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Infinera Corporation
2014 Proxy Statement
and
2013 Annual Report on Form 10-K

Infinera Corporation
140 Caspian Court
Sunnyvale, California 94089

NOTICE OF 2014 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 14, 2014
10:00 a.m. Pacific Time

Dear Stockholder:

You are cordially invited to attend the 2014 Annual Meeting of Stockholders (the “Annual Meeting”) of Infinera Corporation, a Delaware corporation (“Infinera”). Notice is hereby given that the meeting will be held on May 14, 2014, at 140 Caspian Court, Sunnyvale, California 94089 at 10:00 a.m. Pacific Time, for the following purposes:

1. To elect to the Board of Directors (the “Board”) the two nominees for Class I directors named in the Proxy Statement;
2. To ratify the appointment of Ernst & Young LLP as Infinera’s independent registered public accounting firm for the fiscal year ending December 27, 2014;
3. To approve, on an advisory basis, the compensation of Infinera’s named executive officers, as described in the Proxy Statement;
4. To approve an amendment and restatement of the Infinera Corporation 2007 Employee Stock Purchase Plan, that would (i) increase the number of shares authorized, (ii) remove the evergreen provision by which the share reserve of the plan is set to automatically increase each year, and (iii) effect various technical revisions and improvements; and
5. To transact such other business as may properly come before the meeting or any postponement or adjournment thereof.

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

The record date for the Annual Meeting is March 19, 2014. Only stockholders of record at the close of business on that date may vote at the Annual Meeting or any postponement or adjournment thereof. A list of our stockholders will be maintained and open for examination by any of our stockholders, for any purpose germane to the Annual Meeting, during regular business hours at the address listed above for ten days prior to the meeting.

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

As a stockholder of Infinera, your vote is important. Whether or not you expect to attend the Annual Meeting in person, it is important that you vote as soon as possible so that your shares are represented.

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

By Order of the Board,
/s/ ALASTAIR A. SHORT

Alastair A. Short
Senior Vice President, General Counsel and Corporate Secretary

Sunnyvale, California
March 28, 2014

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PROXY STATEMENT SUMMARY

This summary highlights selected information contained elsewhere in this Proxy Statement. The summary does not contain all of the information that you should consider, and you should read and consider carefully the complete Proxy Statement before voting.

2014 Annual Meeting of Stockholders

Time and Date:	10:00 a.m. Pacific Time, on May 14, 2014
Place:	Infinera Corporation, 140 Caspian Court, Sunnyvale, California 94089
Record Date:	March 19, 2014
Voting:	Stockholders as of the record date are entitled to vote. Each share of common stock is entitled to one vote for each director nominee and one vote for each of the other proposals to be voted on.

Meeting Agenda and Voting Matters

Agenda Items	Board Vote Recommendation	Page Reference (for more detail)
1. To elect to the Board of Directors the two nominees for Class I directors named in the Proxy Statement.	FOR EACH DIRECTOR NOMINEE	6
2. To ratify the appointment of Ernst & Young LLP as Infinera's independent registered public accounting firm for the fiscal year ending December 27, 2014.	FOR	19
3. To approve, on an advisory basis, the compensation of Infinera's named executive officers, as described in the Proxy Statement.	FOR	51
4. To approve an amendment and restatement of the Infinera Corporation 2007 Employee Stock Purchase Plan, that would (i) increase the number of shares authorized, (ii) remove the evergreen provision by which the share reserve of the plan is set to automatically increase each year, and (iii) effect various technical revisions and improvements.	FOR	53
5. To transact such other business that may properly come before the meeting or any postponement or adjournment thereof.		

Board Nominees

				Committee Memberships[(2)]			
Name	Age	Director Since	Independent[(1)]	AC	CC	NGC	TAC
Thomas J. Fallon	52	2009					
Kambiz Y. Hooshmand	52	2009	X			M	C

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

(1) Under the rules and regulations of the SEC and the listing standards of NASDAQ.

(2) As of the end of fiscal 2013.

Executive Compensation Program

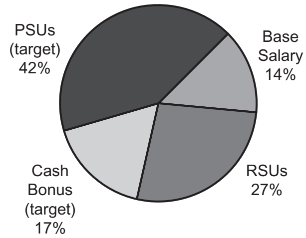
Our executive compensation program is designed to balance near-term results with long-term success and continue to encourage our executive officers (including our named executive officers ("NEOs") for fiscal 2013) to build value through innovation and execution. To fulfill this mission, we have a pay-for-performance philosophy that forms the foundation for all decisions regarding executive compensation made by our management team and our Compensation Committee.

Fiscal 2013 Executive Compensation Highlights

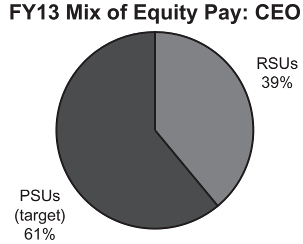
As explained in more detail in the Compensation Discussion and Analysis section of this Proxy Statement, our executive compensation program for fiscal 2013 reflects our pay-for-performance compensation philosophy and the continued strong alignment of the interests of our executive officers with those of our stockholders. Highlights of our executive compensation program for fiscal 2013 included:

- ***The majority of our CEO's fiscal 2013 target total compensation was in equity.***
  - **69% of our CEO's target total compensation was in equity**, which links our CEO's compensation directly to the value of our common stock. In fiscal 2013, our CEO received a performance-based restricted stock unit ("PSU") award (as summarized below) for 170,000 shares of our common stock and a restricted stock unit ("RSU") award for 113,000 shares of our common stock. Target total compensation consists of base salary, target cash incentive opportunity and target equity incentive compensation.
- ***The majority of our CEO's fiscal 2013 equity awards and target total compensation were at risk***.
  - **59% of our CEO's target total compensation was completely at risk** based on our performance against measurable performance objectives (includes target bonus and PSU awards).
  - **61% of our CEO's equity compensation opportunity was PSU awards**. The PSU awards were 100% subject to risk of forfeiture based on our relative total shareholder return ("TSR") performance over three performance periods against the NASDAQ Telecommunications Index ("Telecomm Index"). Key details of our CEO's pay opportunities for fiscal 2013 are summarized below.

FY13 Mix of Pay: CEO



FY13 Mix of Equity Pay: CEO



- ***Our fiscal 2013 PSU awards included rigorous performance features***. To support our pay-for-performance philosophy and further emphasize the importance of creating long-term stockholder value, our fiscal 2013 PSU awards are 100% at risk based on our relative TSR performance and contain several features we consider to be best practices:
  - **Sustained performance requirement**. To earn the maximum amount of PSU awards (150% of target), our TSR must exceed that of the Telecomm Index by 25 points or more as calculated on each of the three separate measurement points (coinciding with the end of our fiscal 2013, 2014 and 2015).
  - **Steeper downside slope**. Our PSU awards are reduced twice as fast if our TSR underperforms the Telecomm Index (4-to-1 downside) than they are increased if our TSR outperforms the Telecomm Index (2-to-1 upside). For example, if we underperform the Telecomm Index by 10 points of TSR, 60% of the target PSU awards would be earned. If we outperform the Telecomm Index by 10 points of TSR, 120% of the target PSU awards would be earned.
  - **Additional award cap**. Regardless of our performance vs. the Telecomm Index, our PSU awards are capped at 50% of target for any period in which our TSR is negative. Therefore, even if we significantly outperform the Telecomm Index in challenging market conditions, our PSU award design provides only modest rewards unless incremental stockholder value is created.

- ***Our fiscal 2013 payouts reflect our pay-for-performance philosophy***. Our executive compensation program strives to align compensation outcomes for our NEOs with performance against measurable objectives. In fiscal 2013, the key metrics that were measured under our incentive plans included revenue and non-GAAP operating income (loss) under the fiscal 2013 bonus plan (the "2013 Bonus Plan") and relative TSR performance for our PSU awards. In fiscal 2013, our performance exceeded the target levels for all of the financial metrics, which resulted in above target bonus payments for our CEO and other participating NEOs. This was in contrast to fiscal 2011 and fiscal 2012 when we fell short of our financial targets and, for example, our CEO received either no bonus (fiscal 2011) or just 5% of his target bonus (fiscal 2012). During fiscal 2013, our TSR exceeded that of the Telecomm Index by 33 points as measured under the PSU award program. This resulted in our participating NEOs earning 150% of their target number of PSU shares for the initial performance period.

- ***We continue to maintain good corporate governance practices***. We seek to maintain sound corporate governance standards. During fiscal 2013, the following policies and practices continued to be in effect:

  - Executive Clawback Policy
  - Anti-Hedging Policy
  - Fully Independent Compensation Committee
  - Stock Ownership Policy
  - No Guaranteed Bonuses or Tax Gross-Ups
  - "Double-Trigger" Change-of-Control Agreements
  - Annual Compensation Risk Assessment
  - No Executive Perquisites
  - Independent Compensation Consultant Reporting Directly to Compensation Committee

Advisory Vote on Fiscal 2012 Named Executive Officer Compensation—"Say-on-Pay" Vote

In calendar 2013, we provided stockholders with the opportunity to cast an advisory (non-binding) vote (a "Say-on-Pay" vote) on the compensation of our NEOs for fiscal 2012. It is important to note that at the time our 2013 Annual Meeting of Stockholders occurred, the Compensation Committee had already determined target cash compensation levels and granted RSU awards and PSU awards to our NEOs for fiscal 2013. Our stockholders overwhelmingly approved our Say-on-Pay vote that occurred in calendar 2013 for fiscal 2012 NEO compensation, with over 97% of votes cast voting in favor of our say-on-pay proposal. As we continued to evaluate our compensation practices for and during fiscal 2013, we remained mindful of the lower level of support we received for our Say-on-Pay vote in calendar 2012 for fiscal 2011 NEO compensation, the shareholder feedback received after that vote, and the much stronger support our stockholders expressed for the fiscal 2012 executive compensation program. Accordingly, for fiscal 2013, we retained our general approach to our executive compensation program, with a continued emphasis on rewarding our executive officers through compensation if they deliver value for our stockholders. For fiscal 2013, we continued to explore ways to enhance and improve our executive compensation program. The Compensation Committee has considered and will continue to consider input from stockholders, as well as the outcome of our annual Say-on-Pay vote, when making executive compensation program decisions.

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INFINERA CORPORATION

PROXY STATEMENT
2014 ANNUAL MEETING OF STOCKHOLDERS

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND VOTING PROCEDURAL MATTERS

Annual Meeting

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

A: The Board of Directors (the "Board") of Infinera Corporation (referred to herein as "Infinera," "we," "us" or "our") is providing you access to these proxy materials in connection with the solicitation of proxies for use at the 2014 Annual Meeting of Stockholders (the "Annual Meeting") to be held on Wednesday, May 14, 2014 at 10:00 a.m. Pacific Time, and at any adjournment or postponement thereof, for the purpose of considering and acting upon the matters described herein. These materials were first sent or given to stockholders on or about March 31, 2014.

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

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

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

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

Q: Where is the Annual Meeting?

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

Q: Can I attend the Annual Meeting?

A: You are invited to attend the Annual Meeting if you were a stockholder of record or a beneficial owner as of the close of business on March 19, 2014 (the "Record Date"). You should bring photo identification for entrance into the Annual Meeting. The Annual Meeting will begin promptly at 10:00 a.m. Pacific Time.

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

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

- The election of two Class I directors to serve until the 2017 Annual Meeting of Stockholders or until successors have been duly elected and qualified;
- The ratification of the appointment of Ernst & Young LLP as Infinera's independent registered public accounting firm for the fiscal year ending December 27, 2014;
- The approval, on an advisory basis, of the compensation of Infinera's named executive officers, as described in this Proxy Statement; and

- To approve an amendment and restatement of the Infinera Corporation 2007 Employee Stock Purchase Plan (the “2007 ESPP”), that would (i) increase the number of shares authorized, (ii) remove the evergreen provision by which the share reserve of the plan is set to automatically increase each year, and (iii) effect various technical revisions and improvements.

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

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

A: *Proposal 1*—Directors are elected by a plurality vote, which means that the two directors who receive the most “FOR” votes cast by the shares present in person, or represented by proxy, and entitled to vote at the Annual Meeting will be elected. “WITHHOLD” votes will not affect the outcome of the election. Stockholders may not cumulate votes in the election of directors. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote. **The Board unanimously recommends that you vote your shares “FOR” the nominees listed in Proposal 1**.

Proposal 2—Ratification of the appointment of Ernst & Young LLP as Infinera’s independent registered public accounting firm for the fiscal year ending December 27, 2014, requires the affirmative vote of a majority of the total votes cast by holders of shares present in person, or represented by proxy, and entitled to vote on this proposal at the Annual Meeting. You may vote “FOR,” “AGAINST” or “ABSTAIN” on this proposal. Abstentions are deemed to be votes cast and have the same effect as a vote “AGAINST” this proposal. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote. **The Board unanimously recommends that you vote your shares “FOR” Proposal 2**.

Proposal 3—Approval, on an advisory basis, of the compensation of Infinera’s named executive officers requires the affirmative vote of a majority of the total votes cast by holders of shares present in person, or represented by proxy, and entitled to vote on this proposal at the Annual Meeting. You may vote “FOR,” “AGAINST” or “ABSTAIN” on this proposal. Abstentions are deemed to be votes cast and have the same effect as a vote “AGAINST” this proposal. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote. **The Board unanimously recommends that you vote your shares “FOR” Proposal 3**.

Proposal 4—Approval of an amendment and restatement of the 2007 ESPP, that would (i) increase the number of shares authorized, (ii) remove the evergreen provision by which the share reserve of the plan is set to automatically increase each year, and (iii) effect various technical revisions and improvements, requires the affirmative vote of a majority of the total votes cast by holders of shares present in person, or represented by proxy, and entitled to vote on this proposal at the Annual Meeting. You may vote “FOR,” “AGAINST” or “ABSTAIN” on this proposal. Abstentions are deemed to be votes cast and have the same effect as a vote “AGAINST” this proposal. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote. **The Board unanimously recommends that you vote your shares “FOR” Proposal 4**.

Stock Ownership

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

A: *Stockholders of Record*—If your shares are registered directly in your name with our transfer agent, Computershare Shareowner Services LLC, you are considered the “stockholder of record” with respect to those shares, and, with the exception of certain stockholders who have been solicited by mail, the Notice has been sent directly to you.

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

Quorum and Voting

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

A: Stockholders of record of our common stock at the close of business on the Record Date are entitled to receive notice of and to vote their shares at the Annual Meeting. Such stockholders are entitled to cast one vote for each share of common stock held as of the Record Date. As of the close of business on the Record Date, there were 122,479,210 shares of common stock outstanding and entitled to vote at the Annual Meeting. Shares held as of the record date include shares that are held directly in your name as the shareholder of record and those shares held for you as a beneficial owner through a broker, bank or other nominee

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

A: The presence of the holders of a majority of the shares of our common stock entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting. Such stockholders are counted as present at the meeting if they (1) are present in person at the Annual Meeting or (2) have properly submitted a proxy.

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

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

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

Q: Which proposals are considered "routine" or "non-routine?"

A: The election of directors (Proposal 1), the non-binding advisory vote on Infinera's named executive officer compensation (Proposal 3) and the vote on the amendment and restatement of the 2007 ESPP (Proposal 4) are "non-routine" matters for which discretionary voting power does not exist under applicable rules. A broker, trustee or other nominee cannot vote without instructions on non-routine matters, and therefore, broker non-votes may exist in connection with Proposals 1, 3 and 4. Thus, if you hold your shares in street name and you do not instruct your broker, bank or other nominee how to vote with respect to Proposals 1, 3 and 4, no votes will be cast on your behalf.

The ratification of Ernst & Young LLP as our independent registered public accounting firm (Proposal 2) is considered a "routine" matter for which discretionary voting power exists under applicable rules. A broker, trustee or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected to exist in connection with Proposal 2.

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

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

Beneficial Owners—Shares held beneficially in street name may be voted in person at the Annual Meeting only if you obtain a proxy voting form from the broker, trustee or other nominee that holds your shares giving you the right to vote the shares as of the Record Date, together with a form of personal identification, to be admitted to the meeting.

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

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

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

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

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

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

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

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

Q: Can I change or revoke my vote?

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

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

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

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

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

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

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

Additional Information

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

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

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

A: Our proxy materials will be available on its website at *http://www.infinera.com/annual_meeting*, and all stockholders of record and beneficial owners will have the ability to vote free of charge online with their control number referred to in the Notice at *http://www.proxyvote.com*. Our Annual Report on Form 10-K for the fiscal year ended December 28, 2013 (the "2013 Annual Report") is also available on the Internet as indicated in the Notice. In addition, you can access this Proxy Statement and the 2013 Annual Report by going to Infinera's website at *http://www.infinera.com/annual_meeting*. The 2013 Annual Report is not incorporated into this Proxy Statement and is not considered proxy soliciting material.

PROPOSAL 1

ELECTION OF DIRECTORS

General

The Board currently consists of nine directors and is divided into three classes, each consisting of three directors. Each class of the Board serves a staggered three-year term. Our Class I directors, whose terms expire at the Annual Meeting, are Thomas J. Fallon, Kambiz Y. Hooshmand and Philip J. Koen. On January 3, 2014, Philip J. Koen informed the Board that he will be resigning from the Board effective immediately prior to the Annual Meeting and will not be standing for re-election.

There are two nominees for election to Class I of the Board this year, Messrs. Fallon and Hooshmand. The nomination of these directors to stand for election at the Annual Meeting has been recommended by the Nominating and Governance Committee and has been approved by the Board. Each of the nominees for our Class I directors, if elected, will serve for a three-year term expiring at the 2017 Annual Meeting of Stockholders, or until his successor is duly elected and qualified, or until his earlier death, resignation or removal from the Board.

The size of the Board will be reduced to eight directors and the number of Class I directors will be reduced to two directors, effective upon Mr. Koen's resignation from the Board immediately prior to the Annual Meeting.

Director Qualifications

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

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

Information Regarding Nominees and Continuing Directors

Set forth below is information regarding each person nominated for election as a Class I director at the Annual Meeting, as well as for each director continuing service on the Board, including their ages as of March 28, 2014, the periods during which they have served as a director, certain information as to their principal occupations, directorships they hold in corporations whose shares are publicly registered and qualifications for serving as a member of the Board, including the skills, qualities, attributes and experiences that led the Board to determine it is appropriate to nominate these directors.

Nominees for Election as Class I Directors whose Terms Expire at the 2017 Annual Meeting of Stockholders

Thomas J. Fallon
Director since 2009
Age 52

Thomas J. Fallon has served as our Chief Executive Officer ("CEO") since June 2013 and as a member of the Board since July 2009. From January 2010 to June 2013, Mr. Fallon served as our President and Chief Executive Officer. Mr. Fallon served as our Chief Operating Officer from October 2006 to December 2009, and as our Vice President of Engineering and Operations from April 2004 to September 2006. From August 2003 to March 2004, Mr. Fallon was Vice President, Corporate Quality and Development Operations of Cisco Systems, Inc., a networking and telecommunications company. From May 2001 to August 2003, Mr. Fallon served as General Manager of Cisco Systems' Optical Transport Business Unit.

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

Kambiz Y. Hooshmand
Director since 2009
Age 52

Kambiz Y. Hooshmand has been a member of the Board since December 2009 and has served as Chairman of the Board since October 2010. From March 2005 to May 2009, Mr. Hooshmand served as President and CEO of Applied Micro Circuits Corporation ("AMCC"), a communications solutions company. From February 2002 to March 2005, Mr. Hooshmand served as Group Vice President and General Manager of Cisco Systems. From March 2000 to February 2002, Mr. Hooshmand served as Vice President and Division General Manager of the DSL Business Unit at Cisco Systems. From June 1997 to February 2000, Mr. Hooshmand served as Cisco System's Vice President of Engineering. From January 1992 to June 1997, Mr. Hooshmand served as Director of Engineering of StrataCom, Inc., a networking solutions company, which was acquired by Cisco Systems. Mr. Hooshmand served on the board of directors of Power-One, Inc., an energy efficient power solutions company, from October 2009 to July 2013. Power-One was acquired by ABB Ltd., a power and automation technology company, in July 2013.

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

Incumbent Class III Directors whose Terms Expire at the 2016 Annual Meeting of Stockholders

Kenneth A. Goldman
Director since 2005
Age 64

Kenneth A. Goldman has been a member of the Board since February 2005. Since October 2012, Mr. Goldman has been the Chief Financial Officer (CFO) of Yahoo! Inc., responsible for Yahoo!'s global finance functions, including financial planning and analysis, controllership, tax, treasury, and investor relations. From September 2007 to September 2012, Mr. Goldman was CFO of Fortinet Inc., a provider of threat management technologies. From November 2006 to August 2007, Mr. Goldman served as Executive Vice President and CFO of Dexterra, Inc. From August 2000 until March 2006, Mr. Goldman served as Senior Vice President of Finance and Administration and CFO of Siebel Systems, Inc., a supplier of customer software solutions and services, and has held CFO positions at several technology companies in his career, including Excite@Home, Sybase, Cypress Semiconductor and VLSI Technology. Mr. Goldman currently serves on the board of directors of NXP Semiconductors N.V., a mixed signal and standards product semiconductor company, Gigamon Inc., an intelligent traffic visibility solutions provider, and Yahoo Japan Corporation. Mr. Goldman has also served recently on the board of directors of Starent Networks Corp., a networking solutions provider, from 2006 to 2009, BigBand Networks, Inc., a broadband multimedia infrastructure provider, from 2006 to 2011, and on the board of trustees of Cornell University from 2005 to 2013.

As a member of our Audit Committee and as an Audit Committee Financial Expert, the Board believes that Mr. Goldman provides a high level of expertise and significant leadership experience in the areas of finance, accounting and audit oversight. The Board also benefits from Mr. Goldman's extensive executive experience and service as a member of the Financial Accounting Standards Board Advisory Council.

Carl Redfield
Director since 2006
Age 67

Carl Redfield has been a member of the Board since August 2006. From September 2004 to his retirement in May 2008, Mr. Redfield served as Senior Vice President, New England Development Center Executive Sponsor, of Cisco Systems. From February 1997 through September 2004, Mr. Redfield served as Cisco Systems' Senior Vice President, Manufacturing and Logistics.

The Board believes that Mr. Redfield's executive management experience, along with his significant manufacturing and logistics experience, enable Mr. Redfield to make significant contributions to the Board. In addition, the Board benefits from Mr. Redfield's institutional knowledge of Infinera and his service as a member of our Compensation Committee and as Chairman of our Nominating and Governance Committee.

Mark A. Wegleitner
Director since 2011
Age 63

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

The Board believes that Mr. Wegleitner's extensive experience in the telecommunications industry provides the Board with a high level of expertise and experience. The Board also benefits from Mr. Wegleitner's service as a member of our Technology and Acquisition Committee and Chairman of our Compensation Committee.

Incumbent Class II Directors whose Terms Expire at the 2015 Annual Meeting of Stockholders

Dan Maydan, Ph.D.
Director since 2001
Age 78

Dan Maydan, Ph.D. has been a member of the Board since September 2001. From December 1993 to April 2003, Dr. Maydan served as President of Applied Materials, Inc., a semiconductor equipment manufacturing company, and was appointed President Emeritus of Applied Materials from April 2003 to December 2012. Dr. Maydan was a member of the board of directors of Applied Materials from June 1992 until March 2006. Dr. Maydan serves on the board of directors of Electronics for Imaging, Inc. ("EFI"), a digital imaging and print management solutions company.

Dr. Maydan brings to the Board a significant institutional knowledge of Infinera through his long-standing service on the Board and service on our Compensation and Nominating and Governance Committees. The Board also benefits from Dr. Maydan's executive management, technical and industry experience from his time at Applied Materials, as well as his experience as a public company director at Applied Materials and EFI.

David F. Welch, Ph.D.
Director since 2010
Age 53

David F. Welch, Ph.D. co-founded Infinera and has served as our President since June 2013 and as a member of the Board since October 2010. From January 2004 to June 2013, Dr. Welch served as our Executive Vice President, Chief Strategy Officer. From January 2005 to January 2009, Dr. Welch also served as our Chief Marketing Officer. From May 2001 to January 2005, Dr. Welch served as our Chief Development Officer/CTO. From May 2001 to November 2006, Dr. Welch also served as a member of the Board. Prior to founding Infinera, Dr. Welch was CTO of the Transmission Products Group of JDS Uniphase Corporation, an optical component company. From January 1985 to February 2001, Dr. Welch served in various executive roles, including CTO and Vice President of Corporate Development for SDL Inc., an optical component company.

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

Paul J. Milbury
Director since 2010
Age 65

Paul J. Milbury has been a member of the Board since July 2010. Mr. Milbury served as Vice President of Operations and CFO of Starent Networks, Corp., a provider of mobile network solutions, from January 2007 until its acquisition by Cisco Systems in December 2009. From December 2009 to July 2010, Mr. Milbury played a key role in integrating Starent Networks into Cisco Systems to create the Mobile Internet Technology Group. From December 2000 to March 2007, Mr. Milbury served as Vice President and CFO of Avid Technology, Inc., a digital media creation, management and distribution solutions company.

As Chairman of our Audit Committee and as an Audit Committee Financial Expert, Mr. Milbury provides the Board with a strong understanding and high level of experience in the areas of finance, accounting and operations. The Board also benefits from Mr. Milbury's service on our Compensation Committee, his executive management experience at Starent Networks, Cisco Systems and Avid Technology, and his experience as a director at Crossbeam Systems and Accedian Networks.

Vote Required

Directors are elected by a plurality vote, which means that the two directors who receive the most "FOR" votes cast by the shares present in person, or represented by proxy, and entitled to vote at the Annual Meeting will be elected. "WITHHOLD" votes and broker non-votes will not affect the outcome of the election. Stockholders may not cumulate votes in the election of directors.

Proposal 1—Recommendation of the Board

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

CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS

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

Independence of the Board

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

Stockholder Communications with the Board

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

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

Communications are distributed to the Board or to any individual director, as appropriate, depending on the facts and circumstances outlined in the communication. Communications that are unduly hostile, threatening, illegal or similarly unsuitable will be excluded with the provision that any communication that is filtered out will be made available to any independent or non-employee director upon request.

Board Leadership Structure

In January 2010, we separated the positions of Chairman of the Board and CEO. Separating these positions allows our CEO to focus on our day-to-day business, while allowing the Chairman of the Board to lead the Board in its fundamental role of providing advice to and independent oversight of management. While our Bylaws do not require that our Chairman of the Board and CEO positions be separate, the Board believes that having separate positions is the appropriate leadership structure for Infinera at this time and demonstrates our commitment to good corporate governance practices. The Board has assigned the Chairman of the Board with responsibility for presiding over meetings of the Board, developing meeting agendas, facilitating communication between management and the Board, representing director views to management and improving meeting effectiveness, among other things.

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

Board Oversight of Risk

Risk is inherent with every business and the Board is responsible for overseeing our risk management function. Members of our senior management team are responsible for implementation of our day-to-day risk management processes, while the Board, as a whole and through its committees, has responsibility for the oversight of overall risk management. In connection with the Board's annual strategic plan review, senior management makes a multidisciplinary presentation to the Board that includes any significant strategic, operational, financial, legal and compliance risks facing Infinera, our general risk management strategy and actions taken by senior management in compliance with this strategy. At other meetings of the Board, senior management provides updates to the Board on any specific risk-related issues. In its risk oversight role, the Board has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. In addition, each of the committees of the Board considers any risks that may be within its area of responsibilities and Board members, or Board committee members, periodically engage in discussions with members of our senior management team as appropriate. Specifically, the Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to risk management in the areas of financial reporting, internal controls and compliance with legal and regulatory requirements. The Audit Committee also discusses policies with respect to risk assessment and risk management and reports are regularly provided by management to the Audit Committee. The Compensation Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs. The Nominating and Governance Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks associated with Board organization, membership and structure, succession planning for our directors and executive officers, and corporate governance. The Technology and Acquisition Committee assists the Board in fulfilling its oversight responsibilities with respect to managing the risks associated with our strategy, technology development and acquisitions and investments.

Code of Business Conduct and Ethics

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

Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines which govern, among other things, member criteria, responsibilities, compensation and education, committee composition and charters, communication activities and management succession. You can access these Corporate Governance Guidelines, along with other materials such as Board committee charters, on our website at *http://www.infinera.com* in the Corporate Governance section on our Investor Relations' page.

Stock Ownership Policy

The Board believes that it is important to link the interests of our directors and management to those of our stockholders. Accordingly, the Board has adopted a stock ownership policy for our directors and executive officers who are designated as reporting officers under Section 16 ("Section 16 Officers") of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For additional information regarding our Stock Ownership Policy, please see the section entitled "Compensation Discussion and Analysis—Stock Ownership Policy" below.

Information Regarding the Board and its Committees

The Board met six times during fiscal 2013. The Board did not act by written consent during fiscal 2013. During fiscal 2013, each director then in office attended 75% or more of the meetings of the Board and the committees on which he served during the period for which he was a director, committee chairman or committee member, as applicable. Our independent directors meet in executive sessions, without management present, during most regular meetings of the Board. Directors are encouraged, but not required, to attend our annual meetings of stockholders. One member of the Board attended our 2013 Annual Meeting of Stockholders.

The Board has four standing committees: an Audit Committee, a Compensation Committee, a Nominating and Governance Committee and a Technology and Acquisition Committee. Mr. Fallon does not serve on any committees of the Board. The following table provides membership and meeting information for the Board and each of the committees of the Board as of the end of fiscal 2013:

Name	Board	Audit	Compensation	Nominating and Governance	Technology and Acquisition
Thomas J. Fallon	M	—	—	—	—
Kenneth A. Goldman	M	M	—	—	—
Kambiz Y. Hooshmand	C	—	—	M	C
Philip J. Koen	M	M	—	—	M
Dan Maydan, Ph.D.	M	—	M	M	—
Paul J. Milbury	M	C	M	—	—
Carl Redfield	M	—	M	C	—
Mark A. Wegleitner	M	—	C	—	M
David F. Welch, Ph.D.	M	—	—	—	M
Total Meetings in Fiscal 2013	6	10	8	4	3

C = Chairman; M = Member

Below is a description of each standing committee of the Board. The Board has determined that each member of the Audit, Compensation and Nominating and Governance Committees meets the applicable rules and regulations regarding "independence" and that each such member is free of any relationship that would interfere with his individual exercise of independent judgment with regard to Infinera. Each committee of the Board has a written charter approved by the Board. Copies of each charter are posted on our website at *http://www.infinera.com* in the Corporate Governance section on our Investor Relations' page.

Audit Committee

The Audit Committee reviews and monitors our financial statements and reporting and our external audits, including, among other things, our internal controls and audit functions, the results and scope of the annual audit and other services provided by our independent registered public accounting firm and our compliance with legal matters that have a significant impact on our financial statements. Our Audit Committee also consults with our management and our independent registered public accounting firm prior to the presentation of financial statements to stockholders and, as appropriate, initiates inquiries into aspects of our financial affairs. Our Audit Committee is responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. In addition, our Audit Committee is directly responsible for the appointment, retention, compensation and oversight of the work of our independent registered public accounting firm, including approving services and fee arrangements. All related party transactions are subject to approval by our Audit Committee. A more detailed description of the Audit Committee's functions can be found in our Audit Committee charter. A copy of the Audit Committee charter is available on our website at *http://www.infinera.com* in the Corporate Governance section on our Investor Relations' page.

The current members of the Audit Committee are Messrs. Goldman, Koen and Milbury. Mr. Milbury chairs the Audit Committee. The Audit Committee met ten times during fiscal 2013. The Audit Committee did not act by written consent during fiscal 2013. Each member of our Audit Committee is independent for Audit Committee purposes under the rules and regulations of the SEC and the listing standards of NASDAQ. In addition to qualifying as independent under the NASDAQ rules, each member of our Audit Committee can read and understand fundamental financial statements in accordance with NASDAQ Audit Committee requirements. The Board has determined that Messrs. Goldman and Milbury are each an "Audit Committee Financial Expert" as defined in Item 407(d)(5)(ii) of Regulation S-K, including the relevant independence requirements. The designation does not impose on Messrs. Goldman and Milbury any duties, obligations or liabilities that are greater than are generally imposed on them as members of the Audit Committee and the Board.

On January 3, 2014, Mr. Koen informed the Board that he will be resigning from the Board and as a member of the Audit Committee effective immediately prior to the Annual Meeting and will not be standing for re-election.

Compensation Committee

The Compensation Committee has the responsibility, authority and oversight relating to the development of our overall compensation strategy and compensation programs. The Compensation Committee establishes our compensation philosophy and policies, as well as administers all of our compensation plans for executive officers. The Compensation Committee seeks to assure that our compensation practices promote stockholder interests and support our compensation objectives and philosophy as described in more detail in the CD&A section of this Proxy Statement.

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

The current members of the Compensation Committee are Messrs. Milbury, Redfield and Wegleitner and Dr. Maydan. Mr. Wegleitner chairs the Compensation Committee. The Compensation Committee met eight times during fiscal 2013. The Compensation Committee acted by written consent twice during fiscal 2013. Each member of our Compensation Committee is a non-employee director, as defined in Rule 16b-3 promulgated under the Exchange Act, an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code and satisfies the director and compensation committee independence requirements under the listing standards of NASDAQ.

Non-Executive Equity Award Subcommittee

The guidelines for the size of new hire, promotional and annual retention equity awards for executive officers are reviewed and approved by the Compensation Committee. The Compensation Committee has delegated to the Non-Executive Equity Award Subcommittee (the "Subcommittee"), consisting of the CEO, Senior Vice President and General Counsel, and Vice President of Human Resources, the authority to formally approve new hire, promotional and annual retention equity awards to certain employees pursuant to guidelines pre-approved by the Compensation Committee. The delegation does not include the authority to make equity awards to employees who are Section 16 Officers. The delegation of authority to the Subcommittee is not exclusive and the Board and Compensation Committee have retained the right to approve any equity awards at their discretion. The Subcommittee met seven times during fiscal 2013. The Subcommittee acted by written consent five times during fiscal 2013.

Nominating and Governance Committee

The Nominating and Governance Committee reviews, implements or recommends corporate governance policies and practices applicable to Infinera and recommends the compensation for the non-employee directors of the Board. In addition, the Nominating and Governance Committee is responsible for identifying, evaluating and making recommendations of nominees to the Board and evaluating the performance of the Board and individual directors, including those eligible for re-election at the annual meeting of stockholders. The Nominating and Governance Committee is also responsible for reviewing developments in corporate governance practices, evaluating and making recommendations to the Board concerning corporate governance matters and overseeing the evaluation of management. A more detailed description of the Nominating and Governance Committee's functions can be found in our Nominating and Governance Committee charter. A copy of the Nominating and Governance Committee charter is available on our website at *http://www.infinera.com* in the Corporate Governance section on our Investor Relations' page.

The current members of the Nominating and Governance Committee are Messrs. Hooshmand and Redfield and Dr. Maydan, each of whom is independent under the listing standards of NASDAQ. Mr. Redfield chairs the Nominating and Governance Committee. The Nominating and Governance Committee met four times during fiscal 2013. The Nominating and Governance Committee did not act by written consent during fiscal 2013.

Board Nominees and Diversity

The Nominating and Governance Committee reviews and reports to the Board on a periodic basis with regard to matters of corporate governance, and reviews, assesses and makes recommendations on the effectiveness of our corporate governance policies. In addition, our Nominating and Governance Committee reviews and makes recommendations to the Board regarding the size and composition of the Board and the appropriate qualities and skills required of our directors in the context of the then-current composition of the Board. This includes an assessment of each candidate's independence, personal and professional integrity, financial literacy or other professional or business experience relevant to an understanding of our business, ability to think and act independently and with sound judgment, and ability to serve our stockholders' long-term interests. While we do not have a formal written policy on director diversity, the Board and the Nominating and Governance Committee consider diversity when reviewing the overall composition of the Board and considering the slate of nominees for annual election to the Board and the appointment of individual directors to the Board. Diversity, in this context, includes factors such as experience, specialized expertise, geographic location, cultural background, gender and ethnicity. These factors, and others considered useful by our Nominating and Governance Committee, are reviewed in the context of an assessment of the perceived needs of the Board at a particular point in time. As a result, the priorities and emphasis of our Nominating and Governance Committee and of the Board may change from time to time to take into account changes in business and other trends, as well as the portfolio of skills and experience of current and prospective directors.

Our Nominating and Governance Committee leads the search for, selects and recommends candidates for election to the Board. Consideration of new director candidates typically involves a series of committee discussions, review of information concerning candidates and interviews with selected candidates. Candidates for nomination to the Board typically have been suggested by other members of the Board or by our executive officers. From time to time, our Nominating and Governance Committee may engage the services of a third-party search firm to identify director candidates. Our Nominating and Governance Committee will also consider candidates proposed in writing by stockholders, provided such proposal meets the eligibility requirements for submitting stockholder proposals for inclusion in our next proxy statement and is accompanied by the required information about the candidate specified in Section 2.4 of our Bylaws. Candidates proposed by stockholders are evaluated by our Nominating and Governance Committee using the same criteria as for all other candidates.

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

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

Technology and Acquisition Committee

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

The current members of the Technology and Acquisition Committee are Messrs. Hooshmand, Koen and Wegleitner and Dr. Welch. Mr. Hooshmand chairs the Technology and Acquisition Committee. The Technology and Acquisition Committee met three times during fiscal 2013. The Technology and Acquisition Committee did not act by written consent during fiscal 2013. On January 3, 2014, Mr. Koen informed the Board that he will be resigning from the Board and as a member of the Technology and Acquisition Committee effective immediately prior to the Annual Meeting and will not be standing for re-election.

Compensation Committee Interlocks and Insider Participation

During fiscal 2013, the Compensation Committee of the Board consisted of Messrs. Milbury, Redfield and Wegleitner and Dr. Maydan. None of these individuals was at any time during fiscal 2013, or at any other time, an executive officer or employee of Infinera. No member of our Compensation Committee had any relationship with Infinera during fiscal 2013 requiring disclosure under Item 404 of Regulation S-K under the Exchange Act. None of our executive officers has ever served as a member of the board or compensation committee of any other entity that has or has had one or more executive officers serving as a member of the Board or Compensation Committee.

COMPENSATION OF DIRECTORS

Our director compensation program is designed to attract and retain highly-qualified, independent directors to represent stockholders on the Board and to act in their best interest. The Nominating and Governance Committee, which consists solely of independent directors, has the primary responsibility for reviewing and recommending any changes to our director compensation program, with compensation changes approved or ratified by the full Board. The Nominating and Governance Committee has engaged an outside advisor to provide relevant market data regarding director compensation programs. The Nominating and Governance Committee and Board determined that a mix of cash compensation and equity awards should be used in our compensation program for our non-employee directors. Directors who are also employees of Infinera do not participate in our director compensation program, nor do they receive any additional compensation for their service as directors.

Director Fees

During fiscal 2013, our cash compensation program for our non-employee directors was as follows:

Position	Annual Retainer Fee
Non-Employee Director	$40,000
Chairman of the Board	$40,000
Audit Committee Chair	$30,000
Audit Committee Member	$12,500
Compensation Committee Chair	$16,000
Compensation Committee Member	$ 8,000
Nominating and Governance Committee Chair	$10,000
Nominating and Governance Committee Member	$ 5,000
Technology and Acquisition Committee Chair	$10,000
Technology and Acquisition Committee Member	$ 5,000

Each non-employee director also received fees of $2,000 per meeting of the Board attended in person and $1,000 per meeting attended telephonically. We do not pay any meeting fees for any of the committees of the Board. We pay the retainer fees set forth above in quarterly installments. Retainer fees, together with meeting attendance fees, are paid in arrears. In addition, we have a policy of reimbursing our non-employee directors for reasonable travel, lodging and other expenses incurred in connection with their attendance at Board and committee meetings.

Beginning at the start of the second quarter of fiscal 2014, the annual retainer for non-employee directors will be increased to $50,000 annually and the annual retainer for the Compensation Committee Chair will be increased to $20,000 annually. In addition, non-employee members of the Board will no longer receive fees related to meeting attendance.

Director Equity Awards

Each new non-employee director receives an option to purchase 100,000 shares of Infinera common stock upon appointment to the board ("Initial Award"). The options subject to the Initial Award vest as to 50% of the shares on the one year anniversary of his or appointment or election to the Board and 1/24th per month thereafter, subject to his or her continued service with Infinera through each vesting date. Each continuing non-employee director is eligible to receive a RSU award (the "Annual RSU Award") in connection with each annual meeting of stockholders for a number of shares with an aggregate fair market value as reported on NASDAQ equal to approximately $130,000 on the day prior to the date the Board meets to approve the Annual RSU Award. The Annual RSU Award vests on the one year anniversary from the date of the most recent annual meeting of stockholders, subject to his or her continued service with Infinera through the vesting date.

For the Annual RSU Award in connection with the 2013 annual meeting of stockholders, we granted RSU awards of 13,333 shares of Infinera common stock to each non-employee director then in office. These RSU awards vest in full on May 15, 2014, subject to each non-employee directors continued service to Infinera through the vesting date.

In March 2014, the Board updated its policy with respect to non-employee equity awards.

- *Initial Grant*. Each individual who commences service as a non-employee director upon his or her election or appointment to the Board at an annual meeting of stockholders will receive a RSU award for a number of shares with an aggregate fair market value as reported on NASDAQ equal to $165,000. This RSU award will vest in equal annual installment over three years.
- *Annual Award*. On the date of each annual meeting of shareholders, each individual who continues to serve as a non-employee director after that annual meeting will be eligible to receive a RSU award for a number of shares with an aggregate fair market value as reported on NASDAQ equal to $165,000.

In addition to the initial grant, any individual who is first elected or appointed as a non-employee director other than at an annual meeting of stockholders and at least six months prior to the next annual meeting of stockholders will also be eligible for a RSU award for a number of shares with an aggregate fair market value as reported on NASDAQ equal to $165,000 pro-rated for the number of remaining months remaining until the next scheduled annual meeting of stockholders.

Fiscal 2013 Director Compensation

The following table sets forth all of the compensation awarded to, earned by, or paid to the non-employee members of the Board in fiscal 2013.

Name	Fees Earned or Paid in Cash ($)[1]	Stock Awards ($)[2]	Option Awards ($)	Total ($)
Kenneth A. Goldman	65,500	132,130	—	197,630
Kambiz Y. Hooshmand	103,750	132,130	—	235,880
Philip J. Koen	66,500	132,130	—	198,630
Dan Maydan, Ph.D.	61,000	132,130	—	193,130
Paul J. Milbury	88,000	132,130	—	220,130
Carl Redfield	68,000	132,130	—	200,130
Mark A. Wegleitner	69,500	132,130	—	201,630

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

(2) The amounts reported in this column represent the aggregate grant date fair value of the RSU awards granted in fiscal 2013 computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, “Compensation—Stock Compensation” (“ASC 718”) and without any adjustment for estimated forfeitures. These amounts reflect our accounting expense for these awards and do not correspond to the actual value that will be recognized by the non-employee directors with respect to these awards at the time the shares of Infinera common stock underlying the RSU awards are vested and/or sold. There can be no assurance that the actual value realized by a non-employee director will be at or near the grant date fair value of the RSU awards granted.

Additional Information With Respect to Director Equity Awards

Name	Shares Subject to Stock Awards Outstanding at Fiscal Year-End (#)[1]	Shares Subject to Option Awards Outstanding at Fiscal Year-End (#)[2]
Kenneth A. Goldman	13,333	37,100
Kambiz Y. Hooshmand	13,333	114,500
Philip J. Koen	13,333	119,600
Dan Maydan, Ph.D.	13,333	25,000
Paul J. Milbury	13,333	77,600
Carl Redfield	13,333	157,100
Mark A. Wegleitner	13,333	100,000

(1) Includes unvested RSU awards.

(2) Includes both vested and unvested stock options to purchase shares of Infinera common stock.

PROPOSAL 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board has selected Ernst & Young LLP, independent registered public accounting firm, as our independent auditors for the fiscal year ending December 27, 2014 and has further directed that we submit the appointment of independent auditors for ratification by the stockholders at the Annual Meeting. Ernst & Young LLP has audited our financial statements since fiscal 2001. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

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

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to ratify the appointment of Ernst & Young LLP. Abstentions will be counted toward the tabulation of votes cast on this proposal and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

Independent Registered Public Accounting Firm's Fees

The following table sets forth the aggregate fees for audit, tax and other services provided by Ernst & Young LLP for the fiscal years ended December 28, 2013 and December 29, 2012. All of the services described in the following table were approved in conformity with the Audit Committee's pre-approval processes and procedures.

	2013	2012
Audit Fees	$1,628,000	$1,402,000
Tax Fees	9,000	35,000
All Other Fees	2,000	2,000
Total Fees	$1,639,000	$1,439,000

Audit Fees

This category of the table above includes fees for the integrated audit of our annual consolidated financial statements and internal control over financial reporting, review of the condensed consolidated financial statements included in our quarterly reports on Form 10-Q, and services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filings or engagements for those fiscal years. The category also includes statutory audits required by non-U.S. jurisdictions. The preparation of our audited consolidated financial statements includes compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and the preparation by Ernst & Young LLP of a report expressing its opinion regarding the effectiveness of our internal control over financial reporting. Audit fees for fiscal 2013 include $0.3 million of fees related to comfort letter procedures in connection with the issuance of $150 million aggregate principal amount of 1.75% Convertible Senior Notes due 2018.

Tax Fees

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

All Other Fees

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

Pre-Approval Policies and Procedures

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

Vote Required

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

Proposal 2—Recommendation of the Board

The Board unanimously recommends a vote "FOR" the ratification of the appointment of Ernst & Young LLP as Infinera's independent registered public accounting firm for its fiscal year ending December 27, 2014.

REPORT OF THE AUDIT COMMITTEE

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

The principal purpose of the Audit Committee is to assist the Board in its general oversight of our accounting practices, system of internal controls, audit processes and financial reporting processes. The Audit Committee is responsible for appointing and retaining our independent auditor and approving the audit and non-audit services to be provided by the independent auditor. The Audit Committee's function is more fully described in its charter, which the Board has adopted and which the Audit Committee reviews on an annual basis.

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

The Audit Committee has reviewed and discussed the audited financial statements included in our 2013 Annual Report with our management and Ernst & Young LLP. The Audit Committee has also discussed with Ernst & Young LLP the matters required to be discussed by Auditing Standard No. 16, "Communications with Audit Committees" issued by Public Company Accounting Oversight Board ("PCAOB"). The Audit Committee also has received and reviewed the written disclosures and the letter from Ernst & Young LLP required by applicable requirements of the PCAOB regarding Ernst & Young LLP's communications with the Audit Committee concerning independence, and has discussed with Ernst & Young LLP its independence from Infinera.

Based upon the review and discussions described above, the Audit Committee recommended to the Board that the audited financial statements referred to above be included in our 2013 Annual Report for filing with the SEC.

Submitted by the following members of the Audit Committee:

Paul J. Milbury, Chairman
Kenneth A. Goldman
Philip J. Koen

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

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

The information provided in this table is based on our records, information filed with the SEC and information provided to Infinera, except where otherwise noted. To our knowledge and unless as otherwise indicated, each stockholder possesses sole voting and investment power over the shares listed, except for shares owned jointly with such person's spouse. Percentage beneficially owned is based on 122,479,210 shares of common stock outstanding on the Record Date. Unless otherwise indicated, the principal address of each of the stockholders below is c/o Infinera Corporation, 140 Caspian Court, Sunnyvale, California 94089.

