 years |
| Laboratory and manufacturing equipment | 1.5 to 10 years |
| Furniture and fixtures | 3 to 10 years |
| Computer hardware | 3 to 5 years |
| Computer software | 3 years |
| Leasehold and building improvements | 1 to 11 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.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accrued Warranty

In the Company's contracts with its customers, 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.

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 represent 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, but once projects have been completed, these assets 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 Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed. The Company tests for impairment of goodwill on an annual basis in the fourth quarter and at any other time when events occur or circumstances indicate that the carrying amount of goodwill may not be recoverable. The Company has the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. If the Company determines that as a result of the qualitative assessment that it is more likely than not (i.e., greater than 50% likelihood) that the fair value of a reporting unit is less than its carrying amount, then the quantitative test is required or it can directly perform the quantitative analysis. The Company recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized does not exceed the total amount of goodwill allocated to that reporting unit.

The Company evaluates 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, 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.

Leases

The Company has operating leases primarily for real estate (facilities) and automobiles. The Company has finance leases primarily for computer hardware, laboratory and manufacturing equipment and leasehold and building improvements.

The Company leases facilities under non-cancelable operating lease agreements. These leases have varying terms that range from one to 11 years and contain leasehold improvement incentives, rent holidays and escalation clauses. In addition, some of these leases have renewal options for up to six years.

The Company determines if an arrangement contains a lease at inception. Operating leases are included in operating lease right of use ("ROU") assets, accrued expenses and other current liabilities and operating lease liabilities on the Company's consolidated balance sheets. Finance leases are included in

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

property, plant and equipment, net, accrued expenses and other current liabilities and other long-term liabilities on the Company's consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Operating lease ROU assets also include any lease payments made and exclude lease incentives and initial direct costs incurred. Variable lease payments are expensed as incurred and are not included within the ROU asset and lease liability calculation. Variable lease payments primarily include reimbursements of costs incurred by lessors for common area maintenance and utilities. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The Company rents or subleases certain real estate under agreements that are classified as operating leases.

Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company recognizes lease expense for these leases on a straight-line basis over the lease term. The Company does not account for lease components (e.g., fixed payments including rent) separately from the non-lease components (e.g., common-area maintenance costs).

Upon abandoning or committing to a plan to abandon a leased property in the short term before the lease term expires, the Company assesses the fair value of its remaining obligation under the lease and records an impairment of the ROU asset, if needed. The impairment loss is calculated as the present value of the amount by which the remaining lease obligation, adjusted for the effects of any one-time costs to sublease, exceeds the estimated sublease rentals that could be reasonably obtained. The estimated sublease rentals consider Company's ability and intent to sublease the space. The significant assumptions used in the Company's discounted cash flow model include the amount and timing of estimated sublease rental receipts and the discount rate which 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.

The loss recorded or to be recorded may change significantly as a result of the re-measurement of the liability, if the timing or amount of estimated cash flows change.

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," or ASC 712, "Compensation — Nonretirement Postemployment Benefits." 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 current liabilities" and "other long-term liabilities" in the consolidated balance sheet.

Restructuring costs include employee and contract termination costs, facility consolidation and closure costs, lease related impairment charges, 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.

Restructuring charges require significant estimates and assumptions, including estimates made for employee separation costs and other contract termination charges. Management estimates involve a number of risks and uncertainties, some of which are beyond control, including the Company's ability to successfully enter into termination agreements with employees and others 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.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

In December 2019, FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes" ("ASU 2019-12"), as part of its simplification initiative. ASU 2019-12 removes certain exceptions from Accounting Standards Codification ("ASC") 740, "Income Taxes" ("ASC 740"), including (i) the exception to the incremental approach for intra period tax allocation when there is a loss from continuing operations and income or a gain from other items such as discontinued operations or other comprehensive income; (ii) the exception to accounting for outside basis differences of equity method investments and foreign subsidiaries; and (iii) the exception to limit tax benefit recognized in interim period in cases when the year-to-date losses exceeds anticipated losses. ASU 2019-12 also simplifies U.S. GAAP in several other areas of ASC 740 such as (i) franchise taxes and other taxes partially based on income; (ii) step-up in tax basis goodwill considered part of a business combination in which the book goodwill was originally recognized or should be considered a separate transaction; (iii) separate financial statements of entities not subject to tax; and (iv) interim recognition of enactment of tax laws or rate changes. ASU 2019-12 is effective for the Company for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2020, with early adoption permitted. The Company adopted ASU 2019-12 in the first quarter of 2021 and the impact of the adoption was not material to the Company's consolidated financial statements.

Accounting Pronouncements Not Yet Effective

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805)" ("ASU 2021-08"). The ASU improves the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to recognition of an acquired contract liability and payment terms and their effect on subsequent revenue recognized by the acquirer. The update is effective for annual and interim periods within the fiscal year beginning after December 15, 2022, and early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the period in which we will adopt ASU 2021-08 and evaluating the impact that the adoption of ASU 2021-08 would have on its consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40) ("ASU 2020-06"). The ASU simplifies accounting for convertible instruments by removing major separation models required under current GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. This update removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. This update also simplifies the diluted net income per share calculation in certain areas. The update is effective for annual and interim periods beginning after December 15, 2021, and interim periods within those fiscal years. The Company will adopt ASU 2020-06 as of December 26, 2021 using the modified retrospective transition method, which will result in a cumulative-effect adjustment to the opening balance of accumulated deficit on the date of adoption. Prior period financial statements will not be restated upon adoption.

Upon adoption of ASU 2020-06, the Company will no longer record the conversion feature of its convertible senior notes in equity. Instead, the Company will combine the previously separated equity component with the liability component, which together will be classified as debt, thereby eliminating the subsequent amortization of the debt discount as interest expense. Similarly, a portion of issuance costs previously allocated to equity will be reclassified to debt and amortized as interest expense. Accordingly, the Company expects to record an increase to accumulated deficit, a decrease to additional paid-in capital, and an increase to convertible senior notes. Also upon adoption, the Company will no longer utilize the treasury stock method for earnings per share purposes. Instead, the Company will use the if-converted method when reporting the weighted-average number of potentially dilutive shares of common stock. Although the required use of the if-converted method will not impact the diluted net loss per share as long as the Company is in a net loss position, the Company will be required to include disclosure of all the underlying shares regardless of the average stock price for the reporting period.

In March 2020, the FASB issued ASU 2020-04 (Topic 848), "Reference Rate Reform - Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU 2020-04"), which provides temporary optional expedients and exceptions to the existing guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

("LIBOR") and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. The standard was effective upon issuance and may generally be applied through December 31, 2022 to any new or amended contracts, hedging relationships, and other transactions that reference LIBOR. The Company will apply the amendments when its relevant contracts are modified upon transition to alternative reference rates.

3. Leases

The Company has operating leases for real estate (facilities) and automobiles. For the fiscal years ended December 25, 2021, December 26, 2020 and December 28, 2019, operating lease expense was \$25.5 million, \$34.0 million and \$41.5 million, respectively. Included in operating lease expense were rent expense and impairment charges due to restructuring resulting in abandonment of certain lease facilities, amounting to \$6.3 million, \$9.9 million and \$15.9 million for the fiscal years ended December 25, 2021, December 26, 2020 and December 28, 2019, respectively. Variable lease cost, short-term lease cost and sublease income were immaterial during the fiscal years ended December 25, 2021, December 26, 2020 and December 28, 2019, respectively.

As of December 25, 2021, \$16.5 million was included in accrued expenses and other current liabilities and \$54.3 million as long-term operating lease liabilities. As of December 26, 2020, \$14.9 million was included in accrued expenses and other current liabilities and \$76.1 million as long-term operating lease liabilities.

The Company also has finance leases. The lease term for these arrangements range from three to five years with option to purchase at the end of the term. Finance leases included in Property, Plant, & Equipment, net in the consolidated balance sheets were as follows (in thousands):

| | December 25, 2021 | | December 26, 2020 | |
|--|-------------------|-------|-------------------|-------|
| Computer hardware | \$ | 1,208 | \$ | — |
| Laboratory and manufacturing equipment | \$ | 1,973 | \$ | 1,973 |
| Leasehold and building improvements | \$ | 2,333 | \$ | 2,512 |

The following table presents finance lease expense comprising of amortization of right of use asset and interest expense (in thousands):

| | Years Ended | | |
|------------------------------------|-------------------|-------------------|-------------------|
| | December 25, 2021 | December 26, 2020 | December 28, 2019 |
| Amortization of right of use asset | \$ 960 | \$ 733 | \$ 339 |
| Interest Expense | 190 | 185 | 126 |
| Total finance lease expense | \$ 1,150 | \$ 918 | \$ 465 |

The following table presents balance sheet detail of finance lease liability (in thousands):

| | December 25, 2021 | | December 26, 2020 | |
|--|-------------------|-------|-------------------|-------|
| Accrued expenses and other current liabilities | \$ | 1,291 | \$ | 1,138 |
| Other long-term liabilities | | 954 | | 1,383 |
| Total finance lease liability | \$ | 2,245 | \$ | 2,521 |

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents maturity of lease liabilities under the Company's non-cancelable leases as of December 25, 2021 (in thousands):

| | Operating Lease | Finance Lease |
|------------------------------------|------------------------|----------------------|
| Total lease payments | \$ 90,887 | \$ 2,337 |
| Less: interest ⁽¹⁾ | 20,018 | 92 |
| Present value of lease liabilities | <u>\$ 70,869</u> | <u>\$ 2,245</u> |

⁽¹⁾ Calculated using the interest rate for each lease.

The following table presents supplemental information for the Company's non-cancelable leases for the fiscal year ended December 25, 2021 (in thousands, except for weighted average and percentage data):

| | Operating Lease | Finance Lease |
|--|------------------------|----------------------|
| Weighted average remaining lease term | 5.92 years | 1.68 years |
| Weighted average discount rate | 9.18 % | 7.04 % |
| Cash paid for amounts included in the measurement of lease liabilities | \$ 23,477 | \$ 1,632 |
| Leased assets obtained in exchange for new lease liabilities | \$ 3,070 | \$ 1,208 |

4. Revenue Recognition

Capitalization of Costs to Obtain a Contract

The ending balance of the Company's capitalized costs to obtain a contract as of December 25, 2021 and December 26, 2020 were \$0.7 million and zero, respectively. The Company's amortization expense was not material for the fiscal year ended December 25, 2021, December 26, 2020 and December 28, 2019, respectively.