Name of Beneficial Owner	Common Shares Currently Held	Common Shares That May Be Acquired Within 60 Days of the Record Date(1)	Total Beneficial Ownership	Percent Beneficially Owned
5% or More Stockholders				
FMR LLC(2)	15,537,262	—	15,537,262	12.7%
BlackRock, Inc.(3)	7,054,990	—	7,054,990	5.8%
The Vanguard Group(4)	6,742,557	—	6,742,557	5.5%
Platinum Investment Management Limited(5)	2,272,039	—	2,272,039	1.9%
Named Executive Officers and Directors				
Thomas J. Fallon(6)	974,333	1,100,032	2,074,365	1.7%
Ita M. Brennan(7)	102,687	202,063	304,750	*
Brad D. Feller(8)	—	—	—	*
David F. Welch, Ph.D.(9)	2,166,854	889,556	3,056,410	2.5%
Robert J. Jandro	—	—	—	*
Alastair A. Short	—	—	—	*
Kenneth A. Goldman(10)	74,007	38,333	112,340	*
Kambiz Y. Hooshmand	35,234	127,833	163,067	*
Philip J. Koen(11)	35,817	132,933	168,750	*
Dan Maydan, Ph.D.(12)	68,400	38,333	106,733	*
Paul J. Milbury	29,734	90,933	120,667	*
Carl Redfield(13)	155,668	170,433	326,101	*
Mark A. Wegleitner	20,634	113,333	133,967	*
All current named executive officers and directors as a group (12 persons)	3,560,681	2,701,719	6,262,400	5.0%

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

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

(2) According to a Schedule 13G/A filed with the SEC on February 14, 2014 by FMR LLC ("FMR") and Edward C. Johnson III, 14,297,888 of such shares are beneficially owned by Fidelity Management & Research Company ("Fidelity") a registered investment advisor to various investment companies ("Fidelity Funds"), 1,155,948 of such shares are beneficially owned by Fidelity SelectCo, LLC ("SelectCo") a registered investment advisor to various investment companies ("SelectCo Funds"), 1,326 of such shares are beneficially owned by Strategic Advisors, Inc. ("SA") and 82,100 of such shares are beneficially owned by Pyramis Global Advisors Trust Company ("PGATC"). Each of Fidelity, SelectCo, SA and PGATC are wholly-

owned subsidiaries of FMR. Mr. Johnson, Chairman of FMR, and FMR (through its control of Fidelity, SelectCo, SA and PGATC) each has sole voting power with respect to 84,826 shares and sole dispositive power with respect to all reported shares. Neither Mr. Johnson nor FMR has the sole power to vote or direct the voting of the shares beneficially owned by Fidelity Funds or SelectCo Funds, which power resides with the Board of Trustees of such funds. The address of Fidelity, FMR and Mr. Johnson is 82 Devonshire Street, Boston, Massachusetts 02109. The address of SelectCo is 1225 17th Street, Suite 1100, Denver, Colorado 80202. The address of SA is 245 Summer Street, Boston, Massachusetts 02210. The address of PGATC is 900 Salem Street, Smithfield, Rhode Island 02917.

(3) According to a Schedule 13G/A filed with the SEC on January 29, 2014 by BlackRock, Inc. ("BlackRock"). BlackRock is the beneficial owner of 7,054,990 and has sole voting power with respect to 6,690,801 shares and sole dispositive power with respect to 7,054,990 shares. The address of BlackRock is 40 East 52nd Street, New York, New York 10022.

(4) According to a Schedule 13G/A filed with the SEC on February 11, 2014 by The Vanguard Group ("Vanguard"). Vanguard is the beneficial owner of 6,742,557 and has sole voting power with respect to 163,047 shares, sole dispositive power with respect to 6,584,910 shares and shared dispositive power with respect to 157,647 shares. The address of Vanguard is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355.

(5) According to a Schedule 13G filed with the SEC on February 13, 2014 by Platinum Investment Management Limited ("Platinum"). Platinum is the beneficial owner of 2,272,039 shares and has sole voting power with respect to 2,272,039 shares and sole dispositive power with respect to all voting shares. The address of Platinum is Level 8, 7 Macquarie Place, Sydney, Australia NSW 2000.

(6) Consists of (i) 930,719 shares held by the Fallon Family Revocable Trust dated 9/7/94; and (ii) 43,614 shares held by Mr. Fallon as trustee for his minor children. Mr. Fallon disclaims beneficial ownership of the shares held in trust for his minor children.

(7) Ms. Brennan resigned as CFO effective February 28, 2014.

(8) Mr. Feller was appointed as CFO effective March 1, 2014.

(9) Consists of (i) 14,132 shares held by Dr. Welch; (ii) 336,979 shares held by the Welch Family Trust dated 4/3/96; (iii) 759,493 shares held by LRFA, LLC, a limited liability company of which Dr. Welch is the sole managing member; (iv) 500,000 shares held by Welch Group, L.P., a limited partnership of which Dr. Welch is the general partner; (v) 553,750 shares held by SEI Private Trust Company, Trustee of the Welch Family Heritage Trust I u/l dated 9/24/01; and (vi) 2,500 shares held by Dr. Welch as trustee for his minor children. Dr. Welch disclaims beneficial ownership of the shares held in trust for his minor children.

(10) Consists of (i) 37,234 shares held by Mr. Goldman; (ii) 3,051 shares held by the Goldman-Valeriote Family Trust u/a/d 11/15/95; and (iii) 33,722 shares held by G.V. Partners, L.P.

(11) Consists of (i) 583 shares held by Mr. Koen; and (ii) 35,234 shares held by the Koen Family Trust dated 11/3/10.

(12) Consists of (i) 54,597 shares held by Dan Maydan, TTEE, Maydan Marital Share One UAD 5/6/00; and (ii) 13,803 shares held by Dan Maydan, TTEE, Dan Maydan 1981 Trust Marital Share 1 U/A DTD 3/26/81.

(13) Consists of (i) 39,562 shares held by Mr. Redfield; and (ii) 116,106 shares held by the Carl Redfield Trust 2000 dated 10/18/00.

RISK ASSESSMENT OF COMPENSATION PRACTICES

During fiscal 2013, at the request of the Compensation Committee, a review of the risks associated with our organization-wide compensation policies and practices was conducted. This review was conducted by Compensia with input from our legal, finance and human resources departments. This assessment included:

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

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

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

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

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

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis provides information related to the fiscal 2013 compensation program and related decisions for the NEOs identified below. For fiscal 2013, these individuals were:

- Thomas J. Fallon, our CEO;
- David F. Welch, Ph.D., our President;
- Ita M. Brennan, our former CFO;
- Robert J. Jandro, our Senior Vice President, Worldwide Sales; and
- Alastair A. Short, our Senior Vice President and General Counsel.

Fiscal 2013 Management Changes. In June 2013, Dr. Welch was appointed President and Mr. Fallon transitioned from President and CEO to CEO. Prior to his promotion, Dr. Welch was our Executive Vice President, Chief Strategy Officer. We hired Mr. Jandro in May 2013 and Mr. Short in September 2013.

Fiscal 2014 Management Change. Ms. Brennan terminated her employment with us in February 2014. In March 2014, Brad D. Feller was appointed as our CFO.

Executive Summary

Our executive compensation program is designed to balance near-term results with long-term success and to continue to encourage employees to build value through innovation and execution. To fulfill this mission, we have a “pay-for-performance” compensation philosophy that forms the foundation for all decisions regarding executive compensation made by our management team and the Compensation Committee.

Fiscal 2013 Business Highlights

Our financial results for fiscal 2013 demonstrate strong market acceptance of our Intelligent Transport Network and the DTN-X platform. Revenues grew 24% compared to fiscal 2012, significantly faster than the overall dense wavelength division multiplexing market, and on a non-GAAP basis we went from an operating loss in fiscal 2012 to show operating income in fiscal 2013. Since the introduction of the DTN-X platform in mid-2012, management has worked diligently to gain market traction and this has resulted in purchase commitments for the DTN-X platform from 42 customers, representing a cross section of markets including Tier 1 carriers, cable operators, Internet content providers and bandwidth wholesalers. We also continued to sell the ATN and DTN platforms as customers leveraged the full Infinera product portfolio to best meet their needs. Overall we continue to see positive support from the market for our key products.

We also experienced improved gross margins in fiscal 2013 and generated positive operating cash flow as management has successfully implemented cost optimization initiatives on the DTN-X platform and tightly managed operating expenses driving improved profitability but also allowing continued investment in new and enhanced technologies. All-in-all we demonstrated much improved financial performance on a year-over-year basis, which resulted in higher levels of performance-based compensation for our NEOs. As used in this Proxy Statement, GAAP refers to U.S. generally accepted accounting principles.

Fiscal 2013 Executive Compensation Highlights

Our executive compensation program for fiscal 2013 reflects our pay-for-performance compensation philosophy and the continued strong alignment of the interests of our executive officers with those of our stockholders. Highlights of our executive compensation program for fiscal 2013 included:

- ***The majority of our CEO’s fiscal 2013 target total compensation was in equity***.
  - **69% of our CEO’s target total compensation was in equity**, which links our CEO’s compensation directly to the value of our common stock. In fiscal 2013, our CEO received a PSU award (as summarized below) for 170,000 shares of our common stock and a RSU award for 113,000 shares

of our common stock. Target total compensation consists of base salary, target cash incentive opportunity and target equity incentive compensation.

- ***The majority of our CEO's fiscal 2013 equity awards and target total compensation were at risk***.
  - **59% of our CEO's target total compensation was completely at risk** based on our performance against measurable performance objectives (includes target bonus and PSU awards).
  - **61% of our CEO's equity compensation opportunity was PSU awards**. The PSU awards were 100% subject to risk of forfeiture based on our relative TSR performance over three performance periods against the Telecomm Index. Key details of our CEO's pay opportunities for fiscal 2013 are summarized below.
- ***Our fiscal 2013 PSU awards included rigorous performance features***. To support our pay-for-performance philosophy and further emphasize the importance of creating long-term stockholder value, our fiscal 2013 PSU awards are 100% at risk based on our relative TSR performance and contain several features we consider to be best practices:
  - **Sustained performance requirement**. To earn the maximum amount of PSU awards (150% of target), our TSR must exceed that of the Telecomm Index by 25 points or more as calculated on each of the three separate measurement points (coinciding with the end of our fiscal 2013, 2014 and 2015).
  - **Steeper downside slope**. Our PSU awards are reduced twice as fast if our TSR underperforms the Telecomm Index (4-to-1 downside) than they are increased if our TSR outperforms the Telecomm Index (2-to-1 upside). For example, if we underperform the Telecomm Index by 10 points of TSR, 60% of the target PSU awards would be earned. If we outperform the Telecomm Index by 10 points of TSR, 120% of the target PSU awards would be earned.
  - **Additional award cap**. Regardless of our performance vs. the Telecomm Index, our PSU awards are capped at 50% of target for any period in which our TSR is negative. Therefore, even if we significantly outperform the Telecomm Index in challenging market conditions, our PSU award design provides only modest rewards unless incremental stockholder value is created.
- ***Our fiscal 2013 payouts reflect our pay-for-performance philosophy***. Our executive compensation program strives to align compensation outcomes for our NEOs with performance against measurable objectives. In fiscal 2013, the key metrics that were measured under our incentive plans included revenue and non-GAAP operating income (loss) under the 2013 Bonus Plan and relative TSR performance for our PSU awards. In fiscal 2013, our performance exceeded the target levels for all of the financial metrics, which resulted in above target bonus payments for our CEO and other participating NEOs. This was in contrast to fiscal 2011 and fiscal 2012 when we fell short of our financial targets and, for example, our CEO received either no bonus (fiscal 2011) or just 5% of his target bonus (fiscal 2012). During fiscal 2013, our TSR exceeded that of the Telecomm Index by 33 points as measured under the PSU award program. This resulted in our participating NEOs earning 150% of their target number of PSU shares for the initial performance period.

Governance of Executive Compensation

Further, our executive compensation program reflects our core executive compensation governance principles and practices, including:

- Executive Clawback Policy. We have implemented an executive clawback policy that applies to our Section 16 Officers relating to reimbursement of incentive compensation under specified circumstances.
- Anti-Hedging Policy. Our insider trading policy prohibits all employees, including our NEOs, from hedging their Infinera common stock.
- Fully Independent Compensation Committee. Our executive compensation programs are reviewed and established annually by the Compensation Committee, which consists solely of independent directors.
- Stock Ownership Policy. Our Section 16 Officers and Board members are subject to minimum stock ownership requirements as described below in the section entitled "Compensation Discussion and Analysis—Stock Ownership Policy."

- No Guaranteed Bonuses or Tax Gross-Ups. We do not have guaranteed bonuses or any arrangements providing for tax "gross-ups" of any compensation elements with any of our executive officers.
- "Double-trigger" Change of Control Benefits. Our change of control agreements are "double trigger" arrangements that require a termination without cause or a constructive termination of employment following a change of control of Infinera before benefits are triggered.
- Annual Compensation Risk Assessment. The Compensation Committee annually conducts a compensation risk assessment to determine whether our compensation arrangements, or components thereof, create risks that are reasonably likely to have a material adverse effect on Infinera (as set forth in the section entitled "Risk Assessment of Compensation Practices" above).
- No Excessive Perquisites. Our executive officers are only eligible to receive the same benefits and perquisites as our other salaried employees, which includes participation in the 2007 ESPP and 401(k) plan.
- Independent Compensation Consultant Reporting Directly to Compensation Committee. The Compensation Committee relies upon input from an independent compensation consultant that is retained directly by the Compensation Committee.

Advisory Vote on Fiscal 2012 Named Executive Officer Compensation —"Say-on-Pay" Vote

In calendar 2013, we provided stockholders with the opportunity to cast a Say-on-Pay vote on the compensation of our NEOs for fiscal 2012. It is important to note that at the time our 2013 Annual Meeting of Stockholders occurred, the Compensation Committee had already determined target cash compensation levels and granted RSU awards and PSU awards to our NEOs for fiscal 2013. Our stockholders overwhelmingly approved our Say-on-Pay vote that occurred in calendar 2013 for fiscal 2012 NEO compensation, with over 97% of votes cast voting in favor of our say-on-pay proposal. As we continued to evaluate our compensation practices for and during fiscal 2013, we remained mindful of the lower level of support we received for our Say-on-Pay vote in calendar 2012 for fiscal 2011 NEO compensation, the shareholder feedback received after that vote, and the much stronger support our stockholders expressed for the fiscal 2012 executive compensation program. Accordingly, for fiscal 2013, we retained our general approach to our executive compensation program, with a continued emphasis on rewarding our executive officers through compensation if they deliver value for our stockholders. For fiscal 2013, we continued to explore ways to enhance and improve our executive compensation program. The Compensation Committee has considered and will continue to consider input from stockholders, as well as the outcome of our annual Say-on-Pay vote, when making executive compensation program decisions.

Overview of Executive Compensation Program

Compensation Objectives and Philosophy

Our executive compensation program is designed to attract and retain talented executive officers and to motivate them to pursue our corporate objectives, while encouraging the creation of long-term value for our stockholders. To achieve this mission, we have a pay-for-performance philosophy that forms the foundation for all decisions regarding the design of our executive compensation programs. The Compensation Committee also designs the various components of our executive compensation program to support our company culture (i.e., lack of executive perquisites and increasing levels of at risk pay for more senior employees).

Participants in Compensation-Setting Process

Role and Authority of Compensation Committee. The Compensation Committee has oversight of our compensation plans, policies and programs. The Compensation Committee has the responsibility of reviewing and approving the compensation of each of our executive officers, including the NEOs. In addition, the Compensation Committee also reviews, approves and administers our material compensation, equity and employee benefit plans and programs, which are generally available to our employees, including the NEOs. The Compensation Committee also has the authority to engage its own advisors to assist it in carrying out its responsibilities.

Role of Compensation Consultant. During fiscal 2013, the Compensation Committee engaged the services of Compensia. Compensia provided the Compensation Committee with analysis and data regarding our NEO compensation relative to external market benchmarks, information on compensation trends, peer group and general market data, incentive plan design and considerations for structuring our executive compensation programs. The Compensation Committee selected Compensia and they reported directly to the Compensation Committee. Compensia interacted with management at the direction of the Compensation Committee but did not provide any other services for Infinera or its management team in fiscal 2013. Compensia's fees were paid by Infinera. The Compensation Committee annually reviews the independence of its compensation consultant and during 2013, determined that Compensia's work did not raise any conflicts of interest.

Role of Executive Officers (CEO Compensation). Our compensation consultant and our Vice President of Human Resources provide market data and considerations for the Compensation Committee to evaluate in relation to the amount and form of our CEO's compensation. As part of this process, the Compensation Committee considers input from the Board and feedback from the Chairman of the Board in particular. The Compensation Committee considers, but is in no way bound by, any feedback or recommendations it receives and all decisions regarding our CEO's compensation are made by the Compensation Committee or by the Board in an executive session that excludes our CEO.

Role of Executive Officers (non-CEO Compensation). In connection with his close working relationship with each of the other NEOs, our CEO is asked by the Compensation Committee to provide his assessment of the performance of each of the other NEOs. Our CEO is assisted by our Vice President of Human Resources in making these assessments. Our CEO then presents his performance assessment and makes formal recommendations to the Compensation Committee regarding adjustments to base salary, annual cash incentive award opportunities and equity awards for our (non-CEO) executives. The Compensation Committee considers, but is in no way bound by, the recommendations made by our CEO in determining compensation for the other NEOs. None of the NEOs makes any recommendations regarding his or her own compensation and, with the exception of our General Counsel, in his role as secretary of the meeting, none of the executive officers is present at meetings in which his or her compensation is determined.

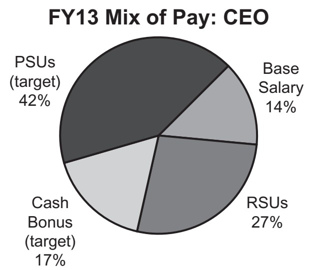
Key Elements of Executive Compensation

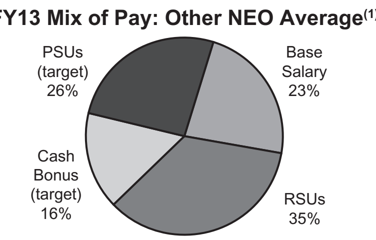
We provide base salaries to attract, retain and motivate our executive officers for their day-to-day contributions, annual incentive cash compensation to link payments to the achievement of our financial and/or operational performance, and long-term equity-based incentive compensation to align the interests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

Allocation of Compensation Across Pay Elements

In determining how we allocate an NEO's total compensation package among these various components, we seek to remain market competitive while emphasizing compensation elements that reward performance against measures that we believe correlate closely with increases in long-term stockholder value, consistent with our pay-for-performance philosophy. Equity awards, which for fiscal 2013 consisted of RSU awards and PSU awards, represent a large component of our NEOs' total compensation in order to encourage sustained, long-term performance and ensure alignment of our NEOs with our stockholders. Consistent with our emphasis on pay-for-performance a significant portion of our NEO's fiscal 2013 target total compensation was completely at-risk, including 59% of our CEO's total target compensation. We believe this emphasis on stock and variable compensation is appropriate because our NEOs have the greatest influence on our performance over time.

The following charts show our mix of target total compensation for fiscal 2013 for our CEO and other NEOs:





(1) The average fiscal 2013 mix of pay for our NEOs other than our CEO excludes compensation for Messrs. Jandro and Short, who were hired during the year, and a one-time RSU award granted to Dr. Welch in connection with his appointment as our President during fiscal 2013.

Peer Group and Survey Data

Determination of Peer Group and Considerations of Peer Group and Market Data. In making compensation decisions for our executive officers, the Compensation Committee compares the direct elements of compensation against a peer group of companies. Typically, this group of peer companies is reviewed annually and updated by the Compensation Committee as necessary to take into account changes in both our business and the businesses of the peer group companies. In preparation for evaluating fiscal 2013 compensation for our NEOs, in September 2012, the Compensation Committee reviewed and updated the compensation peer group, based on selection criteria including:

- Industry: companies in the communications equipment or related industry segments;
- Annual Revenue: $200 million to $800 million;
- Market Capitalization: $200 million to $2 billion; and
- Number of Employees: 600 to 2,400.

In addition to these factors, the Compensation Committee considered each potential peer company's revenue growth rates, primary location and whether the potential peer company included Infinera in its compensation peer group. The Compensation Committee also considered whether a potential peer was included as a peer company in recent evaluations by outside advisory groups. Given the limited number of companies directly comparable to us from a business perspective and the wide range of factors under consideration, not all peer companies satisfy all of the selection criteria.

The compensation peer group established for setting compensation at the beginning of fiscal 2013 consisted of 19 companies. The fiscal 2012 compensation peer group was used as the foundation for this group, but two companies were removed and four companies were added. The two companies removed were Blue Coat Systems, which was acquired by Thoma Bravo, and Opnext, which merged with Oclaro, during 2012. Each of Extreme Networks, ShoreTel, Sonus Networks, and Symmetricom were added based on meeting one or more of the selection criteria set identified above. For initial compensation decisions related to fiscal 2013, the compensation peer group thus consisted of the following companies:

ADTRAN, Inc.
Arris Group, Inc.
Calix, Inc.
Ciena Corporation
Coherent, Inc.
Emulex Corporation
Extreme Networks, Inc.
Finisar Corporation
Harmonic Inc.
IPG Photonics Corporation
Ixia
NeoPhotonics Corporation
NETGEAR, Inc.
Oclaro, Inc.
ShoreTel, Inc.
Sonus Networks, Inc.
Symmetricom, Inc.
Unwired Planet, Inc. (formerly Openwave Systems)
ViaSat, Inc.

At the time of the Compensation Committee's assessment of the compensation peer group, our positioning against the compensation peer group ranged from the 43rd to the 52nd percentile on the primary quantitative selection criteria (i.e., revenue, market capitalization and employee headcount).

In May 2013, the Compensation Committee again reviewed the compensation peer group based on updated information provided by Compensia, in generally the same manner as described above. As a result of this review, the compensation peer group was updated to remove Arris Group, Oclaro and Unwired Planet and to add Aruba Networks, InterDigital and Riverbed Technology. The changes were made because the Compensation Committee believed the three new companies identified were stronger fits across the targeted selection criteria. At the time of the May 2013 update, our positioning against the peer group ranged from the 34th to the 50th percentile on the primary quantitative selection criteria (i.e., revenue, market capitalization and employee headcount).

Data collected from this revised compensation peer group was reviewed in connection with evaluating potential adjustments to Dr. Welch's compensation prior to his appointment as our President, and in connection with determining Mr. Short's initial compensation in connection with his appointment as our Senior Vice President and General Counsel in September 2013.

Given that not all of the peer companies report data for a position comparable to each of our NEOs, the Compensation Committee also reviewed data derived from Radford's Global Technology Survey for high technology companies with annual revenues between $200 million and $1 billion. Where both data points were available, the Compensation Committee reviewed market data that was blended from the compensation peer group and the survey. In this discussion, where we refer to "market" levels of pay and the "market group," we are referring to the combined compensation peer group and survey data described above that were then in effect and applicable to the NEO.

Use of Market Data

In fiscal 2012, the Compensation Committee had relied heavily on market data, and used the data to set base salary and target total cash compensation generally at below the market median, while long-term incentive compensation was targeted generally at above the market median. Initially in fiscal 2013, a similar approach was used. However, fiscal 2013 ultimately became a transitional year, as the Compensation Committee decided to take a more holistic and flexible approach in its evaluation of market data for our NEOs. The Compensation Committee continued to review market data, but several factors resulted in the Compensation Committee's decision to move away from using an approach that exclusively targeted a specific percentile for executive team compensation elements. These considerations included:

- **Recruitment, retention and historical factors**. Historically, several of our longer-tenured executives have received base salaries significantly below market levels and have received variable compensation opportunities that were at or above market levels. During fiscal 2013, several of our senior executive officers departed. In connection with the hiring of their replacements, it became apparent that using a formulaic application of percentiles across the executive team would limit our flexibility in these circumstances.
- **Lack of directly comparable benchmark data for some of our key roles**. Compensation details for some of our key positions (i.e., Executive Vice President, Strategy and President) are often not reported by companies in our compensation peer group. This results in limited sample sizes and/or inconclusive data that can be misleading if targeting a specific percentile for market positioning.
- **Market positioning may be distorted by the source of the data.** Certain elements of compensation reported from the survey were consistently lower than the data collected from the compensation peer group, where available. Since the market data for some of our NEOs was survey data as a result of a lack of matches in the compensation peer group, targeting pay levels at specific percentiles of this data would have resulted in outcomes that did not align with the internal value of various roles at Infinera.
- **Desire to account for other factors not captured in the market data.** As outlined below, the Compensation Committee also considered the relative influence of a wide range of other factors that were not reflected in the market data.

Other Relevant Factors

In addition to the market data, and in light of the limitations identified with using market data percentiles as the determinative factor in compensation decisions, the Compensation Committee considers a range of subjective and qualitative factors when making compensation decisions, including:

- The role the executive officer plays and the importance of such individual to our business strategy and objectives;
- Each executive officer's tenure, skills and experience;
- The responsibilities and particular nature of the functions performed or managed by the executive officer;
- Our CEO's recommendations and his assessment of the executive officer's performance (other than his own performance);
- The value of unvested equity grants held by for each executive officer and in comparison to other members of our executive team and senior employees;
- The financial impact of our compensation decisions on key financial and other metrics such as our equity award burn-rate;
- Internal pay equity across the executive team; and
- Competitive labor market pressures and the likely cost, difficulty and impact on our business and strategic objectives that would be encountered in recruiting a replacement for the role filled by each of our executive officers.

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

With respect to determining fiscal 2013 executive compensation, in addition to any specific factors or assessment of compensation peer group and market data in determining each element of compensation for the NEOs, the Compensation Committee broadly considered the following factors:

- Mr. Fallon has served as our CEO since January 2010 and as a member of the Board since July 2009. He also served as our President from January 2010 through June 2013. The Compensation Committee believes that Mr. Fallon has demonstrated considerable leadership and strategic direction in managing Infinera and our executive team during his time as CEO. In addition, the Compensation Committee believes that Mr. Fallon has provided Infinera with significant institutional and industry knowledge, as well as key oversight of corporate strategy and management development. The Compensation Committee also considered that elements of Mr. Fallon's compensation, including his base salary, were significantly below the market. In fiscal 2013, the Compensation Committee increased Mr. Fallon's base salary (as discussed below), consistent with its desire to gradually increase Mr. Fallon's target total cash compensation closer to market median. Even so, Mr. Fallon's base salary and target total cash compensation remained below the 25th percentile of the market group, and long-term incentive compensation was at the median.
- Ms. Brennan assumed the role of CFO in June 2010 and remained with us through February 2014. The Compensation Committee believed that Ms. Brennan demonstrated strong performance during her tenure as CFO. In addition to her significant responsibilities in interacting with the financial community, the Board and our Audit Committee, the Compensation Committee determined that Ms. Brennan effectively supervised and managed a number of functions, including the financial, accounting, and internal audit organizations. The Compensation Committee also weighed retention objectives in setting Ms. Brennan's compensation for fiscal 2013. For fiscal 2013, Ms. Brennan's base salary was increased from a level that was below the 25th percentile to $325,000, which approximated the 40th percentile of the market group, her target total cash compensation was increased to approximate the median, and her long-term incentive compensation approximated the 75th percentile, which generally reflected the desire of the Compensation Committee to target total direct compensation at or around the median.

- Dr. Welch is a co-founder of Infinera, has served as our President since June 2013, and has served as a member of the Board since October 2010. The Compensation Committee believed that Dr. Welch has added significant value in supervising and managing our product marketing, corporate marketing, business development, network strategy, product line management, product architecture and network systems analysis organizations. In particular, his experience, knowledge and deep technical understanding of the optical network industry enabled Dr. Welch, among other things, to successfully align our product development initiatives with our marketing and sales strategies. For fiscal 2013, Dr. Welch's compensation as Executive Vice President, Chief Strategy Officer (prior to him being appointed President) included base salary at approximately the 60^{th} percentile of the market group, target total cash compensation at above the 75^{th} percentile, and long-term incentive compensation at the 75^{th} percentile, reflecting the Compensation Committee's recognition of his skills and roles as well as its desire to address retention.

  Upon Dr. Welch's promotion to President in June 2013, the Compensation Committee reviewed his compensation and made certain adjustments, which consisted of an increase to his base salary and the grant of an additional time-based RSU award (as discussed below in the section entitled "Long-Term Equity-Based Incentive Compensation—2013 Promotion-based Award"). In making these adjustments, the Compensation Committee recognized that Dr. Welch's new position filled a unique role in the market as well as at Infinera, and that the market data likely was less precise than desired. In particular, the peer data had very few data points, resulting in a substantial divergence from the survey data. At the time of his promotional award, the Compensation Committee reviewed updated market group data but did not benchmark to any particular percentile or range. Instead, along with the market group data, the Compensation Committee considered factors such as recognition of his increased responsibilities, internal pay equity, experience, our retention objectives and his prior and expected contributions to Infinera.

- Mr. Jandro has served as our Senior Vice President, Worldwide Sales, since May 2013. Mr. Jandro has over 25 years' experience in the telecommunications and software industries. Since joining Infinera, Mr. Jandro has focused his team on building a strong flow of orders from current customers, as well as expending opportunities with new customers and markets. At the time of Mr. Jandro's hire and as discussed above in the section entitled "Use of Market Data," the Compensation Committee reviewed market group data with respect to his position. His base salary, bonus and initial equity award were determined as part of his new hire package and approved at levels that the Compensation Committee believed were necessary to recruit him to join Infinera and that were deemed to be appropriate in light of his experience.

- Mr. Short has served as our Senior Vice President and General Counsel since September 2013. Mr. Short brings to Infinera his many years of experience as a General Counsel for technology companies, working with boards of directors and senior management. The goal with respect to his role is to continue to provide effective leadership through a cost effective, responsive and professional legal organization. At the time of Mr. Short's hire, and as discussed above in the section entitled "Use of Market Data," the Compensation Committee reviewed market group data with respect to his position. His base salary, bonus and initial equity award were determined as part of his new hire package and approved at levels that the Compensation Committee believed were necessary to recruit him to join Infinera and that were deemed to be appropriate in light of his experience.

2013 Cash Compensation

2013 Base Salaries

In January 2013, the Compensation Committee reviewed the base salaries for fiscal 2013 for each NEO (other than Messrs. Jandro and Short who were hired later during the year). At this time, the Compensation Committee approved an to increase Mr. Fallon and Ms. Brennan's base salaries which were below the 25^{th} percentile of the market group but made no adjustment to the base salary for Dr. Welch whose base salary was at the 60^{th} percentile. In addition to market positioning, the Compensation Committee considered various other factors as discussed above, including, in particular, internal equity of NEO compensation between their various roles, as well as potential retention initiatives.

In June 2013, Dr. Welch's base salary was increased in connection with his appointment as President.

The following table shows the annual base salary for each of our NEOs at the end of fiscal 2012 and fiscal 2013:

Name	Fiscal 2012 Annual Base Salary	Fiscal 2013 Annual Base Salary
Thomas J. Fallon	$300,000	$375,000
Ita M. Brennan	$300,000	$325,000
David F. Welch, Ph.D.(1)	$350,000	$360,000
Robert J. Jandro(2)	—	$350,000
Alastair A. Short(3)	—	$315,000

(1) Dr. Welch was promoted to the position of President in June 2013. In connection with his promotion, his fiscal 2013 base salary was increased from $350,000 to $360,000. Prior to his appointment as President there had been no change from his fiscal 2012 base salary.

(2) Mr. Jandro was employed by us during fiscal 2013 following his hire in May 2013. His actual fiscal 2013 base salary was prorated based on his length of service during fiscal 2013.

(3) Mr. Short was employed by us during fiscal 2013 following his hire in September 2013. His actual fiscal 2013 base salary was prorated based on his length of service during fiscal 2013.

2013 Performance-based Incentive Cash Compensation

Target Bonuses. For fiscal 2013, the Compensation Committee reviewed the target bonus opportunities (which are expressed as a percentage of base salary) for Mr. Fallon, Dr. Welch and Ms. Brennan, but did not make any adjustments to these amounts. Each of Messrs. Jandro and Short's target bonus opportunities were established at the time they joined us and were prorated for fiscal 2013 based on their period of employment during the year. The following table shows the target bonus opportunities (as a percentage of base salary) for each of the NEOs for fiscal 2012 and 2013:

Name	Fiscal 2012 Target Bonus (as a percentage of base salary)	Fiscal 2013 Target Bonus (as a percentage of base salary)
Thomas J. Fallon	125%	125%
Ita M. Brennan	65%	65%
David F. Welch, Ph.D.	80%	80%
Robert J. Jandro(1)	—	100%
Alastair A. Short(2)	—	50%

(1) At the time of Mr. Jandro's hire in May 2013, his target bonus opportunity was set at 100% of his base salary. However, given his mid-fiscal year hire, his bonus for fiscal 2013 was prorated based on his length of service during the year.

(2) At the time of Mr. Short's hire in September 2013, his target bonus opportunity was set at 50% of his base salary. However, given his mid-fiscal year hire, his bonus for fiscal 2013 was prorated based on his length of service during the year.

2013 Bonus Plan. In February 2013, the Compensation Committee approved the 2013 Bonus Plan and set the payout criteria for all eligible employees, including the NEOs. Bonuses under the 2013 Bonus Plan for participating NEOs were based on our performance against a mix of financial objectives (weighted at 80%) and operational objectives (weighted at 20%) as discussed below.

The NEOs were eligible to receive a midyear bonus payout for the financial objectives of the 2013 Bonus Plan based on actual performance for the first two quarters of fiscal 2013 and the projected achievement of the financial goals for the full year. These midyear payouts, if any, were capped at a half-year, 50%, portion of the NEO's target bonus opportunity for the financial objectives portion only. The final bonus payout, if any, was based on the percentage achievement of both the financial objectives and the operational objectives and was reduced for any midyear payout.

The plan also contained an individual performance component that could adjust bonus payouts by a factor of 75% to 125%. The CEO was tasked with reviewing the individual performance of each NEO other than himself and recommending a rating for him or her to the Compensation Committee. The Compensation Committee then had sole discretion to determine any individual performance adjustments for each NEO.

Financial Objectives. The performance criteria for the 2013 Bonus Plan were approved by the Compensation Committee in January 2013. The initial financial objectives involved our revenue, non-GAAP operating income (loss) and maintenance of a minimum cash balance, and were selected to focus our NEOs on important and measurable financial metrics and to align our NEOs' interests with those of our stockholders. The Compensation Committee believes that revenue growth is an essential component of the long-term success and viability of Infinera. In addition, the Compensation Committee determined that a focus on operating income and cash flow would serve to make generating a return for stockholders a priority. The non-GAAP measure of operating income (loss) excludes non-cash stock-based compensation expenses. For a reconciliation of GAAP and non-GAAP operating income (loss) for fiscal 2013, please see Appendix A to this Proxy Statement.

For fiscal 2013, the threshold, target and maximum levels of performance required for the financial objectives were as follows:

Financial Objectives *(weighted at 80% for NEOs)*	**Threshold Performance**	**Target Performance**	**Stretch Performance**	**Maximum Performance**
Revenue	$ 480 million	$ 500 million	$ 525 million	$550 million
Non-GAAP Operating Income (Loss)	$ (15 million)	$ (10 million)	Positive	Positive
Minimum Cash and Investment Balance	Flat vs. 2012	Flat vs. 2012	Flat vs. 2012	Flat vs. 2012
Funding as a % of Target	75%	100%	125%	150%

- If performance attainment on any of the financial objectives was below the threshold, this would have resulted in a 0% funding level.
- For performance attainment below target but above the threshold, the funding level was interpolated on a straight-line basis, but the interpolation would be calculated based on the performance metric with the **lowest level of attainment across the various financial objectives**.
- For performance attainment above target, no interpolation would apply between target and stretch performance. **For the plan to fund above 100%, all stretch financial objectives must be met**.
- For revenue performance attainment between stretch and maximum, linear interpolation on revenue performance would apply as long as operating income was positive and the minimum cash balance objective was satisfied.
- For performance attainment above maximum, **funding was capped at 200%**.

Operational Objectives. The Compensation Committee also determined that focusing on specific operational objectives was important to measuring our success in fiscal 2013 and to supporting our objectives of creating long-term value for our stockholders. The Compensation Committee approved the operational objectives listed below for 2013 Bonus Plan. There was no upside attached to the operational objectives.

Operational Objectives *(weighted at 20% for NEOs)*	**Weighting**	**Maximum Attainment**
Minimum of three strategic wins	75%	100%
Minimum Cash Balance Flat vs. 2012	25%	100%

In May 2013, the Compensation Committee reviewed the fiscal 2013 financial and operational objectives of the 2013 Bonus Plan and determined that the objective related to maintaining or increasing our cash and investment balance as compared to the prior fiscal year was no longer appropriate. This was the result of a desire to insure we invested adequately in near-term product sales opportunities, and perhaps more importantly, considered the issuance in May 2013 of $150 million aggregate principal amount of 1.75% Convertible Senior Notes due 2018, which adequately addressed the objective of maintaining our cash and investment balance as compared to the prior fiscal year.

Consistent with our compensation philosophy of selecting appropriate performance measures to drive our business success and increase long-term stockholder value, the Compensation Committee believed that the cash and investment balance objective (which had gained a significant likelihood of being achieved for fiscal 2013) should be replaced and/or eliminated. As a result, the financial objective related to cash flow was eliminated, and the cash and investment balance operational objective was replaced with an objective based on achieving additional strategic customer "wins" during fiscal 2013. These additional strategic customer wins were considered critical to positioning Infinera for future success. These wins were weighted at 12.5% for a fourth strategic customer win and 12.5% for a fifth strategic customer win.

Actual Performance. The following table shows our actual performance with respect to each financial and operational objective under the 2013 Bonus Plan:

Performance Measures	Actual Performance
Financial Objectives (weighted at 80%)	
Revenue for Fiscal 2013	$544.1 million
Non-GAAP Operating Income for Fiscal 2013	$ 7.8 million
Operational Objectives (weighted at 20%)	
Three strategic customer wins	Achieved
Fourth strategic customer win	Achieved
Fifth strategic customer win	Achieved

Fiscal 2013 Bonuses

Midyear Bonuses. Following completion of the first half of fiscal 2013, the Compensation Committee determined that a midyear bonus payout would be made based on the forecasted achievement of at least 100% of the target levels for the two financial objectives for fiscal 2013. As a result, the Compensation Committee approved a midyear payout equal to 40% of each participating NEO's target bonus opportunity (i.e., the NEO's target bonus opportunity, multiplied by the 80% weighting of the financial objectives portion, and prorated for half the year).

Final Bonuses. Following the completion of 2013, upon review of the full fiscal 2013 actual financial and operational performance as compared to the pre-established target levels, the Compensation Committee approved a payout to our NEOs based on the achievement of the financial objective at 144.2% of target performance and the operational objectives at the target performance level. No adjustments were made to the payouts based on individual performance. The following table sets forth the midyear and final bonus payouts for fiscal 2013 earned by our NEOs pursuant to the 2013 Bonus Plan.

Name	Fiscal 2013 Midyear Bonus Payout(1)	Fiscal 2013 Final Bonus Payout(2)	Fiscal 2013 Total Bonus Amount
Thomas J. Fallon	$187,500	$447,750	$635,250
Ita M. Brennan	$ 84,500	$201,786	$286,286
David F. Welch, Ph.D.	$115,200	$275,098	$390,298
Robert J. Jandro(3)	—	$280,162	$280,162
Alastair A. Short(3)	—	$ 65,089	$ 65,089

(1) Midyear bonuses were paid in August 2013.

(2) Final bonuses were paid in March 2014.

(3) Messrs. Jandro and Short were hired mid-fiscal year. As a result, neither was eligible to receive a midyear bonus for fiscal 2013.

Long-Term Equity-Based Incentive Compensation

Under the Infinera 2007 Equity Incentive Plan (the "2007 Plan"), the Compensation Committee grants equity awards to eligible employees, including the NEOs. The Compensation Committee periodically reviews our equity award grant practices and may make adjustments and policy changes as it deems appropriate. In addition, in recent years, the Compensation Committee has moved to reduce our annual aggregate equity utilization. This has been accomplished by limiting the group of employees eligible for equity awards, by using a mix of stock options, RSU awards and PSU awards, and by reducing the size of the annual grants made to employees, including the NEOs.

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

2013 Annual Equity Awards

For fiscal 2013, the Compensation Committee granted RSU awards and PSU awards to our employees, including our NEOs. In determining the appropriate mix of such equity awards, the Compensation Committee considered how each equity vehicle supports our compensation strategy as follows:

Type of Award	Description	Why It Is Used
Restricted Stock Units	• Provide the opportunity to receive a specified number of shares subject to the participant's continued employment for a specified period. • Typically have a three-year or four-year vesting period to encourage a long-term perspective and to encourage key employees to remain at Infinera.	• Supports retention and succession planning. • Provides a direct incentive for future performance. • Useful in recruiting new executives.
Performance-Based Restricted Stock Units	• Provide the right to receive shares upon the achievement of pre-established performance objectives. • If the threshold performance level is not achieved, the entire portion of the award tied to such performance objective will be forfeited.	• Supports pay-for-performance philosophy and retention efforts. • Links compensation directly to Infinera performance in areas identified as important by the Compensation Committee.

In January 2013, the Compensation Committee granted annual equity awards for fiscal 2013 in the form of RSU awards and PSU awards to each of the then-employed NEOs. In determining the size of these annual equity awards, the Compensation Committee considered the factors outlined above in the sections entitled "Use of Market Data" and "Other Relevant Factors" with particular attention to internal equity considerations, the potential dilutive impact of equity awards and the amount and value of unvested equity awards held by each of the NEOs. In using a combination of time-based and performance-based awards, the Compensation Committee believed the plan incorporated several good corporate governance practice features that promoted close alignment of the interests of our NEOs with those of our stockholders.

The following table sets forth the annual equity awards granted to each of the then-employed NEOs in January 2013:

		PSU Awards	
Name	RSUs	Target Shares	Maximum Shares
Thomas J. Fallon	113,000	170,000	255,000
Ita M. Brennan	100,000	42,000	63,000
David F. Welch, Ph.D.	60,000	75,000	112,500

RSU Awards Vesting Criteria. The RSU awards are scheduled to vest in annual installments with one-third of the underlying shares vesting on February 5 of each of 2014, 2015 and 2016, subject to each NEO's continued service with us through each relevant vesting date.

PSU Awards Vesting Criteria. The PSU awards can be earned based on our TSR performance relative to that of the Telecomm Index. The Compensation Committee selected TSR as the performance measure for the PSU awards because it believes that our relative TSR is an important indicator of our long-term success and closely aligns the interests of our NEOs with those of our stockholders while also minimizing dilution relative to stock options. In choosing an appropriate group against which to compare our TSR, the Compensation Committee selected the Telecomm Index based on a review of its components, the relatively close correlation between our historical stock price movement and that of the Telecomm Index, as well as the relevance and importance of the telecommunications industry to our business. The Compensation Committee believed that comparing our TSR performance to that of the Telecomm Index would provide an appropriate and meaningful measure of our performance against a reasonable and objective benchmark.

Our relative TSR is measured against the Telecomm Index three times for the PSU awards granted in fiscal 2013 with one-third of each NEO's target PSUs allocated to each of the three measurement periods. The table below outlines the performance criteria used to determine the percentage of the fiscal 2013 PSU awards that would be earned by our NEOs for various levels of TSR performance relative to the Telecomm Index for each period.

	Minimum	Target	Maximum
INFN TSR vs. Index	-25 points	Match	+ 25 points
Payment as % of Target	0%	100%	150%
Slope	4 to 1	—	2 to 1

As shown above, for each point of positive TSR we deliver above the TSR for the Telecomm Index, the target award increases by 2% up to a maximum of 150% of target. For each point of TSR we deliver below the TSR for the Telecomm Index, the target award decreases by 4% and can be reduced to 0% of target.

For purposes of calculating TSR performance for Infinera and the Telecomm Index under the PSU awards, the baseline value for our relative TSR calculations is the 60-day average closing price of our common stock and the index leading up to January 30, 2013, which was the grant date of the awards. TSR for Infinera and the Telecomm Index is then calculated by comparing the average closing price of our common stock and the Telecomm Index to this baseline value for the final 60 days of our fiscal 2013, 2014 and 2015.

Notwithstanding our TSR performance relative to the Telecomm Index, if our TSR is negative for any performance period, the payout will be capped at 50% of the target number of PSUs allocated to that period. PSU awards will be forfeited upon failure to achieve the TSR threshold for the relevant period, with the exception that if any shares allocated to the first and second performance periods would have otherwise vested but for the 50% cap imposed by a negative TSR for that period, then with respect to the first performance period, those shares may vest based on TSR performance for the second period criteria, or with respect to the second period, those shares may vest based on TSR performance for the third period, respectively, provided in each case that for the applicable subsequent period, our TSR is positive and achieved at or above 100% of target.

PSU Results. For the initial performance period ended December 28, 2013, our TSR performance exceeded the TSR performance of the Telecomm Index by 33 points (17%). As a result, 150% of the number of target shares subject to the PSU awards allocated to the initial performance period vested and were earned, as shown in the table below:

	PSU Summary for Initial Performance Period	
Name	Target Number of PSUs	Actual Number of PSUs Vested
Thomas J. Fallon	56,667	85,000
Ita M. Brennan	14,000	21,000
David F. Welch, Ph.D.	25,000	37,500

2013 Promotion-based Award

David F. Welch. In connection with his appointment as our President in June 2013, Dr. Welch received a one-time award of 48,000 RSUs, with 25% of the award scheduled to vest based on his continued service through the applicable date in August of each of 2014, 2015, 2016 and 2017, respectively. This award was intended to recognize Dr. Welch for the additional responsibilities that he assumed in his new role and to satisfy our retention objectives with respect to his continued employment.

2013 New Hire Awards

Robert J. Jandro. In connection with his hire in May 2013, Mr. Jandro received an award of 120,000 RSUs with 25% of the award scheduled to vest based on his continued service through the applicable date in August of each of 2014, 2015, 2016 and 2017, respectively. The size of this equity award was determined as part of his new hire package and approved at the level that the Compensation Committee believed was necessary to recruit him to join Infinera.

Alastair A. Short. In connection with his hire in September 2013, Mr. Short received an award of 92,727 RSUs with 25% of the shares scheduled to vest based on his continued service through the applicable date in November of each of 2014, 2015, 2016 and 2017, respectively. The size of this equity award was determined as part of his new hire package and approved at the level that the Compensation Committee believed was necessary to recruit him to join Infinera.

Health and Welfare Benefits and Perquisites

We provide employee benefits to all eligible employees, including our NEOs, which Infinera and the Compensation Committee believe are reasonable and consistent with its overall compensation objective to better enable us to attract and retain employees. These benefits include medical, dental, vision, and disability benefits, a 401(k) plan, and other plans and programs, including the 2007 ESPP, made available to other eligible employees in the applicable country of residence. We do not provide any matching contributions under our 401(k) plan.

We do not provide any special plans or programs for the NEOs and we do not provide any defined benefit plans or deferred savings plans other than our 401(k) plan. Employee benefits and perquisites are reviewed periodically to ensure that benefit levels remain competitive, but are not included in the Compensation Committee's annual determination of the total compensation for each of our NEOs.

"Double-trigger" Change of Control Benefits and Severance Policy

Change of Control Benefits

The Compensation Committee considers maintaining a stable and effective management team to be essential to protecting and enhancing the best interests of Infinera and its stockholders. Accordingly, the Compensation Committee has entered into Change of Control Agreements (the "COC Agreements") with certain vice president level officers and above, including each of the NEOs, to encourage their continued attention, dedication and continuity with respect to their roles and responsibilities without the distraction that may arise from the possibility or occurrence of a Change of Control. The COC Agreements for Messrs. Jandro and Short were entered into in May 2013 and September 2013, respectively, upon their hire.

None of the NEOs will receive a payment or benefit under a COC Agreement unless his or her employment is terminated without "Cause," or by him or her as a result of a "Constructive Termination" (as more fully described in the section entitled "Estimated Payments and Benefits upon Termination, Change of Control or Death/Disability" below), within 12 months following a Change of Control transaction. The Compensation Committee believes that this "double-trigger" structure provides the correct balance between the corporate objectives described above and the potential compensation payable to each NEO upon a Change of Control. The Compensation Committee also believes that should Infinera engage in discussions or negotiations relating to a Change of Control, which the Board believes is in the best interests of our stockholders, these COC Agreements will help to ensure that our NEOs remain focused on the consummation of such potential transaction, without significant distraction or concern regarding their personal circumstances, such as continued employment.

The following terms apply with respect to our NEOs if we undergo a Change of Control and such individual is terminated without Cause or as a result of a Constructive Termination within 12 months following the Change of Control, subject to such individual entering into and not revoking a release of claims in our favor within 60 days of the termination date:

- 100% of all outstanding equity awards will vest;
- The CEO will be paid a lump sum severance payment equal to two (2) times his annual base salary and the other NEOs will be paid a lump sum severance payment equal to one and one-half (1.5) times their annual base salary; and

- The CEO will be reimbursed for premiums under COBRA for a period of twenty-four (24) months and the other NEOs will be reimbursed for premiums under COBRA for a period of eighteen (18) months.

Severance Policy

In addition to the Change of Control payments and benefits discussed above, the Compensation Committee has taken appropriate steps to provide competitive benefits that promote the continued attention, dedication and continuity of members of our management team, including the NEOs, and enable us to continue to recruit talented executives. Accordingly, the Compensation Committee has adopted an executive severance policy, under which severance payments and benefits will become payable if the individual is terminated by us without Cause, subject to such individual entering into and not revoking a release of claims in our favor:

- The CEO will be paid a lump sum severance payment equal to one and one-half (1.5) times his annual base salary and the other NEOs will be paid a lump sum severance payment equal to one (1) times their annual base salary; and
- The CEO will be reimbursed for premiums under COBRA for a period of eighteen (18) months and the other NEOs will be reimbursed for premiums under COBRA for a period of twelve (12) months.

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

Acceleration of Equity Awards Upon Death or Disability

In addition, all awards granted under our equity incentive plans permit accelerated vesting in the event of an employee's death or terminal illness (with exceptions in certain circumstances). Because we do not have any other policy with respect to severance benefits in the event of an employee's death or disability, the Compensation Committee believed that in the event of an employee's death or terminal illness, it would be appropriate to provide the accelerated vesting of his or her RSU awards, PSU awards and stock options.

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

Stock Option Granting Policy

In 2007, the Compensation Committee approved a policy for the grant of equity awards. Under this policy, a Subcommittee of the Board has been delegated the authority to grant new hire, promotional and annual retention equity awards to non-executive employees pursuant to certain pre-approved guidelines. During the earlier part of fiscal 2013, the Subcommittee consisted of our CEO, Chief Legal and Administrative Officer, and Vice President of Human Resources. Following the departure of the Chief Legal and Administrative Officer, and the subsequent hiring of our Senior Vice President and General Counsel in September 2013, the Compensation Committee appointed the Senior Vice President and General Counsel to replace the Chief Legal and Administrative Officer as a member of the Subcommittee.

The Subcommittee generally meets on the first Monday of each month to approve new hire and promotional grants that are within pre-approved guidelines established by the Compensation Committee. Annual performance equity awards for such non-executive employees are also scheduled to occur as part of the monthly meetings of the Subcommittee.

The delegation to the Subcommittee does not include the authority to grant equity awards to new employees who are or are reasonably expected to become Section 16 Officers or to current Section 16 Officers. All equity award grants to Section 16 Officers, as well as grants that are outside of the pre-approved guidelines, must be made by the Compensation Committee. Annual equity awards for Section 16 Officers and the non-employee members of the Board typically are scheduled to occur during the last quarter of the current calendar year or the first quarter of the next calendar year, and are determined as discussed above in this Compensation Discussion and Analysis.

Executive Clawback Policy

We maintain an Executive Clawback Policy that applies to our Section 16 Officers and the members of the Board. Pursuant to this policy, the Compensation Committee has the authority to seek

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

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

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

Stock Ownership Policy

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

• CEO:	4x annual base salary
• President:	2x annual base salary
• CFO:	2x annual base salary
• Other NEOs:	1x annual base salary
• Non-employee Directors:	3x annual cash retainer

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

Anti-hedging Policy

Under our insider trading policy, we prohibit our employees, including our NEOs, from hedging the risk associated with ownership of shares of Infinera common stock and other securities.

Tax and Accounting Treatment of Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), limits the amount that we may deduct for compensation paid to our CEO and to certain other of our most highly compensated executive officers (other than our CFO) to $1,000,000 per person, unless such compensation is exempt from the deduction limit. An exemption from this deduction limit is available for various forms of "performance-based" compensation.

While the Compensation Committee cannot predict how the deduction limit may impact our executive compensation program in future years, the Compensation Committee intends to maintain an approach to executive compensation that strongly links pay to performance. While the Compensation Committee has not adopted a formal policy regarding tax deductibility of compensation paid to our CEO and certain other of our most highly compensated executive officers, the Compensation Committee intends to consider tax deductibility under Internal Revenue Code Section 162(m) as a factor in its compensation decisions. However, from time to time, we may provide compensation or grant equity awards to our executive officers that may not be deductible when, for example, we believe that such compensation is appropriate and in the best interests of our stockholders.

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

Compensation Committee Report

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

Compensation Committee

Mark A. Wegleitner, Chairman
Dan Maydan, Ph.D.
Paul J. Milbury
Carl Redfield

EXECUTIVE COMPENSATION TABLES

The following tabular information and accompanying narratives and footnotes provide all of the compensation awarded to, earned by, or paid to the individuals who served as our principal executive officer, principal financial officer and our three other highest paid executive officers during fiscal 2013. As previously noted, we refer to these executive officers as our NEOs.

Fiscal 2013 Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Stock Awards ($)(1)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Total ($)
Thomas J. Fallon	2013	375,000	1,898,390	—	635,250(2)	2,908,640
CEO	2012	300,000	2,626,800	—	18,750	2,945,550
	2011	300,000	1,218,360	2,204,842	—	3,723,202
Ita M. Brennan(3)	2013	325,000	946,920	—	286,286(2)	1,558,206
former CFO	2012	300,000	672,240	—	9,750	981,990
	2011	300,000	283,140	589,773	—	1,172,913
David F. Welch, Ph.D.	2013	355,308	1,433,280	—	390,298(2)	2,178,886
President	2012	350,000	1,857,880	—	28,000	2,235,880
	2011	300,000	351,780	734,947	—	1,386,727
Robert J. Jandro(4)	2013	207,338	1,303,200	—	280,162(2)	1,790,700
Senior Vice President, Worldwide	2012	—	—	—	—	—
Sales	2011	—	—	—	—	—
Alastair A. Short(5)	2013	96,923	1,019,997	—	65,089(2)	1,182,009
Senior Vice President and General	2012	—	—	—	—	—
Counsel	2011	—	—	—	—	—

(1) The amounts in this column represent the aggregate grant date fair value of the listed equity awards, computed in accordance with ASC 718. See Note 2 of the notes to our consolidated financial statements contained in our 2013 Annual Report on Form 10-K filed on February 21, 2014 for a discussion of all assumptions made by us in determining the ASC 718 values of equity awards.

(2) These amounts represent annual incentive cash awards earned under our 2013 Bonus Plan and, in the case of Mr. Jandro, our Sales Incentive Compensation Plan. For additional information regarding our 2013 Bonus Plan, please see the section entitled "2013 Cash Compensation—2013 Performance-based Incentive Cash Compensation—2013 Bonus Plan" in the Compensation Discussion and Analysis above.

(3) Ms. Brennan resigned as CFO effective February 28, 2014.

(4) Mr. Jandro began his employment on May 10, 2013.

(5) Mr. Short began his employment on September 9, 2013.

Fiscal 2013 Grants of Plan Based Awards Table

The following table sets forth information regarding fiscal 2013 annual cash incentive compensation and equity awards granted to our NEOs during fiscal 2013.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[(1)]			Estimated Future Payouts Under Equity Incentive Plan Awards[(2)]						
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)[(3)]
Thomas J. Fallon	1/30/2013	—	—	—	—	—	—	113,000	—	—	749,190
	1/30/2013	—	—	—	0	170,000	255,000	—	—	—	1,149,200
	1/30/2013	0	468,750	937,500	—	—	—	—	—	—	—
Ita M. Brennan[(4)]	1/30/2013	—	—	—	—	—	—	100,000	—	—	663,000
	1/30/2013	—	—	—	0	42,000	63,000	—	—	—	283,920
	1/30/2013	0	211,250	422,500	—	—	—	—	—	—	—
David F. Welch, Ph.D.	1/30/2013	—	—	—	—	—	—	60,000	—	—	397,800
	1/30/2013	—	—	—	0	75,000	112,500	—	—	—	507,000
	1/30/2013	0	288,000	576,000	—	—	—	—	—	—	—
	6/19/2013	—	—	—	—	—	—	48,000	—	—	528,480
Robert J. Jandro	1/30/2013	0	350,000[(5)]	700,000[(5)]	—	—	—	—	—	—	—
	7/1/2013	—	—	—	—	—	—	120,000	—	—	1,303,200
Alastair A. Short	1/30/2013	0	157,500[(6)]	315,000[(6)]	—	—	—	—	—	—	—
	9/9/2013	—	—	—	—	—	—	92,727	—	—	1,019,997

(1) Represents the potential cash payment that may be earned for fiscal 2013 under our 2013 Bonus Plan. For additional information regarding our 2013 Bonus Plan, please see the section entitled "2013 Cash Compensation—2013 Performance-based Incentive Cash Compensation—2013 Bonus Plan" in the Compensation Discussion and Analysis above.

(2) Represents PSUs, which vest based on specific performance metrics related to our TSR as compared to the Telecomm Index for fiscal 2013, 2014 and 2015, and subject to each named executive officer's continued service to Infinera. If the performance metrics are not met within the time limits specified in the award agreements, the PSUs will be cancelled. For additional information regarding the PSU awards granted to our named executive officers in fiscal 2013, please see the section entitled "Long-Term Equity-Based Incentive Compensation—2013 Annual Equity Awards" in the Compensation Discussion and Analysis above.

(3) Represents the aggregate grant date fair value of each equity award computed in accordance with ASC 718.

(4) Ms. Brennan resigned as CFO effective February 28, 2014.

(5) At the time of Mr. Jandro's hire in May 2013, his target bonus was set at 100% of his base salary. However, given his mid-fiscal year hire, his bonus for fiscal 2013 was prorated based on his length of service during the year.

(6) At the time of Mr. Short's hire in September 2013, his target bonus was set at 50% of his base salary. However, given his mid-fiscal year hire, his bonus for fiscal 2013 was prorated based on his length of service during the year.

Description of Awards Granted in Fiscal 2013

The following narrative discusses the material information necessary to understand the information in the table above. For each equity award made to our NEOs during fiscal 2013, the date the award was approved by the Compensation Committee was the same as the grant date. All RSU awards and PSU awards granted during fiscal 2013 to our NEOs were granted pursuant to the 2007 Plan.

Restricted Stock Units

On January 30, 2013, Mr. Fallon, Dr. Welch and Ms. Brennan were granted RSU awards covering the respective shares of common stock as indicated above in the Fiscal 2013 Grants of Plan Based Awards Table above. These RSU awards vest annually over three years beginning on February 5, 2013, subject to his or her continued employment with Infinera.

On June 19, 2013, Dr. Welch was granted an RSU award covering the respective shares of common stock as indicated above in the Fiscal 2013 Grants of Plan Based Awards Table above. This RSU award vests annually over four years beginning on August 5, 2013, subject to his continued employment with Infinera.

On July 1, 2013, Mr. Jandro was granted an RSU award covering the respective shares of common stock as indicated above in the Fiscal 2013 Grants of Plan Based Awards Table above. This RSU award vests annually over four years beginning on August 5, 2013, subject to his continued employment with Infinera.

On September 9, 2013, Mr. Short was granted an RSU award covering the respective shares of common stock as indicated above in the Fiscal 2013 Grants of Plan Based Awards Table above. This RSU award vests annually over four years beginning on November 5, 2014, subject to his continued employment with Infinera.

Performance-Based Restricted Stock Units

On January 30, 2013, Mr. Fallon, Dr. Welch and Ms. Brennan were granted PSU awards, as indicated above in the Fiscal 2013 Grants of Plan Based Awards Table above. The PSU awards vest at 100% of the target number of shares subject to the awards if our TSR matches the return on the Telecomm Index as measured over a period of three performance periods beginning with fiscal 2013 using a 60-day average stock price, with one-third of the award being measured in each performance period. The performance periods were set as follows: (i) for the first performance period, the start price is the 60-day average leading up to January 30, 2013, which was the grant date, and the end price is the 60-day average leading up to the last day of fiscal 2013; (ii) for the second performance period, the start price is the 60-day average leading up to January 30, 2013 and the end price is the 60-day average leading up to the last day of fiscal 2014; and (iii) for the third performance period, the start price is the 60-day average leading up to January 30, 2013 and the end price is the 60-day average leading up to the last day of fiscal 2015. For the initial performance period ended December 28, 2013, our TSR performance exceeded the TSR performance of the Telecomm Index by 33 points (17%). As a result, 150% of the number of target shares subject to the PSU awards allocated to the initial performance period vested and were earned. For additional details about these PSU awards, please see the section entitled “Long-Term Equity-Based Incentive Compensation—2013 Annual Equity Awards” in the Compensation Discussion and Analysis above.

Non-Equity Incentive Plan Awards

These amounts reflect the target and maximum annual incentive cash bonus awards payable under the 2013 Bonus Plan. Amounts actually earned under the 2013 Bonus Plan are reported in the “Non-Equity Incentive Plan Compensation” column of the Fiscal 2013 Summary Compensation Table above. The amounts paid under the 2013 Bonus Plan vary depending on how actual performance compares to the established performance metrics set forth and more fully described in the section entitled “2013 Cash Compensation—2013 Performance-based Incentive Cash Compensation—2013 Bonus Plan” in the Compensation Discussion and Analysis section above.

Fiscal 2013 Outstanding Equity Awards at Fiscal Year-End Table

The following table sets forth information regarding outstanding stock options, RSU awards and PSU awards held by each of our NEOs as of December 28, 2013. The vesting conditions for each award are set forth in the footnotes below the table.

	Stock Option Awards						Stock Awards				
Name	**Grant Date**	**Number of Securities Underlying Options Total Grant (#)**	**Number of Securities Underlying Unexercised Options Exercisable (#)**	**Number of Securities Underlying Unexercised Options Unexercisable (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Grant Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)[1]**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value or Unearned Shares, Units or Other Rights That Have Not Vested ($)[1]**
Thomas J. Fallon	2/10/2009	100,000	100,000	—[2]	7.11	2/10/2019	2/10/2011	47,333[3]	463,390	—	—
	8/10/2009	150,000	150,000	—[2]	7.45	8/10/2019	2/13/2012	103,333[4]	1,011,630	—	—
	11/23/2009	75,000	75,000	—[2]	8.19	11/23/2016	2/13/2012	—	—	87,500[5]	856,625
	11/23/2009	5,595	5,595	—[2]	8.19	11/23/2019	1/30/2013	113,000[6]	1,106,270	—	—
	11/23/2009	294,405	294,405	—[2]	8.19	11/23/2019	1/30/2013	—	—	255,000[7]	2,496,450
	2/22/2010	29,214	29,214	—[2]	7.61	6/6/2017					
	2/22/2010	101,342	101,342	—[2]	7.61	6/6/2017					
	2/22/2010	2,817	2,699	118[8]	7.61	2/28/2018					
	2/22/2010	81,683	78,279	3,404[8]	7.61	2/28/2018					
	2/10/2011	14,286	2,631	11,655[9]	8.58	2/10/2021					
	2/10/2011	32,965	31,120	1,845[9]	8.58	2/10/2021					
	2/10/2011	30,475	30,475	—[2]	8.58	2/10/2021					
	2/10/2011	182,250	182,250	—[2]	8.58	2/10/2021					
Ita M. Brennan[10]	9/7/2006	2,344	2,344	—[2]	2.00	9/7/2016	2/22/2010	326[3]	3,192	—	—
	3/2/2009	50,000	50,000	—[2]	6.71	3/2/2019	2/22/2010	465[3]	4,552	—	—
	8/10/2009	33,000	33,000	—[2]	7.45	8/10/2019	6/26/2010	9,375[11]	91,781	—	—
	11/23/2009	37,500	37,500	—[2]	8.19	11/23/2016	2/10/2011	11,000[3]	107,690	—	—
	6/26/2010	62,226	52,851	9,375[12]	6.90	6/26/2020	1/30/2012	42,666[4]	417,700	—	—
	6/26/2010	12,774	12,774	—[2]	6.90	6/26/2020	2/13/2012	—	—	13,000[5]	127,270
	2/10/2011	65,000	61,388	3,612[9]	8.58	2/10/2021	1/30/2013	100,000[6]	979,000	—	—
	2/10/2011	16,250	16,250	—[2]	8.58	2/10/2021	1/30/2013	—	—	63,000[7]	616,770
	2/10/2011	48,750	48,750	—[2]	8.58	2/10/2021					

Name	Stock Option Awards Grant Date	Number of Securities Underlying Options Total Grant (#)	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price ($)	Option Expiration Date	Stock Awards Grant Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)[1]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value or Unearned Shares, Units or Other Rights That Have Not Vested ($)[1]
David F. Welch, Ph.D. . .	8/8/2006	50,000	50,000	—[2]	2.00	8/8/2016	2/10/2011	13,666[3]	133,790	—	—
	8/8/2006	137,500	137,500	—[2]	2.00	8/8/2016	1/30/2012	52,666[4]	515,600	—	—
	2/10/2009	100,000	100,000	—[2]	7.11	2/10/2019	2/13/2012	128,250[13]	1,255,568	—	—
	8/10/2009	150,000	150,000	—[2]	7.45	8/10/2019	2/13/2012	—	—	16,500[5]	161,535
	11/23/2009	75,000	75,000	—[2]	8.19	11/23/2016	1/30/2013	60,000[6]	587,400	—	—
	2/22/2010	29,214	29,214	—[2]	7.61	6/6/2017	1/30/2013	—	—	112,500[7]	1,101,375
	2/22/2010	101,342	101,342	—[2]	7.61	6/6/2017	6/19/2013	48,000[14]	469,920	—	—
	2/22/2010	2,817	2,699	118[8]	7.61	2/28/2018					
	2/22/2010	81,683	78,279	3,404[8]	7.61	2/28/2018					
	2/10/2011	39,465	34,965	4,500[9]	8.58	2/10/2021					
	2/10/2011	41,535	41,535	—[2]	8.58	2/10/2021					
	2/10/2011	20,250	20,250	—[2]	8.58	2/10/2021					
	2/10/2011	60,750	60,750	—[2]	8.58	2/10/2021					
Robert J. Jandro							7/1/2013	120,000[14]	1,174,800		
Alastair A. Short							9/9/2013	92,727[15]	907,797		

(1) The closing price of our stock as of the last trading day prior to our fiscal year-end, December 27, 2013, was $9.79, which was used as the value of our common stock in the calculations.

(2) This stock option grant is fully vested.

(3) The remaining unvested portion of this RSU grant vests in its entirety on February 5, 2014, subject to continued employment with Infinera.

(4) The remaining unvested portion of this RSU grant vests in its entirety on February 5, 2015, subject to continued employment with Infinera.

(5) This PSU grant entitles the named executive officer to receive shares of common stock based on the attainment of long-term strategic objectives related to our DTN-X product and operating income levels. The PSUs vested as to 50% of the original grant upon the achievement of $100 million in recognized revenue from the DTN-X product in fiscal 2013 and the remaining 50% of the total grant (as indicated in the table above) vests upon the achievement of certain targeted operating income performance levels for fiscal 2014.

(6) The remaining unvested portion of this RSU grant vests in its entirety on February 5, 2016, subject to continued employment with Infinera.

(7) For a description of this PSU award, please see the section entitled "Long-Term Equity-Based Incentive Compensation—2013 Annual Equity Awards" in the Compensation Discussion and Analysis above.

(8) The remaining unvested portion of this stock option grant vests in monthly amounts through February 5, 2014, subject to continued employment with Infinera.

(9) The remaining unvested portion of this stock option grant vests in monthly amounts through February 10, 2014, subject to continued employment with Infinera.

(10) Ms. Brennan resigned as CFO effective February 28, 2014. Each of her RSU awards in the table above that remained unvested on the date of her termination was cancelled and all outstanding stock options at the time of her termination ceased vesting. Pursuant to a consulting agreement with Ms. Brennan, Ms. Brennan may continue to exercise equity awards that are vested and are exercisable through August 31, 2014, unless the agreement is terminated earlier.

(11) The remaining unvested portion of this RSU grant vests in its entirety on July 1, 2014, subject to continued employment with Infinera.

(12) The remaining unvested portion of this stock option grant vests in monthly amounts through June 26, 2014, subject to continued employment with Infinera.

(13) The remaining unvested portion of this RSU grant vests in its entirety on December 31, 2014, subject to continued employment with Infinera.

(14) The remaining unvested portion of this RSU grant vests in its entirety on August 5, 2017, subject to continued employment with Infinera.

(15) The remaining unvested portion of this RSU grant vests in its entirety on November 5, 2017, subject to continued employment with Infinera.

Fiscal 2013 Option Exercises and Stock Vested Table

The following table sets forth the number of shares acquired and the value realized upon the exercise of stock options and the vesting of RSU awards and PSU awards during fiscal 2013 by each of our NEOs.

Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)[1]	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)[2]
Thomas J. Fallon	226,024	442,346	274,000	1,875,740
Ita M. Brennan	3,125	20,063	78,682	589,669
David F. Welch, Ph.D.	—	—	94,001	635,928
Robert J. Jandro	—	—	—	—
Alastair A. Short	—	—	—	—

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

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

Estimated Payments and Benefits Upon Termination, Change of Control or Death/Disability

Change of Control Benefits

As discussed above in the "Compensation Discussion and Analysis—"Double-trigger" Change of Control and Severance Policy" section, the terms below apply with respect to our NEOs if we undergo a Change of Control transaction and the NEO is terminated without Cause or as a result of a Constructive Termination within 12 months following the transaction, subject to the NEO entering into and not revoking a release of claims in our favor within 60 days of the termination date:

- 100% of all outstanding equity awards will vest;
- The CEO will be paid a lump sum severance payment equal to two (2) times annual base salary and the other NEOs will be paid a lump sum severance payment equal to one and one-half (1.5) times annual base salary; and
- The CEO will be reimbursed for premiums under COBRA for a period of twenty-four (24) months and the other NEOs will be reimbursed for premiums under COBRA for a period of eighteen (18) months.

Severance Policy

As discussed above in the "Compensation Discussion and Analysis—"Double-trigger" Change of Control and Severance Policy" section, the Compensation Committee determined that Infinera shall pay severance to our NEOs in the event the NEO is terminated by Infinera, except in the event of termination following a Change of Control or for Cause. The Compensation Committee established the following terms for severance payments, subject to such individual entering into and not revoking a release of claims in our favor:

- The CEO will be paid a lump sum severance payment equal to one and one-half (1.5) times annual base salary and the other named executive officers will be paid a lump sum severance payment equal to one (1) times annual base salary; and
- The CEO will be reimbursed for premiums under COBRA for a period of eighteen (18) months and the other named executive officers will be reimbursed for premiums under COBRA for a period of twelve (12) months.

If a named executive officer's employment with Infinera is less than one year, the amount of severance payable to such individual shall be equal to the lesser of (x) the base salary paid to such individual during their period of employment, or (y) the severance amount set forth above.

Death and Disability Benefits

Pursuant to our 2000 Stock Option Plan and the 2007 Plan, accelerated vesting is provided in the event of the death (with exceptions in certain circumstances) or permanent disability of an employee, including our NEOs. Accrued vacation will also be paid out in the event of the death or permanent disability of such individual. We do not currently provide any other benefits in the event of an employee's death or permanent disability.

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

Change of Control	(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of Infinera representing fifty percent (50%) or more of the total voting power represented by Infinera's then outstanding voting securities; (ii) the consummation of the sale or disposition by Infinera of all or substantially all of Infinera's assets; (iii) the consummation of a merger or consolidation of Infinera with any other corporation, other than a merger or consolidation which would result in the voting securities of Infinera outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of Infinera or such surviving entity or its parent outstanding immediately after such merger or consolidation; or (iv) a change in the composition of the Board occurring within a two (2) year period, as a result of which less than a majority of the directors are Incumbent Directors. "Incumbent Directors" means directors who either (A) are directors of Infinera as of the date hereof, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the directors of Infinera at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to Infinera).
Constructive Termination	The executive officer's resignation as a result of, and within three (3) months following the expiration of any Company cure period (discussed below) following the occurrence of one or more of the following: (i) a material reduction in the executive officer's job, duties or responsibilities in a manner that is substantially inconsistent with the position, duties or responsibilities held by the executive officer immediately before such reduction, (ii) a material reduction in the executive officer's base salary (in other words, a reduction of more than five percent of executive's base salary within the twelve-month period following a Change of Control), or (iii) a material change in the work location at which the executive officer is required to perform services for Infinera (in other words, a requirement that the executive officer relocate to a work location that is more than 50 miles from the executive's work location in effect as of the date immediately prior to a Change in Control). The executive officer will not resign as the result of a Constructive Termination without first providing Infinera with written notice of the acts or omissions constituting the grounds for "Constructive Termination" within ninety (90) days of the initial existence of the grounds for "Constructive Termination" and a cure period of thirty (30) days following the date of such notice.
Cause	(i) The executive officer's willful failure to substantially perform his or her duties and responsibilities to Infinera or deliberate violation of a company policy; (ii) the executive officer's commission of any act of fraud, embezzlement, dishonesty or any other willful misconduct that has caused or is reasonably expected to result in material injury to Infinera; (iii) unauthorized use or disclosure by the executive officer of any proprietary information or trade secrets of Infinera or any other party to whom the executive officer owes an

obligation of nondisclosure as a result of his or her relationship with Infinera; or (iv) the executive officer's willful breach of any of his or her obligations under any written agreement or covenant with Infinera. The determination as to whether the executive officer is being terminated for Cause will be made in good faith by Infinera and will be final and binding on the executive officer.

Estimated Payments and Benefits Table

The amount of compensation and benefits payable to each of our NEOs in the case of termination by Infinera, a termination following a Change of Control transaction, or a termination due to death or permanent disability has been estimated in the table below. The value of the outstanding equity award vesting acceleration was calculated based on the assumption that the termination event occurred on December 28, 2013. The closing price of our stock as of the last trading day of fiscal 2013, was $9.79, which was used as the value of our common stock in the calculations below. The value of the vesting acceleration was calculated by (i) multiplying the number of accelerated shares of common stock underlying unvested, in-the-money equity awards by $9.79 and (ii) subtracting the exercise price for the unvested stock options.

		Potential Payments in Connection With:		
Name	**Type of Benefit**	**Termination Under Severance Policy ($)**	**Termination After a Change of Control ($)**	**Termination Upon Death or Disability ($)**
Thomas J. Fallon	Cash Severance	562,500	750,000	—
	Vesting Acceleration[1]	—	5,126,228	5,126,228
	Continued Coverage of Employee Benefits	33,365	44,486	—
	Accrued Vacation Pay	16,853	16,853	16,853
	Total Benefits	612,718	5,937,567	5,143,081
Ita M. Brennan	Cash Severance	325,000	487,500	—
	Vesting Acceleration[2]	—	2,173,830	2,173,830
	Continued Coverage of Employee Benefits	7,360	11,040	—
	Accrued Vacation Pay	20,383	20,383	20,383
	Total Benefits	352,743	2,692,753	2,194,213
David F. Welch, Ph.D.	Cash Severance	355,308	532,962	—
	Vesting Acceleration[3]	—	3,871,186	3,871,186
	Continued Coverage of Employee Benefits	22,243	33,365	—
	Accrued Vacation Pay	34,948	34,948	34,948
	Total Benefits	412,499	4,472,461	3,906,134
Robert J. Jandro	Cash Severance	207,338	311,007	—
	Vesting Acceleration[4]	—	1,174,800	1,174,800
	Continued Coverage of Employee Benefits	18,012	27,018	—
	Accrued Vacation Pay	11,972	11,972	11,972
	Total Benefits	237,322	1,524,797	1,186,772
Alastair A. Short	Cash Severance	96,923	145,385	—
	Vesting Acceleration[5]	—	907,797	907,797
	Continued Coverage of Employee Benefits	22,236	33,354	—
	Accrued Vacation Pay	4,386	4,386	4,386
	Total Benefits	123,545	1,090,922	912,183

(1) The vesting of 538,188 shares of common stock would accelerate if Mr. Fallon was terminated without Cause, as a result of a Constructive Termination within 12 months following a Change of Control or upon death or permanent disability as of December 28, 2013.

(2) The vesting of 231,819 shares of common stock would accelerate if Ms. Brennan was terminated without Cause, as a result of a Constructive Termination within 12 months following a Change of Control or upon death or permanent disability as of December 28, 2013.

(3) The vesting of 402,104 shares of common stock would accelerate if Dr. Welch was terminated without Cause, as a result of a Constructive Termination within 12 months following a Change of Control or upon death or permanent disability as of December 28, 2013.

(4) The vesting of 120,000 shares of common stock would accelerate if Mr. Jandro was terminated without Cause, as a result of a Constructive Termination within 12 months following a Change of Control or upon death or permanent disability as of December 28, 2013.

(5) The vesting of 92,727 shares of common stock would accelerate if Mr. Short was terminated without Cause, as a result of a Constructive Termination within 12 months following a Change of Control or upon death or permanent disability as of December 28, 2013.

PROPOSAL 3

ADVISORY APPROVAL OF NAMED EXECUTIVE OFFICER COMPENSATION

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

As described in the section entitled "Compensation Discussion and Analysis," we believe that the skill, talent, judgment and dedication of our executive officers are critical factors affecting the long-term value of Infinera. The goals of our executive compensation programs are to fairly compensate our executives, attract and retain highly-qualified executives able to contribute to our long-term success, encourage performance consistent with clearly defined corporate goals and align our executives' long-term interests with those of our stockholders. The specific goals that our current executive compensation programs reward are focused on financial and operating objectives, including specific revenue and operating income performance metrics and achieving strategic customer wins. Please read the "Compensation Discussion and Analysis" section of this Proxy Statement beginning on page 25 for additional details about our executive compensation programs, including information about the fiscal 2013 compensation of our NEOs.

Our Commitment to Our Pay-for-Performance Compensation Philosophy

Fiscal 2013 Executive Compensation Highlights

As explained in more detail in the Compensation Discussion and Analysis section of this Proxy Statement, our executive compensation program for fiscal 2013 reflects our pay-for-performance compensation philosophy and the continued strong alignment of the interests of our executive officers with those of our stockholders. Highlights of our executive compensation program for fiscal 2013 included:

- ***The majority of our CEO's fiscal 2013 target total compensation was in equity***.
  - **69% of our CEO's target total compensation was in equity**, which links our CEO's compensation directly to the value of our common stock. In fiscal 2013, our CEO received a PSU award (as summarized below) for 170,000 shares of our common stock and a RSU award for 113,000 shares of our common stock. Target total compensation consists of base salary, target cash incentive opportunity and target equity incentive compensation.
- ***The majority of our CEO's fiscal 2013 equity awards and target total compensation were at risk***.
  - **59% of our CEO's target total compensation was completely at risk** based on our performance against measurable performance objectives (includes target bonus and PSU awards).
  - **61% of our CEO's equity compensation opportunity was PSU awards**. The PSU awards were 100% subject to risk of forfeiture based on our relative TSR performance over three performance periods against the Telecomm Index. Key details of our CEO's pay opportunities for fiscal 2013 are summarized below.
- ***Our fiscal 2013 PSU awards included rigorous performance features***. To support our pay-for-performance philosophy and further emphasize the importance of creating long-term stockholder value, our fiscal 2013 PSU awards are 100% at risk based on our relative TSR performance and contain several features we consider to be best practices:
  - **Sustained performance requirement**. To earn the maximum amount of PSU awards (150% of target), our TSR must exceed that of the Telecomm Index by 25 points or more as calculated on each of the three separate measurement points (coinciding with the end of our fiscal 2013, 2014 and 2015).
  - **Steeper downside slope**. Our PSU awards are reduced twice as fast if our TSR underperforms the Telecomm Index (4-to-1 downside) as they are increased if our TSR outperforms the Telecomm

Index (2-to-1 upside). For example, if we underperform the Telecomm Index by 10 points of TSR, 60% of the target PSU awards would be earned. If we outperform the Telecomm Index by 10 points of TSR, 120% of the target PSU awards would be earned.

  - **Additional award cap**. Regardless of our performance vs. the Telecomm Index, our PSU awards are capped at 50% of target for any period in which our TSR is negative. Therefore, even if we significantly outperform the Telecomm Index in challenging market conditions, our PSU award design provides only modest rewards unless incremental stockholder value is created.

- ***Our fiscal 2013 payouts reflect our pay-for-performance philosophy***. Our executive compensation program strives to align compensation outcomes for our NEOs with performance against measurable objectives. In fiscal 2013, the key metrics that were measured under our incentive plans included revenue and non-GAAP operating income (loss) under the 2013 Bonus Plan and relative TSR performance for our PSU awards. In fiscal 2013, our performance exceeded the target levels for all of the financial metrics, which resulted in above target bonus payments for our CEO and other participating NEOs. This was in contrast to fiscal 2011 and fiscal 2012 when we fell short of our financial targets and, for example, our CEO received either no bonus (fiscal 2011) or just 5% of his target bonus (fiscal 2012). During fiscal 2013, our TSR exceeded that of the Telecomm Index by 33 points as measured under the PSU award program. This resulted in our participating NEOs earning 150% of their target number of PSU shares for the initial performance period.

- ***We continue to maintain good corporate governance practices***. We seek to maintain sound corporate governance standards. During fiscal 2013, the following policies and practices continued to be in effect:

  - Executive Clawback Policy
  - Anti-Hedging Policy
  - Fully Independent Compensation Committee
  - Stock Ownership Policy
  - No Guaranteed Bonuses or Tax Gross-Ups
  - "Double-Trigger" Change-of Control Agreements
  - Annual Compensation Risk Assessment
  - No Executive Perquisites
  - Independent Compensation Consultant Reporting
  - Directly to Compensation Committee

For these reasons, we are asking our stockholders to indicate their support for the compensation of our NEOs as described in this Proxy Statement. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our NEOs and the philosophy, policies, practices and objectives described in this Proxy Statement. Accordingly, we will ask our stockholders to vote "FOR" the following resolution at the Annual Meeting:

> "**RESOLVED:** That the Company's stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Proxy Statement for the 2014 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the compensation tables and the accompanying footnotes and narratives within the Compensation of Executive Officers section of the Proxy Statement."

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

Vote Required

Approval of Proposal 3 requires the affirmative vote of a majority of the votes cast on this proposal. "ABSTENTIONS" will have the same effect as an "AGAINST" vote. Broker non-votes will not be counted as having been voted on the proposal.

Proposal 3—Recommendation of the Board

The Board unanimously recommends a vote "FOR" the approval of the compensation of our named executive officers, as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the SEC.

PROPOSAL 4

APPROVAL OF AMENDMENT AND RESTATEMENT OF THE 2007 EMPLOYEE STOCK PURCHASE PLAN

Reason for the Amendment

At the Annual Meeting, stockholders are being asked to approve an amendment and restatement of the 2007 ESPP that would (i) increase the number of shares authorized, (ii) remove the evergreen provision by which the share reserve of the plan is set to automatically increase each year, and (iii) effect various technical revisions and improvements (the "Amendment"). This will allow us to use the 2007 ESPP to assist us in recruiting, retaining and motivating qualified personnel who help us achieve our business goals, including creating long-term value for stockholders. Our 2007 ESPP is intended to offer a significant incentive by allowing employees to purchase shares of our common stock ("Shares"). Employees are allowed to purchase our common stock under the 2007 ESPP at a price equal to 85% of the lower of the fair market value on either the opening or closing date of the respective offering period.

The Board initially adopted the 2007 ESPP in February 2007 and our stockholders approved the plan in May 2007. The 2007 ESPP became effective in June 2007.

As of March 14, 2014, 431,096 Shares remained available for issuance under the 2007 ESPP. The Amendment to the 2007 ESPP would increase the number of Shares issuable under the 2007 ESPP by 7,500,000 Shares, bringing the total that remains available for issuance under the 2007 ESPP to 7,931,096 Shares, which represents approximately 6.5% of our outstanding shares as of the Record Date. Further, we are removing the evergreen provision that would automatically add shares to the 2007 ESPP each year without further stockholder approval. As such, stockholders will need to approve any additional increase to the Share reserve in future years that we decide may be necessary to operate and further the purpose of the 2007 ESPP.

In considering its recommendation to approve the Amendment to the 2007 ESPP, the Compensation Committee and the Board analyzed the historical number of Shares purchased under the 2007 ESPP in the past three years and the motivational and retention value of the program as well as headcount trends versus the required funding of the 2007 ESPP. The number of Shares purchased under the 2007 ESPP in each of fiscal 2011, 2012 and 2013, was 1,308,775, 1,653,353 and 1,655,540, respectively. Also since the inception of the 2007 ESPP, the employee headcount has increased by 85% while the funding has only increased by 31%. Although the Compensation Committee and the Board considered the historical number of purchased Shares, the actual number of Shares that will be purchased under the 2007 ESPP in any year will depend on a number of factors including, for example, the number of participants, each participant's contribution rate and our stock price. Based on usage in 2013, the increased Share reserve with the removal of the evergreen provision would meet our anticipated needs for a period of approximately four years. However, the actual number of Shares that will be purchased under the 2007 ESPP will vary based on relevant factors, as noted above.

The Compensation Committee and the Board have approved the Amendment, subject to the approval of our stockholders at the 2014 Annual Meeting. If stockholders do not approve an increase in the number of Shares reserved for issuance under the 2007 ESPP, the 2007 ESPP's goals of recruiting, retaining and motivating talented employees will be more difficult to meet. In that case, no shares will be added to the number of shares reserved for issuance under the 2007 ESPP, except as provided under its current evergreen provision, and the 2007 ESPP will continue under its existing terms without the increase in share reserves provided by the Amendment. We believe that the approval of the Amendment is important to our continued success.

Description of the 2007 ESPP

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

Purpose

The purpose of the 2007 ESPP is to provide eligible employees of Infinera and its participating affiliates with the opportunity to purchase Shares through payroll deductions or, if payroll deductions are not permitted under local laws, through other means as specified by the Compensation Committee of the Board. The 2007 ESPP is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended ("Section 423"). Under an employee stock purchase plan that qualifies under Section 423, no taxable income will be recognized by a participant, and no deductions will be allowable to Infinera, upon either the grant or the exercise of the purchase rights. Taxable income will not be recognized until there is a sale or other disposition of the Shares acquired under the 2007 ESPP or in the event the participant should die while still owning the purchased Shares.

Eligibility to Participate

Most employees of Infinera and its participating affiliates are eligible to participate in the 2007 ESPP. However, an employee is not eligible if he or she would own and/or hold outstanding options to purchase five percent or more of the total combined voting power or value of all classes of stock of Infinera or of any affiliate of Infinera. Also, the Compensation Committee generally has discretion to exclude employees from participating in the 2007 ESPP, on a uniform and nondiscretionary basis, if the employee normally is scheduled to work less than or equal to 20 hours per week or five months per calendar year, has worked for Infinera for less than two years, or is an officer or other highly compensated employee, provided that the exclusion of employees in these categories is not prohibited under applicable local law. As of March 1, 2014, approximately 1,267 employees are eligible to participate in the 2007 ESPP.

Number of Shares of Common Stock Available under the 2007 ESPP

Currently, a maximum of 9,056,830 Shares have been approved for issuance pursuant to the 2007 ESPP and an annual increase on the first day of each fiscal year equal to the lesser of (i) 1,875,000 Shares, (ii) 1% of the outstanding Shares as of that date, or (iii) such other amount as is determined by the Board or a committee of the Board. If stockholders approve the Amendment to the 2007 ESPP, the annual evergreen provision would be removed and the number of Shares issuable under the 2007 ESPP would be increased by 7,500,000 Shares, bringing the total that remains available for issuance under the 2007 ESPP to 7,931,096 Shares. As of March 14, 2014, the closing price of our common stock on NASDAQ was $9.37 per Share and 122,479,210 Shares were issued and outstanding. If stockholders do not approve the Amendment, no shares will be added to the total number of shares reserved for issuance under the 2007 ESPP, except as provided under its current evergreen provision, and the 2007 ESPP will continue under its existing terms without the increase in share reserves provided by the Amendment.

Administration

The Compensation Committee administers the 2007 ESPP. The members of the Compensation Committee serve at the pleasure of the Board. Subject to the terms of the 2007 ESPP, the Compensation Committee has all of the powers and discretion necessary or appropriate to control the operation and supervise the administration of the 2007 ESPP. The Compensation Committee's authority under the 2007 ESPP includes, among other powers, interpreting and determining the terms and provisions of the 2007 ESPP and options granted under the 2007 ESPP. All actions, interpretations and decisions of the Compensation Committee are conclusive and binding on all persons and will be given the maximum deference permitted by law.

Enrollment and Contributions

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

Participants contribute to the 2007 ESPP through payroll deductions or, if payroll withholding is not permitted under local laws, through other means specified by the Compensation Committee. Participants generally may contribute up to 15% of their eligible compensation through after-tax payroll deductions. From time to time, the Compensation Committee may establish a different maximum permitted contribution percentage, change the definition of eligible compensation, or change the length of the offering and purchase periods (but in no event may such periods exceed twenty-seven (27) months). A participant may increase or decrease his or her contribution percentage by following procedures established by the Compensation Committee.

Purchase of Shares

Currently, Shares are offered under the 2007 ESPP through a series of six-month offering periods. On the last business day of each six-month period, Infinera uses each participant's payroll deductions or contributions to purchase Shares for the participant. The price of the Shares purchased will be determined under a formula established in advance by the Compensation Committee. However, in no event may the per Share purchase price be less than 85% of the lower of (1) the per Share closing price of our common stock on NASDAQ on the first day of the offering period, or (2) the per Share closing price of our common stock on NASDAQ on the purchase date. No participant may purchase Shares under the 2007 ESPP at a rate of more than $25,000 of common stock (based on market value on the applicable enrollment date(s)) in any calendar year during which the participating employee is enrolled in the 2007 ESPP at any time. The Compensation Committee also has discretion to set a limit on the number of Shares that may be purchased during any six-month offering period (which currently is established at 3,000 Shares unless otherwise determined by the Compensation Committee).

Termination of Participation

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

Non-transferability

Rights to purchase Shares and any other rights and interests under the 2007 ESPP may not be assigned, transferred, sold or otherwise disposed of and may not be subject to the claims of creditors or liable to attachment, execution or other legal process.

Certain Transactions

In the event of any stock split, stock dividend, merger, consolidation, reorganization, recapitalization or other similar change in the capital structure of Infinera, the Compensation Committee may make appropriate adjustments to the number, kind and purchase price of the Shares available for purchase under the 2007 ESPP and any outstanding option under the 2007 ESPP.

If the Compensation Committee or the Board determines that a change of control of Infinera will occur, then all outstanding options under the 2007 ESPP will terminate prior to the change of control and, upon completion of the purchase of Shares on the purchase date (as selected by the Compensation Committee or the Board, and which may be adjusted to occur sooner than originally scheduled), unless the Compensation Committee or the Board determines that the options will be assumed by the surviving corporation or its parent.

Amendment and Termination

The Compensation Committee or the Board of Directors may amend, suspend or terminate the 2007 ESPP or any part of the 2007 ESPP at any time and for any reason. If the 2007 ESPP is terminated, the Compensation Committee or the Board of Directors may determine that all outstanding rights to purchase Shares under the 2007

ESPP terminate immediately, upon completion of the next purchase date (which may be adjusted to occur sooner than originally scheduled), or in accordance with their terms. If options are terminated prior to expiration, then all amounts credited to participants that have not been used to purchase Shares will be returned, without interest (unless otherwise required by applicable law), as soon as administratively practicable.

Number of Shares Purchased by Certain Individuals and Groups

Participation in the 2007 ESPP is voluntary and dependent on each eligible employee's election to participate and his or her determination as to the level of payroll deductions. Further, the number of Shares that may be purchased under the 2007 ESPP is determined, in part, by the price of our common stock on the first and last day of each offering period or purchase period, as applicable. Accordingly, the actual number of Shares that may be purchased by any individual is not determinable. For illustrative purposes only, the following table sets forth (a) the number of Shares that were purchased during 2013 under the 2007 ESPP, and (b) the weighted average per Share purchase price paid for such Shares, for each of our named executive officers, all current executive officers as a group, and all other employees who participated in the 2007 ESPP as a group.

Name of Individual or Identity of Group and Position	Number of Shares Purchased (#)	Weighted Average Purchase Price Per Share ($)
Thomas J. Fallon *Chief Executive Officer*	—	—
David F. Welch, Ph.D. *President*	3,861	5.05
Robert J. Jandro *Senior Vice President, Worldwide Sales*	—	—
Alastair A. Short *Senior Vice President and General Counsel*	—	—
Ita M. Brennan(1) *former Chief Financial Officer*	—	—
All current executive officers as a group	3,861	5.05
All non-employee directors as a group(2)	—	—
All other employees (including all current officers who are not executive officers) as a group	1,651,679	5.17

(1) Ms. Brennan is no longer employed with Infinera. As a result, she is not eligible to participate in the 2007 ESPP.

(2) Non-employee directors are not eligible to participate in the 2007 ESPP.

U.S. Federal Income Tax Consequences

Based on management's understanding of current U.S. federal income tax laws, the tax consequences of the purchase of Shares under the 2007 ESPP are as follows.

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

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

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

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

Vote Required

Approval of Proposal 4 requires the affirmative vote of a majority of the votes cast on this proposal. “ABSTENTIONS” will have the same effect as an “AGAINST” vote. Broker non-votes will not be counted as having been voted on the proposal.

Proposal 4—Recommendation of the Board

The Board unanimously recommends a vote “FOR” the approval of the amendment and restatement of the 2007 ESPP, that would (i) increase the number of shares authorized, (ii) remove the evergreen provisions, and (iii) effect various technical revisions and improvements.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

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

In fiscal 2013, Infinera did not engage in any related party transactions.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The members of the Board, our executive officers and persons who hold more than 10% of our outstanding common stock are subject to the reporting requirements of Section 16(a) of the Exchange Act, which requires them to file reports with respect to their ownership of our common stock and certain transactions in our common stock. Based solely upon (i) the copies of Section 16(a) reports that we received from such persons for their fiscal 2013 transactions in our common stock and their common stock holdings and (ii) the written representations received from one or more of such persons, we believe that all reporting requirements under Section 16(a) were met in a timely manner during fiscal 2013, except for certain transactions that should have been reported on Form 4 for each of Mr. Fallon, Mr. Michael McCarthy (whose employment terminated effective April 12, 2013), Dr. Welch and Ms. Brennan by February 1, 2013, which were actually reported on Form 4 on February 5, 2013.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 28, 2013 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity compensation plans approved by security holders[(1)]	13,670,282[(2)]	$7.26	16,655,933[(3)]
Equity compensation plans not approved by security holders	—	—	—
Total	13,670,282		16,655,933

(1) Our 2007 Plan provides that on the first day of our fiscal year, the number of shares of common stock authorized under the 2007 Plan shall be increased by the lesser of (i) 9,000,000 shares of common stock, (ii) 5% of the outstanding shares of common stock on the last day of the immediately preceding fiscal year or (iii) such other amount as is determined by the Board or a committee of the Board. For 2014, the Board approved an increase in the number of shares of common stock authorized under the 2007 Plan of 2,997,173 shares. Our 2007 ESPP provides that on the first day of our fiscal year, the number of shares of common stock authorized under the 2007 ESPP shall be increased by the lesser of (i) 1,875,000 shares of common stock, (ii) 1% of the outstanding shares of common stock on such date or (iii) such other amount as is determined by the Board or a committee of the Board. For 2014, the Board approved an increase in the number of shares of common stock authorized under the 2007 ESPP of 1,198,869 shares. If stockholders approve the amendment and restatement of the 2007 ESPP (Proposal 4), the annual evergreen provision would be removed and the number of Shares issuable under the 2007 ESPP would be increased by 7,500,000 Shares.

(2) This amount includes the following:

- 6,367,243 shares issuable upon the exercise of outstanding stock options granted under the 2000 Stock Plan and 2007 Plan.
- 6,582,489 shares subject to RSUs granted under the 2007 Plan. Since these awards have no exercise price, they are not included in the weighted average exercise price calculation in column (b).
- 720,550 shares issuable pursuant to outstanding stock awards that have been granted under the 2007 Plan, but not yet earned as of December 28, 2013. The number of shares, if any, to be issued pursuant to such outstanding awards will be determined based on certain performance metrics, as discussed above in the "Compensation Discussion and Analysis" section. Since these awards have no exercise price, they are not included in the weighted average exercise price calculation in column (b).