Disaggregation of Revenue

The following table presents the Company's revenue disaggregated by revenue source (in thousands):

| | Years Ended | | |
|---------------|--------------------------|--------------------------|--------------------------|
| | December 25, 2021 | December 26, 2020 | December 28, 2019 |
| Product | \$ 1,099,376 | \$ 1,045,551 | \$ 1,011,488 |
| Services | 325,829 | 310,045 | 287,377 |
| Total revenue | <u>\$ 1,425,205</u> | <u>\$ 1,355,596</u> | <u>\$ 1,298,865</u> |

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 25, 2021 | December 26, 2020 | December 28, 2019 |
| United States | \$ 663,808 | \$ 630,422 | \$ 628,075 |
| Other Americas | 107,963 | 99,158 | 93,251 |
| Europe, Middle East and Africa | 477,787 | 424,411 | 418,333 |
| Asia Pacific | 175,647 | 201,605 | 159,206 |
| Total revenue | <u>\$ 1,425,205</u> | <u>\$ 1,355,596</u> | <u>\$ 1,298,865</u> |

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| | Years Ended | | |
|----------------------|---------------------|---------------------|---------------------|
| | December 25, 2021 | December 26, 2020 | December 28, 2019 |
| Direct | \$ 1,099,632 | \$ 1,039,976 | \$ 1,032,527 |
| Indirect | 325,573 | 315,620 | 266,338 |
| Total revenue | \$ 1,425,205 | \$ 1,355,596 | \$ 1,298,865 |

Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers (in thousands):

| | December 25, 2021 | December 26, 2020 |
|--------------------------|-------------------|-------------------|
| Accounts receivable, net | \$ 358,954 | \$ 319,428 |
| Contract assets | \$ 49,052 | \$ 51,583 |
| Deferred revenue | \$ 168,909 | \$ 163,056 |

Revenue recognized for the fiscal year ended December 25, 2021 and December 26, 2020 that was included in the deferred revenue balance at the beginning of the reporting period was \$88.1 million and \$85.2 million, respectively. Changes in the contract asset and liability balances during the fiscal year ended December 25, 2021 and December 26, 2020 were not materially impacted by other factors.

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, consisting of deferred revenue and backlog. The Company's backlog represents purchase orders received from customers for future product shipments and services. 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.

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially satisfied) pursuant to contracts that are not subject to cancellation without penalty at the end of the reporting period (in thousands):

| | 2022 | 2023 | 2024 | 2025 | 2026 | Thereafter | Total |
|---|------------|-----------|-----------|----------|----------|------------|------------|
| Revenue expected to be recognized in the future as of December 25, 2021 | \$ 679,856 | \$ 51,634 | \$ 21,591 | \$ 4,497 | \$ 2,354 | \$ 3,128 | \$ 763,060 |

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

5. Fair Value Measurements

The following table presents the Company's fair value hierarchy for its assets (liabilities) measured at fair value on a recurring basis (in thousands):

| | As of December 25, 2021 | | | As of December 26, 2020 | | |
|---|---------------------------|----------|----------|---------------------------|---------|---------|
| | Fair Value Measured Using | | | Fair Value Measured Using | | |
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Assets (Liabilities) | | | | | | |
| Foreign currency exchange forward contracts | \$ — | \$ (221) | \$ (221) | \$ — | \$ (72) | \$ (72) |

Disclosure of Fair Values

Our financial instruments that are not re-measured at fair value include accounts receivable, accounts payable, accrued liabilities, and debt. The carrying values of these financial instruments other than our 2024 Notes and our 2027 Notes (collectively referred to as "Convertible Senior Notes" below) approximate their fair values. The fair value of Convertible Senior Notes were determined based on the quoted bid price of the Convertible Senior Notes in an over-the-counter market on December 23, 2021 (the last trading day of the fiscal quarter).

The following table presents the estimated fair values of the Convertible Senior Notes (in thousands):

| | As of December 25, 2021 | | | As of December 26, 2020 | | |
|--------------------------|---------------------------|------------|------------|---------------------------|------------|------------|
| | Fair Value Measured Using | | | Fair Value Measured Using | | |
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Debt | | | | | | |
| Convertible Senior Notes | \$ — | \$ 765,412 | \$ 765,412 | \$ — | \$ 834,450 | \$ 834,450 |

During 2021 and 2020, there were no transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy. As of December 25, 2021 and December 26, 2020, none of the Company's existing securities were classified as Level 3 securities.

The Company classifies 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.

The Company measures goodwill and intangible assets at fair value on a nonrecurring basis when there are identifiable events or changes in circumstances that may have a significant adverse impact on the fair value of these assets. The Company performed an analysis of impairment indicators of these assets and noted no adverse impact to their fair values as of December 25, 2021.

Facilities-related Charges

In connection with its Restructuring Plans (as defined in Note 9, "Restructuring and Other Related Costs" to the Notes to Consolidated Financial Statements), the Company incurred facilities related charges of \$6.3 million and \$9.9 million for the years ended December 25, 2021 and December 26, 2020, respectively. These charges were calculated at fair value based on estimated future discounted cash flows and are classified as 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 2018 Restructuring Plan.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Cash

As of December 25, 2021, the Company had \$202.5 million of cash and restricted cash, including \$77.6 million held by its foreign subsidiaries. As of December 26, 2020, the Company had \$315.4 million of cash and restricted cash including \$100.4 million 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.

6. 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 account balances, 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 account balances. Gains and losses on these contracts are intended to offset the impact of foreign exchange rate fluctuations on the underlying foreign currency denominated account balances, do not subject the Company to material balance sheet risk.

As of December 25, 2021 and December 26, 2020, the Company posted \$0.9 million and \$0.9 million, respectively 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 \$0.9 million, \$0.3 million and \$0.5 million for 2021, 2020 and 2019, respectively, 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 25, 2021, 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 25, 2021 | | As of December 26, 2020 | |
|--|-------------------------------|--|-------------------------------|--|
| | Gross Notional ⁽¹⁾ | Accrued expenses and other current liabilities | Gross Notional ⁽¹⁾ | Accrued expenses and other current liabilities |
| Foreign currency exchange forward contracts | | | | |
| Related to euro denominated receivables | \$ 21,981 | \$ (139) | \$ 23,605 | \$ (59) |
| Related to British pound denominated receivables | 7,566 | (82) | 4,868 | (13) |
| Total | \$ 29,547 | \$ (221) | \$ 28,473 | \$ (72) |

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

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounts Receivable Factoring

The Company sells certain designated trade account receivables based on factoring arrangements with well-established factoring companies. Pursuant to the terms of the arrangements, the Company accounts for these transactions in accordance with ASC 860, "Transfers and Servicing". 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. For the years ended December 25, 2021, December 26, 2020 and December 28, 2019, the Company's recognized factoring related interest expense was approximately \$0.4 million, \$0.4 million and \$0.6 million, respectively. The gross amount of trade accounts receivables sold totaled approximately \$121.3 million and \$80.2 million for the fiscal years ended December 25, 2021 and December 26, 2020 respectively.

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 fiscal year ended December 25, 2021 (in thousands):

| | | |
|--|----|----------------|
| Balance as of December 26, 2020 | \$ | 273,426 |
| Foreign currency translation adjustments | | (17,638) |
| Balance as of December 25, 2021 | \$ | <u>255,788</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. To date, the Company has zero accumulated impairment loss on goodwill.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Intangible Assets

The following table presents details of the Company's intangible assets as of December 25, 2021 and December 26, 2020 (in thousands):

| | December 25, 2021 | | | Weighted Average Remaining Useful Life (In Years) |
|--------------------------------------|--------------------------|-----------------------------|------------------------|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | |
| Intangible assets with finite lives: | | | | |
| Customer relationships and backlog | 157,495 | (104,701) | 52,794 | 4.2 |
| Developed technology ⁽¹⁾ | 182,844 | (149,064) | 33,780 | 1.5 |
| Total intangible assets | <u>\$ 340,339</u> | <u>\$ (253,765)</u> | <u>\$ 86,574</u> | |

⁽¹⁾ As a result of the exit from certain product lines in connection with the Company's restructuring initiatives, we shortened the life of certain developed technology intangibles.

| | December 26, 2020 | | | Weighted Average Remaining Useful Life (In Years) |
|--------------------------------------|--------------------------|-----------------------------|------------------------|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | |
| Intangible assets with finite lives: | | | | |
| Customer relationships and backlog | 162,098 | (90,667) | 71,431 | 4.9 |
| Developed technology | 192,285 | (138,834) | 53,451 | 3.0 |
| Total intangible assets | <u>\$ 354,383</u> | <u>\$ (229,501)</u> | <u>\$ 124,882</u> | |

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 \$37.1 million, \$47.8 million and \$59.9 million for the years ended December 25, 2021, December 26, 2020 and December 28, 2019, respectively.

The following table summarizes the Company's estimated future amortization expense of intangible assets with finite lives as of December 25, 2021 (in thousands):

| | Total | 2022 | 2023 | 2024 | 2025 | 2026 | Thereafter |
|-----------------------------------|-----------|-----------|-----------|----------|----------|----------|------------|
| Total future amortization expense | \$ 86,574 | \$ 38,293 | \$ 23,463 | \$ 9,025 | \$ 9,025 | \$ 6,768 | \$ — |

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

8. Balance Sheet Details

Restricted Cash

The Company's restricted cash balance is held in deposit accounts at various banks globally. These amounts primarily collateralize the Company's issuances of standby letters of credit and bank guarantees.

Allowance for Credit Losses

The following table provides a rollforward of the allowance for credit losses for accounts receivable for the fiscal year ended December 25, 2021 (in thousands):

| | | |
|---------------------------------|----|--------------|
| Balance as of December 26, 2020 | \$ | 2,912 |
| Additions ⁽¹⁾ | | 822 |
| Write offs ⁽²⁾ | | (2,378) |
| Other ⁽³⁾ | | (52) |
| Balance as of December 25, 2021 | \$ | <u>1,304</u> |

(1) The new additions during the fiscal year ended December 25, 2021 are primarily due to specific reserves.

(2) The write offs during the fiscal year ended December 25, 2021 are primarily amounts fully reserved previously.

(3) Primarily represents foreign currency translation adjustments.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

| | December 25, 2021 | December 26, 2020 |
|---|-------------------|-------------------|
| Inventory | | |
| Raw materials | \$ 39,379 | \$ 34,693 |
| Work in process | 53,924 | 55,835 |
| Finished goods | 198,064 | 178,779 |
| Total | <u>\$ 291,367</u> | <u>\$ 269,307</u> |
| Property, plant and equipment, net | | |
| Computer hardware | \$ 45,824 | \$ 34,502 |
| Computer software ⁽¹⁾ | 56,820 | 44,397 |
| Laboratory and manufacturing equipment | 287,875 | 333,955 |
| Land and building | 14,393 | 12,349 |
| Furniture and fixtures | 2,164 | 3,445 |
| Leasehold and building improvements | 49,447 | 66,014 |
| Construction in progress | 18,807 | 39,727 |
| Subtotal | \$ 475,330 | \$ 534,389 |
| Less accumulated depreciation and amortization ⁽²⁾ | (315,112) | (381,256) |
| Total | <u>\$ 160,218</u> | <u>\$ 153,133</u> |
| Accrued expenses and other current liabilities | | |
| Loss contingency related to non-cancelable purchase commitments | \$ 26,481 | \$ 18,848 |
| Taxes payable | 43,308 | 45,884 |
| Restructuring accrual | 8,610 | 9,292 |
| Short-term operating and financing lease liability | 17,792 | 16,023 |
| Other accrued expenses and other current liabilities | 50,838 | 60,503 |
| Total accrued expenses and other current liabilities | <u>\$ 147,029</u> | <u>\$ 150,550</u> |

⁽¹⁾ Included in computer software at December 25, 2021 and December 26, 2020 were \$25.9 million and \$25.4 million, respectively, related to enterprise resource planning (“ERP”) systems that the Company implemented. The unamortized ERP costs at December 25, 2021 and December 26, 2020 were \$8.9 million and \$10.8 million, respectively. Also included in computer software at December 25, 2021 and December 26, 2020 was \$20.9 million and \$17.0 million, respectively, related to term licenses. The unamortized term license costs at December 25, 2021 and December 26, 2020 was \$9.2 million and \$12.0 million, respectively.

⁽²⁾ Depreciation expense was \$47.1 million, \$52.3 million and \$60.0 million (which includes depreciation of capitalized ERP costs of \$2.8 million, \$2.6 million and \$2.4 million) for 2021, 2020 and 2019, respectively. Also included in depreciation expense for 2021 was \$6.7 million related to term licenses.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

9. Restructuring and Other Related Costs

In December 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 made several changes to improve its research and development efficiency by consolidating its manufacturing and development sites, including closure of its Berlin, Germany site, reducing headcount at its Munich, Germany site, and processing changes to leverage the Company's engineering and product line development resources across regions and prioritizing research and development initiatives. The Berlin and Munich initiatives were substantially completed in 2020. In 2021, the Company incurred lease related impairment charges from consolidation of its Munich site resulting in partial abandonment of the leased facility. 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.

In 2020, the Company implemented a restructuring initiative (the "2020 Restructuring Plan") that was primarily intended to reduce costs and consolidate its operations. The identified cost reduction initiatives under the 2020 Restructuring Plan were substantially completed, with the majority of associated payments made in 2020 and the remaining amounts substantially paid during 2021.

In 2021, the Company announced a plan to restructure certain international research & development operations (the "2021 Restructuring Plan"). The Company estimates it will incur total costs related to the restructuring ranging from \$10.0 million to \$12.0 million, of which \$8.5 million was recorded for the fiscal year ended December 25, 2021. The 2021 Restructuring Plan is expected to be substantially completed with the associated payments made in 2022. Additional restructuring activities may occur in the future in connection with the Company's ongoing transformation initiatives.

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 2021 Restructuring Plan, 2020 Restructuring Plan, the 2018 Restructuring Plan and Coriant's previous restructuring and reorganization plans (in thousands):

| | Years Ended | | | | | |
|----------------------------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|
| | December 25, 2021 | | December 26, 2020 | | December 28, 2019 | |
| | Cost of Revenue | Operating Expenses | Cost of Revenue | Operating Expenses | Cost of Revenue | Operating Expenses |
| Severance and related expenses | \$ 335 | \$ 4,615 | \$ 4,042 | \$ 14,054 | \$ 26,576 | \$ 25,303 |
| Lease related impairment charges | — | 6,340 | 88 | 9,851 | 1,158 | 14,703 |
| Asset impairment | — | 1,746 | 14 | 468 | 2,201 | 7 |
| Others | 1,196 | 545 | 2 | 213 | — | 838 |
| Total | <u>\$ 1,531</u> | <u>\$ 13,246</u> | <u>\$ 4,146</u> | <u>\$ 24,586</u> | <u>\$ 29,935</u> | <u>\$ 40,851</u> |

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Restructuring liabilities are reported within accrued expenses and other long-term liabilities in the accompanying consolidated balance sheets (in thousands):

| | Severance and related expenses | Lease related impairment charges | Asset impairment | Others | Total |
|---------------------------------|---|---|-------------------------|---------------|--------------|
| Balance as of December 28, 2019 | \$ 28,565 | \$ — | \$ — | \$ 838 | \$ 29,403 |
| Charges | 18,096 | 9,939 | 482 | 215 | 28,732 |
| Cash payments | (36,346) | (5,102) | (28) | (719) | (42,195) |
| Non-cash Settlements and Other | (74) | (4,837) | (454) | (104) | (5,469) |
| Balance as of December 26, 2020 | \$ 10,241 | \$ — | \$ — | \$ 230 | \$ 10,471 |
| Charges | 4,951 | 6,340 | 1,746 | 1,740 | 14,777 |
| Cash payments | (7,091) | (2,089) | — | (381) | (9,561) |
| Non-cash Settlements and Other | (565) | (4,251) | (1,746) | (243) | (6,805) |
| Balance as of December 25, 2021 | \$ 7,536 | \$ — | \$ — | \$ 1,346 | \$ 8,882 |

As of December 25, 2021, the Company's restructuring liability was primarily comprised of \$7.7 million related to the 2021 Restructuring Plan and \$1.2 million is related to assumed restructuring liabilities associated with Coriant's previous restructuring and reorganization plans, which was substantially completed in previous years. The liability related to the 2021 Restructuring Plan is expected to be paid by end of 2022.

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 | Actuarial Gain (Loss) on Pension | Accumulated Tax Effect | Total |
|--|--|---------------------------------|--|---------------------------|-------------|
| Balance at December 29, 2018 | \$ (91) | \$ (18,932) | \$ (5,313) | \$ (964) | \$ (25,300) |
| Other comprehensive income (loss) before reclassifications | 91 | (9,376) | (1,692) | — | (10,977) |
| Amounts reclassified from accumulated other comprehensive income | — | — | 1,638 | — | 1,638 |
| Net current-period other comprehensive income (loss) | 91 | (9,376) | (54) | — | (9,339) |
| Balance at December 28, 2019 | \$ — | \$ (28,308) | \$ (5,367) | \$ (964) | \$ (34,639) |
| Other comprehensive income (loss) before reclassifications | — | 29,040 | (8,183) | — | 20,857 |
| Amounts reclassified from accumulated other comprehensive income | — | — | 1,884 | — | 1,884 |
| Net current-period other comprehensive income (loss) | — | 29,040 | (6,299) | — | 22,741 |
| Balance at December 26, 2020 | \$ — | \$ 732 | \$ (11,666) | \$ (964) | \$ (11,898) |
| Other comprehensive income (loss) before reclassifications | — | (8,561) | 12,580 | — | 4,019 |
| Amounts reclassified from accumulated other comprehensive loss | — | — | 3,383 | — | 3,383 |
| Net current-period other comprehensive income (loss) | — | (8,561) | 15,963 | — | 7,402 |
| Balance at December 25, 2021 | \$ — | \$ (7,829) | \$ 4,297 | \$ (964) | \$ (4,496) |

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 in-the-money 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 \$402.5 million in aggregate principal amount of the Company's 2.125% convertible senior notes due September 1, 2024 (the "2024 Notes") from the conversion spread (as further discussed in Note 12, "Debt" to the Notes to Consolidated Financial Statements), and \$200 million in aggregate principal amount of the Company's 2.50% convertible senior notes due March 1, 2027 (the "2027 Notes") from the conversion spread (as further discussed in Note 12, "Debt" to the Notes to Consolidated Financial Statements). The Company would include the dilutive effects of the 2024 Notes and 2027 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 and 2027 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 and 2027 Notes being converted; therefore, only the conversion spread relating to the 2024 Notes and 2027 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 25, 2021 | December 26, 2020 | December 28, 2019 |
| Net loss | \$ (170,778) | \$ (206,723) | \$ (386,618) |
| Weighted average common shares outstanding - basic and diluted | 207,377 | 188,216 | 178,984 |
| Net loss per common share - basic and diluted | \$ (0.82) | \$ (1.10) | \$ (2.16) |

The Company incurred net losses during 2021, 2020 and 2019, 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 2027 Notes and the 2024 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 25, 2021 | December 26, 2020 | December 28, 2019 |
| Stock options outstanding | — | 451 | 873 |
| Restricted stock units | 12,860 | 13,947 | 11,776 |
| Performance stock units | 2,751 | 3,668 | 2,389 |
| Employee stock purchase plan shares | 1,157 | 1,713 | 569 |
| Total | 16,768 | 19,779 | 15,607 |

12. Debt

The following is a summary of our debt as of December 25, 2021 (in millions):

| | Net Carrying Value | | Unpaid Principal Balance | Contractual Interest Rates | Contractual Maturity Date |
|---------------------------------------|--------------------|-----------|--------------------------|----------------------------|---------------------------|
| | Current | Long-Term | | | |
| 2024 Notes | \$ — | \$ 329.2 | \$ 402.5 | 2.125 % | September 2024 |
| 2027 Notes | — | 140.3 | 200.0 | 2.50 % | March 2027 |
| Asset-based Revolving Credit Facility | — | — | — | 1.375% - 2.5% | March 2024 |
| Mortgage | 0.5 | 7.3 | 7.8 | 5.25 % | March 2024 |
| | \$ 0.5 | \$ 476.8 | \$ 610.3 | | |

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is a summary of our debt as of December 26, 2020 (in millions):

| | Net Carrying Value | | Unpaid Principal Balance | Contractual Interest Rates | Contractual Maturity Date |
|---------------------------------------|--------------------|-----------|--------------------------|----------------------------|---------------------------|
| | Current | Long-Term | | | |
| 2024 Notes | \$ — | \$ 306.4 | \$ 402.5 | 2.125 % | September 2024 |
| 2027 Notes | — | 131.8 | 200.0 | 2.50 % | March 2027 |
| Asset-based Revolving Credit Facility | 77.0 | — | 77.0 | 1.375% - 2.5% | March 2024 |
| Finance Assistance Agreement | 24.6 | — | 24.6 | 3.0 % | April 2021 |
| Mortgage | 0.4 | 7.8 | 8.4 | 5.25 % | March 2024 |
| Total Debt | \$ 102.0 | \$ 446.0 | \$ 712.5 | | |

Interest Expense

The following table presents the interest expense related to the contractual interest coupon, the amortization of debt issuance costs, and the amortization of debt discounts on our Convertible Senior Notes (in thousands):

| | Year Ended | | |
|-------------------------------------|-------------------|-------------------|-------------------|
| | December 25, 2021 | December 26, 2020 | December 28, 2019 |
| Contractual interest expense | \$ 13,553 | \$ 12,577 | \$ 8,553 |
| Amortization of debt issuance costs | 1,892 | 1,634 | 1,149 |
| Amortization of debt discount | 29,411 | 25,349 | 17,612 |
| Total interest expense | \$ 44,856 | \$ 39,560 | \$ 27,314 |

2027 Convertible Senior Notes

In March 2020, the Company issued the 2027 Notes due on March 1, 2027, unless earlier repurchased, redeemed or converted. The 2027 Notes are governed by an indenture dated as of March 9, 2020 (the "2027 Indenture"), between the Company and U.S. Bank National Association, as trustee. The 2027 Notes are unsecured, and the 2027 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 on September 1, 2020. The net proceeds to the Company were approximately \$193.3 million after deducting initial purchasers' fee and other debt issuance costs. The Company intends to use the net proceeds for general corporate purposes, including working capital to fund growth and potential strategic projects.