(3) Includes 372 shares of common stock available for future issuances under our 2007 ESPP.

STOCKHOLDER PROPOSALS FOR 2015 ANNUAL MEETING

To be considered for inclusion in our Proxy Statement for the 2015 Annual Meeting of Stockholders (the "2015 Annual Meeting"), stockholder proposals must comply with our Bylaws and the requirements of Rule 14a-8 under the Exchange Act and be received by our Corporate Secretary at our principal executive offices no later than November 28, 2014, or no later than 120 calendar days before the one-year anniversary of the date on which we first mailed our Proxy Statement or Notice to stockholders in connection with this year's Annual Meeting.

To be raised at the 2015 Annual Meeting, stockholder proposals must comply with our Bylaws. Under our Bylaws, a stockholder must give timely notice thereof in proper written form to our Corporate Secretary of any business, including nominations of directors for the Board that the stockholder wishes to raise at our 2015 Annual Meeting. To be timely, the stockholder notice must be received by our Corporate Secretary no later than February 11, 2015 nor earlier than January 12, 2015, or no later than the 45th day nor earlier than the 75th day before the one-year anniversary of the date on which we first mailed our Proxy Statement or Notice to stockholders in connection with this year's Annual Meeting. To be in proper written form, the stockholder notice must contain a brief description of such business and the reasons for conducting such business at the meeting, as well as certain other information as set forth in greater detail in our Bylaws. In connection with a stockholder nomination of a candidate for the Board, the stockholder notice must also include certain information as set forth in our Bylaws about both the nominee and the stockholder making the nomination. If you wish to bring a stockholder proposal or nominate a candidate for director, you are advised to review our Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations. Our current Bylaws may be found on our website at *http://www.infinera.com* in the Corporate Governance section on our Investor Relations' page.

Under Rule 14a-8 of the Exchange Act, if the date of the 2015 Annual Meeting changes by more than 30 days from the anniversary of this year's Annual Meeting, to be included in our Proxy Statement, stockholder proposals must be received by us within a reasonable time before our solicitation is made.

Under our Bylaws, if the date of the 2015 Annual Meeting is advanced by more than 30 days prior to or delayed by more than 60 days after the one-year anniversary of the date of this year's Annual Meeting, then, for notice by the stockholder to be timely, it must be received by our Corporate Secretary no earlier than the close of business on the 120th day prior to the 2015 Annual Meeting and no later than the close of business on the later of (i) the 90th day prior to the 2015 Annual Meeting, or (ii) the tenth day following the day on which disclosure in a press release reported by Marketwire, Inc., Associated Press or a comparable national news service or in a document publicly filed by Infinera with the SEC pursuant to Section 13, 14 or 15(d) of the Exchange Act of the date of the 2015 Annual Meeting is first made.

If we receive notice of a matter to come before the 2015 Annual Meeting that is not in accordance with the deadlines described above and as more fully set forth in our Bylaws and Rule 14a-8 of the Exchange Act, we will use our discretion in determining whether or not to bring such matter before the 2015 Annual Meeting. If such matter is brought before the 2015 Annual Meeting, then our proxy card for such meeting will confer upon our proxy holders' discretionary authority to vote on such matter.

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

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

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

OTHER MATTERS

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

By Order of the Board,

/s/ ALASTAIR A. SHORT

Alastair A. Short
Senior Vice President, General Counsel and Corporate Secretary

Sunnyvale, California
March 28, 2014

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Appendix A

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

	Twelve Months Ended December 28, 2013
Revenue	$544,122
Reconciliation of Operating Income (Loss):	
U.S. GAAP as reported	$ (24,186)
Stock-based compensation	31,976
Non-GAAP as adjusted	$ 7,790

The non-GAAP measure of operating income (loss) excludes non-cash stock-based compensation expenses. We believe these adjustments are appropriate to enhance an overall understanding of our underlying financial performance and also our prospects for the future and are considered by management for the purpose of making operational decisions. In addition, these results are the primary indicators management uses as a basis for our planning and forecasting of future periods. The presentation of this additional information is not meant to be considered in isolation or as a substitute for operating income (loss) prepared in accordance with GAAP. Non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles and are subject to limitations.

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Appendix B

INFINERA CORPORATION

2007 EMPLOYEE STOCK PURCHASE PLAN
(as amended and restated on March 25, 2014)

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock through accumulated payroll deductions. The Company's intention is to have the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. The provisions of the Plan, accordingly, will be construed so as to extend and limit Plan participation in a uniform and nondiscriminatory basis consistent with the requirements of Section 423 of the Code.

2. Definitions.

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

(b) "Applicable Laws" means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

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

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

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

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

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

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

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

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

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

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

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

(j) "Designated Subsidiary" means any Subsidiary that has been designated by the Administrator from time to time in its sole discretion as eligible to participate in the Plan.

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

(l) "Eligible Employee" means any individual who is a common law employee of an Employer and is customarily employed for at least twenty (20) hours per week and more than five (5) months in any calendar year by the Employer. For purposes of the Plan, the employment relationship will be treated as continuing intact while the individual is on sick leave or other leave of absence that the Employer approves or is legally protected under Applicable Laws. Where the period of leave exceeds ninety (90) days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated on the date three (3) months and one (1) day following the commencement of such leave. The Administrator, in its discretion, from time to time may, prior to an Offering Date for all options to be granted on such Offering Date in an Offering, determine (on a uniform and nondiscriminatory basis) that the definition of Eligible Employee will or will not include an individual if he or she: (i) has not completed at least two (2) years of service since his or her last hire date (or such lesser period of time as may be determined by the Administrator in its discretion), (ii) customarily works not more than twenty (20) hours per week (or such lesser period of time as may be determined by the Administrator in its discretion), (iii) customarily works not more than five (5) months per calendar year (or such lesser period of time as may be determined by the Administrator in its discretion), (iv) is a highly compensated employee within the meaning of Section 414(q) of the Code, or (v) is a highly compensated employee within the meaning of Section 414(q) of the Code with compensation above a certain level or is an officer or subject to the disclosure requirements of Section 16(a) of the Exchange Act, provided the exclusion is applied with respect to each Offering in an identical manner to all highly compensated individuals of the Employer whose Eligible Employees are participating in that Offering. Each exclusion shall be applied with respect to an Offering in a manner complying with U.S. Treasury Regulation Section 1.423-2(e)(2)(ii).

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

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

(o) "Exercise Date" means the first Trading Day on or after February 15 and August 15 of each year. The first Exercise Date under the Plan will be February 15, 2008.

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

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

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value will be the mean of the closing bid and asked prices for the Common Stock on the date of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

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

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

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

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

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

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

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

(w) "Plan" means this Infinera Corporation 2007 Employee Stock Purchase Plan.

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

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

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

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

3. Eligibility.

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

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

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

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

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

6. Payroll Deductions.

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

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

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

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

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

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

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

8. Exercise of Option.

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

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

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

10. Withdrawal.

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

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

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

12. Interest. No interest will accrue on the payroll deductions of a participant in the Plan.

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of Common Stock which will be made available for sale under the Plan will be 16,556,830 shares.

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

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

14. Administration. The Plan will be administered by the Board or a Committee appointed by the Board or a Committee, which Committee will be constituted to comply with Applicable Laws. The Administrator will have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to designate separate

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

15. Designation of Beneficiary.

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

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

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

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

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

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

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

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the

Company, or other change in the corporate structure of the Company affecting the Common Stock occurs, the Administrator, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, shall, in such manner as it may deem equitable, adjust the number and class of Common Stock which may be delivered under the Plan, the Purchase Price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised, and the numerical limits of Sections 7 and 13.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, any Offering Period then in progress will be shortened by setting a New Exercise Date, and will terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Administrator. The New Exercise Date will be before the date of the Company's proposed dissolution or liquidation. The Administrator will notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

(c) Merger or Change in Control. In the event of a merger or Change in Control, each outstanding option will be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, the Offering Period with respect to which such option relates will be shortened by setting a New Exercise Date and will end on the New Exercise Date. The New Exercise Date will occur before the date of the Company's proposed merger or Change in Control. The Administrator will notify each participant in writing prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

20. Amendment or Termination.

(a) The Administrator, in its sole discretion, may amend, suspend, or terminate the Plan, or any part thereof, at any time and for any reason. If the Plan is terminated, the Administrator, in its discretion, may elect to terminate all outstanding Offering Periods either immediately or upon completion of the purchase of shares of Common Stock on the next Exercise Date (which may be sooner than originally scheduled if determined by the Administrator in its discretion), or may elect to permit Offering Periods to expire in accordance with their terms (and subject to any adjustment pursuant to Section 19). If the Offering Periods are terminated prior to expiration, all amounts then credited to participants' accounts which have not been used to purchase shares of Common Stock will be returned to the participants (without interest thereon, except as otherwise required by Applicable Laws) as soon as administratively practicable.

(b) Without stockholder consent and without limiting Section 20(a), the Administrator will be entitled to change the Offering Periods, designate separate Offerings, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable which are consistent with the Plan.

(c) In the event the Administrator determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Administrator may, in its discretion and, to the extent necessary or desirable, modify, amend or terminate the Plan to reduce or eliminate such accounting consequence including, but not limited to:

(i) amending the Plan to conform with the safe harbor definition under Statement of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor thereto), including with respect to an Offering Period underway at the time;

(ii) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;

(iii) shortening any Offering Period by setting a New Exercise Date, including an Offering Period underway at the time of the Administrator action;

(iv) reducing the maximum percentage of Compensation a participant may elect to set aside as payroll deductions; and

(v) reducing the maximum number of Shares a participant may purchase during any Offering Period or Purchase Period.

Such modifications or amendments will not require stockholder approval or the consent of any Plan participants.

21. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan will be deemed to have been duly given when received in the form and manner specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions Upon Issuance of Shares. Shares of Common Stock will not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto will comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and will be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. Code Section 409A. The Plan is exempt from the application of Code Section 409A and any ambiguities herein will be interpreted to so be exempt from Code Section 409A. In furtherance of the foregoing and notwithstanding any provision in the Plan to the contrary, if the Administrator determines that an option granted under the Plan may be subject to Code Section 409A or that any provision in the Plan would cause an option under the Plan to be subject to Code Section 409A, the Administrator may amend the terms of the Plan and/or of an outstanding option granted under the Plan, or take such other action the Administrator determines is necessary or appropriate, in each case, without the participant's consent, to exempt any outstanding option or future option that may be granted under the Plan from or to allow any such options to comply with Code Section 409A, but only to the extent any such amendments or action by the Administrator would not violate Code Section 409A. Notwithstanding the foregoing, the Company will have no liability to a participant or any other party if the option to purchase Common Stock under the Plan that is intended to be exempt from or compliant with Code Section 409A is not so exempt or compliant or for any action taken by the Administrator with respect thereto. The Company makes no representation that the option to purchase Common Stock under the Plan is compliant with Code Section 409A.

24. Term of Plan. The Plan will become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company. It will continue in effect unless sooner terminated under Section 20.

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

26. Governing Law. The Plan will be governed by, and construed in accordance with, the laws of the State of California (except its choice-of-law provisions).

27. No Right to Employment. Participation in the Plan by a Participant will not be construed as giving a participant the right to be retained as an employee of the Company or a Subsidiary, as applicable. Furthermore, the Company or a Subsidiary may dismiss a participant from employment at any time, free from any liability or any claim under the Plan.

28. Severability. If any provision of the Plan is or becomes or is deemed to be invalid, illegal, or unenforceable for any reason in any jurisdiction or as to any participant, such invalidity, illegality or unenforceability will not affect the remaining parts of the Plan, and the Plan will be construed and enforced as to such jurisdiction or participant as if the invalid, illegal or unenforceable provision had not been included.

29. Compliance with Applicable Laws. The terms of this Plan are intended to comply with all Applicable Laws and will be construed accordingly.

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

Form 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 28, 2013

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	**77-0560433**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

140 Caspian Court
Sunnyvale, CA 94089
(Address of principal executive offices, including zip code)
(408) 572-5200
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 Par Value	**The NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $804,041,830 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person who owns more than 5% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of February 18, 2014, 122,437,993 shares of the registrant's common stock, $0.001 par value per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the registrant's Proxy Statement for its 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

INFINERA CORPORATION

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 28, 2013

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Part I

ITEM 1. BUSINESS

Overview

Infinera Corporation (“we” or “Infinera”) provides optical transport networking equipment, software and services to communications service providers, internet content providers, cable operators and subsea network operators (collectively, “Service Providers”) across the globe. Optical transport networks are deployed by Service Providers facing significant demands for transmission capacity prompted by increased use of high-speed Internet access, mobile broadband, high-definition video streaming services, business Ethernet services, cloud-based services and wholesale bandwidth services.

We call our solution for Service Providers, the Infinera Intelligent Transport Network. The Intelligent Transport Network is an architecture for Service Providers to address the increasing demand for cloud-based services and data center connectivity. This architecture helps Service Providers increase revenues with reliable, differentiated services while reducing operating costs through scale, multi-layer convergence and automation. The Intelligent Transport Network is based on platforms built with Infinera's unique photonic integrated circuits (“PICs”). As of December 28, 2013, 131 Service Providers had selected the Infinera network solution.

Infinera manufactures what we believe to be the world’s only commercially-deployed, large-scale Indium Phosphide PICs, which are used as a key differentiating component inside our Intelligent Transport Network platforms. Our first generation PICs transmit and receive 100 Gigabits per second (“Gbps”) of wavelength division multiplexing ("WDM") transmission capacity and incorporate the functionality of over 60 discrete optical functions into a pair of PICs approximately the size of a fingernail. Our next-generation PICs, commercially available since the second quarter of 2012, transmit and receive 500 Gbps, incorporating over 600 discrete optical functions into a pair of PICs. Our PICs are combined with high-performance Optical Transport Network (“OTN”) switching capabilities to offer Service Providers a unique combination of highly-scalable transmission capacity and easy to use bandwidth management tools to simplify transport network operations.

Many Service Providers are looking for new network architectures to respond to continued demand for bandwidth across their networks. These architectural changes include scaling optical transmission capacities beyond 100 Gbps and integrating OTN switching capabilities within the optical transport network platform. Infinera’s DTN platform currently supports 10 Gbps and 40 Gbps WDM transmission capacity combined with integrated switching capabilities. Infinera’s DTN-X platform supports 100 Gbps WDM transmission capacity with 500 Gbps super-channels and also integrates 5 Terabits per second (“Tbps”) of OTN switching in a single bay. The DTN-X platform leverages the unique capabilities of our 500 Gbps PICs to deliver our high-capacity Intelligent Transport Networks that reduce power, cooling and space requirements while simplifying transport network operations.

Similar to how silicon integrated circuits changed the dynamics of the computing industry by increasing computing performance and reliability while reducing physical size, power consumption and heat dissipation, we believe Infinera’s PICs change the dynamics of the optical transport network industry by increasing optical performance and reliability while reducing physical size, power consumption and heat dissipation. We fabricate PICs and develop the software and hardware that together comprise the optical transport network platforms at the foundation of our Intelligent Transport Network architecture. We sell these optical transport network platforms to Service Providers along with a comprehensive suite of installation, management and support services. We believe that Service Providers facing increasing demand for greater optical transport network transmission capacity and the need for more favorable network economics will adopt our DTN-X platform.

“Infinera,” “Infinera DTN,” “Infinera DTN-X,” “ATN,” “Infinera Intelligent Transport Network,” “FlexCoherent,” "Infinera Instant Bandwidth," and other trademarks or service marks of Infinera Corporation appearing in this report are the property of Infinera Corporation. This report contains additional trade names, trademarks and service marks of other companies. We do not intend our use or display of other companies’ trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

Infinera was founded in December 2000, originally operated under the name “Zepton Networks,” and is headquartered in Sunnyvale, California. We are incorporated in the State of Delaware. Our principal executive offices are located at 140 Caspian Court, Sunnyvale, CA 94089. Our telephone number is (408) 572-5200.

Industry Background

Optical transport networking equipment carries digital information using light waves over fiber optic networks. The advent of WDM systems has enabled the transmission of larger amounts of data by using multiple wavelengths over a single optical fiber. Service Providers often use WDM systems to carry communications traffic between cities, referred to as long-haul networks, and within large metropolitan areas, referred to as metro networks. Fiber optic networks are generally capable of carrying most types of communications traffic, including conventional long-distance telephone calls, e-mails, web sessions and high-definition video streams. As service traffic grows, Service Providers add transmission capacity to existing optical networks or purchase and deploy additional systems to keep pace with bandwidth demands and service expansion.

We believe that a number of trends in the communications industry are increasing demand for network capacity and ultimately will increase demand for optical transport networking systems. These trends include growth in bandwidth-intensive services like streaming high-definition video services, the proliferation of 4G and WiFi mobile broadband due to the availability of smartphones and tablets, and the emergence of cloud services.

We believe that Service Providers seek the following solutions that will allow them to increase their revenues and/or expand their service offerings:

- high-capacity solutions that scale transmission capacity to meet increasing bandwidth demand;
- efficient solutions that optimize performance and increase reliability while reducing physical space, power consumption and heat dissipation;
- easy to use solutions that reduce the time to deploy new transmission capacity while lowering operational expenses; and
- improved integration between Internet Protocol equipment such as routers and optical transport networking equipment.

We believe that Infinera’s Intelligent Transport Network architecture is uniquely enabled to deliver improvements in these areas compared to competitive WDM systems that still rely on discrete optical components rather than PICs. We believe that our Intelligent Transport Network architecture enables Service Providers to deploy reliable, high-capacity, efficient optical transport network solutions that are easy to use and improve the integration between the layers of Service Provider networks resulting in the lowest total cost of ownership.

The Infinera Strategy

Our goal is to be a preeminent provider of optical transport networking systems to Service Providers around the world. Key aspects of our strategy to achieve this goal are as follows:

- *Increasing our customer base.* We continue to diversify our customer base across multiple customer markets including, long-haul network operators, regional and metro network operators, Tier 1 telecommunications service providers, bandwidth wholesalers, subsea network operators, cable multiple systems operators (“MSOs”) and internet content providers ("ICPs"). In 2014 and beyond, we intend to increase our penetration with existing customers while leveraging our DTN-X platform to target all of these customer markets in geographies around the world. In 2013, we increased our presence outside of the United States, with the addition of new customers in Europe, Russia, the Commonwealth of Independent States, Africa, and Asia Pacific, as well as deployments in the Other Americas. We also had continued success in the submarine market, as subsea network operators deployed Infinera systems over existing subsea networks to increase capacity and utilize the efficiencies of our Intelligent Transport Network.
- *Penetrating adjacent markets.* We believe that our Intelligent Transport Network architecture can further benefit submarine network operators and operators with networks that extend to the metro edge. We intend to increase our addressable markets by continually adding functionality to our products and by developing the service and support infrastructure needed to address these markets.
- *Maintaining and extending our technology lead.* We intend to continue to incorporate the functionality of additional discrete functions into our PICs in order to continue to increase our technology lead. In addition, we will pursue the expansion of our digital switching and bandwidth management capabilities in order to enhance the performance, scalability and economic advantages of our products.

- *Continuing investment in PIC manufacturing activities.* We believe that our vertical integration and manufacturing capabilities serve as a competitive advantage and intend to continue to invest in the manufacturing capabilities needed to produce new generations of PICs.

Products

Infinera DTN Platform

The Infinera DTN platform utilizes our PIC technology to enable digital processing and management of data with the capability to generate WDM wavelengths and to add, drop, switch, manage, protect and restore network traffic digitally using integrated OTN switching. The DTN platform can automate the connection of circuits and provisioning of new services without costly and cumbersome manual intervention.

Our DTN platform is modular in design to provide Service Providers with the ability to add capacity in a cost-efficient manner. The initial deployment of our DTN platform at a customer site involves the installation of a line system (including common equipment, such as a chassis, amplifiers, management controllers and related equipment). Service Providers can increase the capacity of the DTN platform by purchasing our Digital Line Modules, Tributary Adapter Modules and Tributary Optical Modules. We believe that the density and the modular architecture of the DTN platform enable significant flexibility and scalability for Service Providers. Our current DTN platform delivers 10 Gbps and 40 Gbps wavelengths enabling fiber capacity from 1.6 Tbps to 6.4 Tbps and per-chassis I/O capacity of 400 Gbps.

Our DTN platform is carrier-class, which means that it complies with applicable Telcordia and equivalent major international standards for central office-based network elements. Our DTN platform supports a broad range of optical service interfaces including Ethernet (1 Gigabit Ethernet ("GbE"), 10 GbE, 40 GbE and 100GbE) and separate synchronous optical network/synchronous digital hierarchy.

Infinera Line System

Infinera's Intelligent Transport Network platforms are built upon and connected to one another using an optical "line system." The Infinera Line System ("ILS") provides optical amplification and enables the management communication channels between network nodes. ILS currently supports up to 6.4 Tbps of optical capacity on a single fiber using the DTN platform and up to 8 Tbps of capacity using the DTN-X platform. ILS is fully integrated into Infinera's management and control software and can be managed across platforms. Infinera's bandwidth management capabilities allow our customers to manage and utilize the available capacity as a single pool of bandwidth to satisfy customer requirements, including services at speeds from 1 Gbps up to 100 Gbps.

Infinera DTN-X Platform

The DTN-X platform is based on our third generation 500 Gbps PICs that integrate more than 600 discrete optical functions delivering the world's first 500 Gbps FlexCoherent super-channels, based on 100 Gbps per channel. The DTN-X platform delivers a step function improvement in network economics to help Service Providers more efficiently manage the explosive growth of traffic brought on by video, mobile and cloud-based services. The DTN-X platform is a next-generation multi-terabit packet optical transport platform that is fundamentally three products in one:

- a dense WDM ("DWDM") transmission system based on the world's first 500 Gbps super-channels, unleashing cost-effective DWDM transmission capacity;
- an integrated OTN switching system that will scale from 5 Tbps in its first release and up to 100 Tbps in the future and will enable operators to efficiently manage larger data transmission with grooming of traffic down to 1 Gbps granularity; and
- a system that is designed to be upgradeable to Multi-Protocol Label Switching ("MPLS") switching in the future which will help further enable convergence of the network for improved efficiency, reducing the number interconnections between network layers.

We believe that the convergence of network layers can only be achieved when the best in class performance of each individual layer is realized in a single platform. In most competitive solutions, a Service Provider must make a choice between maximizing either the system's transmission capacity or its OTN switching capability. The DTN-X platform, unlike other competitive offerings, was designed from the beginning to converge switching with WDM transport without compromising the performance of either function. The purpose-built design centers around three unique technology building blocks – PICs paired with a FlexCoherent Processor, custom switching application-specific integrated circuits ("ASICs") and Generalized MPLS ("GMPLS") software. We believe that it is the only platform available in the market that will allow all components, including the optical functions based on our PIC technology, to scale in a manner consistent with Moore's Law-like semiconductor manufacturing economics and, therefore, deliver simultaneously best-of-breed switching, integrated with best-of-breed DWDM.

Infinera DTN-X Platform for Submarine Network Applications

For submarine transport applications, Infinera started shipping Soft-Decision Forward Error Correction ("SD-FEC") enabled super-channels in 2013. With these modules, the DTN-X platform can be used as a Submarine Line Terminating Equipment ("SLTE") node, increasing the total optical capacity of many traditional submarine systems to a maximum of up to 8 Tbps and distances of up to 10,000 km. Our DTN-X platform leverages its digital operations and software automation to allow Infinera's SLTE solution to significantly reduce engineering complexity for submarine cable upgrades and to enable lower cost, faster deployment of additional capacity on existing systems.

Infinera ATN Platform

The Infinera ATN platform is a state-of-the-art coarse WDM and DWDM aggregation and transport solution designed with 400 Gbps of total capacity. The ATN platform can be used to extend the benefits of the DTN and DTN-X platforms, and can also be used as a standalone WDM access system.

Implementing numerous features in support of simplicity of use and operation, the ATN platform is a cost-effective, efficient multiservice aggregation and transport platform. The ATN platform supports direct wavelength connectivity to DTN and DTN-X nodes, reducing equipment costs and providing unique network management capabilities across our Intelligent Transport Network.

Infinera IQ Network Operating System

The Infinera IQ Network Operating System is our embedded software operating system, which enables our Service Providers to simplify and speed up the tasks they perform to deliver, differentiate, and manage services and to optimize the utilization of their networks. The IQ Network Operating System for the DTN and DTN-X platforms utilize GMPLS for end-to-end provisioning, protection and restoration services, and a host of performance monitoring and software-definable testing capabilities. The ATN platform supports end-to-end provisioning through software features similar to the DTN and DTN-X platforms.

Infinera Management Suite

The Infinera Management Suite is an element management system used by Service Providers to manage their DTN, DTN-X and ATN platforms. Our management suite software includes our Digital Network Administrator, a scalable, robust, feature-rich element management system, and our Graphical Node Manager, an easy-to-use web-based management interface. Our hardware products, the DTN, DTN-X and ATN platforms, are managed in an integrated fashion by the Infinera Management Suite.

Technology

Intelligent Transport Network Architecture

Infinera was founded with a vision of increasing the functionality and improving the economics of optical transport systems. To that end, our core engineering team consists of optical component and systems experts who have collaborated to create an innovative optical networking architecture that combines the delivery of large amounts of low-cost bandwidth with distributed switching and the embedded software intelligence of bandwidth management to manage larger networks and deliver high-capacity services quickly and cost-effectively. We have focused our efforts, time and capital on developing our Intelligent Transport Network architecture and our system products.

Our Intelligent Transport Network architecture enables Service Providers to create rich end-user experiences based on efficient, high-capacity transport by combining the following elements:

- *Scalability.* The proliferation of data centers, rise of big data and increasing consumption of video are fundamentally changing traffic characteristics in operator networks. The Intelligent Transport Network delivers 500 Gb/s FlexCoherent super-channels today and is designed to scale without compromise to enable terabit super-channels and terabit Ethernet in the future.

- *Convergence.* Networks are growing in complexity with the proliferation of chassis, network layers and fiber interconnects. Complexity increases the time it takes to plan and deploy network services and increases the cost of maintenance, operations, power, space and cooling. By converging packet and OTN switching functions the Intelligent Transport Network is designed to reduce complexity while lowering overall network spending without compromising performance.

- *Automation.* Network operators face intensifying competition to meet customer demand for immediate bandwidth needs and better visibility into the network. The Intelligent Transport Network features intelligent software control to help simplify multi-layer provisioning. Automation allows end-user control of their own network services and aligns service revenue to transport network growth through capabilities such as Infinera Instant Bandwidth.

Infinera PICs

We believe that our proprietary PICs are a key source of our value proposition and competitive advantage. We manufacture and package our PICs at our own facilities for use exclusively with our DTN and DTN-X platforms. We began the design and manufacture of our PICs shortly after we were founded in December 2000. We employ a multi-disciplinary approach towards the development and manufacture of our PICs, with significant interaction between our manufacturing, system engineering and advanced technology groups. As a leader in the development of photonic integration, we have protected the intellectual property associated with our PIC manufacturing through a combination of trade secrets, patents and contractual protections. We believe that as a result of the combination of the multiple disciplines that were required to develop our PIC, together with the intellectual property protections that we have established, it will be difficult for others to duplicate the technology we have developed.

Our DTN and DTN-X platforms transmit optical capacity, in increments of 100 Gbps and 500 Gbps, respectively, utilizing a pair of PICs. Our 100 Gbps PICs integrate the functionality of 60 optical functions onto a pair of chips, and our 500 Gbps PICs have increased this integration to over 600 discrete functions per pair of chips. We believe that large-scale photonic integration enables significantly 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, greater functional integration, increased device density, and manufacturing yield enhancements.

Infinera FlexCoherent Processor

The term “coherent transmission” generally implies the combination of a number of technologies used to transmit data over optical transport networks. These optical transmission methodologies are based on varying optical technologies, namely: phase modulation, polarization multiplexing, coherent detection and advanced digital signal processing. These “coherent technologies” are used by Service Providers to enable higher data capacities to be transmitted over their existing optical fiber infrastructure, typically using the same or better design rules than those used for 10 Gbps transmission. Typically, a coherent transmitter uses a more complex optical circuit and requires a significantly greater number of optical components than more traditional non-coherent transmission methodologies. Infinera has integrated proprietary coherent technologies onto our FlexCoherent Processor, which works in conjunction with our 500 Gbps PICs to construct a single module. This module incorporates our long-haul FlexCoherent 500 Gbps WDM super-channels with software selectable modulation formats and exceptional optical transport performance.

Super-Channels

Infinera’s DTN-X platform supports five channels of 100 Gbps capacity in a single line card. This 500 Gbps pool of bandwidth is managed as a super-channel that can be deployed in a single operational motion. Competitive solutions would require the installation of five discrete line modules, each turned up with its own operational motion, in order to achieve the same system capacity. This results in competitive advantages not only in the areas of space, power consumption and long-term system reliability, but also a significant reduction in time to repair and operational costs.

Integrated OTN Switching

OTN offers a highly-structured approach to service multiplexing and switching and enables customers to reduce operational costs and more efficiently utilize higher-capacity bandwidth in their long-haul networks. Historically, the OTN switching and DWDM transport functions have been deployed by Service Providers in separate systems. Our unique PIC technology allows our DTN-X platform to fully integrate DWDM transport and OTN switching capabilities in a single platform, without compromising overall system functionality or capacity. This is achieved by reducing the number of elements and fiber connections in the network, as well as lowering space and power requirements. This results in an improved total cost of ownership for the customer.

Infinera Instant Bandwidth

Infinera Instant Bandwidth enables Service Providers to license the 500 Gbps super-channel pool of bandwidth in 100 Gbps increments. With the Infinera Instant Bandwidth program, Service Providers can instantly provision an additional 100G of transmission capacity on demand without the deployment of any incremental equipment. The Instant Bandwidth program is uniquely enabled by Infinera's super-channel capability and PICs.

Customers

As of December 28, 2013, we have sold our Intelligent Transport Network platform to 131 customers worldwide, including customers in each of the following markets:

- Tier-1 domestic carrier;
- Tier-1 international carrier;
- Tier-2 carrier
- competitive local exchange carrier;
- MSO/cable;
- internet content provider/data center operator;
- research and education/government;
- bandwidth wholesaler; and
- submarine cable owners.

Some of our announced customers include CenturyLink, Colt, Cox Communications, DANTE, Deutsche Telekom, Equinix, Interoute, KDDI, Level 3, NTT, OTE, Pacnet, Rostelecom, Telefonica, TeliaSonera International Carrier, Telstra Global and Vodafone. In addition, we currently have 45 customer deployments where customers have purchased our ATN platform to extend the Intelligent Transport Network experience to their metro edge deployments. We do not have long-term sales commitments from our customers. No individual customer accounted for over 10% of our revenue in 2013, 2012 or 2011.

Support and Services

In addition to our product offerings, the Infinera provides a comprehensive range of support services for all hardware and software products. These support services cover all phases of network ownership, from the initial installation through day-to-day maintenance activities and professional services. Infinera's support services are designed to efficiently manage and maintain customer network operations in the face of today's ever-increasing demands for lower operational costs and minimized downtime.

Infinera's support organization continues to scale and provide world-class services that successfully support customers in over 70 countries around the world. In addition, we continue to expand our services portfolio in order to meet the needs of our 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 may also use distribution or support partners to enter new markets or when requested by a potential customer. Our sales team has significant previous experience with the buying process and sales cycles typical of high-value telecommunications products. We expect to continue to add sales and support employees as we grow our business.

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 we expect to leverage our sales force and customer support capabilities to establish relationships with both domestic and international Service Providers.

Over the course of the sales cycle, Service Providers often test our products before buying. Prior to commercial deployment, the Service Provider will generally perform a field trial of our products. Upon successful completion, the Service Provider 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 Service Provider through the signing of a purchase agreement, may, in some cases, take several quarters.

Direct Sales Force. Our sales team sells directly to Service Providers worldwide. We maintain a sales presence throughout the United States, as well as in a number of international locations, including Argentina, Belgium, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, Singapore, South Africa, Spain, Sweden, Russia, and the United Kingdom. We expanded our sales force in 2013 as we prepared to address new geographical markets and to support the sales of our expanded portfolio of products. Going forward, the addition of incremental sales headcount is expected to be success-based and in support of new customer accounts.

Indirect Sales Force. We have and will continue to employ business consultants, resale partners and sales agents to assist in our sales efforts and to accelerate and strengthen our customer relationships. 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 of our products.

Marketing and Product Management. Our product management team is responsible for defining the product features and development plan required to maximize our success in the marketplace. Product management supports our sales efforts with product and application expertise. Our 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, and via the Internet and other marketing channels.

Research and Development

Continued investment in research and development is critical to our business. To this end, we have assembled a team of engineers with expertise in various fields, including systems, sub-systems and components. Our research and development efforts are currently focused in Sunnyvale, California; Allentown, Pennsylvania; Beijing, China; Bangalore, India; and Kanata, Canada. We have invested significant time and financial resources into the development of our Intelligent Transport Network architecture, and our DTN-X, DTN and ATN platforms, including the IQ Network Operating System and Management Suite software. We will continue to expand our product offerings and capabilities 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. We are also working to develop new generations of PICs, and we intend to enable further integration in our Intelligent Transport Network architecture through continued research and development.

Our research and development expenses were $124.8 million, $117.2 million and $127.1 million in 2013, 2012 and 2011, respectively.

Employees

As of December 28, 2013, we had 1,318 employees. A total of 484 of those employees were located outside of the United States. None of our U.S. employees are subject to a collective bargaining agreement. Employees in certain foreign jurisdictions may be represented by local workers' councils and/or collective bargaining agreements, as may be customary or required in those jurisdictions. We have not experienced any work stoppages, and we consider our employee relationships to be good.

Manufacturing

We have invested significant time and capital to develop and improve the manufacturing process that we use to produce and package our PICs. This includes significant investments in personnel, equipment and the facilities needed to manufacture and package our PICs in Sunnyvale, California and Allentown, Pennsylvania. We also have invested in automating our manufacturing process and in training and maintaining the quality of our manufacturing workforce. As a leader in the development of photonic integration, our manufacturing processes have been developed over several years and are protected by a significant number of trade secrets. We believe that the trade secrets associated with the manufacturing and packaging of our PICs provide us with a significant competitive advantage.

We use both domestic and international manufacturing partners to manufacture certain components of our products. Our contract manufacturers manufacture our products based on our specifications and bill of materials. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in product specifications or delivery schedules. Despite outsourcing manufacturing operations for cost-effective scale and flexibility, we perform rigorous in-house quality control testing to ensure the reliability of our products. Our supply chain risk mitigation strategies are continuous and are institutionalized in our supply chain design for external manufacturing and for procurement of components. By design, we have three contract manufacturers in three different countries, in a low cost region (one in China), as well as the capability to redirect manufacturing to U.S. qualified factories of two electronic manufacturing services partners.

We believe that our current manufacturing facilities can accommodate an increase in capacity for PIC production sufficient for our current product offerings.

Backlog

As of December 28, 2013, our order backlog was $59.0 million. This 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. We do not believe that backlog should be viewed as an indicator of future performance. 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.

Competition

The transport network equipment market is highly competitive. Competition in this market is based on any one or a combination of the following factors:

- price and other commercial terms;
- functionality;
- existing business and customer relationships;
- the ability of products and services to meet customers' immediate and future network requirements;
- installation capability;
- services;
- scalability; and
- manufacturing capability.

Competition in the optical transport networking market is dominated by a number of very large, multi-national companies. Many of our competitors have substantially greater name recognition and technical, financial, and marketing resources, and greater manufacturing capacity, as well as better established relationships with the incumbent carriers, than we do. Many of our competitors have more resources to develop or acquire, and more experience in developing or acquiring, new products and technologies and in creating market awareness for these products and technologies. In addition, many of our competitors have the financial resources to offer competitive products at below market pricing levels that could prevent us from competing effectively. Further, many of our competitors have built long-standing relationships with some of our prospective customers and a number of competitors have the ability to provide financing to customers and could, therefore, have an inherent advantage in selling products to those customers.

Our competitors include current WDM suppliers, such as Alcatel-Lucent, Ciena Corporation, Cisco Systems, Coriant, Huawei Technologies Co. Ltd., and ZTE Corporation. These companies have historically set the competitive benchmarks for price and functionality. There are also smaller companies, including startups, that have announced plans or developed products that would compete for long-haul and metro optical transport business. We also face additional competition in certain market segments from companies which offer one or more products that compete directly or indirectly with our products. In addition, we may compete with other companies as we expand into new markets or as other companies develop products that are competitive with us.

Intellectual Property

Our success as a company 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.

We rely primarily on trade secret protection for our PIC and PIC manufacturing processes, including design, fabrication and testing of our PICs. However, there can be no assurances that trade secrets 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 28, 2013, we held 247 U.S. patents and 44 international patents expiring between 2021 and 2033, and held 183 U.S. and 70 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 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 exact effect of the protection 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. We have been sued by Cheetah Omni LLC ("Cheetah") and Cambrian Science Corporation ("Cambrian") for alleged infringement of their patents. See the section set forth in Item 3. "Legal Proceedings" for additional information regarding these lawsuits. Any claim of infringement from a third party, even those without merit, could cause us to incur substantial costs defending against such claims, and could distract our management from running our business. Furthermore, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from selling 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 incorporate a number of third-party software programs into our products pursuant to license agreements.

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 open source software into our products. Although we monitor our use of 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 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 on a timely basis, any of which could adversely affect our business, operating results and financial condition.

Environmental Matters

Our business and operations are subject to environmental laws in various jurisdictions around the world including the Waste Electrical and Electronic Equipment and Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment regulations adopted by the European Union. We seek to operate our business in compliance with such laws. We are currently subject to laws relating to the materials and content of our products and certain requirements relating to product take back and recycling. Environmental regulation is increasing, particularly outside of the United States, and we expect that our international operations will be subject to additional environmental compliance requirements, which may expose us to additional costs. 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.

Business Segment Data and Our Foreign Operations

We operate in the single industry segment of optical transport networking systems. Information concerning revenues, results of operations and revenues by geographic area is set forth in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 15, "Segment Information," of Notes to Consolidated Financial Statements, both of which are incorporated herein by reference. Information concerning identifiable assets is also set forth in Note 15, "Segment Information," of Notes to Consolidated Financial Statements. Information on risks attendant to our foreign operations is set forth below in Item 1A. "Risk Factors."

Executive Officers and Directors

Our executive officers and directors, and their ages and positions as of December 28, 2013, are set forth below:

Name	Age	Position
Thomas J. Fallon	52	Chief Executive Officer and Director
David F. Welch, Ph.D.(3)	53	Co-founder, President and Director
Ita M. Brennan	46	Chief Financial Officer (resigned effective February 28, 2014)
Robert J. Jandro	58	Senior Vice President, Worldwide Sales
Alastair A. Short	57	Senior Vice President, General Counsel and Secretary
Kambiz Y. Hooshmand(1)(3)	52	Chairman of the Board
Kenneth A. Goldman(4)	64	Director
Philip J. Koen(3)(4)	61	Director
Dan Maydan, Ph.D.(1)(2)	78	Director
Paul J. Milbury(2)(4)	65	Director
Carl Redfield(1)(2)	66	Director
Mark A. Wegleitner(2)(3)	63	Director

(1) Member of Nominating and Governance Committee
(2) Member of Compensation Committee
(3) Member of Technology and Acquisition Committee
(4) Member of Audit Committee

Thomas J. Fallon has served as our Chief Executive Officer since June 2013 and as a member of our board of directors since July 2009. Mr. Fallon served as our President and Chief Executive Officer from January 2010 to June 2013, and as our Chief Operating Officer from October 2006 to December 2009 and as our Vice President of Engineering and Operations from April 2004 to September 2006. From August 2003 to March 2004, Mr. Fallon was Vice President, Corporate Quality and Development Operations of Cisco Systems, Inc., a networking and telecommunications company. From May 2001 to August 2003, Mr. Fallon served as Cisco's General Manager of the Optical Transport Business Unit. Mr. Fallon holds a B.S.M.E. and M.B.A. from the University of Texas at Austin, and is currently a member of the Engineering Advisory Board of the University of Texas at Austin.

David F. Welch, Ph.D. co-founded our company and has served as our President since June 2013 and as a member of our board of directors since October 2010. Dr. Welch served as our Executive Vice President, Chief Strategy Officer from January 2004 to June 2013, as our Chief Development Officer/Chief Technology Officer from May 2001 to January 2005, as our Chief Marketing Officer from January 2005 to January 2009, and as a member of our board of directors from May 2001 to November 2006. From February 2001 to April 2001, Dr. Welch served as Chief Technology Officer of the Transmission Products Group of JDS Uniphase Corporation, an optical component company. From January 1985 to February 2001, Dr. Welch served in various executive roles, including Chief Technology Officer and Vice President of Corporate Development of SDL Inc., an optical component company.

Dr. Welch holds over 130 patents, and has been awarded the Optical Society of America's ("OSA") Adolph Lomb Medal, Joseph Fraunhofer Award, the John Tyndall Award and the IET JJ Thompson Medal for Achievement in Electronics, in recognition of his technical contributions to the optical industry. He is a Fellow of OSA and the Institute of Electrical and Electronics Engineers ("IEEE"). Dr. Welch holds a B.S. in Electrical Engineering from the University of Delaware and a Ph.D. in Electrical Engineering from Cornell University.

Ita M. Brennan has served as our Chief Financial Officer since July 2010. Ms. Brennan resigned from the Company effective February 28, 2014. Prior to becoming our Chief Financial Officer, Ms. Brennan served as our Vice President of Finance and Corporate Controller from July 2006 to July 2010. From September 1997 to July 2006, Ms. Brennan held various roles at Maxtor Corporation, an information storage solutions company, including Vice President of Finance of Worldwide Operations. Ms. Brennan is a chartered accountant and public accounting alumna of Deloitte and Touche, having worked at the firm in Ireland and the U.S.

Robert J. Jandro has served as our Senior Vice President, Worldwide Sales, since May 2013. Prior to joining Infinera, Mr. Jandro served as Vice President of Business Development of Openwater Software, Inc., a big data and analytics cloud company, and Chief Executive Officer and President of Nsite Software, Inc., an early cloud company acquired by Business Objects. Before joining Nsite, Mr. Jandro served as the Executive Vice President of Global Sales and Services for ONI Systems. Mr. Jandro worked at Oracle from 1996 to 2000 where he last served as the Group Vice President of Oracle's Communications and Utilities Industries. Mr. Jandro earned a Masters of Management degree from Northwestern University's Kellogg Graduate School of Management and a B.S. in Business from the University of Missouri-St. Louis.

Alastair A. Short has served as our Senior Vice President, General Counsel and Secretary since September 2013. From December 2011 to June 2013, Mr. Short served as Vice President and General Counsel for Better Place Inc., a company that designed and manufactured the infrastructure for electric vehicles. From June 2003 to December 2011, Mr. Short served as Vice President and General Counsel for 3PAR Inc., a global technology company. Prior to that, Mr. Short helped build two start-up companies, MetaTV and Netigy, and held a number of senior positions at Hitachi Data Systems, including Executive Vice President of Legal Affairs. Mr. Short holds an L.L.B. from the University of Warwick, England. Mr. Short is a member of the New York State Bar and a Solicitor of the Supreme Court of England and Wales.

Kambiz Y. Hooshmand has been a member of our board of directors since December 2009 and has served as Chairman of our board of directors since October 2010. From March 2005 to May 2009, Mr. Hooshmand served as President and Chief Executive Officer of Applied Micro Circuits Corporation, a communications solutions company. From March 2000 to February 2002, Mr. Hooshmand served as Vice President and Division General Manager of the DSL Business Unit of Cisco. From February 2002 to March 2005, Mr. Hooshmand also served as Group Vice President and General Manager of Cisco. From June 1997 to February 2000, Mr. Hooshmand served as Cisco's Vice President of Engineering. From January 1992 to June 1997, Mr. Hooshmand served as Director of Engineering of StrataCom, Inc., a networking solutions company. Mr. Hooshmand holds a B.S. in Electrical Engineering and Computer Science from California State University, Chico, and an M.S. in Engineering from Stanford University.

Kenneth A. Goldman has been a member of our board of directors since February 2005. Mr. Goldman is Chief Financial Officer of Yahoo! Inc., responsible for Yahoo!'s global finance functions including financial planning and analysis, controllership, tax, treasury, and investor relations since October 2012. Mr. Goldman served as Senior Vice President, Finance and Administration, and Chief Financial Officer of Fortinet Inc., a provider of unified threat management solutions, from September 2007 to September 2012. From November 2006 to August 2007, Mr. Goldman served as Executive Vice President and Chief Financial Officer of Dexterra, Inc. From August 2000 until March 2006, Mr. Goldman served as Senior Vice President, Finance and Administration, and Chief Financial Officer of Siebel Systems, Inc., a supplier of customer software solutions and services. From December 1999 to December 2003, Mr. Goldman served as an advisory council member of the Financial Accounting Standards Board Advisory Council. Mr. Goldman serves on the board of directors of NXP Semiconductor N.V., a mixed signal and standards product semiconductor company, Gigamon Inc., an intelligent Traffic Visibility solutions provider, and Yahoo Japan Corporation. Mr. Goldman was a member of board of trustees of Cornell University from 2005 to 2013 and was designated as Emeritus Trustee. He was formerly a member of the Treasury Advisory Committee on the Auditing Profession, a public committee that made recommendations in September 2008 to encourage a more sustainable auditing profession. Mr. Goldman holds a B.S. in Electrical Engineering from Cornell University and an M.B.A. from the Harvard Business School.

Philip J. Koen has been a member of our board of directors since February 2010. Mr. Koen has notified us that he will resign as a member of our board of directors effective immediately prior to our upcoming 2014 annual meeting of stockholders and will not be standing for re-election at that meeting. Mr. Koen has been Chairman of the board of directors and Chief Executive Officer of Intermedia.net, Inc., a cloud-based provider of hosted Microsoft Exchange, collaboration and content management services since June 2011. Since October 2010, Mr. Koen has served as a member of the board of directors for Proofpoint, Inc., a cloud-based email security company. From February 2010 to May 2011, Mr. Koen served as the Chief Executive Officer of Montero Partners, an advisory services company. From March 2006 to January 2010, Mr. Koen served as Chief Executive Officer and Director of SAVVIS, Inc., a cloud infrastructure and hosted IT solutions provider. From July 1999 until February 2006, Mr. Koen was employed by Equinix, Inc., a provider of network neutral data centers and Internet exchange services, as President and Chief Operating Officer and as Chief Financial Officer. Mr. Koen is currently on the board of trustees of Webster University. Mr. Koen holds a B.A. in Economics from Claremont McKenna College and an M.B.A. from the University of Virginia.

Dan Maydan, Ph.D. has been a member of our board of directors since September 2001. From December 1993 to April 2003, Dr. Maydan served as President of Applied Materials Inc., a semiconductor equipment manufacturing company, and was appointed President Emeritus of Applied Materials from April 2003 to December 2012. Dr. Maydan was a member of the board of directors of Applied Materials from June 1992 until March 2006. Since 1996, Dr. Maydan has served on the board of directors of Electronics for Imaging, Inc., a digital imaging and print management solutions company. Dr. Maydan holds a B.S. and an M.S. in Electrical Engineering from the Israel Institute of Technology and a Ph.D. in Physics from Edinburgh University of Scotland.

Paul J. Milbury has been a member of our board of directors since July 2010. Mr. Milbury served as Vice President of Operations and Chief Financial Officer of Starent Networks Corp., a provider of mobile network solutions, from January 2007 until its acquisition by Cisco in 2009. From December 2009 to July 2010, he played a key role in integrating Starent Networks into Cisco to create the Mobile Internet Technology Group. From December 2000 to March 2007, Mr. Milbury served as Vice President and Chief Financial Officer of Avid Technology, Inc., a digital media creation, management, and distribution solutions company. Mr. Milbury serves on the board of directors of Aerohive Networks, a wireless networking company and Accedian Networks, a network performance assurance solutions provider. Mr. Milbury holds a B.B.A. in Business and Economics and an M.B.A. from the University of Massachusetts, Amherst.