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 2027 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 130.5995 shares of common stock per \$1,000 principal amount of 2027 Notes, subject to anti-dilution adjustments, which is equivalent to a conversion price of approximately \$7.66 per share of common stock.

Throughout the term of the 2027 Notes, the conversion rate may be adjusted upon the occurrence of certain events, including for any cash dividends. Holders of the 2027 Notes will not receive any cash payment representing accrued and unpaid interest upon conversion of a 2027 Note. Accrued but unpaid interest will be deemed to be paid in full upon conversion rather than canceled, extinguished or forfeited. Prior to December 1, 2026, holders may convert their 2027 Notes under the following circumstances:

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- during any fiscal quarter commencing after the fiscal quarter ended on June 27, 2020 (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 2027 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 any or all of the 2027 Notes for redemption, such 2027 Notes called 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 2027 Indenture, such as a consolidation, merger or binding share exchange; or
- at any time on or after December 1, 2026 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2027 Notes at any time, regardless of the foregoing circumstances.

If the Company undergoes a fundamental change as defined in the 2027 Indenture, holders may require the Company to repurchase for cash all or any portion of their 2027 Notes at a repurchase price equal to 100% of the principal amount of the 2027 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 2027 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 2027 Notes in connection with such make-whole fundamental change.

As of December 25, 2021, the carrying amount of the equity component of the 2027 Notes was \$67.8 million.

In accounting for the issuance of the 2027 Notes, the Company separated the 2027 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 2027 Notes. The equity component is not remeasured 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 2027 Notes.

The Company allocated the total issuance costs incurred to the liability and equity components of the 2027 Notes based on their relative values. Issuance costs attributable to the liability component were recorded as a reduction to the liability portion of the 2027 Notes and will be amortized as interest expense over the term of the 2027 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 \$16.2 million in connection with the issuance of the 2027 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 2027 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 stockholders’ equity if freestanding.

For the years ended December 25, 2021 and December 26, 2020, the debt discount and debt issuance costs for the 2027 Notes were amortized, using an annual effective interest rate of 9.92%, to interest expense

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

over the term of the 2027 Notes. Unamortized debt conversion discount and issuance costs will be amortized over the remaining life of the 2027 Notes, which is approximately 62 months.

Based on the closing price of the Company's common stock of \$9.55 per share as reported on the Nasdaq Stock Market on December 23, 2021 (the last trading day of the fiscal quarter), the if-converted value of the 2027 Notes exceeded their principal amount by approximately \$49.4 million.

Asset-based revolving credit facility

On August 1, 2019, the Company entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association. The Credit Agreement provides for a senior secured asset-based revolving credit facility of up to \$100 million (the "Credit Facility"), which the Company may draw upon from time to time. The Company may increase the total commitments under the Credit Facility by up to an additional \$50 million, subject to certain conditions. The Credit Agreement provides for a \$50 million letter of credit sub-facility and a \$10 million swing loan sub-facility.

On December 23, 2019, the Company exercised its option to increase the total commitments under the Credit Facility and entered into an Increase Joinder and Amendment Number One to Credit Agreement (the "Amendment"), with BMO Harris Bank N.A. and Wells Fargo Bank, National Association, as administrative agent. The amendment increased the total commitments under the Credit Facility to \$150 million.

The proceeds of the loans under the Credit Agreement, as amended by the Amendment (the "Amended Credit Agreement") may be used to pay the fees, costs and expenses incurred in connection with the Amended Credit Agreement and for working capital and general corporate purposes. The Credit Facility matures, and all outstanding loans become due and payable, on March 5, 2024. Availability under the Credit Facility is based upon periodic borrowing base certifications valuing certain inventory and accounts receivable, as reduced by certain reserves. The Credit Facility is secured by first-priority security interest (subject to certain exceptions) in inventory, certain related assets, specified deposit accounts, and certain other accounts in certain domestic subsidiaries.

Loans under the Amended Credit Agreement bear interest, at the Company's option, at either a rate based on LIBOR for the applicable interest period or a base rate, in each case plus a margin. The margin ranges from 2.00% to 2.50% for LIBOR rate loans and 1.00% to 1.50% for base rate loans, depending on the utilization of the Credit Facility. The commitment fee payable on the unused portion of the Credit Facility ranges from 0.375% to 0.625% per annum, also based on the current utilization of the Credit Facility. Letters of credit issued pursuant to the Credit Facility will accrue a fee at a per annum rate equal to the applicable LIBOR rate margin times the average amount of the letter of credit usage during the immediately preceding quarter in addition to the fronting fees, commissions and other fees.

Effective January 1, 2022, with the cessation of LIBOR, the Credit Facility provides for an alternative benchmark rate for LIBOR based loans which may include Term Secured Overnight Financing Rate (SOFR) or other prevailing market rate as determined by the agent plus a spread based on prevailing market convention for the applicable interest period plus a margin ranging from 2.00% to 2.50%.

The Amended Credit Agreement contains customary affirmative covenants, such as financial statement reporting requirements and delivery of borrowing base certificates. The Amended Credit Agreement also contains customary covenants that limit the ability of the Company and its subsidiaries to, among other things, incur debt, create liens and encumbrances, engage in certain fundamental changes, dispose of assets, prepay certain indebtedness, make restricted payments, make investments, and engage in transactions with affiliates. The Amended Credit Agreement also contains a financial covenant that requires the Company to maintain a minimum amount of liquidity and customary events of default.

In connection with the Credit Facility, the Company incurred lender and other third-party costs of approximately \$4.9 million in 2019, which were recorded as a deferred asset and amortized to interest expense using a straight-line method over the term of the Credit Facility. During the fiscal year ended December 25, 2021, the Company recorded \$1.1 million as amortization of deferred debt issuance cost, \$1.1 million as contractual interest expense and related charges.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 25, 2021, the Company had availability of \$138.5 million under the Credit Facility and had letters of credit outstanding of approximately \$11.5 million. As of December 26, 2020, the Company had availability of \$61.3 million under the Credit Facility and had letters of credit outstanding of approximately \$11.5 million.

Finance Assistance Agreement

During March 2019, the Company signed an agreement with a third-party contract manufacturer that governs the transfer of the activities from the legacy Coriant manufacturing facility in Berlin, Germany to a third-party contract manufacturer. Subsequently in May 2019, the Company entered into a financing assistance agreement with the contract manufacturer whereby the contract manufacturer agreed to provide funding of up to \$40 million to cover severance, retention and other costs associated with the transfer. The funding is secured against certain foreign assets, carries a fixed interest rate of 6% and is repayable in 12 months from the date of each draw down. In October 2020, the Company and the contract manufacturer amended the payment terms to extend the due date by six months set the fixed interest rate at 3% during such period, and allow for the phased transfer of inventory to offset the amount due. In 2021, the Company repaid the entire outstanding principal balance and accrued interest.

Mortgage Payable

In March 2019, the Company mortgaged a property it owns. The Company received proceeds of \$8.7 million in connection with the loan. The loan carries a fixed interest rate of 5.25% and is repayable in 59 equal monthly installments of principal and interest with the remaining unpaid principal balance plus accrued unpaid interest due five years from the date of the loan.

On September 24, 2021, the loan was amended to reduce the interest rate from 5.25% to 3.80% for the remaining 31 equal monthly installments of approximately \$0.1 million, with the remaining principal payment at maturity date. In connection with the amendment, the Company paid a fee of \$0.1 million which is being amortized over the remaining life of the loan.

2024 Convertible Senior Notes

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, 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 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

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

As of December 25, 2021, 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.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

For the years ended December 25, 2021 and December 26, 2020, the debt discount and debt issuance costs were amortized, using an annual effective interest rate of 9.92%, to interest expense over the term of the 2024 Notes. Unamortized debt conversion discount and issuance costs will be amortized over the remaining life of the 2024 Notes, which is approximately 32 months.

Based on the closing price of the Company's common stock of \$9.55 on December 23, 2021, the if-converted value of the 2024 Notes did not exceed their principal amount.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

13. Commitments and Contingencies

The following table sets forth commitments and contingencies related to our various obligations (in thousands):

| | Total | Payments Due by Period | | | | | |
|---|---------------------|------------------------|------------------|-------------------|------------------|------------------|-------------------|
| | | 2022 | 2023 | 2024 | 2025 | 2026 | Thereafter |
| Operating leases ⁽¹⁾⁽²⁾ | \$ 90,887 | \$ 22,201 | \$ 15,496 | \$ 13,371 | \$ 12,383 | \$ 9,717 | \$ 17,719 |
| Financing lease obligations ⁽³⁾ | 2,337 | 1,346 | 814 | 177 | — | — | — |
| Purchase obligations ⁽⁴⁾ | 591,540 | 562,965 | 27,844 | 702 | 29 | — | — |
| 2027 Notes, including interest ⁽⁵⁾ | 227,500 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 202,500 |
| 2024 Notes, including interest ⁽⁵⁾ | 428,159 | 8,553 | 8,553 | 411,053 | — | — | — |
| Mortgage Payable, including interest ⁽⁵⁾ | 8,392 | 781 | 781 | 6,830 | — | — | — |
| Total contractual obligations | \$ 1,348,815 | \$ 600,846 | \$ 58,488 | \$ 437,133 | \$ 17,412 | \$ 14,717 | \$ 220,219 |

- (1) The Company leases facilities under non-cancelable operating lease agreements. These leases have varying terms that range from one to 11 years. The above payment schedule includes interest. See Note 3, "Leases" to the Notes to Consolidated Financial Statements for more information.
- (2) 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 \$5.1 million and \$5.0 million as of December 25, 2021 and December 26, 2020, respectively. All of the \$5.1 million as of December 25, 2021 is classified as other long-term liabilities on the accompanying consolidated balance sheets.
- (3) The Company has finance leases for other equipment and leasehold improvements. The above payment schedule includes interest. See Note 3, "Leases" to the Notes to Consolidated Financial Statements for more information.
- (4) The Company has agreements with its major production suppliers, where the Company is committed to purchase certain parts. As of December 25, 2021, December 26, 2020 and December 28, 2019, these non-cancelable purchase commitments were \$591.5 million, \$291.4 million and \$258.2 million, respectively.
- (5) See Note 12, "Debt" to the Notes to Consolidated Financial Statements for more information.