Carl Redfield has been a member of our board of directors since August 2006. From September 2004 to his retirement in May 2008, Mr. Redfield served as Cisco's Senior Vice President, New England Development Center Executive Sponsor. From February 1997 through September 2004, Mr. Redfield served as Cisco’s Senior Vice President, Manufacturing and Logistics. Mr. Redfield holds a B.S. in Materials Engineering from Rensselaer Polytechnic Institute and has completed post-graduate studies at the Harvard Business School.

Mark A. Wegleitner has been a member of our board of directors since May 2011. Since April 2011, Mr. Wegleitner has served as President of Wegleitner Consulting, LLC, a privately-owned telecommunications consulting company. From September 2007 until his retirement in July 2010, Mr. Wegleitner served as the Senior Vice President, Technology, for Verizon Communications Inc., a telecommunications company, where his responsibilities included technology assessment, network architecture, platform development and laboratory testing for wireline and wireless communications networks. From July 2000 to September 2007, he served as Chief Technology Officer for Verizon, with responsibility for wireline communications technologies. Prior to the creation of Verizon, Mr. Wegleitner held various positions in the Network Services division of Bell Atlantic, a telecommunications company, including Chief Technology Officer from January 1999 to July 2000. Prior to joining Bell Atlantic, he worked at Bell Laboratories and AT&T General Departments. Mr. Wegleitner holds a B.A. in Mathematics from St. John’s University and an M.S. in Electrical Engineering and Computer Science from the University of California at Berkeley.

Our board of directors is currently composed of nine members. Messrs. Goldman, Hooshmand, Koen, Milbury, Redfield and Wegleitner and Dr. Maydan qualify as independent directors in accordance with the listing requirements of the NASDAQ Global Select Market (“NASDAQ”). The NASDAQ definition of independence includes a series of objective tests, such as that the director is not, and has not been for at least three years, one of our employees and that neither the director, nor any of his family members, has engaged in various types of business dealings with us. In addition, as further required by the NASDAQ rules, our board of directors has made a subjective determination as to each independent director that no relationships exist that, in the opinion of our board of directors, would interfere with his exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, our directors reviewed and discussed information provided by the directors and us with regard to each director’s business and personal activities as they may relate to us and our management.

Available Information

Our website address is *http://www.infinera.com*. Information contained on our website is not incorporated by reference into this Form 10-K 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. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website (*http://www.sec.gov*) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

ITEM 1A. RISK FACTORS

Investing in our securities involves a high degree of risk. Set forth below and elsewhere in this Annual Report on Form 10-K, and in other documents we file with the SEC, are risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this Annual Report on Form 10-K. Because of the following factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

We have a history of significant operating losses and may not achieve profitability on an annual basis in the future.

For the fiscal years ended December 28, 2013 and December 29, 2012, we recorded a net loss of $32.1 million and $85.3 million, respectively. As of December 28, 2013, our accumulated deficit was $604.5 million. We expect to continue to make significant expenditures related to the continued development of our business. These expenditures may include the addition of personnel related to the sales, marketing and research and development of our products and other costs related to the maintenance and expansion of our manufacturing facilities and research and development operations. We may therefore sustain significant operating losses and negative cash flows in the future. We will require increased revenue and product gross margins to achieve profitability on an annual basis.

Our revenue and operating results may fluctuate significantly, which could make our future results difficult to predict and could cause our operating results to fall below investor or analyst expectations.

Our revenue and operating results may fluctuate due to a variety of factors, many of which are outside of our control. Over the past four fiscal quarters, our revenue has ranged from $124.6 million to $142.0 million and our operating income (loss) has ranged from income of $6.4 million to a loss of $14.9 million. 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 long-term future revenue and the development efforts associated with these future revenues. As a result, fluctuations in our revenue and gross margins will have a significant impact on our operating results. Given the relatively fixed nature of our operating costs including those relating to our personnel and facilities, particularly for our engineering personnel, any substantial adjustment to our expenses to account for lower levels of revenue will be difficult and may take time. Consequently, if our revenue does not meet projected levels in the short-term, our inventory levels and operating expenses would be high relative to revenue, resulting in additional operating losses.

In addition to other risks discussed in this section, factors that may contribute to fluctuations in our revenue and our operating results include:

- fluctuations in demand, sales cycles and prices for products and services, including discounts given in response to competitive pricing pressures;
- fluctuations in our product mix, including the mix of higher and lower margin products and significant mix changes resulting from new customer deployments;
- changes in customers' budgets for optical transport network equipment purchases and changes in their purchasing cycles;
- order cancellations or reductions or delays in delivery schedules by our customers;
- timeliness of our customers' payments for their purchases;
- our ability to control costs, including our operating expenses and the costs of components we purchase for our products;
- readiness of customer sites for installation of our products;
- the timing of product releases or upgrades by us or by our competitors. In particular, if we fail to achieve targeted release dates for our future products, or convert lab trials and field evaluations by potential customers into purchase orders, our revenue and operating results may be negatively impacted;

- any significant changes in the competitive dynamics of our market, including any new entrants, technological advances or substantial discounting of products;

- availability of third-party suppliers to provide contract engineering and installation services for us;

- the timing of recognizing revenue in any given quarter, including the impact of revenue recognition standards and any future changes in U.S. generally accepted accounting principles ("U.S. GAAP") or new interpretations of existing accounting rules; and

- general economic conditions in domestic and international markets.

Many factors affecting our results of operations are beyond our control and make it difficult to predict our results for a particular quarter or to accurately predict future revenues beyond a one-quarter time horizon. If our revenue or operating results fall below the expectations of investors or securities analysts or below any guidance we may in the future provide to the market, the price of our common stock may decline substantially.

Our gross margins may fluctuate from quarter-to-quarter and may be adversely affected by a number of factors, some of which are beyond our control.

Our gross margins fluctuate from period-to-period and vary by customer and by product specification. Over the past four fiscal quarters, our gross margins have ranged from 34% to 48%. Our gross margins are likely to continue to fluctuate and will be affected by a number of factors, including:

- the mix in any period of the customers purchasing our products and the product mix, including the relative mix of higher and lower margin products and services;

- significant new customer deployments, often with a higher portion of lower or negative margin common equipment;

- price discounts negotiated by our customers;

- introduction of new products, such as the DTN-X platform, with initial sales at relatively small volumes and higher product costs;

- sales volume from each customer during the period;

- the amount of equipment we sell or expect to sell for a loss in any given quarter;

- increased price competition, including competition from low-cost producers from China;

- charges for excess or obsolete inventory;

- changes in the price or availability of components for our products;

- changes in our manufacturing costs, including fluctuations in yields and production volumes; and

- increased warranty or repair costs.

It is likely that the average unit prices of our products will decrease over time in response to competitive pricing pressures, increased negotiated sales discounts, new product introductions by us or our competitors or other factors. In addition, some of our customer contracts contain annual technology discounts that require us to decrease the sales price of our products to these customers. In response, we will need to reduce the cost of our products through manufacturing efficiencies, design improvements and cost reductions. If these efforts are not successful or if we are unable to reduce our costs to a greater extent than the reduction in the price of our products, our revenue and gross margin will decline, causing our operating results to decline. Fluctuations in gross margin may make it difficult to manage our business and achieve or maintain profitability.

Aggressive business tactics by our competitors may harm our business.

The markets in which we compete are extremely competitive and have resulted 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;

- providing financing, marketing and advertising assistance to customers;

- announcing competing products prior to market availability combined with extensive marketing efforts;

- influencing customer requirements to emphasize different product capabilities, such as greater minimum bandwidth requirements or higher transport speeds;

- offering to repurchase our equipment from existing customers; and

- asserting intellectual property rights.

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 aggressive business tactics, including those described above, demand for our products could decline, we could experience delays or cancellations of customer orders, or we could be required to reduce our prices or increase our expenses.

Our ability to increase our revenue will depend upon continued growth of demand by consumers and businesses for additional network capacity.

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 mobility, video, 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 need for increased bandwidth across networks and the market for optical communications network products may not continue to grow and our product sales would be negatively impacted. In addition, if general economic conditions weaken, our customers and potential customers may slow or delay their purchase decisions, which would have an adverse effect on our business and financial condition.

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

Because our products are based on complex technology, including, in some cases, the development of next-generation PICs and specialized ASICs, we may experience unanticipated delays in developing, improving, manufacturing or deploying these products. The development process for our PICs is lengthy, and any modifications to our PICs, including the development of our next-generation PICs, entail significant development cost and risks.

At any given time, various new product introductions and enhancements to our existing products, such as future products based on our next-generation PICs, 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 and manufacture components for our next-generation products, which can require custom development. The maturing process from laboratory prototype to customer trials, and subsequently to general availability, involves a significant number of simultaneous development efforts. These efforts often must be completed in a timely manner so that they may be introduced into the product development cycle for our systems, and include:

- completion of product development, including the completion of any associated PIC development, such as our next-generation PICs, and the completion of associated module development, including modules developed by third parties;

- 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 PICs, specialized ASICs and intensive software testing are important to the timely introduction of new products and enhancements to our existing products, and are subject to these development risks. In addition, unexpected intellectual property disputes, failure of critical design elements, and a host of other development execution risks may delay, or even prevent, the introduction of new products or enhancements to our existing products. If we do not develop and successfully introduce or enhance products in a timely manner, our competitive position will suffer. In addition, if we do not develop and successfully introduce or enhance products in sufficient time so as to satisfy our customer's expectations, we may lose future business from such customers and harm our reputation and our customer relationships, either of which would harm our business and operating results.

The markets in which we compete are highly competitive and dominated by large corporations, and we may not be able to compete effectively.

Competition in the optical transport equipment market is intense, and we expect such competition to increase. A number of very large companies have historically dominated the optical transport network equipment industry. Our competitors include current wavelength division multiplexing suppliers, such as Alcatel-Lucent, Ciena Corporation, Cisco Systems, Ericsson, Fujitsu Limited, Huawei Technologies Co., NEC Corporation, Tellabs and ZTE Corporation. Competition in these markets is based on price, commercial terms, functionality, manufacturing capability, pre-existing installations, services, existing business and customer relationships, scalability and the ability of products and breadth and quality of services to meet our customers' immediate and future network requirements. Other companies have, or may in the future develop, products that are or could be competitive with our products. In particular, if a competitor develops a photonic integrated circuit with similar functionality to our PICs, our business could be harmed. Recent mergers from our competitors and any future acquisitions or combinations between or among our competitors may adversely affect our competitive position by strengthening our competitors.

Many of our competitors have substantially greater name recognition and technical, financial and marketing resources, greater manufacturing capacity and better established relationships with incumbent carriers and other potential customers than we have. Many of our competitors have more resources to develop or acquire, 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 customers and have the ability to provide financing to customers and could, therefore, have an inherent advantage in selling products to those customers.

We compete with low-cost producers from China that can increase pricing pressure on us and a number of smaller companies that provide competition for a specific product, customer segment or geographic market. These competitors often base their products on the latest 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.

Our large customers have substantial negotiating leverage, which may require that we agree to terms and conditions that result in increased cost of sales, decreased revenue and lower average selling prices and gross margins, all of which would harm our operating results.

Substantial changes in the optical transport networking industry have occurred over the last few years. Many potential customers have confronted static or declining revenue. Many of our customers have substantial debt burdens, many have experienced financial distress, and some have gone out of business, been acquired by other service providers, or announced their withdrawal from segments of the business. Consolidation in the markets in which we compete has resulted in changes in the structure of the communications networking industry, with greater concentration of purchasing power in a small number of large service providers, cable operators, internet content providers and government agencies. The increased concentration among our customer base may also lead to increased competition for new network deployments and increased negotiating power for our customers. This may require us to decrease our average selling prices which would have an adverse impact on our operating results.

Further, many of our customers are large communications service providers that have substantial purchasing power and leverage in negotiating contractual arrangements with us. Our customers have and may continue to seek advantageous pricing, payment and other commercial terms and may require us to develop additional features in the products we sell to them. If we are required to develop additional features for our product for a customer, we may be required to defer some of our revenue for such a customer until we have developed and delivered such additional features. We have and may continue to be required to agree to unfavorable commercial terms with these customers, including reducing the average selling price of our products or agreeing to extended payment terms in response to these commercial requirements or competitive pricing pressures. To maintain acceptable operating results, we will need to comply with these commercial terms, develop and introduce new products and product enhancements on a timely basis and continue to reduce our costs.

We expect the factors described above to continue to affect our business and operating results for an indeterminate period, in several ways, including:

- overall capital expenditures by many of our customers or potential customers may be flat or reduced;
- we will continue to have only limited ability to forecast the volume and product mix of our sales;
- managing expenditures and inventory will be difficult in light of the uncertainties surrounding our business; and
- increased competition will enable customers to insist on more favorable terms and conditions for sales, including product discounts, extended payment terms or financing assistance, as a condition of procuring their business.

If we are unable to offset any reductions in our average selling prices with increased sales volumes and reduced production costs, or if we fail to develop and introduce new products and enhancements on a timely basis, or if we disagree on our interpretation and compliance with the commercial terms of our customer agreements, our relationships with our customers and our operating results would be harmed.

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 to continue to improve the performance of their existing products and to 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 properly anticipate future customer requirements and we must 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.

We are dependent on sole source and limited source suppliers for several key components, and if we fail to obtain these components on a timely basis, we will not meet our customers' product delivery requirements.

We currently purchase several key components for our products from single or limited sources. In particular, we rely on our own production of certain components of our products, such as PICs, and on third parties as sole source suppliers for certain of the components of our products, including ASICs, field-programmable gate arrays, processors, and other semiconductor and optical components. We purchase these items on a purchase order basis and have no long-term contracts with many of these sole source suppliers. We have increased our reliance on third parties to develop and manufacture components for certain products, some of which require custom development. If any of our sole or limited source suppliers suffer from capacity constraints, lower than expected yields, deployment delays, work stoppages or any other reduction or disruption in output, they may be unable to meet our delivery schedule which could result in lost revenue, additional product costs and deployment delays that could harm our business and customer relationships. Further, our suppliers could enter into exclusive arrangements with our competitors, refuse to sell their products or components to us at commercially reasonable prices or at all, go out of business or discontinue their relationships with us. We may be unable to develop alternative sources for these components.

The loss of a source of supply, or lack of sufficient availability of key components, could require us to redesign products that use such components, which could result in lost revenue, additional product costs and deployment delays that could harm our business and customer relationships. If we do not receive critical components for our products in a timely manner, we will be unable to deliver those components to our contract manufacturer in a timely manner and would, therefore, be unable to meet our prospective customers' product delivery requirements. In addition, the sourcing from new suppliers may require us to re-design our products, which could cause delays in the manufacturing and delivery of our products. 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, limited their supply of components to us, or indicated that they may be going out of business. Historically, we have seen a tightening of supply with a number of our suppliers and we have experienced longer than normal lead times and supply delays. 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 problem experiences by our suppliers or contract manufacturers, or strong demand in the industry for such components. A return to growth in the economy is likely to continue to 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. Such events could harm our reputation and our customer relationships, either of which would harm our business and operating results.

If we fail to accurately forecast demand for our products, we may have excess or insufficient inventory, which may increase our operating costs, decrease our revenue and harm our business.

We are required to generate forecasts of future demands for our products several months prior to the scheduled delivery to our prospective customers. This requires us to make significant investments before we know if corresponding revenue will be recognized. Lead times for materials and components, including ASICs, that we need to order for the manufacture of our products vary significantly and depend on factors such as the specific supplier, contract terms and demand for each component at a given time. In the past, we have experienced lengthening in lead times for certain components. If the lead times for components are lengthened, we may be required to purchase increased levels of such components to satisfy our delivery commitments to our customers.

If we overestimate market demand for our products and, as a result, increase our inventory in anticipation of customer orders that do not materialize, we will have excess inventory, which could result in increased risk of obsolescence and significant inventory write-downs. Furthermore, this will result in reduced production volumes and our fixed costs will be spread across fewer units, increasing our per unit costs. If we underestimate demand for our products, we will have inadequate inventory, which could slow down or interrupt the manufacturing of our products and result in delays in shipments and our ability to recognize revenue. In addition, we may be unable to meet our supply commitments to customers, which could result in a loss of certain customer opportunities or a breach of our customer agreements resulting in payment of damages.

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 significant 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. There are a number of risks associated with our dependence on contract manufacturers, including:

- reduced control over delivery schedules, particularly for international contract manufacturing sites;
- reliance on the quality assurance procedures of third parties;
- potential uncertainty regarding manufacturing yields and costs;
- potential lack of adequate capacity during periods of high demand;
- potential uncertainty related to the use of international contract manufacturing sites;
- limited warranties on components supplied to us;
- potential misappropriation of our intellectual property; and
- potential manufacturing disruptions (including disruptions caused by geopolitical events, military actions or natural disasters).

Any of these risks could impair our ability to fulfill orders. Our contract manufacturers may not be able to meet the delivery requirements of our customers, which could decrease customer satisfaction and harm our product sales. We do not have long-term contracts or arrangements with our contract manufacturers that will guarantee product availability, or the continuation of particular pricing or payment terms. If our contract manufacturers are unable or unwilling to continue manufacturing our products or components of our products in required volumes or our relationship with any of our contract manufacturers is discontinued for any reason, we would be required to identify and qualify alternative manufacturers, which could cause us to be unable to meet our supply requirements to our customers and result in the breach of our customer agreements. Qualifying a new contract manufacturer and commencing volume production is expensive and time-consuming and if we are required to change or qualify a new contract manufacturer, we would likely lose sales revenue and damage our existing customer relationships.

We are dependent on a small number of key customers for a significant portion of our revenue 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 account for a large percentage of our revenue. As a result, our business will be harmed if any of our key customers do not generate as much revenue as we forecast, stop purchasing from us, or substantially reduce their orders to us. In addition, our business will be harmed if we fail to maintain our competitive advantage with our key customers.

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 new products that are desirable to these customers at competitive prices, and we may not be successful at doing so. In most cases, our sales are made to these customers pursuant to standard purchase agreements rather than long-term purchase commitments, and orders may be cancelled or reduced readily. In the event of a cancellation or reduction of an order, we may not have enough time to reduce operating expenses to minimize the effect of the lost revenue on our business. Our operating results will continue to depend on our ability to sell our products to our key customers.

If we fail to expand sales of our products into international markets or to sell our products to new types of customers, such as U.S. regional Bell operating companies and international postal, telephone and telegraph companies, our revenue will be harmed.

We believe that, in order to grow our revenue and business and to build a large and diverse customer base, we must successfully sell our products in international markets and to new types of customers, such as U.S. regional Bell operating companies and international postal, telephone and telegraph companies. We have limited experience selling our products internationally and to U.S. regional Bell operating companies and international postal, telephone and telegraph companies. Sales cycles for these customers are often very lengthy and competition for these customers is intense. To succeed in these sales efforts, we believe we must hire additional sales personnel to develop our relationships with these potential customers and develop and manage new sales channels through resellers, distributors and systems integrators. If we do not succeed in our efforts to sell to these customers, the size of our total addressable market will be limited. This, in turn, would harm our ability to grow our customer base and revenue.

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 as we expand our operations and product development into countries that provide a lower level of intellectual property protection. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims, and even if patents are issued, they may be contested, circumvented or invalidated. Moreover, the rights granted under any issued patents may not provide us with a competitive advantage, and, as with any technology, competitors may be able to develop similar or superior technologies to our own now or in the future.

Protecting against the unauthorized use of our products, trademarks and other proprietary rights is expensive, difficult, time consuming and, in some cases, impossible. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity or scope of the proprietary rights of others. Such litigation could result in substantial cost and diversion of management resources, either of which could harm our business, financial condition and operating results. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

Claims by others that we infringe their intellectual property could harm our business.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In particular, many leading companies in the optical transport networking industry, including our competitors, have extensive patent portfolios with respect to optical transport networking technology. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. From time to time, third parties may assert exclusive patent, copyright, trademark and other intellectual property rights to technologies and related standards that are important to our business or seek to invalidate the proprietary rights that we hold. Competitors or other third parties have, and may continue to assert claims or initiate litigation or other proceedings against us or our manufacturers, suppliers or customers alleging infringement of their proprietary rights, or seeking to invalidate our proprietary rights, with respect to our products and technology. In the event that we are unsuccessful in defending against any such claims, or any resulting lawsuit or proceedings, we could incur liability for damages and/or have valuable proprietary rights invalidated.

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. A judgment could also include an injunction or other court order that could prevent us from offering our products. In addition, we might be required to seek a license for the use of such intellectual property, which may not be available on commercially reasonable terms or at all. Alternatively, we may be required to develop non-infringing technology, which would require significant effort and expense and may ultimately not be successful. Any of these events could harm our business, financial condition and operating results. Competitors and other third parties have and may continue to assert infringement claims against our customers and sales partners. Any of these claims would require us to initiate or defend potentially protracted and costly litigation on their behalf, regardless of the merits of these claims, because we generally indemnify our customers and sales partners from claims of infringement of proprietary rights of third parties. If any of these claims succeed, we may be forced to pay damages on behalf of our customers or sales partners, which could have an adverse effect on our business, financial condition and operating results.

We incorporate open source software into our products. Although we monitor our use of 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 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 on a timely basis, any of which could adversely affect our business, operating results and financial condition.

We are involved in litigation with Cambrian whereby Cambrian alleged that we and seven of our customers infringe one of Cambrian's patents. Information regarding this matter is set forth in Item 3. “Legal Proceedings” and is incorporated herein by reference.

Our manufacturing process is very complex and the partial or complete loss of our manufacturing facility, or a reduction in yields or an inability to scale capacity to meet customer demands could harm our business.

The manufacturing process for certain components of our products, including our PICs, is technically challenging. In the event that any of these manufacturing facilities were fully or partially destroyed, as a result of fire, water damage, or otherwise, it would limit our ability to produce our products. Because of the complex nature of our manufacturing facilities, such loss would take a considerable amount of time to repair or rebuild. The partial or complete loss of any of our manufacturing facilities, or an event causing the interruption in our use of such facility for any extended period of time would cause our business, financial condition and operating results to be harmed.

Minor deviations in the PIC manufacturing process can cause substantial decreases in yields and, in some cases, cause production to be suspended. In the past, we have had significant variances in our PIC yields, including production interruptions and suspensions and may have continued yield variances, including additional interruptions or suspensions in the future. We expect our manufacturing yield for our next-generation PICs to be lower initially and increase as we achieve full production. Poor 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 cause us customer relations and 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 operating results.

Unfavorable macroeconomic and market conditions may adversely affect our industry, business and gross margins.

Our business depends on the overall demand for additional bandwidth capacity and on the economic health and willingness of our customers and potential customers to make capital commitments to purchase our products and services. As a result of macroeconomic or market uncertainty, we may face new risks that we have not yet identified. In addition, a number of the risks associated with our business, which are disclosed in these risk factors, may increase in likelihood, magnitude or duration.

In the past, unfavorable macroeconomic and market conditions have resulted in sustained periods of decreased demand for optical communications products. These conditions may also result in the tightening of credit markets, which may limit or delay our customers’ ability to obtain necessary financing for their purchases of our products. A lack of liquidity in the capital markets or the continued uncertainty in the global economic environment may cause our customers to delay or cancel their purchases, increase the time they take to pay or default on their payment obligations, each of which would negatively affect our business and operating results. Continued weakness and uncertainty in the global economy could cause some of our customers to become illiquid, delay payments or adversely affect our collection of their accounts, which could result in a higher level of bad debt expense. In addition, currency fluctuations could negatively affect our international customers’ ability or desire to purchase our products.

Challenging economic conditions have from time to time contributed to slowdowns in the telecommunications industry in which we operate. Such slowdowns may result in:

- reduced demand for our products as a result of constraints on capital spending by our customers, particularly service providers;

- increased price competition for our products, not only from our competitors, but also as a result of our customer's or potential customer's utilization of inventoried or underutilized products, which could put additional downward pressure on our near term gross profits;

- risk of excess or obsolete inventories;

- excess manufacturing capacity and higher associated overhead costs as a percentage of revenue; and

- more limited ability to accurately forecast our business and future financial performance.

A lack of liquidity and economic uncertainty may adversely affect our suppliers or the terms on which we purchase products from these suppliers. It may also cause some of our suppliers to become illiquid. Any of these impacts could limit our ability to obtain components for our products from these suppliers and could adversely impact our supply chain or the delivery schedule to our customers. This also could require us to purchase more expensive components, or re-design our products, which could cause increases in the cost of our products and delays in the manufacturing and delivery of our products. Such events could harm our gross margins and harm our reputation and our customer relationships, either of which could harm our business and operating results.

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 new products with high technology content is complicated and often involves problems with software, components and manufacturing methods. Complex hardware and software systems, such as our products, can often contain undetected errors 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 errors in the past in connection with our DTN platform, including failures due to the receipt of faulty components from our suppliers. We suspect that errors, including potentially serious errors, will be found from time to time in our products. Our products may suffer degradation of performance and reliability over time.

If reliability, quality or network monitoring problems develop, a number of negative effects on our business could result, including:

- delays in our ability to recognize revenue;

- costs associated with fixing software or hardware 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;

- delays in collecting accounts receivable;

- payment of damages for performance failures;

- reduced orders from existing customers; and

- declining interest from potential customers.

Because we outsource the manufacturing of certain components of our products, we may also be subject to product performance problems as a result of the acts or omissions of third parties.

From time to time, we encounter interruptions or delays in the activation of our products at a customer's site. These interruptions or delays may result from product performance problems or from issues with installation and activation, some of which are outside our control. If we experience significant interruptions or delays that we cannot promptly resolve, the associated revenue for these installations may be delayed or confidence in our products could be undermined, which could cause us to lose customers and fail to add new customers.

Our debt obligations may adversely affect our ability to raise additional capital and will be a burden on our future cash flows and cash resources, particularly if these obligations are settled in cash upon maturity or sooner upon an event of default.

In May 2013, we issued $150 million aggregate principal amount of 1.75% convertible senior notes due June 1, 2018 (the "Notes"). 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;

- a substantial portion of our future cash balance may be dedicated to the payment of the principal of our indebtedness as we have the intention to pay the principal amount of the Notes in cash upon conversion if specified conditions are met or when due, such that we would not have those funds available for use in our business;

- if upon any conversion of the Notes we are required to satisfy our conversion obligation with shares of our common stock or if a make-whole fundamental change occurs, our existing stockholders' interest in us would be diluted; and

- 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.

Our ability to meet our payment obligations under our debt instruments 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 which 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 were unable to implement one or more of these alternatives, we may be unable to meet our debt payment obligations. As a result, we may be more vulnerable to economic downturns, less able to withstand competitive pressures and less flexible in responding to changing business and economic conditions.

We may issue additional shares of our common stock in connection with the conversion of the Notes, and thereby dilute our existing stockholders and potentially adversely affect the market price of our common stock.

In the event that some or all of the Notes are converted into 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 of the Notes could adversely affect the prevailing market price of our common stock. In addition, the anticipated conversion of the Notes could depress the market price of our common stock.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet at the issuance date and the value of the equity component would be treated as debt discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes.

The make-whole fundamental change provisions of the Notes may delay or prevent an otherwise beneficial takeover attempt of us.

If a make-whole fundamental change such as an acquisition of our company occurs prior to the maturity of the Notes, under certain circumstances, the conversion rate for the Notes will increase such that additional shares of our common stock will be issued upon conversion of the Notes in connection with such make-whole fundamental change. The 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. This increase will be dilutive to our existing stockholders. Our obligation to 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.

If we lose key personnel or fail to attract and retain additional qualified personnel when needed, our business may be harmed.

Our success depends to a significant degree upon the continued contributions of our key management, engineering, sales and marketing, and finance personnel, many of whom would be difficult to replace. For example, senior members of our engineering team have unique technical experience that would be difficult to replace. We do not have long-term employment contracts or key person life insurance covering any of our key personnel. Because our products are complex, we must hire and retain a large number of highly trained customer service and support personnel to ensure that the deployment of our products do 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 managerial, engineering, sales, marketing, finance and customer service and support personnel. Competition for these individuals is intense in our industry, especially in the San Francisco Bay Area where we are headquartered. We may not succeed in identifying, attracting and retaining appropriate personnel. The loss of the services of any of our key personnel, the inability to identify, attract or retain qualified personnel in the future or delays in hiring qualified personnel, particularly engineers and sales personnel, could make it difficult for us to manage our business and meet key objectives, such as timely product introductions.

Our sales cycle can be long and unpredictable, which could result in an unexpected revenue shortfall in any given quarter.

Our products have a lengthy sales cycle, which can extend from six to twelve months and may take even longer for larger prospective customers such as U.S. regional Bell operating companies, international postal, telephone and telegraph companies and U.S. competitive local exchange carriers. Our prospective customers conduct significant evaluation, testing, implementation and acceptance procedures before they purchase our products. We incur substantial sales and marketing expenses and expend significant management effort during this time, regardless of whether we make a sale.

Because the purchase of our equipment involves substantial cost, most of our customers wait to purchase our equipment until they are ready to deploy it in their network. As a result, it is difficult for us to accurately predict the timing of future purchases by our customers. In addition, product purchases are often subject to budget constraints, multiple approvals and unplanned administrative processing and other delays. If sales expected from customers for a particular quarter are not realized in that quarter or at all, our revenue will be negatively impacted.

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

We market, sell and service our products globally. In 2013, 2012 and 2011, we derived approximately 36%, 32% and 30%, respectively, of our revenue from customers outside of the United States. We have sales and support personnel in numerous countries worldwide. In addition, we have a large group of development personnel located in Bangalore, India; Beijing, China; and Kanata, Canada. We expect that significant management attention and financial resources will be required for our international activities over the foreseeable future as we continue to expand our international presence. In some countries, our successes in selling our products 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.

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;
- the impact of recessions in economies outside the United States;
- tariff and trade barriers and other regulatory requirements or contractual limitations on our ability to sell or develop our products in certain foreign markets;
- certification requirements;
- greater difficulty documenting and testing our internal controls;
- reduced protection for intellectual property rights in some countries;
- potentially adverse tax consequences;
- political and economic instability;
- effects of changes in currency exchange rates which could negatively affect our financial results and cash flows; and
- service provider and government spending patterns.

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.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Our failure to manage any of these risks could harm our international operations and reduce our international sales.

We may be adversely affected by fluctuations in currency exchange rates.

A portion of our sales are to 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 revenue in future periods. We also have exposure to currency exchange rates as a result of the growth in our non-U.S. dollar denominated operating expense in Europe, Asia and Canada. We currently enter into foreign currency exchange forward contracts to reduce the impact of foreign currency fluctuations on accounts receivable denominated in Euro and the British Pound. These hedging programs 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 which could negatively affect our results of operations and financial condition.

If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. The provisions of the act require, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. Preparing our financial statements involves a number of complex processes, many of which are done manually and are dependent upon individual data input or review. These processes include, but are not limited to, calculating revenue, deferred revenue and inventory costs. While we continue to automate our processes and enhance our review and put in place controls to reduce the likelihood for errors, we expect that for the foreseeable future, many of our processes will remain manually intensive and thus subject to human error.

Any acquisitions we make could disrupt our business and harm our financial condition and operations.

We have made strategic acquisitions of businesses, technologies and other assets in the past. While we have no current agreements or commitments, we may in the future acquire businesses, product lines or technologies. In the event of any future acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, or they may be viewed negatively by customers, financial markets or investors and we could:

- issue stock that would dilute our current stockholders' percentage ownership;
- incur debt and assume other liabilities; or
- incur amortization expenses related to goodwill and other intangible assets and/or incur large and immediate write-offs.

Acquisitions also involve numerous risks, including:

- problems integrating the acquired operations, technologies or products with our own;
- diversion of management's attention from our core business;
- assumption of unknown liabilities;
- adverse effects on existing business relationships with suppliers and customers;
- increased accounting compliance risk;
- risks associated with entering new markets; and
- potential loss of key employees.

We may not be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future. Our failure to do so could have an adverse effect on our business, financial condition and operating results.

Our use and reliance upon development resources in India, China and Canada may expose us to unanticipated costs or liabilities.

We have established development centers in India, China and Canada and expect to continue to increase hiring of personnel for these facilities. There is no assurance that our reliance upon development resources in India, China or Canada will enable us to achieve meaningful cost reductions or greater resource efficiency. Further, our development efforts and other operations in these countries involve significant risks, including:

- difficulty hiring and retaining appropriate engineering resources due to intense competition for such resources and resulting wage inflation;
- the knowledge transfer related to our technology and exposure to misappropriation of intellectual property or confidential information, including information that is proprietary to us, our customers and other third parties;
- heightened exposure to changes in the economic, security and political conditions of India, China and Canada;
- fluctuation in currency exchange rates and tax risks associated with international operations; and
- development efforts that do not meet our requirements because of language, cultural or other differences associated with international operations, resulting in errors or delays.

Difficulties resulting from the factors above and other risks related to our operations in these countries could expose us to increased expense, impair our development efforts, harm our competitive position and damage our reputation.

Unforeseen health, safety and environmental costs could harm our business.

Our manufacturing operations use substances that are regulated by various federal, state and international laws governing health, safety and the environment, including the Waste Electrical and Electronic Equipment and Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment regulations adopted by the European Union. If we experience a problem with these substances, it could cause an interruption or delay in our manufacturing operations or could cause us to incur liabilities for any costs related to health, safety or environmental remediation. We could also be subject to liability if we do not handle these substances in compliance with safety standards for storage and transportation and applicable laws. If we experience a problem or fail to comply with such safety standards, our business, financial condition and operating results may be harmed.

We are subject to governmental import and export controls that could subject us to liability or impair our ability to compete in international markets.

We are subject to export control laws that limit which products we sell and where and to whom we sell our products. U.S. export control laws also limit our ability to conduct product development activities in certain countries. In addition, various countries regulate the import of certain technologies and have enacted laws that could limit our ability to distribute our products or could limit our customers' ability to implement our products in those countries. Changes in our products or changes in import and export regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the import and export of our products to certain countries altogether. Any change in import and export regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted 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, decreased use of our products or any limitation on our ability to export or sell our products would adversely affect our business, financial condition 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 significant outside debt and equity financing as well as cash flow from operations to fund our operations, capital expenditures and expansion. We may require additional capital from equity or debt financings in the future to fund our operations or respond to competitive pressures or strategic opportunities. We have a history of significant operating losses. For 2013, we had a net loss of $32.1 million. In the event that we require additional capital, we may not be able to secure timely additional financing on favorable terms, or at all. The terms of any additional financing may place limits on our financial and operating flexibility. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer dilution in their percentage ownership of our company, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, if and when we require it, our ability to grow or support our business and to respond to business challenges could be limited and our business will be harmed.

We are subject to government regulations that could adversely impact our business.

The Federal Communications Commission, or FCC, has jurisdiction over the entire U.S. communications industry and, as a result, our products and our U.S. customers are subject to FCC rules and regulations. Current and future FCC regulations affecting communications services, our products or our customers' businesses could negatively affect our business. In addition, international regulatory standards could impair our ability to develop products for international customers in the future. Moreover, many jurisdictions are evaluating or implementing regulations relating to cyber security, privacy and data protection, which can affect the market and requirements for networking and communications equipment. Delays caused by our compliance with regulatory requirements could result in postponements or cancellations of product orders. Further, we may not be successful in obtaining or maintaining any regulatory approvals that may, in the future, be required to operate our business. Any failure to obtain such approvals could harm our business and operating results.

Natural disasters, terrorist attacks or other catastrophic events could harm our operations.

Our headquarters and the majority of our infrastructure, including our PIC fabrication manufacturing facility, are located in Northern California, an area that is susceptible to earthquakes and other natural disasters. Further, a terrorist attack aimed at Northern California or at our nation's energy or telecommunications infrastructure could hinder or delay the development and sale of our products. In the event that an earthquake, terrorist attack or other catastrophe were to destroy any part of our facilities, or certain of our contract manufacturers' facilities, destroy or disrupt vital infrastructure systems or interrupt our operations for any extended period of time, our business, financial condition and operating results would be harmed.

Security incidents, such as data breaches and cyber-attacks, could compromise our intellectual property and proprietary or confidential information and cause significant damage to our business and reputation.

In the ordinary course of our business, we maintain sensitive data on our networks, including data related to our intellectual property and data related to our business and that of our customers and business partners that is considered proprietary or confidential information. We believe that companies in the technology industry have been increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access. While the secure maintenance of this information is critical to our business and reputation, our network and storage applications may be subject to unauthorized access by hackers or breached due to operator error, malfeasance or other system disruptions. It may be difficult to anticipate or immediately detect such security incidents or data breaches and the damage caused as a result. Accordingly, a data breach, cyber-attack, or unauthorized access or disclosure of our information, could compromise our intellectual property and reveal proprietary or confidential business information. In addition, these security incidents could also cause us to incur significant remediation costs and expenses, disrupt key business operations, subject us to liability and divert attention of management and key information technology resources, any of which could cause significant harm to our business and reputation.

The trading price of our common stock has been volatile and is likely to be volatile in the future.

The trading prices of our common stock and the securities of other technology companies have been and may continue to be highly volatile. Further, our common stock has limited prior trading history. 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 by any securities analysts that elect to follow our common stock;
- market conditions in our industry, the industries of our customers and the economy as a whole; and
- adoption or modification of regulations, policies, procedures or programs applicable to our business.

In addition, if the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or operating results. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. Each of these factors, among others, could harm the value of your investment in our common stock. Some companies that have had volatile market prices for their securities have had securities class action lawsuits filed against them. If a suit were filed against us, regardless of its merits or outcome, it could result in substantial costs and divert management's attention and resources.

Anti-takeover provisions in our charter documents and Delaware law could discourage delay or prevent a change in control of our company and may affect the trading price of our common stock.

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law, which apply to us, may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our amended and restated certificate of incorporation and amended and restated bylaws:

- authorize the issuance of "blank check" convertible preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- establish a classified board of directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;
- require that directors only be removed from office for cause and only upon a supermajority stockholder vote;
- provide that vacancies on the board of directors, including newly-created directorships, may be filled only by a majority vote of directors then in office rather than by stockholders;
- prevent stockholders from calling special meetings; and
- prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our headquarters are located in Sunnyvale, California. We lease facilities in North America, Europe and Asia. The following is a summary of the locations, functions and approximate square footage of those facilities as of December 28, 2013:

Location	Function	Square Footage
Sunnyvale, CA	Corporate headquarters and manufacturing	211,000
Allentown, PA	Manufacturing and research and development	44,000
Annapolis Junction, MD	Research and development, service and support	12,000
Bangalore, India	Research and development	59,000
Beijing, China	Research and development	22,000
Kanata, Canada	Research and development	6,000
London, United Kingdom	Sales, service and support	6,000
Hong Kong, China	Sales, service and support	2,000
Tokyo, Japan	Sales and support	2,000

The above leases expire between 2014 and 2023. We intend to add new facilities and to expand existing facilities as we add employees, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations. We believe that our existing facilities are adequate to meet our business needs through the next 12 months.

ITEM 3. LEGAL PROCEEDINGS

Cheetah Patent Infringement Litigation

On May 9, 2006, we and Level 3 were sued by Cheetah in the U.S. District Court for the Eastern District of Texas Texarkana Division for alleged infringement of patent no. 6,795,605 (the "'605 Patent"), and a continuation thereof. On May 16, 2006, Cheetah filed an amended complaint, which requested an order to enjoin the sale of our DTN platform and to recover all damages caused by the alleged willful infringement including any and all compensatory damages available by law, such as actual and punitive damages, attorneys' fees, associated interest and Cheetah's costs incurred in the lawsuit. Cheetah's complaint does not request a specific dollar amount for these compensatory damages. We are contractually obligated to indemnify Level 3 for damages suffered by Level 3 to the extent its product supplied by us is found to infringe, and we have assumed the defense of this matter. On July 20, 2006, we and Level 3 filed an amended response denying all infringement claims under the '605 Patent and asserting that the claims of the '605 Patent are invalid and that the DTN platform does not infringe the '605 Patent. On November 28, 2006, Cheetah filed a second amended complaint and added patent no. 7,142,347 (the "'347 Patent") to the lawsuit. On December 18, 2006, we and Level 3 filed responses to Cheetah's second amended complaint denying all infringement claims under the '347 Patent and we and Level 3 asserted counterclaims against Cheetah asserting that the claims are invalid and that the DTN platform does not infringe the patents.

On January 30, 2007, Cheetah filed a third amended complaint adding additional assertions of infringement for the two patents in suit. On February 16, 2007, we and Level 3 filed responses to Cheetah's third amended complaint denying all infringement claims, and we and Level 3 asserted counterclaims against Cheetah asserting that the claims of the patents are invalid and that the DTN platform does not infringe the patents.

On March 14, 2007, we submitted requests to the U.S. Patent and Trademark Office (the "U.S. PTO") for inter partes reexamination of the '605 Patent and the '347 Patent asking the U.S. PTO to reexamine the patents based on prior art in order to invalidate the patents or limit the scope of each patent's claims.

On April 12, 2007, the court granted the motion staying all proceedings in the lawsuit. On June 26, 2007, the U.S. PTO also ordered reexamination of the '605 Patent and on August 1, 2007, the U.S. PTO ordered reexamination of the '347 Patent. As a result, all proceedings in this lawsuit were stayed until the final resolution of these reexaminations.

In a communication we received from the U.S. PTO dated December 4, 2009, we were advised that various claims in the ‘347 Patent reexamination have been allowed, while other claims have been rejected. In a communication we received from the U.S. PTO dated June 22, 2010, we were advised that various claims in the ‘605 Patent reexamination have been allowed, while other claims have been rejected.

On March 30, 2012, the Board Patent Appeals Interferences (“BPAI”) affirmed the Examiner’s allowance of certain claims in the reexamination of the ‘347 Patent and ‘605 Patent. We filed a request for reconsideration of the BPAI’s decision on April 30, 2012, which was denied in a Decision on Request for Rehearing dated September 27, 2012. We have appealed the BPAI’s decision to the Court of Appeals of the Federal Circuit in a Notice of Appeal dated November 26, 2012. On November 9, 2012, Cheetah’s counsel filed another motion requesting the court to lift the stay. The court granted Cheetah’s motion and lifted the stay in an order dated January 8, 2013.

A hearing was held on July 16, 2013, during which the parties presented evidence to the U.S. District Court for the Eastern District of Texas Texarkana Division regarding the interpretation of various claim terms of U.S. patent nos. 6,795,605 and 7,142,347. On July 24, 2013, the Court issued an order regarding claim construction, in which the Court agreed with some of our proposed claim constructions.

On June 10, 2013, we filed a Petition for Inter Partes Review to challenge the validity of Cheetah’s U.S. patent no. 6,888,661 (the “‘661 Patent”) in a separate proceeding before the United States Patent and Trademark Office. Cheetah has sued Finisar Corporation for infringement of the ‘661 Patent in the U.S. District Court for the Eastern District of Michigan.

On November 18, 2013, we entered into a settlement agreement with Cheetah to settle all outstanding issues between us and Cheetah. On December 3, 2013, we paid Cheetah an insignificant amount that did not result in a material adverse effect on our business, consolidated financial position, results of operations, or cash flows.

Cambrian Science Patent Infringement Litigation

On July 12, 2011, we were notified by Level 3 that Cambrian filed suit against Level 3 and six other defendants, including Cox Communications, Inc., XO Communications, LLC, Global Crossing Limited, 360Networks (USA), Inc., Integra Telecom, Inc. and IXC, Inc. dba Telekenex (collectively, the “Defendants”) in the U.S. District Court for the Central District of California alleging infringement of patent no. 6,775,312 (the “’312 Patent”) and requesting damages for such alleged infringement (the “Cambrian Claim”). The nature of the Cambrian Claim involves allegations of infringement of the ’312 Patent resulting from the Defendants’ use of certain products and systems in the Defendants’ networks, including our DTN platform. On August 24, 2011, Cambrian amended the complaint to name Infinera as a defendant. We assumed the defense of the Cambrian Claim and filed an answer to Cambrian’s complaint on September 21, 2011, in which we denied infringement of the ‘312 Patent and raised other defenses. Cambrian filed a second amended complaint on October 6, 2011, which included many of the same allegations as in the original complaint. We filed our answer to the second amended complaint on October 21, 2011, in which we maintained the same denials and defenses as in our initial answer. On December 23, 2011, we filed a motion requesting that the court stay the case with respect to each of the above-noted customer Defendants. Cambrian filed its opposition to our motion on December 30, 2011. Our request was denied in the court’s decision on March 7, 2012. We presented evidence on the appropriate meanings of relevant key words used in the patent claims during a claim construction hearing on November 20, 2012.

On June 17, 2013, the U.S. District Court for the Central District of California issued an order regarding claim construction, in which the Court agreed with some of our proposed claim constructions.

Based on the information available at this time, we concluded that the likelihood of a loss with respect to this suit is reasonably possible. We have further concluded that the range of the reasonably possible loss is an insignificant amount and will not have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows. Accordingly, we accrued an insignificant amount during the fourth quarter of 2013 which did not have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows. Factors that we considered in the determination of the likelihood of a loss and the estimate of that loss in respect to this matter included the merits of the case, the nature of the litigation (including the complex and technical nature of patent litigation), the length of time the matter has been pending, the status of the plaintiff as a non-operating entity and the likelihood of the plaintiff accepting the estimated amount. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties.

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." The following table sets forth, for the time periods indicated, the high and low sales prices of our common stock as reported on the NASDAQ Global Select Market.

	High	Low
Fourth Quarter 2013	$ 11.91	$ 8.59
Third Quarter 2013	$ 12.16	$ 9.24
Second Quarter 2013	$ 11.65	$ 6.06
First Quarter 2013	$ 7.75	$ 5.66
Fourth Quarter 2012	$ 6.15	$ 4.33
Third Quarter 2012	$ 7.40	$ 5.29
Second Quarter 2012	$ 8.15	$ 6.02
First Quarter 2012	$ 8.90	$ 6.26

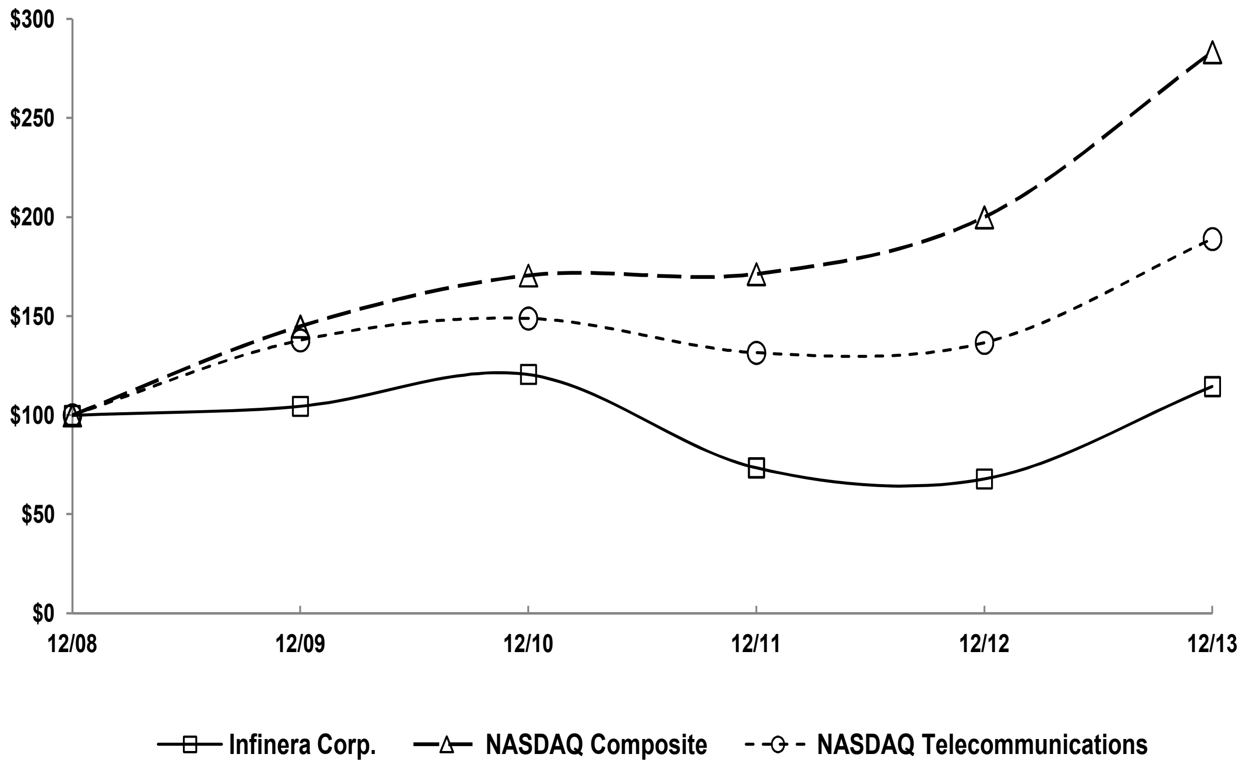
As of February 18, 2014, there were 121 registered holders of record of Infinera's common stock. A substantially greater number of holders of Infinera common stock are "street name" or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

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

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative 5-year total return provided stockholders on Infinera Corporation's 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 27, 2008 and its relative performance is tracked through December 28, 2013. 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, and the graph shall not be deemed to be incorporated by reference into any prior or subsequent filing by Infinera under the Securities Act of 1933 or the Exchange Act.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Infinera Corp., the NASDAQ Composite Index,
and the NASDAQ Telecommunications Index



*$100 invested on 12/27/08 in stock or 12/31/08 in index, including reinvestment of dividends, if any.
Indexes calculated on month-end basis.