Legal Matters

Oyster Optics LLC

On July 29, 2019, Oyster Optics filed a complaint against the Company, Coriant (USA) Inc., Coriant North America, LLC and Coriant Operations, Inc. in the United States District Court for the Eastern District of Texas. The complaint asserted infringement of U.S. Patent No. 6,665,500 (the "Oyster patent in suit"). The complaint sought unspecified damages and a permanent injunction. On October 7, 2019, the Company filed its answer to the complaint asserting among other things, counterclaims and defenses based on non-infringement, invalidity, and a license to the Oyster patent in suit. On December 27, 2019, the Company filed Inter Partes Review ("IPR") petitions with the U.S. Patent and Trademark Office ("USPTO"), in which the Company requested the USPTO to invalidate the asserted claims of the Oyster patent in suit. On June 26, 2020, the USPTO granted institution on all but one of the asserted claims. On June 22, 2021, the Patent Trial and Appeal Board ruled on the Company's IPR petition, determining that ten of the eleven claims remaining at issue in the IPR were unpatentable. In July 2021, the parties entered into a settlement agreement and all claims in the lawsuit were dismissed with prejudice.

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 each of December 25, 2021 and December 26, 2020, 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):

| | December 25, 2021 | December 26, 2020 |
|-----------------------------------|-------------------|-------------------|
| Beginning balance | \$ 40,708 | \$ 43,348 |
| Charges to operations | 23,061 | 23,973 |
| Utilization | (25,745) | (31,462) |
| Change in estimate ⁽¹⁾ | 6,286 | 4,849 |
| Balance at the end of the period | <u>\$ 44,310</u> | <u>\$ 40,708</u> |

⁽¹⁾ 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 and product recalls. As the Company's products mature over time, failure rates and repair costs associated with such products generally decline leading to favorable changes in warranty reserves.

Letters of Credit and Bank Guarantees

The Company had \$22.5 million and \$28.9 million of standby letters of credit, bank guarantees and surety bonds outstanding as of December 25, 2021 and December 26, 2020, respectively. Details are sets in below table (in thousands).

| | December 25, 2021 | December 26, 2020 |
|---------------------------------|-------------------|-------------------|
| Customer performance guarantees | \$ 16,307 | \$ 19,821 |
| Value added tax license | 287 | 296 |
| Property leases | 4,684 | 4,016 |
| Pension plans | 1,004 | 4,396 |
| Credit cards | 150 | 296 |
| Other liabilities | 68 | 65 |
| Total | <u>\$ 22,500</u> | <u>\$ 28,890</u> |

Of the \$16.3 million related to customer performance guarantees, approximately \$4.0 million was used to secure surety bonds in the aggregate of \$5.5 million as of December 25, 2021. Of the \$19.8 million to customer performance guarantees, approximately \$2.8 million was used to secure surety bonds in the aggregate of \$5.5 million as of December 26, 2020.

Of the aforementioned standby letters of credit and bank guarantees outstanding, \$11.5 million was backed by cash collateral from a third-party institution, and the Company accrues 2.25% annual fee and 0.13% annual fronting fee on the average letter of credit balances outstanding on the cash collateral.

As of December 25, 2021 and December 26, 2020, the Company had a Credit Facility, which included a \$50.0 million letter of credit sub-facility, pursuant to which letters of credit in the amount of \$11.5 million had been issued and outstanding for both periods. Approximately \$200.0 million and \$169.5 million of assets of certain Company subsidiaries have been pledged to secure this Credit Facility and other obligations for the years ended December 25, 2021 and December 26, 2020, respectively.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

15. Stockholders' Equity

Open Market Sales Agreement

On August 12, 2020, the Company entered into an Open Market Sale Agreement (the "Sales Agreement") with Jefferies LLC ("Jefferies"), as sales agent and/or principal, pursuant to which the Company issued and sold through Jefferies, shares of its common stock, par value \$0.001 per share (the "Shares"), having an aggregate offering price of \$96.3 million.

During the fiscal year ended December 26, 2020, the Company sold 12 million shares of common stock under the Sales Agreement, for net proceeds of approximately \$93.4 million after paying Jefferies a sales commission of approximately \$2.9 million related to services provided as the sales agent with respect to the sales of those shares.

2016 Equity Incentive Plan, 2019 Inducement Equity Incentive Plan and Employee Stock Purchase Plan

In February 2007, the Company's board of directors adopted the ESPP and the Company's stockholders approved the ESPP in May 2007. The ESPP was last amended by the stockholders in May 2019 to increase the shares authorized under the ESPP to a total of approximately 31.6 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 a maximum of 15% of the employee's compensation and an employee may not purchase more than 3,000 shares per purchase period.

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, May 2019, May 2020 and May 2021, the Company's stockholders approved amendments to the 2016 Plan to increase the number of shares authorized for issuance under the 2016 Plan by 1.5 million shares, 7.3 million shares, 8.1 million shares and 4.4 million shares, respectively. As of December 25, 2021, the Company reserved a total of 35.2 million shares of common stock for the award 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.

In July 2019, the Company's board of directors approved a new 2019 Inducement Equity Incentive Plan and set the maximum number of shares to be issued at 750,000.

Shares Reserved for Future Issuances

Common stock reserved for future issuance was as follows (in thousands):

| | December 25, 2021 |
|--|--------------------------|
| Outstanding stock awards | 13,721 |
| Reserved for future award grants | 8,480 |
| Reserved for future ESPP | 7,165 |
| Total common stock reserved for stock options and awards | 29,366 |

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 Restricted Stock Units | Weighted-Average Grant Date Fair Value Per Share | Aggregate Intrinsic Value |
|----------------------------------|--|---|---------------------------------|
| Outstanding at December 29, 2018 | 6,746 | \$ 10.83 | \$ 26,446 |
| RSUs granted | 8,950 | \$ 4.36 | |
| RSUs released | (2,784) | \$ 10.48 | \$ 12,901 |
| RSUs canceled | (1,312) | \$ 8.37 | |
| Outstanding at December 28, 2019 | <u>11,600</u> | \$ 6.20 | \$ 90,254 |
| RSUs granted | 7,064 | \$ 5.95 | |
| RSUs released | (5,087) | \$ 6.36 | \$ 30,421 |
| RSUs canceled | (1,109) | \$ 6.29 | |
| Outstanding at December 26, 2020 | <u>12,468</u> | \$ 5.99 | \$ 136,781 |
| RSUs granted | 7,377 | \$ 8.68 | |
| RSUs released | (7,509) | \$ 5.96 | \$ 66,317 |
| RSUs canceled | (729) | \$ 6.92 | |
| Outstanding at December 25, 2021 | <u>11,607</u> | \$ 7.66 | \$ 110,849 |

| | Number of Performance Stock Units | Weighted-Average Grant Date Fair Value Per Share | Aggregate Intrinsic Value |
|--|---|--|---------------------------------|
| Outstanding at December 29, 2018 | 1,129 | \$ 16.10 | \$ 4,425 |
| PSUs granted | 2,202 | \$ 4.63 | |
| PSUs released | (99) | \$ 11.11 | \$ 472 |
| PSUs canceled | (727) | \$ 14.42 | |
| Outstanding at December 28, 2019 | <u>2,505</u> | \$ 6.48 | \$ 19,485 |
| PSUs granted | 1,628 | \$ 5.89 | |
| PSUs released | (285) | \$ 9.02 | \$ 1,702 |
| PSUs canceled | (382) | \$ 6.93 | |
| Outstanding at December 26, 2020 | <u>3,466</u> | \$ 5.36 | \$ 38,022 |
| PSUs granted | 659 | \$ 8.61 | |
| PSUs released | (964) | \$ 5.21 | \$ 8,278 |
| PSUs canceled | (1,047) | \$ 4.91 | |
| Outstanding at December 25, 2021 | <u>2,114</u> | \$ 6.66 | \$ 20,184 |
| Expected to vest as of December 25, 2021 | 1,964 | | \$ 18,751 |

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The aggregate intrinsic value of unreleased RSUs and unreleased PSUs is calculated using the closing price of the Company's common stock of \$9.55 at December 23, 2021. 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 recognized, net of forfeitures, of the Company's equity compensation plans as of December 25, 2021. 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 | \$ 65,970 | 2.04 |
| PSUs | \$ 7,197 | 2.11 |

Employee Stock Options

The Company did not grant any stock options during 2021, 2020 and 2019. Stock option exercises are settled with newly issued shares of common stock approved by stockholders for inclusion under the 2007 Plan.

Stock-based compensation expense related to stock options in 2021, 2020 and 2019 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 25, 2021 | December 26, 2020 | December 28, 2019 |
| Volatility | 38% - 50% | 42% - 97% | 70% - 72% |
| Risk-free interest rate | 0.05% - 0.06% | 0.12% - 1.56% | 1.76% - 2.48% |
| Expected life | 0.5 years | 0.5 years | 0.5 years |
| Estimated fair value | \$2.22 - \$3.11 | \$2.17 - \$3.42 | \$1.64 - \$1.77 |

The expected dividend yield is zero for the Company as it does not expect to pay dividends in the future.

The Company's ESPP activity for the following periods was as follows (in thousands):

| | Years Ended | | |
|----------------------------------|--------------------------|--------------------------|--------------------------|
| | December 25, 2021 | December 26, 2020 | December 28, 2019 |
| Stock-based compensation expense | \$ 5,879 | \$ 6,607 | \$ 4,873 |
| Employee contributions | \$ 16,167 | \$ 15,346 | \$ 12,052 |
| Shares purchased | 2,272 | 3,001 | 2,897 |

Restricted Stock Units

Pursuant to the 2016 Plan, the Company has granted RSUs to employees and non-employee members of the Company's board of directors. 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 2021, 2020 and 2019 was approximately \$42.3 million, \$36.1 million and \$32.3 million, respectively.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Performance Stock Units

Pursuant to the 2016 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.

PSUs granted to the Company's executive officers and senior management under the 2016 Plan during the first half of 2018 are based on the total stockholder return ("TSR") of the Company's common stock price relative to the TSR of the individual companies listed in 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 individual companies listed in 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:

| | 2018 |
|-------------------------|-------------------|
| Index volatility | 33% |
| Infinera volatility | 58% - 59% |
| Risk-free interest rate | 2.37% - 2.40% |
| Correlation with index | 0.04 - 0.48 |
| Estimated fair value | \$14.99 - \$19.46 |

The expected dividend yield is zero for the Company as it does not expect to pay dividends in the future.

PSUs granted to the Company's executive officers and senior management under the 2016 Plan during 2019, 2020 and 2021 are based on performance criteria related to a specific financial target over the span of a three-year performance period. These PSUs may become eligible for vesting to begin before the end of the three-year performance period, if the applicable financial target is met. The number of shares to be issued upon vesting of these PSUs are capped at the target number of PSUs granted. Certain other employees were awarded PSUs that will only vest upon the achievement of specific financial and operational performance criteria.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes by grant year, the Company's PSU activity for the fiscal year ended December 25, 2021 (in thousands):

| | Total Number of Performance Stock Units | 2018 | 2019 | 2020 | 2021 |
|----------------------------------|--|-------------|-------------|--------------|-------------|
| Outstanding at December 26, 2020 | 3,466 | 109 | 1,757 | 1,600 | — |
| PSUs granted | 659 | — | — | — | 659 |
| PSUs released | (964) | (104) | (860) | — | — |
| PSUs canceled | (1,047) | (5) | (712) | (330) | — |
| Outstanding at December 25, 2021 | <u>2,114</u> | <u>—</u> | <u>185</u> | <u>1,270</u> | <u>659</u> |

Amortization of stock-based compensation expense related to PSUs in 2021, 2020 and 2019 was approximately \$3.3 million, \$6.0 million and \$6.1 million, respectively.

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 25, 2021 | December 26, 2020 | December 28, 2019 |
| Stock-based compensation effects in inventory | \$ 3,707 | \$ 3,979 | \$ 4,798 |
| Income tax benefit associated with stock-based compensation | \$ 9,345 | \$ 8,637 | \$ 10,438 |
| Stock-based compensation effects in net loss before income taxes | | | |
| Cost of revenue | \$ 7,928 | \$ 7,785 | \$ 6,449 |
| Research and development | 18,554 | 16,863 | 17,457 |
| Sales and marketing | 12,345 | 10,907 | 8,413 |
| General and administrative | 12,985 | 13,906 | 10,460 |
| Total stock-based compensation expense | <u>\$ 51,812</u> | <u>\$ 49,461</u> | <u>\$ 42,779</u> |

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

16. Income Taxes

The following is a geographic breakdown of the provision for income taxes (in thousands):

| | Years Ended | | |
|---|-------------------|-------------------|-------------------|
| | December 25, 2021 | December 26, 2020 | December 28, 2019 |
| Current: | | | |
| Federal | \$ 991 | \$ 494 | \$ — |
| State | 137 | 917 | 288 |
| Foreign | 12,431 | 9,606 | 3,046 |
| Total current | \$ 13,559 | \$ 11,017 | \$ 3,334 |
| Deferred: | | | |
| Federal | \$ — | \$ — | \$ 369 |
| State | — | — | — |
| Foreign | (1,571) | (4,982) | (740) |
| Total deferred | \$ (1,571) | \$ (4,982) | \$ (371) |
| Total provision for income taxes | \$ 11,988 | \$ 6,035 | \$ 2,963 |

Loss before provision for income taxes from international operations was \$20.7 million, \$37.3 million and \$202.2 million for the years ended December 25, 2021, December 26, 2020 and December 28, 2019, respectively.

The provisions for income taxes differ from the amount computed by applying the statutory federal income tax rates as follows:

| | Years Ended | | |
|--|-------------------|-------------------|-------------------|
| | December 25, 2021 | December 26, 2020 | December 28, 2019 |
| Expected tax at federal statutory rate | 21.0 % | 21.0 % | 21.0 % |
| State taxes, net of federal benefit | (1.2) % | (0.4) % | (0.1) % |
| Research credits | 1.7 % | 1.2 % | 1.0 % |
| Stock-based compensation | 1.1 % | (1.2) % | (2.0) % |
| Change in valuation allowance | (20.9) % | (16.9) % | (19.7) % |
| Foreign rate differential | (6.9) % | (6.3) % | (0.2) % |
| Other | (2.3) % | (0.4) % | (0.8) % |
| Effective tax rate | <u>(7.5) %</u> | <u>(3.0) %</u> | <u>(0.8) %</u> |

For 2021, the Company's income tax expense was \$12.0 million with effective tax rate of (7.5)%. The difference between the effective income tax rate and the U.S federal statutory rate of 21% to income before income taxes is primarily the result of foreign income taxed at different rates and valuation allowances. The Company recognized an income tax expense of \$6.0 million and \$3.0 million in 2020 and 2019, respectively. The resulting effective tax rates were (3.0)% and (0.8)% for 2020 and 2019, respectively. The 2020 and 2019 effective tax rates differ from the expected statutory rate of 21%, based on our ability to benefit from its U.S. loss carryforwards, offset by state income taxes, non-deductible stock-based compensation expenses and foreign taxes provided on foreign subsidiary earnings.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Deferred tax assets and liabilities are recognized for the future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using enacted tax rates in effect for the year in which the differences are expected to reverse. Significant deferred tax assets and liabilities consist of the following (in thousands):

| | Years Ended | |
|---------------------------------------|--------------------|--------------------|
| | December 25, 2021 | December 26, 2020 |
| Deferred tax assets: | | |
| Net operating losses | \$ 336,711 | \$ 354,598 |
| Research and foreign tax credits | 132,829 | 126,839 |
| Nondeductible accruals | 76,898 | 61,871 |
| Inventory valuation | 22,651 | 32,444 |
| Property, plant and equipment | — | 5,819 |
| Leasing Liabilities | 19,407 | 24,261 |
| Stock-based compensation | 4,902 | 4,161 |
| Total deferred tax assets | \$ 593,398 | \$ 609,993 |
| Valuation allowance | (521,620) | (531,923) |
| Net deferred tax assets | \$ 71,778 | \$ 78,070 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | \$ (10,792) | \$ — |
| Right of use asset | (12,216) | (17,515) |
| Acquired intangible assets | (19,273) | (24,547) |
| Convertible senior notes | (29,897) | (37,979) |
| Total deferred tax liabilities | \$ (72,178) | \$ (80,041) |
| Net deferred tax liabilities | \$ (400) | \$ (1,971) |

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 25, 2021 and December 26, 2020.

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 or other comprehensive income.

As of December 25, 2021, the Company had net operating loss carryforwards of approximately \$681.9 million for federal income tax purposes which will begin to expire in 2027 if unused. The Company had net operating loss carryforwards of approximately \$548.3 million for state income tax purposes which will begin to expire in the year 2022 if unused. The Company also had foreign net operating loss carryforwards of approximately \$638.7 million.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 25, 2021, the Company also had R&D credit carryforwards of approximately \$84.6 million for federal income tax and \$50.6 million for state income tax purposes. The federal R&D tax credit will begin to expire in 2023 if unused. State R&D tax credits will carry forward indefinitely.

As of December 25, 2021, the Company also had Foreign Tax credit carryforwards of approximately \$41.5 million for federal income tax. The foreign tax credit will begin to expire in 2023 if unused.

Infinera Canada Inc., an indirect wholly owned subsidiary, has Scientific Research and Experimental Development Expenditures (“SRED”) credits available of \$3.9 million to offset future Canadian income taxes payable as of December 25, 2021. Infinera Portugal subsidiary has a SIFIDE Credit of \$4.3 million to offset future income tax payable in Portugal as of December 25, 2021. Canadian SRED credits will begin to expire in the year 2032 if not fully utilized. The Portugal SIFIDE credits will begin to expire in the year 2022.

At December 25, 2021, we had federal capital loss carryforwards of \$7.6 million. If not utilized, the federal capital loss will expire in 2023.

The federal and state net operating loss carryforwards may be subject to significant limitations under Section 382 and Section 383 of the Internal Revenue Code of 1986 and similar provisions under state law. The Tax Reform Act of 1986 contains provisions that limit the federal net operating loss carryforwards that may be used in any given year in the event of special occurrences, including significant ownership changes. The Company has completed a Section 382 review and has determined that none of its operating losses will expire solely due to Section 382 limitation(s).

The aggregate changes in the balance of gross unrecognized tax benefits were as follows (in thousands):

| | December 25, 2021 | December 26, 2020 | December 28, 2019 |
|--------------------------------------|-------------------|-------------------|-------------------|
| Beginning balance | \$ 57,931 | \$ 44,092 | \$ 24,617 |
| Tax position related to current year | | | |
| Additions | 1,198 | 3,213 | 1,965 |
| Tax positions related to prior years | | | |
| Additions | 7,633 | 11,494 | 18,212 |
| Reductions | (9,569) | (625) | (542) |
| Lapses of statute of limitations | (2,943) | (243) | (160) |
| Ending balance | <u>\$ 54,250</u> | <u>\$ 57,931</u> | <u>\$ 44,092</u> |

As of December 25, 2021, the cumulative unrecognized tax benefit was \$54.3 million, of which \$41.5 million was netted against deferred tax assets, which would have otherwise been subjected with a full valuation allowance. Of the total unrecognized tax benefit as of December 25, 2021, approximately \$12.8 million, if recognized, would impact the Company's effective tax rate. The amount of unrecognized tax benefit could be reduced upon expiration of the applicable statute of limitation. The potential reduction in unrecognized tax benefits during the next 12 months is not expected to be material.

As of December 25, 2021, December 26, 2020 and December 28, 2019, the Company had \$2.1 million, \$2.9 million and \$1.4 million, respectively, of accrued interest or penalties related to unrecognized tax benefits, of which less than \$0.8 million was included in the Company's provision for income taxes in each of the years ended December 25, 2021, December 26, 2020 and December 28, 2019, respectively. The Company's policy is 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 2003 and forward.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Included in the balance of income tax liabilities, accrued interest and penalties at December 25, 2021 is an immaterial amount 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.

Post US Tax Reform, the Company and its subsidiaries do not have significant unremitted foreign earnings and the associated withholding and other taxes are not material for the fiscal year ended December 25, 2021.

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. For more information regarding revenue disaggregated by geography, see Note 4, "Revenue Recognition" to the Notes to Consolidated Financial Statements.