ITEM 6. SELECTED FINANCIAL DATA

You should read the following selected consolidated historical financial data below in conjunction with the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, related notes and other financial information included elsewhere in this Annual Report on Form 10-K.

We derived the statements of operations data for the years ended December 28, 2013, December 29, 2012 and December 31, 2011 and the balance sheet data as of December 28, 2013 and December 29, 2012 from our audited consolidated financial statements and related notes, which are included elsewhere in this Annual Report on Form 10-K. We derived the statements of operations data for the years ended December 25, 2010 and December 26, 2009 and the balance sheet data as of December 31, 2011, December 25, 2010 and December 26, 2009 from our audited consolidated financial statements and related notes which are not included in this Annual Report on Form 10-K. We have not declared or distributed any cash dividends.

	Years Ended				
	December 28, 2013	December 29, 2012	December 31, 2011	December 25, 2010	December 26, 2009
	(In thousands, except per share data)				
Revenue	$ 544,122	$ 438,437	$ 404,877	$ 454,352	$ 309,101
Gross profit	$ 218,639	$ 157,569	$ 165,491	$ 206,189	$ 102,101
Net loss	$ (32,119)	$ (85,330)	$ (81,744)	$ (27,932)	$ (86,622)
Net loss per common share					
Basic	$ (0.27)	$ (0.77)	$ (0.78)	$ (0.28)	$ (0.91)
Diluted	$ (0.27)	$ (0.77)	$ (0.78)	$ (0.28)	$ (0.91)
Weighted average number of shares used in computing basic and diluted net loss per common share					
Basic	117,425	110,739	105,432	99,380	95,468
Diluted	117,425	110,739	105,432	99,380	95,468
Total cash and cash equivalents, investments and restricted cash	$ 365,313	$ 187,554	$ 253,116	$ 295,706	$ 275,477
Total assets	$ 700,926	$ 528,170	$ 531,704	$ 551,525	$ 491,945
Common stock and additional paid-in capital	$ 1,025,781	$ 930,730	$ 877,034	$ 817,302	$ 747,677
Stockholders' equity	$ 417,810	$ 356,136	$ 387,803	$ 410,749	$ 368,507

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 any expectation of earnings, revenues, gross margins, expenses or other financial items; any statements of the plans, strategies and objectives of management for future operations and personnel; factors that may affect our operating results; statements concerning new products or services, including future PIC capacity and new product delivery and revenue dates; statements related to capital expenditures; statements related to the sufficiency of our current cash, cash equivalents and investments to meet our liquidity requirements; statements related to future economic conditions, performance, market growth or our sales cycle; statements as to industry trends and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," or "will," and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in Item 1A of this Annual Report on Form 10-K. You should review these risk factors for a more complete understanding of the risks associated with an investment in our securities. Such forward-looking statements speak only as of the date of this report. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. The following discussion and analysis should be read in conjunction with our "Selected Consolidated Financial Data" and consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

Background

Infinera was founded in December 2000 with a unique vision for optical networking. Prior to Infinera, communications service provider optical networks were built from fairly commoditized products, broadly known as wavelength division multiplexing ("WDM") systems. Recent growth in bandwidth demand has increased the need for the delivery of high-capacity low-cost bandwidth throughout the network. We believe that traditional point-to-point network architectures do not provide the required flexibility to meet this demand. It takes large amounts of low-cost bandwidth, pervasive Optical Transport Network ("OTN") switching, and the intelligence of bandwidth management to manage these larger networks and deliver high-capacity services quickly and cost-effectively. Infinera believes this can best be achieved with photonic integrated circuits ("PICs") and that only through photonic integration can network operators efficiently scale their network bandwidth without significant increases in space, power or operational workload.

We call our solution for Service Providers the Infinera Intelligent Transport Network. The Intelligent Transport Network is an architecture for Service Providers to address the increasing demand for cloud-based services and data center connectivity. The Intelligent Transport network helps Service Providers use time as a weapon to increase revenues with reliable, differentiated services while reducing operating costs through scale, multi-layer convergence and automation. The Intelligent Transport Network is based on platforms built with Infinera's unique PICs.

Traffic patterns in the optical network continue to grow to accommodate increased demands for transmission capacity prompted by increased use of high-speed Internet access, mobile broadband, streaming high-definition video services, business Ethernet services, cloud-based services and wholesale bandwidth services. We believe that Infinera's Intelligent Transport Network architecture is uniquely enabled to deliver improvements in these areas compared to competitive WDM systems that still rely on discrete optical components rather than PICs. We believe that our Intelligent Transport Network architecture enables Service Providers to deploy reliable, high-capacity, efficient optical network solutions that are easy to use and improve the integration between the layers of Service Provider networks with the lowest total cost of ownership.

Infinera's DTN platform currently supports 10 Gigabits per second ("Gbps") and 40 Gbps WDM transmission capacity combined with integrated switching capabilities. Infinera's DTN-X platform supports 100 Gbps WDM transmission capacity with 500 Gbps super-channels and also integrates 5 Terabits per second ("Tbps") of OTN switching capacity in a single bay. The DTN-X platform leverages the unique capabilities of our 500 Gbps PICs to deliver high-capacity Intelligent Transport Networks that reduce power, cooling, and space while simplifying transport network operations. The ATN platform supports direct wavelength connectivity to DTN and DTN-X nodes, reducing equipment costs and providing unique network management capabilities across our Intelligent Transport Network.

2013 Financial and Business Performance

Our financial results for 2013 demonstrate strong market acceptance of Infinera's Intelligent Transport Network and the DTN-X platform. Revenues grew 24% compared to 2012, significantly faster than the overall DWDM market. We also experienced improved gross margins in 2013 and generated positive operating cash flow resulting in much improved financial performance on a year-over-year basis.

Since its introduction in mid-2012, we have received purchase commitments for the DTN-X platform from 42 customers, representing a cross section of markets including Tier 1 carriers, cable operators, Internet content providers and bandwidth wholesalers. We also continued to sell the ATN and DTN platforms as customers leveraged the full Infinera product portfolio to best meet their needs.

DTN-X market traction and the resulting growth in revenue contributed to an improvement in our financial performance in 2013. Our overall gross margin for 2013 was 40%, an increase from 36% in 2012. This increase reflected significant improvements in manufacturing yields and product costs as DTN-X volumes increased and we ramped production in our manufacturing facilities. Our product mix remained heavily weighted towards lower margin common equipment deployments in the year as we continued to win new customers and expanded market share with existing customers.

In 2014, we intend to continue to leverage the DTN-X platform to increase revenues and expand our market share as customers extend deployments of 100 Gbps transport solutions in their networks. This focus on revenue growth will be balanced with overall prudent financial management and continued efforts to drive cost improvements across all of our products and services. We believe that with sustained revenue growth, we can leverage our vertically-integrated manufacturing model, which combined with selling bandwidth capacity into deployed networks, can result in improved future profitability and cash flow.

Future Business and Industry Trends

Our goal is to be the leading provider of optical networking systems to communications service providers, internet content providers, cable operators, subsea network operators, and others. Our revenue growth will depend on the continued acceptance of our products, growth of communications traffic and the proliferation of next-generation bandwidth-intensive services, which are expected to drive the need for increased levels of bandwidth. Our ability to increase our revenue and achieve profitability will be directly affected by the level of acceptance of our products in the long-haul and metro WDM markets and by our ability to cost-effectively develop and sell innovative products that leverage our technology advantages on a time-to-market basis.

As of December 28, 2013, we have sold our products for deployment in the optical networks of 131 customers worldwide, including CenturyLink, Colt, Cox Communications, DANTE, Deutsche Telekom, Equinix, Interoute, KDDI, Level 3, NTT, OTE, Pacnet, Rostelecom, Telefonica, TeliaSonera International and Vodafone. We do not have long-term sales commitments from our customers. Although key customers account for a significant portion of our revenue, no individual customer accounted for over 10% of our revenue in 2013, 2012 or 2011. Our business will be harmed if any of our key customers do not generate as much revenue as we forecast, stop purchasing from us, or substantially reduce their orders for our products.

We are headquartered in Sunnyvale, California, with employees located throughout the Americas, Europe, and the Asia Pacific region. We expect to continue to add some personnel in the United States and internationally to develop our products and provide additional geographic sales and technical support coverage. We primarily sell our products through our direct sales force, with a small portion sold indirectly through resellers. We derived 92%, 98%, and 97% of our revenue from direct sales to customers for 2013, 2012 and 2011, respectively. We expect to continue generating a substantial majority of our revenue from direct sales in the future.

Our near-term year-over-year and quarter-over-quarter revenue will likely be volatile and may be impacted by several factors including general economic and market conditions, time-to-market development of new products, acquisitions of new customers and the timing of large product deployments.

We will continue to make significant investments in the business, and management currently believes that operating expenses for 2014 will range from $260 million to $265 million, including stock-based compensation expense of approximately $30 million to $35 million.

Results of Operations

Revenue

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

	Years Ended					
	December 28, 2013	% of total revenue	December 29, 2012	% of total revenue	Change	% Change
Revenue:						
Product	$ 465,424	86%	$ 380,035	87%	$ 85,389	22%
Services	78,698	14%	58,402	13%	20,296	35%
Total revenue	$ 544,122	100%	$ 438,437	100%	$ 105,685	24%
Cost of revenue:						
Product	$ 295,715	54%	$ 259,437	59%	$ 36,278	14%
Services	29,768	6%	21,431	5%	8,337	39%
Total cost of revenue	$ 325,483	60%	$ 280,868	64%	$ 44,615	16%
Gross profit	$ 218,639	40%	$ 157,569	36%	$ 61,070	39%

	Years Ended					
	December 29, 2012	% of total revenue	December 31, 2011	% of total revenue	Change	% Change
Revenue:						
Product	$ 380,035	87%	$ 352,644	87%	$ 27,391	8 %
Services	58,402	13%	52,233	13%	6,169	12 %
Total revenue	$ 438,437	100%	$ 404,877	100%	$ 33,560	8 %
Cost of revenue:						
Product	$ 259,437	59%	$ 220,806	54%	$ 38,631	17 %
Services	21,431	5%	18,580	5%	2,851	15 %
Total cost of revenue	$ 280,868	64%	$ 239,386	59%	$ 41,482	17 %
Gross profit	$ 157,569	36%	$ 165,491	41%	$ (7,922)	(5)%

The following table summarizes our revenue by geography and sales channel for the periods presented (in thousands, except %):

	Years Ended					
	December 28, 2013	% of total revenue	December 29, 2012	% of total revenue	Change	% Change
Total revenue by geography						
Domestic	$ 345,734	64%	$ 296,849	68%	$ 48,885	16%
International	198,388	36%	141,588	32%	56,800	40%
	$ 544,122	100%	$ 438,437	100%	$ 105,685	24%
Total revenue by sales channel						
Direct	$ 501,375	92%	$ 428,734	98%	$ 72,641	17%
Indirect	42,747	8%	9,703	2%	33,044	341%
	$ 544,122	100%	$ 438,437	100%	$ 105,685	24%

	Years Ended					
	December 29, 2012	% of total revenue	December 31, 2011	% of total revenue	Change	% Change
Total revenue by geography						
Domestic	$ 296,849	68%	$ 283,443	70%	$ 13,406	5 %
International	141,588	32%	121,434	30%	20,154	17 %
	$ 438,437	100%	$ 404,877	100%	$ 33,560	8 %
Total revenue by sales channel						
Direct	$ 428,734	98%	$ 391,811	97%	$ 36,923	9 %
Indirect	9,703	2%	13,066	3%	(3,363)	(26)%
	$ 438,437	100%	$ 404,877	100%	$ 33,560	8 %

2013 Compared to 2012. Total revenue increased $105.7 million, or 24% in 2013 from 2012. Revenues continued to be positively impacted by increased revenues from sales of our DTN-X platform. These revenues included sales to existing customers transitioning their higher-capacity network deployments to the DTN-X and new customers purchasing our Intelligent Transport Network solutions for the first time. This increase in DTN-X revenue was somewhat offset by a reduction in sales of our DTN platform as demand for 100 Gbps network deployments continued to increase. In 2013, we added 20 new customers.

International revenue increased to 36% of total revenue in 2013 from 32% of total revenue in 2012. The increases were primarily due to an increased proportion of our sales occurring in Asia Pacific which increased to 7% in 2013 compared to 3% in 2012. While we expect international revenues to continue to grow in absolute dollars on a long-term basis as we increase our sales activities in Europe, Asia Pacific and other regions, this metric may fluctuate as a percentage of total revenue depending on the size and timing of deployments both internationally and in the United States.

Total product revenue increased $85.4 million, or 22% in 2013 from 2012 reflecting increased sales of our DTN-X platform. Total services revenue increased $20.3 million, or 35% in 2013 from 2012 primarily reflecting the incremental recognition of $12.6 million related to deployment services revenue, $4.1 million related to our software subscription service revenue, $1.6 million related to our spares management service revenue, $1.4 million related to extended warranty service revenue, $0.7 million from training services revenue and $0.3 million of first line management services revenue, primarily offset by a decrease of $0.3 million related to network management services revenue. The increase in deployment services in 2013 was primarily due to the introduction and deployment of new networks based on our DTN-X platform. In addition, we expect to continue to grow our extended hardware warranty and spares management service revenues in future periods as our installed base continues to grow.

2012 Compared to 2011. Total revenue increased $33.6 million, or 8% in 2012 from 2011. Revenues were positively impacted by the recognition of revenues from sales of our DTN-X platform during the second half of 2012. These revenues included sales to existing customers transitioning their higher-capacity network deployments to the DTN-X and new customers purchasing our Digital Optical Network solutions for the first time. While this increase in DTN-X revenues was somewhat offset by a reduction in sales of our DTN platform, we continued to deploy the DTN platform in lower capacity applications with nine new customers in 2012. Revenues for 2011 were negatively impacted when customers who required higher-capacity network solutions in advance of the availability of our 40 Gbps and 100 Gbps systems purchased competitor products for portions of their networks.

International revenue increased to 32% of total revenue in 2012 from 30% of total revenue in 2011. The increases were primarily due to an increased proportion of our sales occurring in Europe. While we expect international revenues to continue to grow in absolute dollars on a long-term basis as we increase our sales activities in Europe, Asia Pacific and other regions, this metric may fluctuate as a percentage of total revenue depending on the size and timing of deployments both internationally and in the United States.

Total product revenue increased $27.4 million, or 8% in 2012 from 2011 reflecting increased sales of our DTN-X platform in the second half of 2012. Total services revenue increased $6.2 million, or 12% in 2012 from 2011 primarily reflecting the incremental recognition of $3.2 million related to deployment services revenue, $1.5 million related to our spares management service revenue, $1.4 million related to extended warranty service revenue, $0.4

million of first line management services revenue, $0.3 million of network management services revenue, and $0.3 million from training services revenue, offset by a decrease of $0.9 million related to our software subscription service revenue. The increase in deployment services in 2012 was primarily due to the introduction and deployment of new networks based on our DTN-X platform. In addition, we expect to continue to grow our extended hardware warranty and spares management services revenues in future periods as our installed base continues to grow.

Cost of Revenue and Gross Margin

2013 Compared to 2012. Gross margin increased to 40% in 2013 from 36% in 2012. This increase reflected improvements in manufacturing yields and product costs as DTN-X platform volumes increased and we ramped production in our manufacturing facilities. These improvements were somewhat offset by a greater mix of lower margin network footprint sales in 2013 as we added new customers and expanded market share with existing customers.

2012 Compared to 2011. Gross margin decreased to 36% in 2012 from 41% in 2011. Gross margin in 2012 reflected the recognition of revenues from the initial sales of our DTN-X platform. These sales represented early production units and as such, had a higher product cost. The transition of a portion of our revenues from the DTN platform to these lower-margin initial DTN-X units contributed to a decline in gross margins in the second half of the year. In addition, costs for the first half of 2012 included pre-production costs associated with the DTN-X platform production ramp. We also experienced a higher level of lower margin network footprint sales in the second half of 2012, as we began DTN-X platform deployments. Competition for initial 100 Gbps network deployments has been strong, which resulted in a highly-competitive pricing environment for new deployments during 2012.

Based on our current outlook, we expect that gross margins in 2014 will remain constrained in a period when we expect to deploy significant amounts of new network footprint while winning strategic accounts and expanding our share in existing accounts. We do not have the visibility necessary to accurately predict quarterly gross margins beyond a one-quarter time horizon.

Operating Expenses

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

	Years Ended					
	December 28, 2013	**% of total revenue**	**December 29, 2012**	**% of total revenue**	**Change**	**% Change**
Research and development	$ 124,794	23%	$ 117,233	27%	$ 7,561	6 %
Sales and marketing	72,778	14%	75,862	17%	(3,084)	(4)%
General and administrative	45,253	8%	47,475	11%	(2,222)	(5)%
Total operating expenses	$ 242,825	45%	$ 240,570	55%	$ 2,255	1 %

	Years Ended					
	December 29, 2012	**% of total revenue**	**December 31, 2011**	**% of total revenue**	**Change**	**% Change**
Research and development	$ 117,233	27%	$ 127,120	31%	$ (9,887)	(8)%
Sales and marketing	75,862	17%	64,773	16%	11,089	17 %
General and administrative	47,475	11%	54,375	14%	(6,900)	(13)%
Restructuring and other costs (credit)	—	—%	(129)	—%	129	(100)%
Total operating expenses	$ 240,570	55%	$ 246,139	61%	$ (5,569)	(2)%

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

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Research and development	$ 10,900	$ 13,306	$ 14,990
Sales and marketing	7,624	10,450	8,818
General and administration	5,956	9,529	18,502
Total	$ 24,480	$ 33,285	$ 42,310

Research and Development Expenses

2013 Compared to 2012. Research and development expenses increased $7.6 million, or 6% in 2013 from 2012. This increase was primarily due to increases in cash compensation and personnel related costs of $8.7 million and professional outside services and other costs of $1.3 million as we continued to add software engineering resources to support the development of our future products. These increases were offset by decreased stock-based compensation expenses of $2.4 million.

2012 Compared to 2011. Research and development expenses decreased $9.9 million, or 8% in 2012 from 2011. This reduction was primarily due to $8.6 million of research and development resources redeployed to manufacturing in support of initial DTN-X production builds. In addition, prototype and other equipment spending decreased by $5.7 million in 2012, following the release of the DTN-X platform. These decreases were partially offset by $2.6 million of increased depreciation, $0.6 million increase in professional and outside services and $0.6 million increase in facilities and other costs, as compared to 2011. Total other personnel-related costs increased by $0.6 million. This increase was comprised of $2.3 million increase of cash compensation offset by $1.7 million decrease of stock-based compensation expense.

Sales and Marketing Expenses

2013 Compared to 2012. Sales and marketing expenses decreased $3.1 million, or 4% in 2013 from 2012 primarily due to decreased DTN-X related customer lab trial expenses of $4.9 million, stock-based compensation of $2.8 million, and outside services and related expenses of $2.1 million These reductions were offset by increased compensation and personnel-related expenses of $6.7 million related to increased sales commissions and incremental sales headcount.

2012 Compared to 2011. Sales and marketing expenses increased $11.1 million, or 17% in 2012 from 2011 primarily due to $4.7 million related to increased expenses for customer lab trials, $3.7 million in compensation and personnel-related expenses due to increased headcount, $1.6 million of increased stock-based compensation expense, $0.7 million of increased travel and related expenses and $0.4 million of increased facilities and other costs. This increase in spending primarily reflects the ongoing impact of incremental sales resources to support the expansion of our addressable markets with the introduction of the DTN-X platform.

General and Administrative Expenses

2013 Compared to 2012. General and administrative expenses decreased $2.2 million, or 5% in 2013 from 2012 primarily due to decreased stock-based compensation expense of $3.6 million, and lower consulting services and other costs of $1.0 million, offset by increased compensation and personnel-related costs of $2.4 million.

2012 Compared to 2011. General and administrative expenses decreased $6.9 million, or 13% in 2012 from 2011 primarily due to $9.0 million of decreased stock-based compensation expense, which included the impact of reduced management bonuses and other changes in equity grant activity, and $0.2 million decrease in facilities and other costs. These decreases were partially offset by increased professional services costs of $1.6 million primarily related to implementation of our new enterprise resource planning system and related increased depreciation costs of $0.7 million.

Restructuring and Other Costs

In 2011, we recorded a credit of $0.1 million due to a change in estimates associated with facility-related costs. We completed our restructuring actions associated with the closure of our Maryland FAB in 2010.

Other Income (Expense), Net

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
		(In thousands)	
Interest income	$ 923	$ 911	$ 1,014
Interest expense	(6,061)	—	—
Other gain (loss), net	(1,141)	(1,050)	(419)
Total other income (expense), net	$ (6,279)	$ (139)	$ 595

2013 Compared to 2012. Interest income increased by an insignificant amount in 2013 compared to 2012 mainly due to higher interest income earned on foreign cash balance partially offset by a lower return on domestic investments. Interest expense for 2013 consisted of contractual interest expense and amortization of debt discount and debt issuance costs related to the Notes issued in May 2013. See Note 9, "Convertible Senior Notes," to the Notes to Consolidated Financial Statements for more information. Other gain (loss), net for 2013 includes $1.4 million of unrealized and realized losses due to foreign currency exchange, partially offset by a gain of $0.2 million from auction rate securities ("ARS") sold.

2012 Compared to 2011. Interest income decreased $0.1 million in 2012 from 2011 mainly due to lower average investment balances. Other gain (loss), net for 2012 includes $1.5 million of unrealized and realized losses due to foreign currency exchange, partially offset by a gain of $0.5 million from ARS called at par value.

Income Tax Provision

We recognized income tax expense of approximately $1.7 million, $2.2 million and $1.7 million in each of fiscal years 2013, 2012 and 2011, on pre-tax book losses of $30.5 million, $83.1 million and $80.1 million, respectively. The resulting effective tax rates of 5.4%, 2.6% and 2.1% for 2013, 2012 and 2011, respectively, differs from the expected statutory rate of 35% based upon unbenefited U.S. losses, non-deductible stock compensation charges and foreign taxes provided on foreign subsidiary earnings. The decrease in 2013 tax expense compared to 2012 tax expense relates primarily to the release of tax reserves due to the lapsing of the statute of limitations. The increase in the 2012 tax expense compared to 2011 expense relates primarily to reductions of benefits from Canadian research credits.

During 2013, 2012 and 2011, the income tax benefits were not significant for each year and were allocated to the tax provision from continuing operations, related to the tax effects of items credited directly to other comprehensive income (“OCI”). Generally, the amount of tax expense or benefit allocated to continuing operations is determined without regard to the tax effects of other categories of income or loss, such as OCI. However, an exception to the general rule is provided within the intra-period tax allocations rules when there is a pre-tax loss from continuing operations and there are items charged or credited to other categories, including OCI, in the current year. The intra-period tax allocation rules related to items charged or credited directly to OCI can result in disproportionate tax effects that remain in OCI until certain events occur. The valuation allowance for deferred tax assets as of December 28, 2013 and December 29, 2012 was $202.7 million and $213.4 million, respectively. The net change in the valuation allowance was a decrease of $10.7 million and an increase of $25.1 million for the years ended December 28, 2013 and December 31, 2012, respectively.

As of December 28, 2013, we had net operating loss carryforwards of approximately $351.1 million for federal tax purposes and $297.1 million for state tax purposes. If not utilized, these carryforwards will begin to expire in 2021 for federal tax purposes and 2015 for state tax purposes. Additionally, the Company has federal and California research and development credits available to reduce future income taxes payable of approximately $25.5 million and $25.7 million, respectively. Infinera Canada Inc., a wholly owned subsidiary, has Scientific Research and Experimental Development Expenditures ("SRED") credits available of $1.9 million to offset future Canadian Income tax payable. The federal research credits will begin to expire in the year 2021 if not utilized, while the California research credits have no expiration date. Canadian SRED credits will begin to expire in the year 2030 if not fully utilized.

We maintain net operating losses generated from excess tax benefits associated with the accumulated stock award attributes in a memo account, not included in the deferred tax inventory balances. The additional tax benefit associated with these stock award attributes, of which the net operating loss amounts are included in the carryforward amounts noted above, is not recognized until the deduction reduces cash taxes payable. At December 28, 2013, the Company had unbenefited stock option deductions for federal and California tax purposes of $38.4 million and $36.2 million, respectively. When utilized, the estimated tax benefits of approximately $16.4 million will result in a credit to stockholders' equity.

Under the Tax Reform Act of 1986, the amount of benefit from net operating loss and tax credit carryforwards may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses that we may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50 percent as defined, over a three-year testing period. As of December 28, 2013, we had determined that ownership changes have occurred that would result in limitations on the current and future utilization of our net operating loss carryforwards. However, based on the work performed, the limitations are not significant enough to impact the future utilization of the tax attributes.

In determining future taxable income, we make assumptions to forecast federal, state and international operating income, the reversal of temporary differences, and the implementation of any feasible and prudent tax planning strategies. The assumptions require significant judgment regarding the forecasts of future taxable income, and are consistent with our income forecasts used to manage our business. We intend to maintain the remaining valuation allowance until sufficient further positive evidence exists to support a reversal of, or decrease, in the existing valuation allowance.

Liquidity and Capital Resources

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
		(In thousands)	
Net cash flow provided by (used in):			
Operating activities	$ 35,180	$ (49,466)	$ (1,965)
Investing activities	$ (180,800)	$ 48,868	$ (25,168)
Financing activities	$ 166,110	$ 10,698	$ 8,513

	Years Ended	
	December 28, 2013	December 29, 2012
	(In thousands)	
Cash and cash equivalents	$ 124,330	$ 104,666
Short-term and long-term investments	237,079	79,020
Long-term restricted cash	3,904	3,868
	$ 365,313	$ 187,554

Cash, cash equivalents, short-term and long-term investments and short-term and long-term restricted cash consist of highly-liquid investments in certificates of deposits, money market funds, commercial paper, corporate bonds, U.S. agency notes and U.S. treasuries. The restricted cash balance amounts are pledged as collateral for certain stand-by and commercial letters of credit.

Operating Activities

Net cash provided by operating activities for 2013 was $35.2 million as compared to net cash used in operating activities of $49.5 million in 2012 and $2.0 million net cash used in operating activities in 2011. Cash flow from operating activities consists of net loss, adjusted for non-cash charges, plus or minus working capital changes. Our working capital requirements can fluctuate significantly depending on the timing of deployments and the acceptance, billing and payment terms on those deployments. Additionally, our ability to manage inventory turns and our ability to negotiate favorable payment terms with our vendors may also impact our working capital requirements.

Net loss for 2013 was $32.1 million, which included non-cash charges of $62.3 million, compared to a net loss of $85.3 million in the corresponding period in 2012, including non-cash charges of $67.2 million. Net loss for 2011 was $81.7 million, which included non-cash charges of $72.2 million.

Net cash provided by working capital was $5.0 million for 2013. Accounts receivables decreased by $6.3 million primarily due to improved linearity of invoicing. Inventory levels increased by $3.0 million due to increased levels of DTN-X inventory. Accounts payable decreased by $20.2 million primarily reflecting the timing of inventory purchases and improved linearity of supply. Accrued liabilities increased by $11.3 million primarily related to the timing of vendor invoicing of external services costs.

Net cash used to fund working capital was $31.3 million for 2012. This increase in working capital requirements was primarily related to the introduction of our DTN-X platform. Inventory levels increased by $40.6 million as we added inventory for the DTN-X platform while maintaining DTN levels. Accounts receivable increased by $26.5 million primarily due to the timing of acceptance and invoicing of DTN-X platform deployments during the second half of 2012. Accrued liabilities increased by $6.9 million primarily related to external services performed but not invoiced by vendors.

Net cash provided by working capital was $7.5 million for 2011. Working capital requirements for the fourth quarter of 2011 were impacted by the disruption of the supply chain due to flooding events in Thailand. The net effect of this event on cash provided by working capital was a usage of cash of $1.4 million. Included in prepaid expenses and other assets was an $11.1 million decrease in deferred tax assets which was offset by a corresponding decrease in deferred tax liabilities included in accrued liabilities and other expenses. Other working capital changes included a reduction of other receivables of $3.4 million, reduction of deferred inventory costs of $2.0 million and an increase in warranty accruals of $1.4 million.

Investing Activities

Net cash used in investing activities in 2013 was $180.8 million. This included $159.7 million from purchases, maturities, calls and sales of investments in the year and $21.1 million of capital expenditures. The increase in net cash used in investing activities as compared to 2012 primarily related to the investment of the proceeds received from the issuance of the Notes.

Net cash provided by investing activities in 2012 was $48.9 million primarily reflecting net proceeds of $75.0 million from maturities, calls and sales of investments, net of purchases in the period, offset by $25.4 million of capital expenditures.

Net cash used in investing activities in 2011 was $25.2 million primarily reflecting $39.4 million of capital expenditures and net proceeds of $18.5 million from maturities, calls and sales of investments, net of purchases in the period. We also invested an additional $4.5 million in an existing cost-method equity investment.

Financing Activities

Net proceeds from financing activities in 2013 were $166.1 million. This included the net proceeds from the issuance of the Notes of $144.5 million and proceeds from issuance of common stock under our stock-based compensation plans of $23.2 million. These activities were offset by $1.5 million related to the repurchase of shares from employees to satisfy minimum tax withholdings.

Net proceeds from financing activities in 2012 were $10.7 million primarily related to $11.6 million in proceeds from the issuance of common stock under our Employee Stock Purchase Plan (“ESPP”) and other equity plans. This was offset by $0.9 million related to the repurchase of shares from employees to satisfy minimum tax withholdings.

Net proceeds from financing activities in 2011 were $8.5 million primarily related to $10.0 million in proceeds from the issuance of common stock under our ESPP and other equity plans. This was offset by $1.2 million related to the repurchase of shares from employees to satisfy minimum tax withholdings and $0.3 million related to payments for purchase of assets under a financing arrangement.

Liquidity

In May 2013, we issued $150.0 million of 1.75% convertible senior notes due June 1, 2018 (the “Notes”). The Notes will mature on June 1, 2018, unless earlier purchased by us or converted. Interest is payable semi-annually in arrears on June 1 and December 1 of each year, commencing December 1, 2013. The net proceeds from the Notes issuance were approximately $144.5 million. We intend to use the net proceeds for working capital and other general corporate purposes.

Upon conversion, it is our intention to pay cash equal to the lesser of the aggregate principal amount and the conversion value of the Notes being converted and cash, shares of common stock or a combination of cash and shares of common stock, at our election, for any remaining conversion obligation. The carrying value of the Notes was $109.2 million as of December 28, 2013, which represents the liability component of the $150.0 million principal balance, net of $40.8 million debt discount. The debt discount is currently being amortized over the remaining term until maturity of the Notes on June 1, 2018. Any future redemption or conversion of the Notes could impact the amount or timing of our cash payments. See Note 9, "Convertible Senior Notes," to the Notes to Consolidated Financial Statements for more information.

As of December 28, 2013, we had $297.0 million of cash, cash equivalents, and short-term investments, including $14.0 million of cash and cash equivalents held by our foreign subsidiaries. Our cash in foreign locations is used for operational and investing activities in those locations, and we do not currently have the need or the intent to repatriate those funds to the U.S. Our policy with respect to undistributed foreign subsidiaries' earnings is to consider those earnings to be indefinitely reinvested. If we were to repatriate these funds, we would be required to accrue and pay U.S. taxes on such amounts, however, due to our significant net operating loss carryforward position for both federal and state tax purposes, as well as the full valuation allowance provided against our U.S. and state net deferred tax assets, we would currently be able to offset any such tax obligations in their entirety. However, foreign withholding taxes may be applicable.

For 2014, capital expenditures are expected to be approximately $30 million, primarily for product development.

We believe that our current cash and cash equivalents and investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. If these sources of cash are insufficient to satisfy our liquidity requirements beyond 12 months, we may require additional capital from equity or debt financings to fund our operations, to respond to competitive pressures or strategic opportunities, or otherwise. We may not be able to secure timely additional financing on favorable terms, or at all. The terms of any additional 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 us, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

Contractual Obligations

The following is a summary of our contractual obligations as of December 28, 2013:

		Payments Due by Period			
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
			(In thousands)		
Purchase obligations[1]	$ 69,643	$ 69,643	$ —	$ —	$ —
Operating leases[2]	41,076	5,738	10,861	10,488	13,989
Convertible senior notes, including interest	161,813	2,625	7,875	151,313	—
Total contractual obligations[3]	$ 272,532	$ 78,006	$ 18,736	$ 161,801	$ 13,989

(1) We have service agreements with our major production suppliers under which we are committed to purchase certain parts.

(2) We lease facilities under non-cancelable operating lease agreements. These leases have varying terms, predominantly no longer than ten years each and contain leasehold improvement incentives, rent holidays and escalation clauses that range from one to 10 years. In addition, some of these leases have renewal options for up to five years. We also have contractual commitments to remove leasehold improvements and return certain properties to a specified condition when the leases terminate. At the inception of a lease with such conditions, we record an asset retirement obligation liability and a corresponding capital asset in an amount equal to the estimated fair value of the obligation. Leasehold improvements are amortized using the

straight-line method over the shorter of the lease term or estimated useful life of the asset. An assumption of lease renewal where a renewal option exists is used only when the renewal has been determined to be reasonably assured. The estimated useful life of leasehold improvements is one to ten years.

(3) Tax liabilities of $1.8 million related to uncertain tax positions are not included in the table because we are unable to determine the timing of settlement if any, of these future payments with a reasonably reliable estimate.

We had $3.5 million of standby letters of credit outstanding as of December 28, 2013. These consisted of $1.4 million related to a value added tax license, $1.4 million related to a customer proposal guarantee and $0.7 million related to property leases. We had $3.6 million of standby letters of credit outstanding as of December 29, 2012. These consisted of $1.5 million related to a value added tax license, $1.4 million related to a customer proposal guarantee and $0.7 million related to property leases.

Off-Balance Sheet Arrangements

As of December 28, 2013, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). These accounting principles require us to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates and assumptions made by management include revenue recognition, stock-based compensation, inventory valuation, allowances for doubtful accounts, allowances for sales reserves, accrued warranty, cash equivalents, fair value measurement of investments, other-than-temporary impairments, derivative instruments and accounting for income taxes. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. We believe that the estimates and judgments upon which we rely are reasonable based upon information available to us 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.

Revenue Recognition

Substantially all of our product sales are sold in combination with software support services comprised of either software warranty or software subscription services. We also periodically sell training, installation and deployment services, spares management and on-site hardware replacement services with our product sales. Training services include the right to a specified number of training classes and installation and deployment services may include customer site assessments, equipment installation and testing. Training and installation and deployment services are generally delivered over a 90-120 day period. Software warranty provides customers with maintenance releases and patches during the warranty support period. Software subscription also includes maintenance releases and patches and provides customers with rights to receive unspecified software product upgrades released during the support period. These support services are generally delivered over a one-year 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 and are generally delivered over a one-year period.

We recognize product revenue when all of the following have occurred: (1) we have entered into a legally binding arrangement with the customer; (2) delivery has occurred, which is when product title and risk of loss have transferred to the customer; (3) customer payment is deemed fixed or determinable; and (4) collectability is reasonably assured.

We allocate revenue to each element in our multiple-element arrangements based upon their relative selling prices. We determine the selling price for each deliverable based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. Revenue allocated to each element is then recognized when the basic revenue recognition criteria for that element has been met.

VSOE of selling price is used in the selling price allocation in all instances where it exists. VSOE of selling price for products and services is determined when a substantial majority of the selling prices fall within a reasonable range when sold separately. In certain instances, we are not able to establish VSOE for all deliverables in an arrangement with multiple elements. This mainly occurs where insufficient standalone sales transactions have occurred or where pricing for that element has not been consistent.

TPE of selling price can be established by evaluating largely interchangeable competitor products or services in standalone sales to similarly situated customers. As our products contain a significant element of proprietary technology and the solution offered differs substantially from that of competitors, it is typically difficult to obtain the reliable standalone competitive pricing necessary to establish TPE.

ESP represents the best estimate of the price at which we would transact a sale if the product or service was sold on a standalone basis. We determine ESP for a product or service by considering multiple factors including, but not limited to market conditions, competitive landscape, gross margin objectives and pricing practices. The determination of ESP is made through formal approval by our management, taking into consideration the overall go-to-market pricing strategy.

As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in selling prices, including both VSOE and ESP. As a result, our future revenue recognition for multiple element arrangements could differ from that recorded in the current period. We regularly review VSOE, TPE, and ESP and maintain internal controls over the establishment and update of these inputs.

We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or refund privileges. We evaluate each deliverable in an arrangement to determine whether they represent separate units of accounting.

We have a limited number of software offerings which are not required to deliver the tangible product's essential functionality and can be sold separately. Revenue from sales of these software products and related post-contract support will continue to be accounted for under software revenue recognition rules. Our multiple-element arrangements may therefore have a software deliverable that is subject to the existing software revenue recognition guidance. The revenue for these multiple-element arrangements is allocated to the software deliverable and the non-software deliverables based on the relative selling prices of all of the deliverables in the arrangement using the hierarchy in the new revenue recognition accounting guidance. Revenues related to these software offerings are not expected to be significant.

Services revenue includes software subscription services, training, installation and deployment services, spares management, on-site hardware replacement services, extended software warranty and extended hardware warranty services. Revenue from software subscription, spares management, on-site hardware replacement services and extended software and hardware warranty contracts is deferred and is recognized ratably over the contractual support period, which is generally one year. Revenue related to training and installation and deployment services is recognized as the services are completed.

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. Revenue is recognized only when title and risk of loss pass to customers and when the revenue recognition criteria have been met. In instances where acceptance of the product occurs upon formal written acceptance, revenue is deferred until such written acceptance has been received. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. Payment terms to customers generally range from net 30 to 120 days from invoice, which are considered to be standard payment terms. However, payment terms greater than 120 days but less than or equal to one year from invoice may be considered standard if payment is supported by an irrevocable commercial letter of credit ("LOC") issued by a creditworthy bank or if the LOC has been accepted and confirmed by a creditworthy bank. In the event payment terms are provided that differ from our standard business practices, the fees are deemed to not be fixed or determinable and, therefore, revenue is not recognized until the fees become fixed or determinable which we believe is when they are legally due and payable. We assess our ability to collect from our 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 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.

Shipping charges billed to customers are included in product revenue and related shipping costs are included in product cost. 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.

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.

We estimate the fair value of the stock options granted using the Black-Scholes option pricing formula and a single option award approach. For new-hire grants, options typically vest with respect to 25% of the shares one year after the option’s vesting commencement date and the remainder ratably on a monthly basis over three years, commencing one year after the vesting commencement date. For annual refresh grants, options typically vest ratably on a monthly basis over three, four or five years. In 2011, we granted performance-based stock options to executives as part of our annual refresh grant process. The performance-based stock options entitle our executive team to receive a number of options to purchase our common stock based on pre-established performance criteria over approximately one year. These performance metrics are classified as performance conditions, and we evaluate the performance status at the end of each period and record the expense when deemed probable.

We make a number of estimates and assumptions in determining stock-based compensation related to options including the following:

- The expected forfeiture rate is estimated based on our historical forfeiture data and compensation costs are recognized only for those equity awards expected to vest. The estimation of the forfeiture rate requires judgment, and to the extent actual forfeitures differ from expectations, changes in estimate will be recorded as an adjustment in the period when such estimates are revised. Actual results may differ substantially from the estimates. The Company records stock-based compensation expense to adjust estimated forfeiture rates to actual.
- The expected term represents the weighted-average period that the stock options are expected to be outstanding prior to being exercised. The expected term is estimated based on the Company’s historical data on employee exercise patterns and post vesting termination behavior to estimate expected exercises over the contractual term of grants.
- Expected volatility of the Company’s stock has been historically based on the weighted-average implied and historical volatility of Infinera and its peer group. The peer group is comprised of similar companies in the same industrial sector. As the Company gained more historical volatility data, the weighting of our own data in the expected volatility calculation associated with options gradually increased to 100% by 2013.

We estimate the fair value of the rights to acquire stock under our ESPP using the Black-Scholes option pricing formula. Our ESPP typically provides for consecutive six-month offering periods and we use our own historical volatility data in the valuation of ESPP shares.

We account for the fair value of restricted stock units (“RSUs”) using the closing market price of our common stock on the date of grant. For new-hire grants, RSUs typically vest ratably on an annual basis over four years. For annual refresh grants, RSUs typically vest ratably on an annual basis over three, four or five years.

We granted performance stock units ("PSUs") to our executives in 2013 as part of our annual refresh grant process. These PSUs entitle our executive officers to receive a number of shares of our common stock based on our stock price performance compared to the NASDAQ Telecom Composite Index (“IXTC”) for the same period. The PSUs vest over the span of one year, two years, and three years and the number of shares to be issued upon vesting ranges from 0 to 1.5 times the number of PSUs granted depending on the relative performance of our common stock price compared to IXTC. This performance metric is classified as a market condition.

The Monte Carlo simulation model is based on a discounted cash flow approach, with the simulation of a large number of possible stock price outcomes for our stock and the target composite index. The use of the Monte Carlo simulation model requires the input of a number of assumptions including expected volatility of our stock price, expected volatility of IXTC, correlation between changes in our stock price and changes in the target composite index, risk-free interest rate, and expected dividends. Expected volatility of our stock is based on the weighted-average implied and historical volatility of our peer group in the industry in which we do business. Expected volatility of IXTC is based on the historical and implied data. Correlation is based on the historical relationship between our peer group stock price and the target composite index average. The risk-free interest rate is based upon the treasury zero-coupon yield appropriate for the term of the PSU as of the grant date. The expected dividend yield is zero for us as we do not expect to pay dividends in the future. The expected dividend yield for the target composite index is the annual dividend yield expressed as a percentage of the composite average of the target composite index on the grant date.

In 2012, we granted PSUs with performance conditions and estimated the fair value using the closing market price of our common stock on the date of grant. These PSUs entitle our executive officers to receive a number of shares of our common stock based on pre-established performance criteria over approximately two and a half years. The PSUs cliff vest at 50% upon achievement of specific revenue criteria and 50% will cliff vest upon achievement of specific operating profit criteria. This performance metric is classified as a performance condition.

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 (first-in, first-out method) or market. Market 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. As of December 28, 2013 and December 29, 2012, our inventory value had been reduced by $8.7 million and $6.9 million, respectively, for excess and obsolescence. In valuing our inventory costs and deferred inventory costs, we considered whether the utility of the products 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 utility of the products 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 market, whichever is lower, thereby recognizing the cost of the reduction in utility 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 cost or market (“LCM”). As of December 28, 2013 and December 29, 2012, our inventory value had been reduced by $5.0 million and $7.5 million, respectively, for LCM adjustments.

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 contracted 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.

Accounts Receivable and Allowances for Doubtful Accounts

Accounts receivable consist of trade receivables recorded upon recognition of revenue for product and services, reduced by reserves for estimated bad debts. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Credit is extended based on evaluation of the customer’s financial condition. We make judgments as to our ability to collect outstanding receivables and provide allowances for a portion of receivables when collection becomes doubtful. Provisions are made based upon a review of all significant outstanding invoices. At December 28, 2013 and December 29, 2012, our allowance for doubtful accounts was not significant and $0.1 million, respectively.

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 in 2013, 2012 and 2011. At December 28, 2013, December 29, 2012 and December 31, 2011, revenue was reduced for estimated sales returns by $0.1 million, $1.3 million and $0.2 million, respectively.

Accrued Warranty

We warrant that our products will operate substantially in conformity with product specifications. Upon delivery of our products, we provide for the estimated cost to repair or replace products or the related components that may be returned under warranty. Our hardware warranty periods range from one to five years from date of acceptance for hardware and 90 days for software warranty. The hardware warranty accrual is based on actual historical returns experience and the application of those historical return rates to our in-warranty installed base. We periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary. We have software warranty support obligations to a small number of our customers and the costs associated with providing these software warranties have been insignificant to our consolidated financial statements to date.

Cash, Cash Equivalents and Short-term and Long-term Investments

We consider all highly liquid instruments with an original maturity at the date of purchase of 90 days or less to be cash equivalents. We maintain our cash in bank deposit accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts.

Marketable securities consist of certificates of deposit, commercial paper, corporate bonds, U.S. agency notes, U.S. treasuries and ARS. We consider all debt instruments with original maturities at the date of purchase greater than 90 days and remaining time to maturity of one year or less to be short-term investments. We classify debt instruments with remaining maturities greater than one year as long-term investments, unless we intend to settle our holdings within one year or less and in such case it is considered to be short-term investments. We determine the appropriate classification of our marketable securities at the time of purchase and re-evaluate such designations as of each balance sheet date.

Available-for-sale investments are stated at fair market value with unrealized gains and losses recorded in Accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets. We evaluate our available-for-sale marketable debt securities for other-than-temporary impairments and record any credit loss portion in Other income (expense), net in our consolidated statements of operations. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity and for any credit losses incurred on these securities. Gains and losses are recognized when realized in the consolidated statements of operations under the specific identification method.

Fair Value Measurement of Investments

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, we consider the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Valuation techniques used by us are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect our assumptions about market participant assumptions based on best information available. Observable inputs are the preferred source of values. These two types of inputs create the following fair value hierarchy:

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

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

We measure our cash equivalents, derivative instruments and debt securities at fair value and classify our securities in accordance with the fair value hierarchy. Our money market funds and U.S. treasuries are classified within Level 1 of the fair value hierarchy and are valued based on quoted prices in active markets for identical securities.

We classify our certificates of deposit, commercial paper, corporate bonds, U.S. agency notes and foreign currency exchange forward contracts within Level 2 of the fair value hierarchy as follows:

Certificates of Deposit

We review market pricing and other observable market inputs for the same or similar securities obtained from a number of industry standard data providers. In the event that a transaction is observed for the same or similar security in the marketplace, the price on that transaction reflects the market price and fair value on that day. In the absence of any observable market transactions for a particular security, the fair market value at period end would be equal to the par value. These inputs represent quoted prices for similar assets or these inputs have been derived from observable market data, and result in the classification of these securities as Level 2 of the fair value hierarchy.

Commercial Paper

We review market pricing and other observable market inputs for the same or similar securities obtained from a number of industry standard data providers. In the event that a transaction is observed for the same or similar security in the marketplace, the price on that transaction reflects the market price and fair value on that day and then follows a revised accretion schedule to determine the fair market value at period end. In the absence of any observable market transactions for a particular security, the fair market value at period end is derived by accreting from the last observable market price. These inputs represent quoted prices for similar assets or these inputs have been derived from observable market data accreted mathematically to par, and result in the classification of these securities as Level 2 of the fair value hierarchy.

Corporate Bonds

We review trading activity and pricing for each of the corporate bond securities in our portfolio as of the measurement date and determine if pricing data of sufficient frequency and volume in an active market exists in order to support Level 1 classification of these securities. Since sufficient quoted pricing for identical securities is not available, we obtain market pricing and other observable market inputs for similar securities from a number of industry standard data providers. In instances where multiple prices exist for similar securities, these prices are used as inputs into a distribution-curve to determine the fair market value at period end. As a result, we classify our corporate bonds as Level 2 of the fair value hierarchy.