Additionally, the following table sets forth our property, plant and equipment by geographic region (in thousands):

| | December 25, 2021 | December 26, 2020 |
|--|-------------------|-------------------|
| United States | \$ 141,977 | \$ 127,691 |
| Other Americas | 2,687 | 2,668 |
| Europe, Middle East and Africa | 12,245 | 18,605 |
| Asia Pacific and Japan | 3,309 | 4,169 |
| Total property, plant and equipment, net | <u>\$ 160,218</u> | <u>\$ 153,133</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 \$2.8 million, \$2.4 million and \$2.7 million for 2021, 2020, and 2019, respectively. Expenses related to the 401(k) Plan were insignificant for each of the years 2021, 2020, and 2019.

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 2021, \$2.7 million for 2020 and \$2.6 million for 2019.

The Company also provides defined contribution plans in certain foreign countries where required by local statute or at the Company's discretion. For the years ended December 25, 2021, December 26, 2020 and December 28, 2019, the Company had \$6.2 million, \$3.5 million, and \$3.9 million related to post-retirement costs, respectively.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Pension Plans

Pension and Post-Retirement Benefit Plans

As a result of the Acquisition in 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):

| | <u>December 25, 2021</u> | <u>December 26, 2020</u> |
|--|--------------------------|--------------------------|
| Benefit obligation at beginning of year | \$ 129,936 | \$ 113,234 |
| Service cost | 351 | 896 |
| Interest cost | 1,265 | 1,773 |
| Benefits paid | (3,413) | (3,103) |
| Curtailement | — | (258) |
| Actuarial loss (gain) | (3,050) | 6,243 |
| Employee contributions | 190 | 986 |
| Foreign currency exchange rate changes | (9,508) | 10,165 |
| Benefit obligation at end of year ⁽¹⁾ | <u>\$ 115,771</u> | <u>\$ 129,936</u> |
| Fair value of plan assets at beginning of year | \$ 77,561 | \$ 69,777 |
| Actual return on plan assets | 12,425 | 447 |
| Payments | (3,206) | — |
| Employee contributions | 289 | 1,305 |
| Foreign currency exchange rate changes | (5,454) | 6,032 |
| Fair value of plan assets at end of year | <u>\$ 81,615</u> | <u>\$ 77,561</u> |
| Net liability recognized | <u>\$ 34,156</u> | <u>\$ 52,375</u> |

⁽¹⁾ The Company's accumulated benefit obligation was \$115.1 million and \$128.9 million at December 25, 2021 and December 26, 2020, respectively.

The net liability is included in the line item other long-term liabilities in the Company's consolidated balance sheets.

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):

| | <u>December 25, 2021</u> | <u>December 26, 2020</u> |
|-----------------------------|--------------------------|--------------------------|
| Other non-current assets | \$ 81,615 | \$ 77,561 |
| Other long-term liabilities | (115,771) | (129,936) |
| Net liability recognized | <u>\$ (34,156)</u> | <u>\$ (52,375)</u> |

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Components of Net Periodic Benefit Cost

Net periodic benefit cost for the Company's pension and other post-retirement benefit plans consisted of the following (in thousands):

| | Years ended | | |
|------------------------------------|-------------------|-------------------|-------------------|
| | December 25, 2021 | December 26, 2020 | December 28, 2019 |
| Service cost | \$ 351 | \$ 896 | \$ 2,061 |
| Interest cost | 1,265 | 1,773 | 2,075 |
| Expected return on plan assets | (2,895) | (2,644) | (2,371) |
| Amortization of net actuarial loss | 3,383 | 1,884 | 1,638 |
| Total net periodic benefit cost | <u>\$ 2,104</u> | <u>\$ 1,909</u> | <u>\$ 3,403</u> |

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 as the impact of the amounts to be recorded in other income and expense is immaterial.

The following table sets forth the changes in accumulated other comprehensive income for the Company's benefit plans (pre-tax) (in thousands):

| | December 25, 2021 | December 26, 2020 |
|---|-------------------|--------------------|
| Beginning balance | \$ (11,666) | \$ (5,367) |
| Net actuarial gain (loss) arising in current year | 12,580 | (8,183) |
| Amortization of net actuarial loss ⁽¹⁾ | 3,383 | 1,884 |
| Ending balance | <u>\$ 4,297</u> | <u>\$ (11,666)</u> |

⁽¹⁾ The actuarial loss for the fiscal year ended December 25, 2021 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 2022 is \$0.4 million (pre-tax).

Assumptions

Certain weighted-average assumptions used in computing the benefit obligations are as follows:

| | December 25, 2021 | December 26, 2020 |
|--|-------------------|-------------------|
| Discount rate | 1.20 % | 1.05 % |
| Salary growth rate | 2.25 % | 2.25 % |
| Pension growth rate | 2.00 % | 2.00 % |
| Expected long-term rate of return on plan assets | 3.93 % | 3.93 % |

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

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 (in thousands):

| | As of December 25, 2021 | | | December 26, 2020 | | |
|--|---------------------------|------------------|------------------|---------------------------|------------------|------------------|
| | Fair Value Measured Using | | | Fair Value Measured Using | | |
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Cash | \$ 738 | \$ — | \$ 738 | \$ 1,060 | \$ — | \$ 1,060 |
| Equity fund | — | 55,400 | 55,400 | — | 48,942 | 48,942 |
| Insurance contracts | — | 25,388 | 25,388 | — | 27,394 | 27,394 |
| Pension fund | — | 89 | 89 | — | 165 | 165 |
| Total plan assets at fair value | \$ 738 | \$ 80,877 | \$ 81,615 | \$ 1,060 | \$ 76,501 | \$ 77,561 |

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 during the fiscal year ended December 25, 2021.

Future Contributions

In 2022, the Company expects to make contributions of \$5.3 million to cover benefit payments to plan participants.

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Cash Flows

Estimated future benefit payments under the Company's pension plans as of December 25, 2021 are as follows (in thousands):

| | | |
|--------------|----|--------|
| 2022 | \$ | 5,251 |
| 2023 | | 3,670 |
| 2024 | | 3,943 |
| 2025 | | 5,606 |
| 2026 | | 3,932 |
| 2027 to 2031 | | 21,329 |

INFINERA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

19. Financial Information by Quarter (Unaudited)

The following table sets forth the Company's unaudited quarterly consolidated statements of operations data for 2021 and 2020. 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) | | | | | | | |
|---------------------------------------|--|-------------|-------------|-------------|------------|-------------|-------------|-------------|
| | 2021 | | | | 2020 | | | |
| | Dec. 25 | Sep. 25 | Jun. 26 | Mar. 27 | Dec. 26 | Sep. 26 | Jun. 27 | Mar. 28 |
| | (In thousands, except per share data) | | | | | | | |
| Revenue: | | | | | | | | |
| Product | \$ 316,956 | \$ 270,818 | \$ 257,441 | \$ 254,161 | \$ 267,226 | \$ 261,906 | \$ 261,227 | \$ 255,192 |
| Services | 83,301 | 84,996 | 80,786 | 76,746 | 86,299 | 78,305 | 70,360 | 75,081 |
| Total revenue | 400,257 | 355,814 | 338,227 | 330,907 | 353,525 | 340,211 | 331,587 | 330,273 |
| Cost of revenue: | | | | | | | | |
| Cost of product | 206,577 | 187,956 | 172,053 | 165,485 | 178,153 | 185,001 | 186,519 | 201,792 |
| Cost of services | 45,580 | 43,722 | 41,446 | 43,260 | 44,724 | 38,100 | 36,599 | 40,695 |
| Amortization of intangible assets | 5,782 | 4,609 | 4,614 | 4,616 | 4,611 | 7,287 | 8,721 | 8,628 |
| Acquisition and integration costs | — | — | — | — | — | 43 | 750 | 1,035 |
| Restructuring and other related costs | (148) | 1,434 | (269) | 514 | (106) | 1,504 | 1,591 | 1,157 |
| Total cost of revenue | 257,791 | 237,721 | 217,844 | 213,875 | 227,382 | 231,935 | 234,180 | 253,307 |
| Gross profit | 142,466 | 118,093 | 120,383 | 117,032 | 126,143 | 108,276 | 97,407 | 76,966 |
| Amortization of intangible assets | 4,307 | 4,351 | 4,392 | 4,405 | 4,745 | 4,696 | 4,585 | 4,555 |
| Acquisition and integration costs | — | — | — | 614 | (265) | 1,045 | 3,344 | 9,222 |
| Restructuring and other related costs | 5,055 | 6,546 | (674) | 2,319 | 7,230 | 6,679 | 5,097 | 5,580 |
| Other operating expenses | 143,246 | 138,172 | 139,913 | 132,807 | 121,209 | 122,773 | 129,007 | 134,489 |
| Total operating expenses | 152,608 | 149,069 | 143,631 | 140,145 | 132,919 | 135,193 | 142,033 | 153,846 |
| Loss from operations | (10,142) | (30,976) | (23,248) | (23,113) | (6,776) | (26,917) | (44,626) | (76,880) |
| Other income (expense), net | (20,479) | (17,363) | (9,271) | (24,198) | (2,043) | (7,620) | (14,374) | (21,452) |
| Loss before income taxes | (30,621) | (48,339) | (32,519) | (47,311) | (8,819) | (34,537) | (59,000) | (98,332) |
| Provision for income taxes | 2,447 | 5,455 | 3,075 | 1,011 | 1,105 | 1,359 | 2,635 | 936 |
| Net loss | \$ (33,068) | \$ (53,794) | \$ (35,594) | \$ (48,322) | \$ (9,924) | \$ (35,896) | \$ (61,635) | \$ (99,268) |
| Net loss per common share | | | | | | | | |
| Basic | \$ (0.16) | \$ (0.26) | \$ (0.17) | \$ (0.24) | \$ (0.05) | \$ (0.19) | \$ (0.33) | \$ (0.55) |
| Diluted | \$ (0.16) | \$ (0.26) | \$ (0.17) | \$ (0.24) | \$ (0.05) | \$ (0.19) | \$ (0.33) | \$ (0.55) |

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 2021 and 2020 were 52-week years that ended on December 25, 2021 and December 26, 2020, respectively.

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 25, 2021, our disclosure controls and procedures were 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 its 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 three months ended December 25, 2021 there were no changes in our internal control over financial reporting which were identified in connection with management’s evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We are continually monitoring and assessing the COVID-19 pandemic situation to minimize the impact, if any, on the design and operating effectiveness on our internal controls.