Foreign Currency Exchange Forward Contracts

As discussed in Note 5, “Derivative Instruments,” to the Notes to Consolidated Financial Statements, we mainly hold non-speculative foreign exchange forward contracts to hedge certain foreign currency exchange exposures. We estimate 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. As a result, we classify our derivative instruments as Level 2 of the fair value hierarchy.

We classified our ARS within Level 3 of the fair value hierarchy. Our ARS were classified within Level 3 because they were valued, in part, by using inputs that were unobservable in the market and were significant to the valuation. During 2013, we disposed of our remaining $3.1 million (par value) ARS, with $0.1 million of ARS called at par value and $3.0 million of ARS tendered at 95% of par value. As of December 28, 2013, none of our existing securities were classified as Level 3 securities.

Other-Than-Temporary Impairments

We review our available-for-sale marketable debt securities on a regular basis to evaluate whether or not a security has experienced an other-than-temporary decline in fair value. If a debt security’s market value is below amortized cost and we either intend to sell the security or it is more likely than not that we will be required to sell the security before our anticipated recovery, we record an other-than-temporary impairment ("OTTI") charge to earnings for the entire amount of the impairment.

When we do not intend to sell an impaired security and it is not more likely than not that we will be required to sell prior to recovery of its amortized cost basis, we separate the OTTI into credit and non-credit loss portions. The amount representing the credit loss is recognized in Other income (expense), net, and the amount related to all other factors is recognized in Accumulated other comprehensive loss.

In determining if a credit loss has occurred, it is our policy to isolate the credit loss related portion of the discount rate used to derive the fair market value of the security and apply this to the expected cash flows in order to determine the portion of the OTTI that is credit loss related. This credit related portion of the discount rate is based on the financial condition of the issuer, changes in rating agency credit ratings for the security or increases in credit related yield spreads on similar securities offered by the same issuer.

Once a credit impairment loss has been recognized in our consolidated statements of operations, the amortized cost basis of that available-for-sale security is reduced by the amount of the credit impairment loss, resulting in a new cost basis for the security. Any non-credit related unrealized gains and losses are recorded in Accumulated other comprehensive loss in our consolidated balance sheets. We will continue to monitor the security's credit rating and credit spread and will accrete any reduction in the credit impairment loss to interest income over the expected life of the security.

Derivative Instruments

As discussed in Note 5, "Derivative Instruments," to the Notes to Consolidated Financial Statements, we mainly hold non-speculative foreign exchange forward contracts to hedge certain foreign currency exchange exposures. We estimate 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. As a result, we classify our derivative instruments as Level 2 of the fair value hierarchy.

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 we believe that recovery does not meet the "more-likely-than-not" standard, we must establish a valuation allowance. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. At December 28, 2013 and December 29, 2012, our domestic net deferred tax assets were fully reserved with a valuation allowance because, based on the available evidence, we believed at that time it was more likely than not that we would not be able to utilize those deferred tax assets in the future. We intend to maintain a valuation allowance until sufficient evidence exists to support the reversal of the valuation allowance. We make estimates and judgments about our future taxable income, by jurisdiction, based on assumptions that are consistent with our plans and estimates. Should the actual amounts differ from our estimates, the amount of our valuation allowance could be materially impacted.

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

A majority of our revenue, expense and capital purchasing activities are transacted in U.S. dollars. However, we do incur some insignificant operating costs in other currencies. In addition, certain of our sales contracts are not priced in U.S. dollars and, therefore, a portion of our revenue is subject to foreign currency risks. Our operating expenses and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the India Rupee, Chinese Yuan, British Pound and the Euro.

The effect of an immediate 10% adverse change in exchange rates on foreign denominated transactions as of December 28, 2013 and December 29, 2012 would result in a loss of approximately $2.6 million and $2.3 million, respectively, for the year then ended. We enter into foreign currency exchange forward contracts to reduce the impact of foreign currency fluctuations on accounts receivable denominated in currencies other than our functional currency, which is the U.S. dollar. As a result, we do not expect a significant impact to our results from a change in exchange rates on foreign denominated accounts receivable balances in the near-term. Fluctuations in our currency exchange rates could impact our business in the future.

Interest Rate Sensitivity

We had cash and cash equivalents, short-term and long-term investments and short-term and long-term restricted cash totaling $365.3 million and $187.6 million as of December 28, 2013 and December 29, 2012, respectively. As of December 28, 2013, we invested in certificates of deposit, money market funds, commercial paper, corporate bonds and U.S. treasuries. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for speculative purposes. We believe that we do not have any material exposure to changes in the fair value as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. If overall interest rates fell by 10% in 2013 and 2012, our interest income would have declined approximately $0.1 million and $0.1 million for such years, assuming consistent investment levels.

Market Risk and Market Interest Risk

Holders may convert the Notes we issued in May 2013 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.

As of December 28, 2013, the fair value of the Notes was $162.8 million. The fair value was determined based on the quoted bid price of the Notes in an over-the-counter market on December 28, 2013. The fair value the Notes is subject to interest rate risk, market 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 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.

See Note 9, “Convertible Senior Notes,” to the Notes to Consolidated Financial Statements for further information.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Board of Directors and Stockholders
Infinera Corporation

We have audited the accompanying consolidated balance sheets of Infinera Corporation as of December 28, 2013 and December 29, 2012, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 28, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Infinera Corporation at December 28, 2013 and December 29, 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 28, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Infinera Corporation's internal control over financial reporting as of December 28, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 21, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 21, 2014

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

The Board of Directors and Stockholders
Infinera Corporation

We have audited Infinera Corporation's internal control over financial reporting as of December 28, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Infinera Corporation'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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, Infinera Corporation maintained, in all material respects, effective internal control over financial reporting as of December 28, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Infinera Corporation as of December 28, 2013 and December 29, 2012, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 28, 2013 of Infinera Corporation and our report dated February 21, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 21, 2014

INFINERA CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands, except par values)

	December 28, 2013	December 29, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 124,330	$ 104,666
Short-term investments	172,660	76,146
Accounts receivable, net of allowance for doubtful accounts of $43 in 2013 and $94 in 2012	100,643	107,039
Other receivables	1,313	2,909
Inventory	123,685	127,809
Deferred inventory costs	705	1,029
Deferred tax asset	1,322	155
Prepaid expenses and other current assets	14,412	9,744
Total current assets	539,070	429,497
Property, plant and equipment, net	79,668	80,343
Deferred inventory costs, non-current	2	100
Long-term investments	64,419	2,874
Cost-method investment	9,000	9,000
Long-term restricted cash	3,904	3,868
Other non-current assets	4,863	2,488
Total assets	$ 700,926	$ 528,170
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 39,843	$ 61,428
Accrued expenses	22,431	26,288
Accrued compensation and related benefits	33,899	22,325
Accrued warranty	12,374	7,262
Deferred revenue	32,402	26,744
Total current liabilities	140,949	144,047
Long-term debt, net	109,164	—
Accrued warranty, non-current	10,534	9,220
Deferred revenue, non-current	4,888	3,210
Deferred tax liability	1,364	117
Other long-term liabilities	16,217	15,440
Commitments and contingencies (Note 10)		
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 2013 and 2012 Issued and outstanding shares—119,887 in 2013 and 112,461 in 2012	120	112
Additional paid-in capital	1,025,661	930,618
Accumulated other comprehensive loss	(3,486)	(2,228)
Accumulated deficit	(604,485)	(572,366)
Total stockholders‘ equity	417,810	356,136
Total liabilities and stockholders' equity	$ 700,926	$ 528,170

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 28, 2013	December 29, 2012	December 31, 2011
Revenue:			
Product	$ 465,424	$ 380,035	$ 352,644
Services	78,698	58,402	52,233
Total revenue	544,122	438,437	404,877
Cost of revenue:			
Cost of product	295,715	259,437	220,806
Cost of services	29,768	21,431	18,580
Total cost of revenue	325,483	280,868	239,386
Gross profit	218,639	157,569	165,491
Operating expenses:			
Research and development	124,794	117,233	127,120
Sales and marketing	72,778	75,862	64,773
General and administrative	45,253	47,475	54,375
Restructuring and other costs (credit)	—	—	(129)
Total operating expenses	242,825	240,570	246,139
Loss from operations	(24,186)	(83,001)	(80,648)
Other income (expense), net:			
Interest income	923	911	1,014
Interest expense	(6,061)	—	—
Other gain (loss), net	(1,141)	(1,050)	(419)
Total other income (expense), net	(6,279)	(139)	595
Loss before income taxes	(30,465)	(83,140)	(80,053)
Provision for income taxes	1,654	2,190	1,691
Net loss	$ (32,119)	$ (85,330)	$ (81,744)
Net loss per common share:			
Basic	$ (0.27)	$ (0.77)	$ (0.78)
Diluted	$ (0.27)	$ (0.77)	$ (0.78)
Weighted average shares used in computing net loss per common share:			
Basic	117,425	110,739	105,432
Diluted	117,425	110,739	105,432

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

INFINERA CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Net loss	$ (32,119)	$ (85,330)	$ (81,744)
Other comprehensive loss:			
Unrealized gain (loss) on auction rate securities classified as available-for-sale investments	(166)	(141)	410
Unrealized gain (loss) on all other available-for-sale investments	(140)	158	(105)
Foreign currency translation adjustment	(952)	(43)	(1,117)
Tax effect on items related to available-for-sale investment	—	(7)	(122)
Net change in accumulated other comprehensive loss	(1,258)	(33)	(934)
Comprehensive loss	$ (33,377)	$ (85,363)	$ (82,678)

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

INFINERA CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2011, December 29, 2012 and December 28, 2013
(In thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at December 25, 2010	102,492	$ 102	$ 817,200	$ (1,261)	$ (405,292)	$ 410,749
Stock options exercised	378	1	1,449	—	—	1,450
ESPP shares purchased	1,309	1	8,461	—	—	8,462
Common stock repurchased	(140)	—	(1,248)	—	—	(1,248)
Reclassification of options exercised but not vested	—	—	1	—	—	1
Restricted stock units released	2,937	3	(3)	—	—	—
Stock-based compensation	—	—	51,067	—	—	51,067
Comprehensive loss:						
Unrealized gain on auction rate securities classified as available-for-sale investments	—	—	—	410	—	410
Unrealized gain on all other available-for-sale investments	—	—	—	(105)	—	(105)
Foreign currency translation adjustment	—	—	—	(1,117)	—	(1,117)
Tax effect on items related to available-for-sale investment	—	—	—	(122)	—	(122)
Net loss	—	—	—	—	(81,744)	(81,744)
Total comprehensive loss						(82,678)
Balance at December 31, 2011	106,976	$ 107	$ 876,927	$ (2,195)	$ (487,036)	$ 387,803
Stock options exercised	582	1	2,552	—	—	2,553
ESPP shares purchased	1,653	1	9,029	—	—	9,030
Common stock repurchased	(128)	—	(882)	—	—	(882)
Restricted stock units released	3,378	3	(3)	—	—	—
Stock-based compensation	—	—	42,995	—	—	42,995
Comprehensive loss:						
Unrealized gain on auction rate securities classified as available-for-sale investments	—	—	—	(141)	—	(141)
Unrealized gain on all other available-for-sale investments	—	—	—	158	—	158
Foreign currency translation adjustment	—	—	—	(43)	—	(43)
Tax effect on items related to available-for-sale investment	—	—	—	(7)	—	(7)
Net loss	—	—	—	—	(85,330)	(85,330)
Total comprehensive loss						(85,363)
Balance at December 29, 2012	112,461	$ 112	$ 930,618	$ (2,228)	$ (572,366)	$ 356,136

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

INFINERA CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2011, December 29, 2012 and December 28, 2013 — (Continued)
(In thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount				
Balance at December 29, 2012	112,461	$ 112	$ 930,618	$ (2,228)	$ (572,366)	$ 356,136
Stock options exercised	2,217	2	14,616	—	—	14,618
ESPP shares purchased	1,656	2	8,557	—		8,559
Common stock repurchased	(223)	—	(1,544)	—	—	(1,544)
Restricted stock units released	3,754	4	(4)	—	—	—
Warrants exercised	22	—	—	—	—	—
Stock-based compensation	—	—	30,077		—	30,077
Conversion option related to convertible senior notes, net of allocated costs	—	—	43,341	—	—	43,341
Comprehensive loss:						
Unrealized gain on auction rate securities classified as available-for-sale investments	—	—	—	(166)	—	(166)
Unrealized gain on all other available-for-sale investments	—	—	—	(140)	—	(140)
Foreign currency translation adjustment	—	—	—	(952)	—	(952)
Net loss	—	—	—	—	(32,119)	(32,119)
Total comprehensive loss						(33,377)
Balance at December 28, 2013	119,887	$ 120	$1,025,661	$ (3,486)	$ (604,485)	$ 417,810

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

INFINERA CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Cash Flows from Operating Activities:			
Net loss	$ (32,119)	$ (85,330)	$ (81,744)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	24,562	23,661	17,859
Non-cash restructuring and other costs (credit)	—	—	(129)
(Recovery of) provision for other receivables	(88)	—	563
Provision for doubtful accounts	55	94	—
Amortization of debt discount and issuance costs	4,522	—	—
Amortization of premium on investments	1,539	2,068	4,215
Stock-based compensation expense	31,976	41,819	50,157
Non-cash tax benefit	—	(7)	(95)
Other gain	(243)	(475)	(335)
Changes in assets and liabilities:			
Accounts receivable	6,341	(26,517)	(4,686)
Other receivables	1,435	(1,894)	3,440
Inventory	(3,036)	(40,623)	(6,007)
Prepaid expenses and other assets	(4,992)	2,293	12,695
Deferred inventory costs	395	5,741	1,999
Accounts payable	(20,202)	15,410	9,342
Accrued liabilities and other expenses	11,272	6,915	(10,282)
Deferred revenue	7,337	3,763	(401)
Accrued warranty	6,426	3,616	1,444
Net cash provided by (used in) operating activities	35,180	(49,466)	(1,965)
Cash Flows from Investing Activities:			
Purchase of available-for-sale investments	(288,140)	(54,150)	(273,334)
Purchase of cost-method investment	—	—	(4,500)
Proceeds from sales of available-for-sale investments	2,850	11,584	4,072
Proceeds from maturities and calls of investments	125,624	117,605	287,781
Proceeds from disposal of assets	3	1	262
Purchase of property and equipment	(21,068)	(25,395)	(39,382)
Advance to secure manufacturing capacity	—	—	(1,500)
Reimbursement of manufacturing capacity advance	—	50	450
Change in restricted cash	(69)	(827)	983
Net cash provided by (used in) investing activities	(180,800)	48,868	(25,168)
Cash Flows from Financing Activities:			
Proceeds from issuance of debt, net	144,469	—	—
Proceeds from issuance of common stock	23,185	11,580	10,023
Repurchase of common stock	(1,544)	(882)	(1,248)
Payments for purchase of assets under financing arrangement	—	—	(262)
Net cash provided by financing activities	166,110	10,698	8,513
Effect of exchange rate changes on cash	(826)	108	(571)
Net change in cash and cash equivalents	19,664	10,208	(19,191)
Cash and cash equivalents at beginning of period	104,666	94,458	113,649
Cash and cash equivalents at end of period	$ 124,330	$ 104,666	$ 94,458

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

INFINERA CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
(In thousands)

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	$ 2,135	$ 923	$ 1,487
Cash paid for interest	$ 1,320	$ —	$ —
Supplemental schedule of non-cash financing activities			
Non-cash settlement for manufacturing capacity advance	$ —	$ 275	$ —
Transfer of inventory to fixed assets	$ 5,458	$ 3,222	$ —
Warrant exercise	$ 500	$ —	$ —

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
INFINERA CORPORATION

1. Organization and Basis of Presentation

Infinera Corporation ("Infinera" or the "Company"), headquartered in Sunnyvale, California, was founded in December 2000 and incorporated in the State of Delaware. Infinera provides Intelligent Transport Networks to help carriers address the increasing demand for cloud-based services and data center connectivity as they advance into the Terabit Era. Infinera is unique in its use of breakthrough semiconductor technology to deliver large scale photonic integrated circuits ("PICs") and the application of PICs to vertically integrated optical networking solutions that deliver the industry's only commercially available 500 Gigabits per second ("Gbps") FlexCoherent super-channels. Infinera Intelligent Transport Network solutions include the DTN-X, DTN and ATN platforms.

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 2013 and 2012 were 52-week years that ended on December 28, 2013 and December 29, 2012, respectively. Fiscal year 2011 was a 53-week year that ended on December 31, 2011. The next 53-week year will end on December 31, 2016.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. The Company reclassified certain amounts reported in previous periods to conform to the current presentation.

2. Significant Accounting Policies

Use of Estimates

The consolidated financial statements are prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). These accounting principles require the Company to make certain estimates, assumptions and judgments that can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates, assumptions and judgments made by management include revenue recognition, stock-based compensation, inventory valuation, allowances for sales returns, allowances for doubtful accounts, accrued warranty, cash equivalents, fair value measurement of investments, other-than-temporary impairments, derivative instruments and accounting for income taxes. Management believes that the estimates and judgments upon which they rely are reasonable based upon information available to them at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, the Company's consolidated financial statements will be affected.

Revenue Recognition

Substantially all of the Company's product sales are sold in combination with software support services comprised of either software warranty or software subscription services. The Company also periodically sells training, installation and deployment services, spares management and on-site hardware replacement services with its product sales. Training services include the right to a specified number of training classes and installation and deployment services may include customer site assessments, equipment installation and testing. Training and installation and deployment services are generally delivered over a 90-120 day period. Software warranty provides customers with maintenance releases and patches during the warranty support period. Software subscription also includes maintenance releases and patches and provides customers with rights to receive unspecified software product upgrades released during the support period. These support services are generally delivered over a one-year 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 and are generally delivered over a one-year period.

The Company recognizes product revenue when all of the following have occurred: (1) it has entered into a legally binding arrangement with the customer; (2) delivery has occurred, which is when product title and risk of loss have transferred to the customer; (3) customer payment is deemed fixed or determinable; and (4) collectability is reasonably assured.

The Company allocates revenue to each element in its multiple-element arrangements based upon their relative selling prices. The Company determines the selling price for each deliverable based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. Revenue allocated to each element is then recognized when the basic revenue recognition criteria for that element has been met.

VSOE of selling price is used in the selling price allocation in all instances where it exists. VSOE of selling price for products and services is determined when a substantial majority of the selling prices fall within a reasonable range when sold separately. In certain instances, the Company is not able to establish VSOE for all deliverables in an arrangement with multiple elements. This mainly occurs where insufficient standalone sales transactions have occurred or where pricing for that element has not been consistent.

TPE of selling price can be established by evaluating largely interchangeable competitor products or services in standalone sales to similarly situated customers. As the Company's products contain a significant element of proprietary technology and the solution offered differs substantially from that of competitors, it is typically difficult to obtain the reliable standalone competitive pricing necessary to establish TPE.

ESP represents the best estimate of the price at which the Company would transact a sale if the product or service was sold on a standalone basis. The Company determines ESP for a product or service by considering multiple factors including, but not limited to market conditions, competitive landscape, gross margin objectives and pricing practices. The determination of ESP is made through formal approval by the Company's management, taking into consideration the overall go-to-market pricing strategy.

As the Company's go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes in selling prices, including both VSOE and ESP. As a result, the Company's future revenue recognition for multiple element arrangements could differ from that recorded in the current period. The Company regularly reviews VSOE, TPE and ESP and maintains internal controls over the establishment and update of these inputs.

The Company limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or refund privileges. The Company evaluates each deliverable in an arrangement to determine whether they represent separate units of accounting.

The Company has a limited number of software offerings which are not required to deliver the tangible product's essential functionality and can be sold separately. Revenue from sales of these software products and related post-contract support will continue to be accounted for under software revenue recognition rules. The Company's multiple-element arrangements may therefore have a software deliverable that is subject to the existing software revenue recognition guidance. The revenue for these multiple-element arrangements is allocated to the software deliverable and the non-software deliverables based on the relative selling prices of all of the deliverables in the arrangement using the hierarchy in the new revenue recognition accounting guidance. Revenues related to these software offerings are not expected to be significant.

Services revenue includes software subscription services, training, installation and deployment services, spares management, on-site hardware replacement services, extended software warranty and extended hardware warranty services. Revenue from software subscription, spares management, on-site hardware replacement services and extended software and hardware warranty contracts is deferred and is recognized ratably over the contractual support period, which is generally one year. Revenue related to training and installation and deployment services is recognized as the services are completed.

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. Revenue is recognized only when title and risk of loss pass to customers and when the revenue recognition criteria have been met. In instances where acceptance of the product occurs upon formal written acceptance, revenue is deferred until such written acceptance has been received. The Company assesses whether the fee is fixed or determinable based on the payment terms associated with the transaction. Payment terms to customers generally range from net 30 to 120 days from invoice, which are considered to be standard payment terms. However, payment terms greater than 120 days but less than or equal to one year from invoice may be considered standard if payment is supported by an irrevocable commercial letter of credit ("LOC") issued by a creditworthy bank or the LOC has been accepted and confirmed by a creditworthy bank. In the event payment terms are provided that differ from the Company's standard business practices, the fees are deemed to not be fixed or determinable and, therefore, revenue is not recognized until the fees become fixed or determinable which the Company believes is when they are legally due and payable. 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.

Shipping charges billed to customers are included in product revenue and related shipping costs are included in product cost. 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.

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 estimates the fair value of the stock options granted using the Black-Scholes option pricing formula and a single option award approach. For new-hire grants, options typically vest with respect to 25% of the shares one year after the option's vesting commencement date and the remainder ratably on a monthly basis over three years, commencing one year after the vesting commencement date. For annual refresh grants, options typically vest ratably on a monthly basis over three, four or five years. In 2011, the Company granted performance-based stock options to executives as part of the Company's annual refresh grant process. The performance-based stock options entitle the Company's executive team to receive a number of options to purchase the Company's common stock based on pre-established performance criteria over approximately one year. These performance metrics are classified as performance conditions, and the Company evaluates the performance status at the end of each period and records the expense when deemed probable.

The Company makes a number of estimates and assumptions in determining stock-based compensation related to options including the following:

- The expected forfeiture rate is estimated based on the Company's historical forfeiture data and compensation costs are recognized only for those equity awards expected to vest. The estimation of the forfeiture rate requires judgment, and to the extent actual forfeitures differ from expectations, changes in estimate will be recorded as an adjustment in the period when such estimates are revised. Actual results may differ substantially from the estimates. The Company records stock-based compensation expense to adjust estimated forfeiture rates to actual.
- The expected term represents the weighted-average period that the stock options are expected to be outstanding prior to being exercised. The expected term is estimated based on the Company's historical data on employee exercise patterns and post vesting termination behavior to estimate expected exercises over the contractual term of grants.
- Expected volatility of the Company's stock has been historically based on the weighted-average implied and historical volatility of Infinera and its peer group. The peer group is comprised of similar companies in the same industrial sector. As the Company gained more historical volatility data, the weighting of its own data in the expected volatility calculation associated with options gradually increased to 100% by 2013.

The Company estimates the fair value of the rights to acquire stock under its Employee Stock Purchase Plan ("ESPP") using the Black-Scholes option pricing formula. The Company's ESPP typically provides for consecutive six-month offering periods and the Company uses its own historical volatility data in the valuation of ESPP shares.

The Company accounts for the fair value of restricted stock units ("RSUs") using the closing market price of the Company's common stock on the date of grant. For new-hire grants, RSUs typically vest ratably on an annual basis over four years. For annual refresh grants, RSUs typically vest ratably on an annual basis over three, four or five years.

The Company granted performance stock units ("PSUs") to its executive officers in 2013 as part of the Company's annual refresh grant process. These PSUs entitle the Company's executive officers to receive a number of shares of the Company's common stock based on its stock price performance compared to the NASDAQ Telecom Composite Index (“IXTC”) for the same period. The PSUs vest over the span of one year, two years, and three years and the number of shares to be issued upon vesting ranges from 0 to 1.5 times the number of PSUs granted depending on the relative performance of the Company's common stock price compared to IXTC. This performance metric is classified as a market condition.

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 IXTC, correlation between changes in the Company’s stock price and changes in the target composite index, risk-free interest rate, and expected dividends. Expected volatility of the Company’s stock is based on the weighted-average implied and historical volatility of the Company’s peer group in the industry in which the Company does business. Expected volatility of IXTC is based on the historical and implied data. Correlation is based on the historical relationship between the Company’s peer group 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 2012, the Company granted PSUs with performance conditions and estimated the fair value using the closing market price of the Company’s common stock on the date of grant. These PSUs entitle the Company’s executive officers to receive a number of shares of the Company’s common stock based on pre-established performance criteria over approximately two and a half years. The PSUs cliff vest at 50% upon achievement of specific revenue criteria and 50% will cliff vest upon achievement of specific operating profit criteria. This performance metric is classified as a performance condition.

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 (first-in, first-out method) or market. Market 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. As of December 28, 2013 and December 29, 2012, the Company’s inventory value had been reduced by $8.7 million and $6.9 million, respectively, for excess and obsolescence. In valuing its inventory costs and deferred inventory costs, the Company considered whether the utility of the products 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 utility of the products 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 market, whichever is lower, thereby recognizing the cost of the reduction in utility 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 cost or market (“LCM”). As of December 28, 2013 and December 29, 2012, the Company’s inventory value had been reduced by $5.0 million and $7.5 million, respectively, for LCM adjustments.

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.

Accounts Receivable and Allowances for Doubtful Accounts

Accounts receivable consist of trade receivables recorded upon recognition of revenue for product and services, reduced by reserves for estimated bad debts. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Credit is extended based on evaluation of the customer's financial condition. Management makes judgments as to its ability to collect outstanding receivables and provides allowances for a portion of receivables when collection becomes doubtful. Provisions are made based upon a review of all significant outstanding invoices. At December 28, 2013 and December 29, 2012, the Company's allowance for doubtful accounts was not significant and $0.1 million, respectively.

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 in 2013, 2012 and 2011. At December 28, 2013, December 29, 2012 and December 31, 2011, revenue was reduced for estimated sales returns by $0.1 million, $1.3 million and $0.2 million, respectively.

Accrued Warranty

The Company warrants that its products will operate substantially in conformity with product specifications. Upon delivery of the Company's products, the Company provides for the estimated cost to repair or replace products or the related components that may be returned under warranty. The Company's hardware warranty periods generally range from one to five years from date of acceptance for hardware and 90 days for software warranty. The hardware warranty accrual is based on actual historical returns experience and the application of those historical return rates to the Company's in-warranty installed base. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The Company has software warranty support obligations to a small number of its customers and the costs associated with providing these software warranties have been insignificant to the Company's consolidated financial statements to date.

Cash, Cash Equivalents and Short-term and Long-term Investments

The Company considers all highly liquid instruments with an original maturity at the date of purchase of 90 days or less to be cash equivalents. These instruments may include cash, money market funds and commercial paper. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Marketable securities consist of certificates of deposit, commercial paper, corporate bonds, U.S. agency notes, U.S. treasuries and auction rate securities ("ARS"). The Company considers all debt instruments with original maturities at the date of purchase greater than 90 days and remaining time to maturity of one year or less to be short-term investments. The Company classifies debt instruments with remaining maturities greater than one year as long-term investments, unless the Company intends to settle its holdings within one year or less and in such case it is considered to be short-term investments. The Company determines the appropriate classification of its marketable securities at the time of purchase and re-evaluates such designations as of each balance sheet date.

Available-for-sale investments are stated at fair market value with unrealized gains and losses recorded in Accumulated other comprehensive loss in the Company's consolidated balance sheets. The Company evaluates its available-for-sale marketable debt securities for other-than-temporary impairments and records any credit loss portion in Other income (expense), net in the Company's consolidated statements of operations. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity and for any credit losses incurred on these securities. Gains and losses are recognized when realized in the Company's consolidated statements of operations under the specific identification method.

Fair Value Measurement of Investments

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Valuation techniques used by the Company are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about market participant assumptions based on best information available. Observable inputs are the preferred source of values. These two types of inputs create the following fair value hierarchy:

Level 1 —	Quoted prices in active markets for identical assets or liabilities.
Level 2 —	Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3 —	Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

The Company measures its cash equivalents, derivative instruments and debt securities at fair value and classifies its securities in accordance with the fair value hierarchy. The Company's money market funds and U.S. treasuries are classified within Level 1 of the fair value hierarchy and are valued based on quoted prices in active markets for identical securities.

The Company classifies its certificates of deposit, commercial paper, corporate bonds, and foreign currency exchange forward contracts within Level 2 of the fair value hierarchy as follows:

Certificates of Deposit

The Company reviews market pricing and other observable market inputs for the same or similar securities obtained from a number of industry standard data providers. In the event that a transaction is observed for the same or similar security in the marketplace, the price on that transaction reflects the market price and fair value on that day. In the absence of any observable market transactions for a particular security, the fair market value at period end would be equal to the par value. These inputs represent quoted prices for similar assets or these inputs have been derived from observable market data, and result in the classification of these securities as Level 2 of the fair value hierarchy.

Commercial Paper

The Company reviews market pricing and other observable market inputs for the same or similar securities obtained from a number of industry standard data providers. In the event that a transaction is observed for the same or similar security in the marketplace, the price on that transaction reflects the market price and fair value on that day and then follows a revised accretion schedule to determine the fair market value at period end. In the absence of any observable market transactions for a particular security, the fair market value at period end is derived by accreting from the last observable market price. These inputs represent quoted prices for similar assets or these inputs have been derived from observable market data accreted mathematically to par, and result in the classification of these securities as Level 2 of the fair value hierarchy.

Corporate Bonds

The Company reviews trading activity and pricing for each of the corporate bond securities in its portfolio as of the measurement date and determines if pricing data of sufficient frequency and volume in an active market exists in order to support Level 1 classification of these securities. Since sufficient quoted pricing for identical securities is not available, the Company obtains market pricing and other observable market inputs for similar securities from a number of industry standard data providers. In instances where multiple prices exist for similar securities, these prices are used as inputs into a distribution-curve to determine the fair market value at period end. As a result, the Company classifies its corporate bonds as Level 2 of the fair value hierarchy.

Foreign Currency Exchange Forward Contracts

As discussed in Note 5, “Derivative Instruments,” to the Notes to Consolidated Financial Statements, the Company mainly holds non-speculative foreign exchange forward contracts to hedge certain foreign currency exchange exposures. The Company estimates the fair values of derivatives based on quoted market prices or pricing models using current market rates. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit risk, foreign exchange rates, and forward and spot prices for currencies. As a result, the Company classifies its derivative instruments as Level 2 of the fair value hierarchy.

The Company classified its ARS within Level 3 of the fair value hierarchy. The Company’s ARS were classified within Level 3 because they were valued, in part, by using inputs that were unobservable in the market and were significant to the valuation. During 2013, the Company disposed of its remaining $3.1 million (par value) ARS, with $0.1 million of ARS called at par value and $3.0 million of ARS tendered at 95% of par value. As of December 28, 2013, none of the Company’s existing securities were classified as Level 3 securities.

Other-Than-Temporary Impairments

The Company reviews its available-for-sale marketable debt securities on a regular basis to evaluate whether or not a security has experienced an other-than-temporary decline in fair value. If a debt security’s market value is below amortized cost and the Company either intends to sell the security or it is more likely than not that the Company will be required to sell the security before its anticipated recovery, the Company records an other-than-temporary impairment (“OTTI”) charge to earnings for the entire amount of the impairment.

When the Company does not intend to sell an impaired security and it is not more likely than not that the Company will be required to sell prior to recovery of its amortized cost basis, the Company separates the OTTI into credit and non-credit loss portions. The amount representing the credit loss is recognized in Other income (expense), net, and the amount related to all other factors is recognized in Accumulated other comprehensive loss.

In determining if a credit loss has occurred, it is the Company’s policy to isolate the credit loss related portion of the discount rate used to derive the fair market value of the security and apply this to the expected cash flows in order to determine the portion of the OTTI that is credit loss related. This credit related portion of the discount rate is based on the financial condition of the issuer, changes in rating agency credit ratings for the security or increases in credit related yield spreads on similar securities offered by the same issuer.

Once a credit impairment loss has been recognized in the Company’s consolidated statements of operations, the amortized cost basis of that available-for-sale security is reduced by the amount of the credit impairment loss, resulting in a new cost basis for the security. Any non-credit related unrealized gains and losses are recorded in Accumulated other comprehensive loss in the Company’s consolidated balance sheets. The Company will continue to monitor the security’s credit rating and credit spread and will accrete any reduction in the credit impairment loss to interest income over the expected life of the security.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. This includes enterprise-level business software that the Company customizes to meets its specific operational needs. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. An assumption of lease renewal where a renewal option exists is used only when the renewal has been determined to be reasonably assured. Repair and maintenance costs are expensed as incurred. The estimated useful life for each asset category is as follows:

	Estimated Useful Lives
Laboratory and manufacturing equipment	1.5 to 10 years
Furniture and fixtures	3 to 5 years
Computer hardware and software	1.5 to 3 years
Enterprise-level software	up to 7 years
Leasehold improvements	1 to 10 years

The Company regularly 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.

Deferred Inventory Costs

When the Company's products have been delivered and ownership (typically defined as title and risk of loss) has transferred to the customer, but the product revenue associated with the arrangement has been deferred as a result of not meeting the revenue recognition criteria, the Company also defers the related inventory costs for the delivered items and recognizes the inventory costs either ratably or when the related revenue meets the revenue recognition criteria.

Accounting for Income Taxes

As part of the process of preparing the Company's 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 the Company's consolidated balance sheets. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in the Company's consolidated statements of operations become deductible expenses under applicable income tax laws or loss or credit carryforwards are utilized. Accordingly, realization of the Company's deferred tax assets is dependent on future taxable income within the respective jurisdictions against which these deductions, losses and credits can be utilized within the applicable future periods.

The Company must assess the likelihood that some portion or all of its deferred tax assets will be recovered from future taxable income within the respective jurisdictions, and to the extent the Company believes that recovery does not meet the "more-likely-than-not" standard, the Company 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 the Company's provision for income taxes, the Company's deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. At December 28, 2013 and December 29, 2012, the Company's domestic net deferred tax assets were fully reserved with a valuation allowance because, based on the available evidence, the Company believed at that time it was more likely than not that it would not be able to utilize those deferred tax assets in the future. The Company intends to maintain a valuation allowance until sufficient evidence exists to support the reversal of the valuation allowance. The Company makes estimates and judgments about its future taxable income, by jurisdiction, based on assumptions that are consistent with its plans and estimates. Should the actual amounts differ from the Company's estimates, the amount of its valuation allowance could be materially impacted.

Concentration of Risk

Financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash equivalents, short-term investments, long-term investments, cost-method investments and accounts receivable. Investment policies have been implemented that limit investments to investment-grade securities.

As of December 28, 2013 and December 29, 2012, the Company has invested $9.0 million in a privately-held company. This investment has been accounted for as a cost-basis investment, as the Company owns less than 20% of the voting securities and does not have the ability to exercise significant influence over operating and financial policies of the entity. See Note 4, "Cost-method Investment," to the Notes to Consolidated Financial Statements for more information.

The risk with respect to accounts receivable is mitigated by ongoing credit evaluations that the Company performs on its customers. As the Company expands 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 28, 2013, one customer accounted for approximately 13% of the Company's accounts receivable balance. As of December 29, 2012, no customer accounted for more than 10% of the Company's accounts receivable balance.

To date, a few of the Company's customers have accounted for a significant portion of its revenue. In 2013 2012, and 2011, no individual customer represented over 10% of the Company's revenue.

The Company depends on a single or limited number of suppliers for components and raw materials. The Company generally purchases these single or limited source components and 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 materials, the Company's business and results of operations could be adversely affected by a stoppage or delay in receiving such components and materials, the receipt of defective parts, an increase in the price of such components and materials or the Company's inability to obtain reduced pricing from its suppliers in response to competitive pressures.

Derivative Instruments

The Company is exposed to foreign currency exchange rate fluctuations in the normal course of its business. As part of its risk management strategy, the Company uses derivative instruments, specifically forward contracts, to reduce the impact of foreign exchange fluctuations on earnings. The forward contracts are with one high-quality institution and the Company monitors the creditworthiness of the counter party consistently. The Company's objective is to offset gains and losses resulting from these exposures with gains and losses on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting fair values of assets. None of the Company's derivative instruments contain credit-risk related contingent features, any rights to reclaim cash collateral or any obligation to return cash collateral. The Company does not have any leveraged derivatives. The Company does not use derivative contracts for trading or speculative purposes.

The Company enters into foreign currency exchange forward contracts to manage its exposure to fluctuations in foreign exchange rates that arise primarily from its Euro denominated receivables and Euro denominated restricted cash balance amounts that are pledged as collateral for certain stand-by and commercial letters of credit. Gains and losses on these contracts are intended to offset the impact of foreign exchange rate changes on the underlying foreign currency denominated accounts receivables and restricted cash, and therefore, do not subject the Company to material balance sheet risk. The forward contracts are with one high-quality institution and the Company consistently monitors the creditworthiness of the counterparty. The forward contracts entered into during 2013 were denominated in Euros and British Pound, and typically had maturities of no more than 30 days. The contracts are settled for U.S. dollars at maturity at rates agreed to at inception of the contracts.

Foreign Currency Translation and Transactions

The Company considers the functional currencies of its foreign subsidiaries to be the local currency. Assets and liabilities recorded in foreign currencies are translated at the exchange rate as of the balance sheet date, and costs and expenses are translated at average exchange rates in effect during the period. Equity transactions are translated using historical exchange rates. The effects of foreign currency translation adjustments are recorded as a separate component of Accumulated Comprehensive Loss in the accompanying consolidated balance sheets.

For all non-functional currency account balances, the re-measurement of such balances to the functional currency will result in either a foreign exchange transaction gain or loss which is recorded to Other gain (loss), net in the same period that the re-measurement occurred. Aggregate foreign exchange transaction loss recorded in 2013, 2012 and 2011 were $1.4 million, $1.6 million and $1.0 million, respectively.

The Company entered into foreign currency exchange forward contracts to reduce the impact of foreign exchange fluctuations on earnings from accounts receivable balances denominated in Euros and British Pound, and restricted cash denominated in Euros. The foreign currency transactions on these forward contracts amounted to a loss of $2.1 million in 2013, a loss of $1.4 million in 2012, and a gain of $1.3 million in 2011, and substantially offset the transaction gains and losses from the re-measurement of the related accounts receivable.

Advertising

All advertising costs are expensed as incurred. Advertising expenses in 2013, 2012 and 2011 were $1.3 million, $1.6 million and $1.5 million, respectively.

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.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2013-02, Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"). ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The Company adopted the guidance for ASU 2013-02 beginning in its fiscal quarter ended March 30, 2013. Other than requiring additional disclosures, the Company's adoption of ASU 2013-02 did not have an impact on the Company's financial position, results of operations or cash flow.

In July 2013, the FASB issued Accounting Standards Update 2013-11, Income Taxes – Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forwards Exists ("ASU 2013-11"). ASU 2013-11 requires entities to present the unrecognized tax benefits in the financial statements as a liability and not combine it with deferred tax assets to the extent a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. ASU 2013-11 is effective for annual and interim periods for fiscal years beginning on or after December 15, 2013. The Company is currently evaluating ASU 2013-11 and does not expect its adoption to have an impact on the Company's financial position, results of operations or cash flow.

3. Fair Value Measurements and Other-Than-Temporary Impairments

Fair Value Measurements

The following tables represent the Company's fair value hierarchy for its marketable securities measured at fair value on a recurring basis (in thousands):

	As of December 28, 2013				As of December 29, 2012			
	Fair Value Measured Using				Fair Value Measured Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Money market funds	$ 51,749	$ —	$ —	$ 51,749	$ 25,560	$ —	$ —	$ 25,560
Certificates of deposit	—	3,840	—	3,840	—	2,160	—	2,160
Commercial paper	—	85,860	—	85,860	—	14,843	—	14,843
Corporate bonds	—	150,595	—	150,595	—	57,467	—	57,467
U.S. treasuries	4,804	—	—	4,804	15,020	—	—	15,020
ARS	—	—	—	—	—	—	2,873	2,873
Foreign currency exchange forward contracts	$ —	$ 29	$ —	$ 29	$ —	$ —	$ —	$ —
Total assets	$ 56,553	$ 240,324	$ —	$ 296,877	$ 40,580	$ 74,470	$ 2,873	$ 117,923
Liabilities								
Foreign currency exchange forward contracts	$ —	$ 26	$ —	$ 26	$ —	$ 112	$ —	$ 112

During 2013 and 2012, there were no transfers of assets or liabilities between Level 1 and Level 2 and there were no transfers into or out of Level 3 financial assets.

The Company's remaining Level 3 financial assets were disposed during the first quarter of 2013. The following tables present a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (in thousands):

	December 29, 2012	Total Net Gains Included in Other Comprehensive Income	Calls	Sold	December 28, 2013
ARS—available-for-sale	$ 2,873	$ —	$ (92) (1)	$ (2,781) (2)	$ —

	December 31, 2011	Total Net Gains Included in Other Comprehensive Income	Calls	Sold	December 29, 2012
ARS—available-for-sale	$ 7,675	$ 146 (3)	$ (4,948) (1)	$ —	$ 2,873

(1) Amount represents the fair market value of the securities called. Realized gains on these calls were not significant in 2013 and $0.5 million in 2012.

(2) Amount represents the fair market value of the securities sold at 95% par value. Realized gains for 2013 were $0.2 million.

(3) Amount represents the change in the non-credit loss related OTTI recorded in Accumulated other comprehensive loss in the accompanying consolidated balance sheets.

Investments were as follows (in thousands):

	December 28, 2013			
	Adjusted Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 51,749	$ —	$ —	$ 51,749
Certificates of deposit	3,840	—	—	3,840
Commercial paper	85,870	2	(12)	85,860
Corporate bonds	150,711	27	(143)	150,595
U.S. treasuries	4,802	2	—	4,804
Total available-for-sale investments	$ 296,972	$ 31	$ (155)	$ 296,848

	December 29, 2012			
	Adjusted Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 25,560	$ —	$ —	$ 25,560
Certificates of deposit	2,160	—	—	2,160
Commercial paper	14,848	—	(5)	14,843
Corporate bonds	57,451	22	(6)	57,467
U.S. treasuries	15,015	5	—	15,020
ARS	2,707 (1)	166	—	2,873
Total available-for-sale investments	$ 117,741	$ 193	$ (11)	$ 117,923

(1) Amount represents the par value less $0.4 million of credit-related OTTI recognized through earnings in prior years.

As of December 28, 2013, the Company's available-for-sale investments in certificates of deposit, commercial paper, corporate bonds, and U.S. treasuries have a contractual maturity term of up to 17 months. Proceeds from sales, maturities and calls of available-for-sale investments were $128.5 million, $129.2 million and $291.9 million in 2013, 2012 and 2011, respectively. Gross realized gains (losses) on short-term and long-term investments were insignificant for these periods. The specific identification method is used to account for gains and losses on available-for-sale investments.

Other-Than-Temporary Impairments

As a result of the Company's disposal of $3.1 million ARS (par value) during 2013, it recorded an approximately $0.2 million gain, which was recognized as Other gain (loss) in the Company's consolidated statements of operations.

A roll-forward of amortized cost, cumulative OTTI recognized in earnings and Accumulated other comprehensive loss is as follows (in thousands):

	Amortized Cost	Cumulative OTTI in Earnings	Unrealized Gain	OTTI Loss in Accumulated Other Comprehensive Loss	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2011	$ 7,367	$ (884)	$ 1,619	$ (1,312)	$ 307
Unrealized gain	—	—	146	—	146
Call on investments	(4,660)	(490)	(981)	694	(287)
Balance at December 29, 2012	$ 2,707	$ (394)	$ 784	$ (618)	$ 166
Call on investments	(87)	13	(25)	20	(5)
Investments sold	(2,620)	381	(759)	598	(161)
Balance at December 28, 2013	$ —	$ —	$ —	$ —	$ —

4. Cost-method Investment

As of December 28, 2013 and December 29, 2012, the Company's investment in a privately-held company was $9.0 million. This investment is accounted for as a cost-basis investment as the Company owns less than 20% of the voting securities and does not have the ability to exercise significant influence over operating and financial policies of the entity. The Company's investment is in an entity that is not publicly traded and, therefore, no established market for the securities exists. The Company's cost-method investment is carried at historical cost in its consolidated financial statements and measured at fair value on a nonrecurring basis when indicators of impairment exists. If the Company believes that the carrying value of the cost basis investment is in excess of estimated fair value, the Company's policy is to record an impairment charge in Other income (expense), net in the accompanying consolidated statements of operations to adjust the carrying value to estimated fair value, when the impairment is deemed other-than-temporary. The Company regularly evaluates the carrying value of this cost-method investment for impairment. As of December 28, 2013 and December 29, 2012, no event had occurred that would be considered an indicator of impairment, therefore, the fair value of the cost-method investment is not estimated. The Company did not record any impairment charges for this cost-method investment during 2013, 2012 and 2011.

5. Derivative Instruments

Foreign Currency Exchange Forward Contracts

As of December 28, 2013, the Company did not designate foreign currency exchange forward contracts related to Euro and British Pound denominated receivables and restricted cash as hedges for accounting purposes, and, accordingly, changes in the fair value of these instruments are included in Other gain (loss), net in the accompanying consolidated statements of operations. The before-tax effect of foreign currency exchange forward contracts for Euro and British Pound denominated receivables and restricted cash not designated as hedging instruments was a loss of $2.2 million for 2013, a loss of $1.4 million for 2012, and a gain of $1.3 million in 2011, included in Other gain (loss), net in the consolidated statements of operations.

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 28, 2013			As of December 29, 2012		
	Gross Notional[(1)]	Prepaid Expenses and Other Assets	Other Accrued Liabilities	Gross Notional[(1)]	Prepaid Expenses and Other Assets	Other Accrued Liabilities
Foreign currency exchange forward contracts						
Related to Euro denominated receivables	$ 16,867	$ 27	$ —	$ 22,882	$ —	$ (105)
Related to British Pound denominated receivables	$ 13,271	$ —	$ (26)	$ —	$ —	$ —
Related to restricted cash	$ 1,391	$ 2	$ —	$ 1,495	$ —	$ (7)
Total		$ 29	$ (26)		$ —	$ (112)

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

6. Balance Sheet Details

Restricted Cash

The Company's long-term restricted cash balance is primarily comprised of certificates of deposit, of which the majority are not insured by the Federal Deposit Insurance Corporation. These amounts primarily collateralize the Company's issuances of stand-by and commercial letters of credit. Additionally, the Company's restricted cash balance includes a leave encashment fund for India employees.

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

	December 28, 2013	December 29, 2012
Inventory:		
Raw materials	$ 14,311	$ 13,003
Work in process	49,172	57,281
Finished goods[1]	60,202	57,525
Total	$ 123,685	$ 127,809
Property, plant and equipment, net:		
Computer hardware	$ 9,692	$ 9,024
Computer software[2]	16,988	15,834
Laboratory and manufacturing equipment	146,834	120,543
Furniture and fixtures	1,347	1,285
Leasehold improvements	35,913	33,370
Construction in progress	8,950	17,513
Subtotal	$ 219,724	$ 197,569
Less accumulated depreciation and amortization[3]	(140,056)	(117,226)
Total	$ 79,668	$ 80,343
Accrued expenses:		
Loss contingency related to non-cancelable purchase commitments	$ 5,120	$ 5,401
Professional and other consulting fees	1,411	3,703
Taxes payable	2,372	4,393
Royalties	1,540	1,516
Accrued rebate and customer prepay liability	3,807	1,284
Accrued interest on convertible senior notes	219	—
Other accrued expenses	7,962	9,991
Total	$ 22,431	$ 26,288

(1) Included in finished goods inventory at December 28, 2013 and December 29, 2012 were $9.2 million and $15.6 million, respectively, of inventory at customer locations for which product acceptance had not occurred.

(2) Included in computer software at December 28, 2013 and December 29, 2012 were $7.7 million and $7.5 million, respectively, related to an enterprise resource planning (“ERP”) system that the Company implemented during the third quarter of 2012. The unamortized ERP costs at December 28, 2013 and December 29, 2012 were $6.2 million and $7.0 million, respectively.

(3) Depreciation expense was $24.5 million and $23.5 million (which includes amortization of capitalized ERP costs of $1.1 million and $0.4 million, respectively) for 2013 and 2012, respectively. Depreciation expense was $17.7 million for 2011.

7. Comprehensive Loss

Other comprehensive loss includes certain changes in equity that are excluded from net loss. The following table sets forth the changes in accumulated other comprehensive loss by component for the periods presented (in thousands):

	Unrealized Gain on Auction Rate Securities	Unrealized Gain on Other Available-for-Sale Securities	Foreign Currency Translation	Accumulated Tax Effect	Total
Balance at December 25, 2010	$ (103)	$ (37)	$ (490)	$ (631)	$ (1,261)
Other comprehensive loss before reclassifications	—	(105)	(1,117)	(122)	(1,344)
Amounts reclassified from accumulated other comprehensive loss	410	—	—	—	410
Net current-period other comprehensive loss	410	(105)	(1,117)	(122)	(934)
Balance at December 31, 2011	$ 307	$ (142)	$ (1,607)	$ (753)	$ (2,195)
Other comprehensive loss before reclassifications	—	158	(43)	(7)	108
Amounts reclassified from accumulated other comprehensive loss	(141)	—	—	—	(141)
Net current-period other comprehensive loss	(141)	158	(43)	(7)	(33)
Balance at December 29, 2012	$ 166	$ 16	$ (1,650)	$ (760)	$ (2,228)
Other comprehensive loss before reclassifications	—	(140)	(952)	—	(1,092)
Amounts reclassified from accumulated other comprehensive loss	(166)	—	—	—	(166)
Net current-period other comprehensive loss	(166)	(140)	(952)	—	(1,258)
Balance at December 28, 2013	$ —	$ (124)	$ (2,602)	$ (760)	$ (3,486)

The following table provides details about reclassifications out of accumulated other comprehensive loss for the periods presented (in thousands):

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss			Affected Line Item in the Statement Where Net Loss is Presented
	Years Ended			
	December 28, 2013	December 29, 2012	December 31, 2011	
Unrealized gain on auction rate securities	$ (166)	$ (141)	$ 410	Other gain (loss), net
	—	—	—	Provision for income taxes
Total reclassifications for the period	$ (166)	$ (141)	$ 410	Total, net of income tax

8. Basic and Diluted Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed using net loss and the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the assumed exercise of outstanding stock options, assumed vesting of outstanding RSUs and PSUs, assumed exercise of outstanding warrants, assumed conversion of convertible senior notes and assumed issuance of stock under the Company's ESPP using the treasury stock method. When there is a loss, these potentially diluted common shares are anti-dilutive and therefore, excluded from the diluted net loss calculation. The Company includes the common shares underlying PSUs in the calculation of diluted net loss per share when they become contingently issuable and excludes such shares when they are not contingently issuable.

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

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Net loss	$ (32,119)	$ (85,330)	$ (81,744)
Weighted average common shares outstanding - basic and diluted	117,425	110,739	105,432
Net loss per common share - basic and diluted	$ (0.27)	$ (0.77)	$ (0.78)

The Company had the following equity awards outstanding that could potentially dilute basic net loss per common share in the future, but were excluded from the computation of diluted loss per common share in the periods presented as their effect would have been anti-dilutive under the treasury stock method (in thousands):

	As of		
	December 28, 2013	December 29, 2012	December 31, 2011
Stock options outstanding	6,367	9,008	9,873
Restricted stock units	6,583	6,703	5,957
Performance stock units	721	1,368	2,595
Employee stock purchase plan shares	661	1,100	943
Warrants to purchase common stock	—	93	93
Total	14,332	18,272	19,461

In 2013, the Company excluded the convertible senior notes in the calculation of diluted earnings per share because the average market price was below the conversion price. In the future, the Company would include the dilutive effects of the convertible senior notes in the calculation of diluted net income per common share if the average market price is above the conversion price and the effect would be anti-dilutive. Upon conversion of the Notes, it is the Company's intention to pay cash equal to the lesser of the aggregate principal amount and the conversion value of the Notes being converted, therefore, only the conversion spread relating to the Notes would be included in the Company's diluted earnings per share calculation unless their effect is anti-dilutive.

9. Convertible Senior Notes

In May 2013, the Company issued $150.0 million of 1.75% convertible senior notes due June 1, 2018 (the "Notes"). The Notes will mature on June 1, 2018, unless earlier purchased by the Company or converted. Interest is payable semi-annually in arrears on June 1 and December 1 of each year, commencing December 1, 2013. The net proceeds to the Company were approximately $144.5 million.

The Notes are governed by an indenture dated as of May 30, 2013 (the "Indenture"), between the Company, as issuer, and U.S. Bank National Association, as trustee. The Notes are unsecured and do 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 securities by the Company.

Upon conversion, it is the Company's intention to pay cash equal to the lesser of the aggregate principal amount and the conversion value of the Notes being converted and cash, shares of common stock or a combination of cash and shares of common stock, at the Company's election, for any remaining conversion obligation. The initial conversion rate is 79.4834 shares of common stock per $1,000 principal amount of Notes, subject to anti-dilution adjustments. The initial conversion price is approximately $12.58 per share of common stock.

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

- during any fiscal quarter commencing after the fiscal quarter ending on September 28, 2013 (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 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;
- 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 December 1, 2017 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time, regardless of the foregoing circumstances.

If the Company undergoes a fundamental change as defined in the Indenture governing the Notes, holders may require the Company to repurchase for cash all or any portion of their Notes at a repurchase price equal to 100% of the principal amount of the 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 will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its Notes in connection with such make-whole fundamental change.

The amounts recorded in connection with the issuance of the Notes consisted of the following (in thousands):

	Other Non-Current Assets	Long-term Debt	Additional Paid-in Capital
Principal amount	$ —	$ 150,000	$ —
Debt discount/equity component	—	(45,000)	45,000
Debt issuance cost	3,872	—	(1,659)
Initial transaction amounts	**$ 3,872**	**$ 105,000**	**$ 43,341**
Amortization of debt issuance cost	(358)	—	—
Amortization of debt discount	—	4,164	—
Net carrying amount at December 28, 2013	**$ 3,514**	**$ 109,164**	**$ 43,341**

In accounting for the issuance of the Notes, the Company separated the 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 conversion 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 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 Notes. The remaining debt discount amount to be amortized over the remaining term until maturity of the Notes was $40.8 million as of December 28, 2013.

In accounting for the issuance costs of $5.5 million related to the Notes, the Company allocated the total amount incurred to the liability and equity components of the Notes based on their relative values. Issuance costs attributable to the liability component were recorded as Other non-current assets and will be amortized to interest expense over the term of the Notes. The issuance costs attributable to the equity component were netted with the equity component in stockholders' equity. Additionally, the Company initially recorded a deferred tax liability of $17.0 million in connection with the Notes, along with 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 Notes does not require separate accounting treatment as a derivative instrument because it is both indexed to the Company's own stock and would be classified in stockholder's equity if freestanding.

The following table sets forth total interest expense recognized related to the Notes (in thousands):

	Year Ended December 28, 2013
Contractual interest expense	$ 1,539
Amortization of debt issuance costs	358
Amortization of debt discount	4,164
	$ 6,061

The excess of the principal amount of the liability component over its carrying amount is amortized, using an effective interest rate of 5.12%, to interest expense over the term of the Notes.

As of December 28, 2013, the fair value of the Notes was $162.8 million. The fair value was determined based on the quoted bid price of the Notes in an over-the-counter market on December 27, 2013. The Notes are classified as Level 2 of the fair value hierarchy. Based on the closing price of the Company's common stock of $9.79 on December 27, 2013, the if-converted value of the Notes was less than their principal amount.

10. Commitments and Contingencies

Operating Leases

The Company leases facilities under non-cancelable operating lease agreements. These leases have varying terms that range from one to ten years, predominantly no longer than ten years each and contain leasehold improvement incentives, rent holidays and escalation clauses. In addition, some of these leases have renewal options for up to five years. The Company has contractual commitments to remove leasehold improvements and return certain properties to a specified condition when the leases terminate. At the inception of a lease with such conditions, the Company records an asset retirement obligation liability and a corresponding capital asset in an amount equal to the estimated fair value of the obligation. Asset retirement obligations were $2.6 million and $3.0 million as of December 28, 2013 and December 29, 2012, respectively. These obligations are classified as other long-term liabilities on the accompanying consolidated balance sheets.

The Company recognizes rent expense on a straight-line basis over the lease period factoring in leasehold improvement incentives, rent holidays and escalation clauses. Rent expense for all leases was $6.8 million, $6.7 million and $6.1 million for 2013, 2012 and 2011, respectively. The Company did not have any sublease rental income for 2013, 2012 and 2011.

Future annual minimum operating lease payments at December 28, 2013 were as follows (in thousands):

	2014	2015	2016	2017	2018	Thereafter	Total
Operating lease payments	$ 5,738	$ 5,491	$ 5,370	$ 5,378	$ 5,110	$ 13,989	$ 41,076

Purchase Commitments

The Company has service agreements with its major production suppliers, where the Company is committed to purchase certain parts. These obligations are typically less than the Company's purchases. As of December 28, 2013, December 29, 2012 and December 31, 2011, these non-cancelable purchase commitments were $69.6 million, $52.7 million and $58.8 million, respectively.

Future purchase commitments at December 28, 2013 were as follows (in thousands):

	2014	2015	2016	2017	2018	Thereafter	Total
Purchase obligations	$ 69,643	$ —	$ —	$ —	$ —	$ —	$ 69,643

The contractual obligation tables above exclude tax liabilities of $1.8 million related to uncertain tax positions because the Company is unable to determine the timing of settlement if any, of these future payments with a reasonably reliable estimate.

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. These contracts primarily 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; (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; and (iii) certain provisions in the Company's customer agreements that may require the Company to indemnify their customers and their affiliated parties against certain liabilities, including if the Company's products infringe a third party's intellectual property rights.

The terms of such indemnification obligations vary. Because the maximum obligated amounts under these agreements generally are not explicitly stated, the maximum potential amount of future payments the Company could be required to make under these indemnification agreements is generally unlimited.

To date, the Company has not incurred any material costs as a result of the indemnification obligations and has not accrued any liabilities related to such obligations in the Company's consolidated financial statements. The Company may be obligated to indemnify the Company's customers in connection with the lawsuit filed by Cambrian Science Corporation ("Cambrian") on July 7, 2011, to the extent the Company's product is found to infringe the Cambrian patent at issue (Patent No. 6,775,312) (see Note 12, "Legal Matters," to the Notes to Consolidated Financial Statements).

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 for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; 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.

11. Guarantees

Product Warranties

Upon delivery of products, the Company provides for the estimated cost to repair or replace products or the related components that may be returned under hardware warranties. In general, hardware warranty periods range from one to five years. 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 estimates its hardware warranty obligations based on the Company's historical and industry experience of product failure rates, use of materials to repair or replace defective products, and service delivery costs incurred in correcting product failures. In addition, from time to time, specific hardware warranty accruals may be made if unforeseen technical problems arise with specific products. Management periodically assesses the adequacy of the Company's recorded warranty liabilities and adjusts the amounts as necessary.

Activity related to product warranty was as follows (in thousands):

	December 28, 2013	December 29, 2012
Beginning balance	$ 16,482	$ 12,865
Charges to operations	21,193	15,116
Utilization	(9,404)	(7,701)
Change in estimate[1]	(5,363)	(3,798)
Balance at the end of the period	$ 22,908	$ 16,482

(1) The Company records hardware warranty liabilities based on the latest quality and cost information available as of that date. The favorable changes in estimate shown here are due to continued improvements in overall actual failure rates and the impact of these improvements on the Company's estimate of expected future returns and changes in the estimated cost of replacing failed units using either repaired or new units.

Letters of Credit

The Company had $3.5 million of standby letters of credit outstanding as of December 28, 2013. These consisted of $1.4 million related to a value added tax license, $1.4 million related to a customer proposal guarantee and $0.7 million related to property leases. The Company had $3.6 million of standby letters of credit outstanding as of December 29, 2012. These consisted of $1.4 million related to a customer proposal guarantee, $1.5 million related to a value added tax license and $0.7 million related to property leases.

12. Legal Matters

Cheetah Patent Infringement Litigation

On May 9, 2006, the Company and Level 3 were sued by Cheetah in the U.S. District Court for the Eastern District of Texas Texarkana Division for alleged infringement of patent no. 6,795,605 (the "'605 Patent"), and a continuation thereof. On May 16, 2006, Cheetah filed an amended complaint, which requested an order to enjoin the sale of the Company's DTN platform and to recover all damages caused by the alleged willful infringement including any and all compensatory damages available by law, such as actual and punitive damages, attorneys' fees, associated interest and Cheetah's costs incurred in the lawsuit. Cheetah's complaint does not request a specific dollar amount for these compensatory damages. The Company is contractually obligated to indemnify Level 3 for damages suffered by Level 3 to the extent its product supplied by the Company is found to infringe, and the Company has assumed the defense of this matter. On July 2, 2006, the Company and Level 3 filed an amended response denying all infringement claims under the '605 Patent and asserting that the claims of the '605 Patent are invalid and that the DTN platform does not infringe the '605 Patent. On November 28, 2006, Cheetah filed a second amended complaint and added patent no. 7,142,347 (the "'347 Patent") to the lawsuit. On December 18, 2006, the Company and Level 3 filed responses to Cheetah's second amended complaint denying all infringement claims under the '347

Patent and the Company and Level 3 asserted counterclaims against Cheetah asserting that the claims are invalid and that the DTN platform does not infringe the patents.

On January 30, 2007, Cheetah filed a third amended complaint adding additional assertions of infringement for the two patents in suit. On February 16, 2007, the Company and Level 3 filed responses to Cheetah's third amended complaint denying all infringement claims, and the Company and Level 3 asserted counterclaims against Cheetah asserting that the claims of the patents are invalid and that the DTN platform does not infringe the patents.

On March 14, 2007, the Company submitted requests to the U.S. Patent and Trademark Office (the "U.S. PTO") for inter partes reexamination of the '605 Patent and the '347 Patent asking the U.S. PTO to reexamine the patents based on prior art in order to invalidate the patents or limit the scope of each patent's claims.

On April 12, 2007, the court granted the motion staying all proceedings in the lawsuit. On June 26, 2007, the U.S. PTO also ordered reexamination of the '605 Patent and on August 1, 2007, the U.S. PTO ordered reexamination of the '347 Patent. As a result, all proceedings in this lawsuit were stayed until the final resolution of these reexaminations.

In a communication the Company received from the U.S. PTO dated December 4, 2009, the Company was advised that various claims in the '347 Patent reexamination have been allowed, while other claims have been rejected. In a communication the Company received from the U.S. PTO dated June 22, 2010, the Company was advised that various claims in the '605 Patent reexamination have been allowed, while other claims have been rejected.

On March 30, 2012, the Board Patent Appeals Interferences ("BPAI") affirmed the Examiner's allowance of certain claims in the reexamination of the '347 Patent and '605 Patent. The Company filed a request for reconsideration of the BPAI's decision on April 30, 2012, which was denied in a Decision on Request for Rehearing dated September 27, 2012. The Company has appealed the BPAI's decision to the Court of Appeals of the Federal Circuit in a Notice of Appeal dated November 26, 2012. On November 9, 2012, Cheetah's counsel filed another motion requesting the court to lift the stay. The court granted Cheetah's motion and lifted the stay in an order dated January 8, 2013.

A hearing was held on July 16, 2013, during which the parties presented evidence to the U.S. District Court for the Eastern District of Texas Texarkana Division regarding the interpretation of various claim terms of U.S. patent nos. 6,795,605 and 7,142,347. On July 24, 2013, the Court issued an order regarding claim construction, in which the Court agreed with some of the Company's proposed claim constructions.

On June 10, 2013, the Company filed a Petition for Inter Partes Review to challenge the validity of Cheetah's U.S. patent no. 6,888,661 (the "'661 Patent") in a separate proceeding before the United States Patent and Trademark Office. Cheetah has sued Finisar Corporation for infringement of the '661 Patent in the U.S. District Court for the Eastern District of Michigan.

On November 18, 2013, the Company entered into a settlement agreement with Cheetah to settle all outstanding issues between the Company and Cheetah. On December 3, 2013, the Company paid Cheetah an insignificant amount that did not result in a material adverse effect on the Company's business, consolidated financial position, results of operations, or cash flows.

Cambrian Science Patent Infringement Litigation

On July 12, 2011, the Company was notified by Level 3 that Cambrian filed suit against Level 3 and six other defendants, including Cox Communications, Inc., XO Communications, LLC, Global Crossing Limited, 360Networks (USA), Inc., Integra Telecom, Inc. and IXC, Inc. dba Telekenex (collectively, the "Defendants") in the U.S. District Court for the Central District of California alleging infringement of patent no. 6,775,312 (the "'312 Patent") and requesting damages for such alleged infringement (the "Cambrian Claim"). The nature of the Cambrian Claim involves allegations of infringement of the '312 Patent resulting from the Defendants' use of certain products and systems in the Defendants' networks, including the Company's DTN platform. On August 24, 2011, Cambrian amended the complaint to name the Company as a defendant. The Company assumed the defense of the Cambrian Claim and filed an answer to Cambrian's complaint on September 21, 2011, in which the Company denied infringement of the '312 Patent and raised other defenses. Cambrian filed a second amended complaint on October 6, 2011, which included many of the same allegations as in the original complaint. The Company filed an answer to the second amended complaint on October 21, 2011, in which the Company maintained the same denials and defenses as in its initial answer. On December 23, 2011, the Company filed a motion requesting that the court stay the case with respect to each of the above-noted customer Defendants. Cambrian filed its opposition to the Company's motion on December 30, 2011. The Company's request was denied in the court's decision on March 7, 2012. The Company presented evidence on the appropriate meanings of relevant key words used in the patent claims during a claim construction hearing on November 20, 2012.

On June 17, 2013, the U.S. District Court for the Central District of California issued an order regarding claim construction, in which the Court agreed with some of our proposed claim constructions.

Based on the information available at this time, the Company concluded that the likelihood of a loss with respect to this suit is reasonably possible. The Company has further concluded that the range of the reasonably possible loss is an insignificant amount and will not have a material adverse effect on the Company's business, consolidated financial position, results of operations, or cash flows. Accordingly, the Company accrued an insignificant amount during the fourth quarter of 2013 which did not have a material adverse effect on the Company's business, consolidated financial position, results of operations, or cash flows. Factors that the Company considered in the determination of the likelihood of a loss and the estimate of that loss in respect to this matter included the merits of the case, the nature of the litigation (including the complex and technical nature of patent litigation), the length of time the matter has been pending, the status of the plaintiff as a non-operating entity and the likelihood of the plaintiff accepting the estimated amount. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties.

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 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. The Company regularly evaluates current information to determine whether any accruals should be adjusted and whether new accruals are required. As of December 28, 2013, the Company had no material accruals for loss contingencies.

13. Stockholders' Equity

2000 Stock Plan, 2007 Equity Incentive Plan and Employee Stock Purchase Plan

In December 2000, the Company adopted the 2000 Stock Plan ("2000 Plan"). Under the 2000 Plan, as amended, the Company had reserved an aggregate of 14.2 million shares of its common stock for issuance. As of December 28, 2013, options to purchase 1.2 million shares of the Company's common stock were outstanding under the 2000 Plan. The Company's board of directors decided not to grant any additional options or other awards under the 2000 Plan following the Company's IPO in 2007. The 2000 Plan expired on December 6, 2010. However, the 2000 Plan will continue to govern the terms and conditions of the outstanding options previously granted under the plan.

In February 2007, the Company's board of directors adopted the 2007 Equity Incentive Plan ("2007 Plan") and the Company's stockholders approved the 2007 Plan in May 2007. As of December 28, 2013, the Company reserved a total of 43.8 million shares of common stock for issuance of options, RSUs and PSUs to employees, non-employees and members of the Company's board of directors, pursuant to the 2007 Plan. The 2007 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.

Additionally, in February 2007, the Company's board of directors adopted, and in May 2007, its stockholders approved the Company's ESPP. The ESPP has a 20-year term, and as of December 28, 2013, the Company had authorized the issuance of approximately 7.9 million shares of common stock.

Equity Incentive Plans

The Company's stock-based compensation plans include stock options, RSUs, PSUs and employee stock purchases under the Company's ESPP. As December 28, 2013, there were a total of 16.7 million shares available for grant under the Company's 2007 Plan. The following tables summarize the Company's equity award activity and related information (in thousands, except per share data):

	Number of Options	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value
Outstanding at December 25, 2010	**7,815**	**$ 6.52**	**$ 30,923**
Options granted	2,571	$ 8.17	
Options exercised	(378)	$ 3.81	$ 1,691
Options canceled	(135)	$ 8.63	
Outstanding at December 31, 2011	**9,873**	**$ 7.03**	**$ 7,924**
Options granted	127	$ 7.18	
Options exercised	(582)	$ 4.39	$ 1,484
Options canceled	(410)	$ 8.50	
Outstanding at December 29, 2012	**9,008**	**$ 7.13**	**$ 5,726**
Options exercised	(2,217)	$ 6.59	$ 7,583
Options canceled	(424)	$ 8.04	
Outstanding at December 28, 2013	**6,367**	**$ 7.26**	**$ 17,452**
Vested and expected to vest as of December 28, 2013	**6,359**		**$ 17,434**
Exercisable at December 28, 2013	**6,114**	**$ 7.24**	**$ 16,909**

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Outstanding at December 25, 2010	**6,783**	**$ 9.03**	**$ 69,927**
RSUs granted	2,490	$ 8.18	
RSUs released	(2,937)	$ 8.84	$ 25,968
RSUs canceled	(379)	$ 8.91	
Outstanding at December 31, 2011	**5,957**	**$ 8.77**	**$ 37,407**
RSUs granted	3,620	$ 7.51	
RSUs released	(2,495)	$ 9.07	$ 17,742
RSUs canceled	(379)	$ 8.27	
Outstanding at December 29, 2012	**6,703**	**$ 8.01**	**$ 38,873**
RSUs granted	3,602	$ 7.63	
RSUs released	(3,070)	$ 8.26	$ 25,028
RSUs canceled	(652)	$ 7.63	
Outstanding at December 28, 2013	**6,583**	**$ 7.72**	**$ 64,443**
Expected to vest as of December 28, 2013	**6,418**		**$ 62,837**

	Number of Performance Stock Units	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Outstanding at December 25, 2010	**2,682**	**$ 10.51**	**$ 27,660**
PSUs granted	—	$ —	
PSUs released	—	$ —	
PSUs canceled	(87)	$ 10.43	
Outstanding at December 31, 2011	**2,595**	**$ 10.51**	**$ 16,304**
PSUs granted	515	$ 7.85	
PSUs released	(883)	$ 9.40	$ 5,448
PSUs canceled	(859)	$ 10.04	
Outstanding at December 29, 2012	**1,368**	**$ 10.53**	**$ 7,933**
PSUs granted	552	$ 6.63	
PSUs released	(684)	$ 10.53	$ 4,284
PSUs canceled	(515)	$ 11.31	
Outstanding at December 28, 2013	**721**	**$ 7.04**	**$ 7,054**
Expected to vest as of December 28, 2013	**505**		**$ 4,947**

The aggregate intrinsic value of unexercised options, unreleased RSUs and PSUs is calculated as the difference between the closing price of the Company's common stock of $9.79 at December 27, 2013 and the exercise prices of the underlying equity awards. The aggregate intrinsic value of the options which have been exercised and RSUs and PSUs released is calculated as the difference between the fair market value of the common stock at the date of exercise or release and the exercise price of the underlying equity awards.

The following table presents total stock-based compensation cost granted but not yet amortized, net of estimated forfeitures, of the Company's equity compensation plans as of December 28, 2013, which is 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)
Stock options	$ 813	1.1
RSUs	$ 29,695	2.2
PSUs	$ 1,638	1.2

The following table summarizes information about options outstanding at December 28, 2013.

	Options Outstanding			Vested and Exercisable Options	
Exercise Price	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
	(In thousands)	(In years)		(In thousands)	
$0.76 - $ 4.04	1,058	2.25	$ 2.07	1,058	$ 2.07
$6.30 - $ 7.25	1,125	6.19	$ 6.86	1,022	$ 6.87
$7.45 - $ 7.61	982	4.88	$ 7.53	960	$ 7.53
$7.68 - $ 8.19	1,365	4.83	$ 8.09	1,298	$ 8.11
$8.39 - $ 8.61	1,036	6.87	$ 8.58	1,001	$ 8.58
$8.85 - $ 22.36	801	4.70	$ 11.21	775	$ 11.24
	6,367	4.96	$ 7.26	6,114	$ 7.24

Employee Stock Options

In February 2012, the Compensation Committee of the Company's board of directors shortened the maximum term of future option grants under the 2007 Plan from 10 years to 7 years. The weighted-average remaining contractual term of options outstanding and exercisable was 4.9 years as of December 28, 2013. Total fair value of stock options granted to employees and directors that vested during 2013, 2012 and 2011 was approximately $3.2 million, $10.0 million and $9.0 million, respectively, based on the grant date fair value.

The ranges of estimated values of stock options and performance-based stock options granted, as well as ranges of assumptions used in calculating these values were based on estimates as follows:

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Volatility	N/A	65% - 68%	58% - 62%
Risk-free interest rate	N/A	0.7% - 1.0%	1.7% - 2.6%
Expected life	N/A	4.0 - 5.3 years	4.6 - 5.5 years
Estimated fair value	N/A	$3.75 - $3.76	$3.47 - $4.63
Total stock-based compensation expense (in thousands)	$ 2,792	$ 8,436	$ 12,590

N/A Not applicable because the Company did not grant any options to employees for the period presented.

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 28, 2013	December 29, 2012	December 31, 2011
Volatility	46% - 49%	54% - 57%	51% - 66%
Risk-free interest rate	0.10% - 0.14%	0.16% - 0.17%	0.12% - 0.20%
Expected life	0.5 years	0.5 years	0.5 years
Estimated fair value	\$1.87 - \$3.00	\$1.73 - \$2.63	\$2.09 - \$2.70

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

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Stock-based compensation expense	$ 3,022	$ 3,586	$ 3,561
Employee contributions	$ 8,559	$ 9,030	$ 8,462
Shares purchased	1,656	1,653	1,309

Restricted Stock Units

During 2013, 2012 and 2011, the Company granted RSUs to employees and members of the Company's board of directors to receive an aggregate of 3.6 million, 3.6 million and 2.5 million shares of the Company's common stock, respectively, at no cost. 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 RSU stock-based compensation in 2013, 2012 and 2011 was approximately $23.8 million, $27.9 million and $25.5 million, respectively.

Performance Stock Units

Pursuant to the Company's 2007 Equity Incentive Plan, during 2013, the Company granted 0.6 million shares of PSUs to certain of the Company's executive officers. The number of shares to be issued upon vesting of PSUs range from 0 to 1.5 times the number of PSUs granted depending on the relative performance of the Company's common stock price compared to the NASDAQ Telecom Composite Index over the span of one, two and three years of total shareholder returns.

The ranges of estimated values of the PSUs granted, as well as assumptions used in calculating these values were based on estimates as follows:

	Year Ended
	December 28, 2013
Infinera Volatility	55%
NASDAQ Telecom Composite Index Volatility	23%
Risk-free interest rate	0.42%
Correlation with NASDAQ Telecom Composite Index	0.56
Estimated fair value	\$6.27 - \$7.06

During 2012, the Company granted 0.5 million shares of PSUs to certain of the Company's executive officers. These PSUs will only vest upon the achievement of certain specific revenue and operating profit criteria and are subject to each named executive officer's continued service to the Company. If the financial performance metrics are not met within the time limits specified in the award agreements, the PSUs will be canceled. The Company estimated the fair value of the PSUs using the closing market price of the Company's common stock on the date of grant. During 2013, the Company released 0.2 million shares of these PSUs upon achievement of certain performance goals.

During 2009, the Company granted PSUs primarily to members of the Company's board of directors and executive officers. The number of shares to be issued upon vesting of PSUs range from 0.5 to 2.0 times the number of PSUs granted depending on the relative performance of the Company's common stock price compared to the NASDAQ Composite Index over a three-year or four-year period. During 2013, the Company released 0.5 million shares of these PSUs based on a payout of 0.5 of the target number of PSUs.

Amortization of stock-based compensation related to PSUs in 2013, 2012 and 2011 was approximately $0.7 million, $3.3 million and $9.2 million, respectively.

Common Stock Warrants

During 2013, warrants to purchase 92,592 shares of common stock were net exercised. The aggregate consideration for such exercises was approximately $0.5 million. As of December 28, 2013, there were no warrants of common stock outstanding.

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 28, 2013	December 29, 2012	December 31, 2011
Stock-based compensation effects in inventory	$ 3,189	$ 4,891	$ 3,479
Stock-based compensation effects in deferred inventory cost	$ 15	$ 42	$ 179
Stock-based compensation effects in fixed assets	$ 145	$ 146	$ 36
Stock-based compensation effects in net loss before income taxes			
Cost of revenue	$ 1,871	$ 2,710	$ 2,923
Research and development	10,900	13,306	14,990
Sales and marketing	7,624	10,450	8,818
General and administrative	5,956	9,529	18,502
	26,351	35,995	45,233
Cost of revenue—amortization from balance sheet (1)	5,625	5,824	4,924
Total stock-based compensation expense	$ 31,976	$ 41,819	$ 50,157

(1) Represents stock-based compensation expense deferred to inventory and deferred inventory costs in prior periods and recognized in the current period.

Shares Reserved for Future Issuances

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

	December 28, 2013
Outstanding stock options and awards	13,671
Reserved for future option and award grants	16,656
Reserved for future ESPP	—
Total common stock reserved for stock options and awards	30,327

14. Income Taxes

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

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Current:			
Federal	$ —	$ (133)	$ (107)
State	(135)	22	213
Foreign	1,719	2,169	1,841
Total current	$ 1,584	$ 2,058	$ 1,947
Deferred:			
Federal	$ —	$ —	$ —
State	—	—	—
Foreign	70	132	(256)
Total deferred	$ 70	$ 132	$ (256)
Total provision	$ 1,654	$ 2,190	$ 1,691

Income before provision for income taxes from international operations was $5.8 million, $5.5 million and $5.3 million for the years ended December 28, 2013, December 29, 2012 and December 31, 2011, respectively.

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

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Expected tax benefit at federal statutory rate	35.0 %	35.0 %	35.0 %
State taxes, net of federal benefit	0.3 %	— %	(0.1)%
Research credits	4.9 %	— %	2.9 %
Stock-based compensation	(12.2)%	(3.9)%	(4.1)%
Change in valuation allowance	(34.2)%	(33.5)%	(36.1)%
Other	0.8 %	(0.2)%	0.3 %
Effective tax rate	(5.4)%	(2.6)%	(2.1)%

The Company recognized income tax expense of approximately $1.7 million, $2.2 million and $1.7 million in each of fiscal years 2013, 2012 and 2011, on pre-tax book losses of $30.5 million, $83.1 million, and $80.1 million, respectively. The resulting effective tax rates of 5.4%, 2.6%, and 2.1% for 2013, 2012, and 2011, respectively, differs from the expected statutory rate of 35% based upon unbenefited U.S. losses, non-deductible stock compensation charges and foreign taxes provided on foreign subsidiary earnings. The decrease in 2013 tax expense compared to 2012 tax expense relates primarily to the release of tax reserves due to the lapsing of the statute of limitations. The increase in the 2012 tax expense compared to 2011 expense relates primarily to reductions of benefits from Canadian research credits.

During 2013, 2012 and 2011, the income tax benefits were not significant for each year and were allocated to the tax provision from continuing operations, related to the tax effects of items credited directly to other comprehensive income (“OCI”). Generally, the amount of tax expense or benefit allocated to continuing operations is determined without regard to the tax effects of other categories of income or loss, such as OCI. However, an exception to the general rule is provided within the intra-period tax allocations rules when there is a pre-tax loss from continuing operations and there are items charged or credited to other categories, including OCI, in the current year. The intra-period tax allocation rules related to items charged or credited directly to OCI can result in disproportionate tax effects that remain in OCI until certain events occur.

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company’s deferred tax assets are as follows (in thousands):

	Years Ended	
	December 28, 2013	December 29, 2012
Deferred tax assets:		
Net operating losses	$ 123,908	$ 120,022
Research credits	33,647	29,092
Nondeductible accruals	39,905	31,354
Property, plant and equipment	1,453	3,226
Intangible assets	3,446	4,871
Stock-based compensation	15,454	25,040
Total deferred tax assets	$ 217,813	$ 213,605
Valuation allowance	(202,747)	(213,449)
Net deferred tax assets	$ 15,066	$ 156
Deferred tax liabilities:		
Depreciation	(161)	(117)
Convertible senior notes	(14,941)	—
Total deferred tax liabilities	$ (15,102)	$ (117)
Net deferred tax assets (liabilities)	$ (36)	$ 39

The realization of tax benefits of deferred tax assets is dependent upon future levels of taxable income, of an appropriate character, in the periods the items are scheduled to be deductible or taxable. Based on the available objective evidence, management believes it is more likely than not that the domestic net deferred tax assets will not be realizable. Accordingly, the Company has provided a full valuation allowance against its domestic deferred tax assets, net of deferred tax liabilities, as of December 28, 2013 and December 29, 2012.

As of December 28, 2013, the Company has net operating loss carryforwards of approximately $351.1 million for federal tax purposes and $297.1 million for state tax purposes. If not utilized, these carryforwards will begin to expire in 2021 for federal tax purposes and 2015 for state tax purposes. Additionally, the Company has federal and California research and development credits available to reduce future income taxes payable of approximately $25.5 million and $25.7 million, respectively, as of December 28, 2013. Infinera Canada Inc., a wholly owned subsidiary, has Scientific Research and Experimental Development Expenditures ("SRED") credits available of $1.9 million to offset future Canadian Income tax payable as of December 28, 2013. The federal research credits will begin to expire in the year 2021 if not utilized, while the California research credits have no expiration date. Canadian SRED credits will begin to expire in the year 2030 if not fully utilized.

The Company maintains net operating losses generated from excess tax benefits associated with the accumulated stock award attributes in a memo account, not included in the deferred tax inventory balances. The additional tax benefit associated with these stock award attributes, of which the net operating loss amounts are included in the carryforward amounts noted above, is not recognized until the deduction reduces cash taxes payable. At December 28, 2013, the Company had unbenefited stock option deductions for federal and state tax purposes of $38.4 million and $36.2 million, respectively. When utilized, the estimated tax benefits of approximately $16.4 million will result in a credit to stockholders' equity.

Under the Tax Reform Act of 1986, the amount of benefit from net operating loss and tax credit carryforwards may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50 percent as defined, over a three-year testing period. As of December 28, 2013, the Company has determined that ownership changes have occurred that would result in limitations on the current and future utilization of its net operating loss carryforwards. However, based on the work performed, the limitations are not significant enough to impact the future utilization of the tax attributes.

The Company's policy with respect to its undistributed foreign subsidiaries' earnings is to consider those earnings to be indefinitely reinvested and, accordingly, no related provision for U.S. federal and state income taxes has been provided. Upon distribution of those earnings in the form of dividends or otherwise, the Company may be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes in the various foreign countries. At December 28, 2013, the undistributed earnings approximated $17.6 million. The future tax consequence of the remittance of these earnings is negligible because of the significant net operating loss carryforwards for U.S. and state purposes and full valuation allowance provided against such carryforwards.

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

	December 28, 2013	December 29, 2012	December 31, 2011
Beginning balance	$ 13,902	$ 13,066	$ 8,970
Tax position related to current year			
Additions	1,676	1,437	2,759
Tax positions related to prior years			
Additions	32	75	1,810
Reductions	(132)	(580)	(210)
Lapses of statute of limitations	(330)	(96)	(263)
Ending balance	$ 15,148	$ 13,902	$ 13,066

As of December 28, 2013, the cumulative unrecognized tax benefit was $15.1 million, of which $13.6 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 28, 2013, approximately $1.8 million, if recognized, would impact the Company's effective tax rate.

As of December 28, 2013, December 29, 2012 and December 31, 2011, the Company had $0.2 million each year of accrued interest or penalties related to unrecognized tax benefits, respectively, of which less than $0.1 million was included in the Company's provision for income taxes each for the years ended December 28, 2013, December 29, 2012 and December 31, 2011.

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 2002 and forward.

The Company has received assessments of tax resulting from a transfer pricing examinations in India for fiscal years ending March 31, 2008 through March 31, 2009. The Company is appealing the assessment and does not expect a significant adjustment to unrecognized tax benefits as a result of this inquiry. Fiscal years subsequent to March 2009 remain open to examination in India.

The Company does not currently believe there to be a reasonable possibility of a significant change in total unrecognized tax benefits that would occur within the next 12 months and, as such, amounts are classified as other long-term liabilities on the accompanying consolidated balance sheets as of December 28, 2013.

15. 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. The Company's chief executive officer makes operating decisions, allocates resources and evaluates performance for the Company on a consolidated basis. The Company is organized on a functional basis, selling integrated network solutions across all geographies. The Company operates a single, global sales and services organization and manages its research and development resources on a company-wide basis. Accordingly, the Company is considered to be in a single operating segment.

Revenue by geographic region is based on the shipping address of the customer. The following tables set forth revenue and long-lived assets by geographic region (in thousands):

Revenue

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Americas:			
United States	$ 345,734	$ 296,849	$ 283,443
Other Americas	10,377	11,811	11,543
	$ 356,111	$ 308,660	$ 294,986
Europe, Middle East and Africa	150,912	116,663	93,428
Asia Pacific	37,099	13,114	16,463
Total revenue	$ 544,122	$ 438,437	$ 404,877

Property, plant and equipment, net

	December 28, 2013	December 29, 2012
United States	$ 76,850	$ 78,309
Other Americas	319	222
Asia Pacific	1,451	1,812
Europe, Middle East and Africa	1,048	—
Total property, plant and equipment, net	$ 79,668	$ 80,343

16. Employee Benefit Plan

The Company has established a savings plan under Section 401(k) of the Internal Revenue Code (the "Plan"). As allowed under Section 401(k) of the Internal Revenue Code, the 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. Expenses related to the Company's 401(k) plan were insignificant for 2013, 2012 and 2011.

17. Financial Information by Quarter (Unaudited)

The following table sets forth the Company's unaudited quarterly consolidated statements of operations data for 2013 and 2012. 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)							
	2013				2012			
	Dec. 28	Sep. 28	Jun. 29	Mar. 30	Dec. 29	Sep. 29	Jun. 30	Mar. 31
	(In thousands, except per share data)							
Revenue:								
Product	$115,102	$121,332	$120,647	$108,343	$109,444	$ 99,303	$ 78,366	$ 92,922
Services	23,990	20,688	17,738	16,282	18,620	12,911	15,092	11,779
Total revenue	139,092	142,020	138,385	124,625	128,064	112,214	93,458	104,701
Cost of revenue:								
Cost of product	73,385	66,685	80,198	75,447	77,127	66,612	56,183	59,515
Cost of services	9,795	6,964	6,533	6,476	7,669	4,102	4,901	4,759
Total cost of revenue	83,180	73,649	86,731	81,923	84,796	70,714	61,084	64,274
Gross profit	55,912	68,371	51,654	42,702	43,268	41,500	32,374	40,427
Operating expenses	62,993	61,926	60,262	57,644	58,781	59,705	61,773	60,311
Income (loss) from operations	(7,081)	6,445	(8,608)	(14,942)	(15,513)	(18,205)	(29,399)	(19,884)
Other income (expense), net	(2,683)	(2,790)	(800)	(6)	75	(442)	377	(149)
Income (loss) before income taxes	(9,764)	3,655	(9,408)	(14,948)	(15,438)	(18,647)	(29,022)	(20,033)
Provision for income taxes	414	308	601	331	650	434	527	579
Net income (loss)	$(10,178)	$ 3,347	$(10,009)	$(15,279)	$(16,088)	$(19,081)	$(29,549)	$(20,612)
Net income (loss) per common share								
Basic	$ (0.08)	$ 0.03	$ (0.09)	$ (0.13)	$ (0.14)	$ (0.17)	$ (0.27)	$ (0.19)
Diluted	$ (0.08)	$ 0.03	$ (0.09)	$ (0.13)	$ (0.14)	$ (0.17)	$ (0.27)	$ (0.19)

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 2013 and 2012 were 52-week years that ended on December 28, 2013 and December 29, 2012, respectively. The quarters for fiscal years 2013 and 2012 were 13-week quarters.

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 Securities Exchange Act of 1934, as amended ("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 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. Based on this evaluation, our CEO and CFO have concluded that, as of the end of the fiscal period covered by this annual report on Form 10-K, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance that our books and records accurately reflect transactions and that established policies and procedures are followed.

There were no changes in our internal control over financial reporting that occurred during the most recently completed fiscal year ended December 28, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Our management, including 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. generally accepted accounting principles.

Management assessed the effectiveness of our internal control over financial reporting as of December 28, 2013, the end of our fiscal year. Management based its assessment on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 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.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of December 28, 2013, the end of our fiscal year, 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. generally accepted accounting principles.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on our internal control over financial reporting, which appears in Part II, Item 8 of this Annual Report on Form 10-K.

Inherent Limitations of Internal Controls

Our management, including the CEO and CFO, does not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item with respect to our directors and executive officers is incorporated by reference to the information set forth in our proxy statement for the 2014 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of Infinera's fiscal year ended December 28, 2013. For information pertaining to our executive offers and directors, refer to the "Executive Officers and Directors" section of 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 2014 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 2014 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 2014 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 2014 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:

(a)(2) *Financial Statement Schedule*

Schedule II: Valuation and Qualifying Accounts

	Years Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
		(In thousands)	
Deferred tax asset, valuation allowance			
Beginning balance	$ 213,449	$ 188,351	$ 155,847
Additions	5,706	25,098	32,504
Reductions	(16,408)	—	—
Ending balance	$ 202,747	$ 213,449	$ 188,351
Allowance for doubtful accounts			
Beginning balance	$ 94	$ —	$ —
Additions	56	94	—
Reductions	(107)	—	—
Ending balance	$ 43	$ 94	$ —
Provision for other receivables			
Beginning balance	$ —	$ 563	$ —
Additions	—	—	563
Reductions	—	(563)	—
Ending balance	$ —	$ —	$ 563

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.

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation. (1)
3.2	Amended and Restated Bylaws. (2)
4.1	Form of Common Stock Certificate. (3)
4.2	Indenture dated May 30, 2013, between the Registrant and U.S. Bank National Association, as trustee. (4)
10.1*	Form of Indemnification Agreement between Registrant and each of its directors and executive officers. (5)
10.2*	2000 Stock Plan, as amended, and forms of stock option agreements thereunder. (5)
10.3*	2007 Equity Incentive Plan. (5)
10.4*	2007 Employee Stock Purchase Plan. (5)
10.5*	Bonus Plan.(6)
10.6*	Form of Section 16 Officer Restricted Stock Unit Agreement under the 2007 Equity Incentive Plan. (7)
10.7*	Form of Section 16 Officer Performance Share Agreement under the 2007 Equity Incentive Plan. (7)
10.8*	Form of Stock Option Agreement under the 2007 Equity Incentive Plan.(8)
10.9*	Form of Annual Performance Share Agreement for the Board of Directors under the 2007 Equity Incentive Plan. (9)
10.10*	Form of CEO Amended and Restated Change of Control Severance Agreement.(10)
10.11*	Form of Section 16 Officer Amended and Restated Change of Control Severance Agreement.(10)
10.12*	Executive Clawback Policy.(11)
10.13	Separation Agreement and General Release of All Claims between Ronald D. Martin and the Registrant dated January 15, 2013.(11)
10.14	Consulting Agreement dated April 10, 2013, between the Registrant and Michael O. McCarthy III.(12)
10.15	Purchase Agreement dated May 23, 2013, between the Registrant and Morgan Stanley and Co. LLC and Goldman, Sachs & Co., as representatives of the initial purchasers.(13)
14.1	Code of Ethics.(14)
21.1	Subsidiaries.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.

** This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Securities Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

(1) Incorporated by reference to exhibit filed with Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on June 12, 2007.

(2) Incorporated by reference to exhibit filed with Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on February 17, 2009.

(3) Incorporated by reference to exhibit filed with Registrant's Form S-1/A (No. 333-140876), filed with the SEC on April 27, 2007.

(4) Incorporated by reference to exhibit filed with Registrant's Current Report on 8-K (No. 001-33486), filed with the SEC on May 30, 2013.

(5) Incorporated by reference to exhibit filed with Registrant's Form S-1 (No. 333-140876), filed with the SEC on February 26, 2007.

(6) Incorporated by reference to exhibit filed with Registrant's Current Report on 8-K (No. 001-33486), filed with the SEC on February 14, 2011.

(7) Incorporated by reference to exhibit filed with Registrant's Quarterly Report on Form 10-Q (No. 001-33486), filed with the SEC on November 2, 2010.

(8) Incorporated by reference to exhibit filed with Registrant's Quarterly Report on Form 10-Q (No. 001-33486), filed with the SEC on May 5, 2010.

(9) Incorporated by reference to exhibit filed with Registrant's Quarterly Report on Form 10-Q (No. 001-33486), filed with the SEC on May 7, 2009.

(10) Incorporated by reference to exhibit filed with Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on March 5, 2013.

(11) Incorporated by reference to exhibit filed with Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on January 17, 2013.

(12) Incorporated by reference to exhibit filed with Registrant's Current Report on 8-K (No. 001-33486), filed with the SEC on April 11, 2013.

(13) Incorporated by reference to exhibit filed with Registrant's Current Report on 8-K (No. 001-33486), filed with the SEC on May 24, 2013.

(14) Incorporated by reference to exhibit filed with Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on February 19, 2008.

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 21, 2014

Infinera Corporation
Registrant

By: /s/ ITA M. BRENNAN

Ita M. Brennan
Chief Financial Officer
Principal Financial and Accounting Officer

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.

/s/ THOMAS J. FALLON	/s/ KAMBIZ Y. HOOSHMAND
Thomas J. Fallon **Chief Executive Officer and Director** **and Principal Executive Officer** **February 21, 2014**	**Kambiz Y. Hooshmand** **Chairman of the Board** **February 21, 2014**
/s/ ITA M. BRENNAN	/s/ KENNETH A. GOLDMAN
Ita M. Brennan **Chief Financial Officer, Principal Financial and** **Accounting Officer** **February 21, 2014**	**Kenneth A. Goldman** **Director** **February 21, 2014**
/s/ DAVID F. WELCH, PH.D.	/s/ DAN MAYDAN, PH.D.
David F. Welch, Ph.D. **Co-founder, President and Director** **February 21, 2014**	**Dan Maydan, Ph.D.** **Director** **February 21, 2014**
/s/ PHILIP J. KOEN	/s/ PAUL J. MILBURY
Philip J. Koen **Director** **February 21, 2014**	**Paul J. Milbury** **Director** **February 21, 2014**
/s/ CARL REDFIELD	/s/ MARK A. WEGLEITNER
Carl Redfield **Director** **February 21, 2014**	**Mark A. Wegleitner** **Director** **February 21, 2014**

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas J. Fallon, certify that:

1. I have reviewed this Annual Report on Form 10-K of Infinera Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 21, 2014

By: /S/ THOMAS J. FALLON

Thomas J. Fallon
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

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, Ita M. Brennan, 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 21, 2014

By: /s/ ITA M. BRENNAN

Ita M. Brennan
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

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

I, Thomas J. Fallon, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended, that, to my knowledge on the date hereof:

(a) the Annual Report on Form 10-K of Infinera Corporation for the year ended December 28, 2013 (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 21, 2014

/s/ THOMAS J. FALLON

Thomas J. Fallon
Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Infinera Corporation and will be retained by Infinera Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

This certification “accompanies” the Annual Report on Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Annual Report on Form 10-K), irrespective of any general incorporation language contained in such filing.

EXHIBIT 32.2

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

I, Ita M. Brennan, 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 28, 2013 (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 21, 2014

/s/ ITA M. BRENNAN

Ita M. Brennan
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Infinera Corporation and will be retained by Infinera Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

This certification "accompanies" the Annual Report on Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Annual Report on Form 10-K), irrespective of any general incorporation language contained in such filing.

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