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 25, 2021, 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.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of 2021 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 2021 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.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

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 2022 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 officers, refer to the section entitled "Information about our 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 2022 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 2022 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 2022 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 2022 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 | 65 |
| Consolidated Balance Sheets | 68 |
| Consolidated Statements of Operations | 69 |
| Consolidated Statement of Comprehensive Income (Loss) | 70 |
| Consolidated Statements of Stockholders' Equity | 71 |
| 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 25, 2021 | December 26, 2020 | December 28, 2019 |
| | (In thousands) | | |
| Deferred tax asset, valuation allowance | | | |
| Beginning balance | \$ 531,923 | \$ 484,834 | \$ 493,157 |
| Additions | 14,395 | 53,761 | 122,878 |
| Reductions | (24,698) | (6,672) | (131,201) |
| Ending balance | \$ 521,620 | \$ 531,923 | \$ 484,834 |
| Allowance for credit losses | | | |
| Beginning balance | \$ 2,912 | \$ 4,005 | \$ 1,821 |
| Additions | 822 | 2,422 | 2,184 |
| Write-offs | (2,430) | (3,515) | — |
| Ending balance | \$ 1,304 | \$ 2,912 | \$ 4,005 |

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

| Exhibit No. | Description |
|-----------------------|---|
| 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 August 11, 2020. |
| 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 incorporated by reference hereto). |
| 4.5 | Indenture, dated March 9, 2020, 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 March 9, 2020 |
| 4.6 | Form of 2.50% Convertible Senior Notes due 2027 (included in Exhibit 4.5 incorporated by reference hereto) |
| 4.7 | Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934, incorporated herein by reference to Exhibit 4.5 of the Registrant's Annual Report on Form 10-K (No. 001-33486) filed with the SEC on March 4, 2020. |
| 4.8 | Form of Indenture, incorporated herein by reference to Exhibit 4.2 of the Registrant's Form S-3 Registration Statement (No. 333-244741) filed with the SEC on August 12, 2020. |
| 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 10.3 of the Registrant's Annual Report on Form 10-K (No. 001-33486) filed with the SEC on March 4, 2020. |
| 10.4* | Form of 2007 Employee Stock Purchase Plan Global Subscription Agreement, incorporated herein by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K (No. 001-33486) filed with the SEC on March 4, 2020. |
| 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 Notice of Grant of Restricted Stock Units 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 Notice of Grant of Stock Option 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. |
| 10.8* | 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. |

| Exhibit No. | Description |
|------------------------|--|
| 10.9* | 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. |
| 10.10* | 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. |
| 10.11* | 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. |
| 10.12* | 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 24, 2021. |
| 10.13* | Form of Notice of Grant of Restricted Stock Units under the Amended and Restated 2016 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q (No. 001-33486), filed with the SEC on May 9, 2019. |
| 10.14* | Form of Notice of Grant of Restricted Stock Units for Directors under the Amended and Restated 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. |
| 10.15* | Form of Notice of Grant of Performance Shares under the Amended and Restated 2016 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q (No. 001-33486), filed with the SEC on May 9, 2019. |
| 10.16 | 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. |
| 10.17 | 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. |
| 10.18 | First Amendment to Unit Purchase Agreement, dated as of March 4, 2019, by and among Infinera Corporation, Coriant Investor LLC and Oaktree Optical Holdings, L.P., 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 March 4, 2019. |
| 10.19* | Offer Letter between Infinera Corporation and David L. Teichmann dated March 18, 2019, 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 August 8, 2019. |
| 10.20* | Offer Letter between Infinera Corporation and Nancy Erba dated July 8, 2019, 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 November 12, 2019. |
| 10.21* | Infinera Corporation 2019 Inducement Equity Incentive Plan, incorporated herein by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form S-8 (No. 333-233150), filed with the SEC on August 8, 2019. |
| 10.22* | Form of Notice of Grant of Restricted Stock Units (Inducement Plan), incorporated herein by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-8 (No. 333-233150), filed with the SEC on August 8, 2019. |
| 10.23* | Form of Notice of Grant of Performance Shares (Inducement Plan), incorporated herein by reference to Exhibit 4.3 of the Registrant's Registration Statement on Form S-8 (No. 333-233150), filed with the SEC on August 8, 2019. |
| 10.24 | Credit Agreement, dated as of August 1, 2019, by and among Infinera Corporation, Coriant Operations, Inc., Coriant North America, LLC, Coriant America Inc., Coriant (USA) Inc., and Wells Fargo Bank, National Association, as administrative agent, 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 August 2, 2019. |
| 10.25 | Guaranty and Security Agreement, dated as of August 1, 2019, by and among Infinera Corporation, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent, 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 August 2, 2019. |

| Exhibit No. | Description |
|------------------------|---|
| 10.26 | Increase Joinder and Amendment Number One to Credit Agreement, dated as of December 23, 2019, by and among Infinera Corporation, Wells Fargo Bank, National Association and BMO Harris Bank N.A., 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 December 26, 2019. |
| 10.27* | Offer Letter between Infinera Corporation and Nicholas Walden dated January 3, 2020, incorporated herein by reference to Exhibit 10.27 of the Registrant's Annual Report in Form 10-K (No. 001-33486) filed with the SEC on March 4, 2020. |
| 10.28 | Second Amendment to Credit Agreement, dated as of March 4, 2020, among Infinera Corporation, the lenders party thereto, and Wells Fargo Bank, National Association, as Administrative Agent, 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 March 4, 2020 |
| 10.29 | Purchase Agreement, dated March 4, 2020, by and between Infinera Corporation and Goldman Sachs & Co. LLC, 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 March 9, 2020 |
| 10.30 | Letter agreement, dated as of April 13, 2020, among Infinera Corporation, Oaktree Optical Holdings, L.P. and certain other parties, 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 April 14, 2020 |
| 10.31 | Transition Agreement, dated as of November 21, 2020, by and between Infinera Corporation and Thomas Fallon. |
| 21.1 | Subsidiaries. |
| 23.1 | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. |
| 24.1 | Power of Attorney (reference is made to the signature page hereto) |
| 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 |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL 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 Exchange Act 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, as amended, or the Exchange Act, 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: February 23, 2022

Infinera Corporation

By: _____ /s/ NANCY ERBA
Nancy Erba
Chief Financial Officer
Principal Financial Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David W. Heard and Nancy Erba, 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/ DAVID W. HEARD</u> David W. Heard | Chief Executive Officer, Principal Executive Officer and Director | February 23, 2022 |
| <u>/s/ NANCY ERBA</u> Nancy Erba | Chief Financial Officer, Principal Financial Officer | February 23, 2022 |
| <u>/s/ MICHAEL FERNICOLA</u> Michael Fericola | Chief Accounting Officer and Principal Accounting Officer | February 23, 2022 |
| <u>/s/ GEORGE RIEDEL</u> George Riedel | Chairman of the Board | February 23, 2022 |
| <u>/s/ CHRISTINE BUCKLIN</u> Christine Bucklin | Director | February 23, 2022 |
| <u>/s/ GREG P. DOUGHERTY</u> Greg P. Dougherty | Director | February 23, 2022 |
| <u>/s/ MARCEL GANI</u> Marcel Gani | Director | February 23, 2022 |
| <u>/s/ SHARON HOLT</u> Sharon Holt | Director | February 23, 2022 |
| <u>/s/ ROOP K. LAKKARAJU</u> Roop Lakkaraju | Director | February 23, 2022 |
| <u>/s/ PAUL J. MILBURY</u> Paul J. Milbury | Director | February 23, 2022 |
| <u>/s/ AMY RICE</u> Amy Rice | Director | February 23, 2022 |
| <u>/s/ MARK A. WEGLEITNER</u> Mark A. Wegleitner | Director | February 23, 2022 |
| <u>/s/ DAVID F. WELCH, PH.D.</u> David F. Welch, Ph.D. | Co-founder, Chief Innovation Officer and Director | February 23, 2022 |

INFINERA CORPORATION
SUBSIDIARIES*

Infinera Optical Holding, Inc. (Delaware)
Infinera Optical Networks, Inc. (Delaware)
International Telecom Holdings S.à r.l. (Luxembourg)
Tellabs Enterprises B.V. (Netherlands)
Tellabs Holdings B.V. (Netherlands)
Transmode Systems AB (Sweden)
Xieon Networks S.a.r.l. (Luxembourg)

* Pursuant to Item 601(b)(21)(ii) of Regulation S-K, the names of other subsidiaries of Infinera Corporation are omitted because, considered in the aggregate, they would not constitute a significant subsidiary as of the end of the year covered by this Annual Report on Form 10-K.

Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statements (Form S-8 Nos. 333-239404, 333-258421) pertaining to the Amended and Restated 2016 Equity Incentive Plan of Infinera Corporation,
- (2) Registration Statement (Form S-3 No. 333-244741) of Infinera Corporation,
- (3) Registration Statement (Form S-8 No. 333-233150) pertaining to the 2019 Inducement Equity Incentive Plan of Infinera Corporation,
- (4) Registration Statements (Form S-8 Nos. 333-232358, 333-225887) pertaining to the Amended and Restated 2007 Employee Stock Purchase Plan, and the Amended and Restated 2016 Equity Incentive Plan of Infinera Corporation,
- (5) Registration Statement (Form S-3 No. 333-227199) of Infinera Corporation,
- (6) Registration Statement (Form S-8 No. 333-218410) pertaining to the 2016 Equity Incentive Plan, as amended of Infinera Corporation,
- (7) Registration Statement (Form S-8 No. 333-211498) pertaining to the 2016 Equity Incentive Plan of Infinera Corporation,
- (8) Registration Statement (Form S-8 No. 333-196136) pertaining to the 2007 Employee Stock Purchase Plan of Infinera Corporation,
- (9) Registration Statements (Form S-8 Nos. 333-193776, 333-186549, 333-179931, 333-173887, 333-165206, 333-158921) pertaining to the 2007 Equity Incentive Plan and the 2007 Employee Stock Purchase Plan of Infinera Corporation, and
- (10) Registration Statements (Form S-8 Nos. 333-150546 and 333-143561) pertaining to the 2000 Stock Plan, the 2007 Equity Incentive Plan, and the 2007 Employee Stock Purchase Plan of Infinera Corporation;

of our reports dated February 23, 2022, with respect to the consolidated financial statements and schedule of Infinera Corporation, and the effectiveness of internal control over financial reporting of Infinera Corporation, included in this Annual Report (Form 10-K) for the year ended December 25, 2021.

/s/ Ernst & Young LLP

San Jose, California

February 23, 2022

**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, David W. Heard, 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: February 23, 2022

By: _____
/s/ DAVID W. HEARD
David W. Heard
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, Nancy Erba, 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: February 23, 2022

By: _____ /s/ NANCY ERBA
Nancy Erba
Chief Financial Officer
(Principal Financial Officer)

INFINERA CORPORATION
Written Statement of Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, David W. Heard, 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 25, 2021 (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: February 23, 2022

/s/ DAVID W. HEARD

David W. Heard
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, Nancy Erba, 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 26, 2020 (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: February 23, 2022

/s/ NANCY ERBA

Nancy Erba
Chief Financial Officer
(Principal Financial 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.