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Infinera Corporation

2017 Proxy Statement

and

2016 Annual Report on Form 10-K

Infinera Corporation
140 Caspian Court
Sunnyvale, California 94089

NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 25, 2017
10:00 a.m. Pacific Time

Dear Stockholder:

You are cordially invited to attend the 2017 Annual Meeting of Stockholders (the "Annual Meeting") of Infinera Corporation, a Delaware corporation. Notice is hereby given that the meeting will be held on Thursday, May 25, 2017, 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 three nominees for Class I directors named in the Proxy Statement;
2. To approve an amendment to the Infinera Corporation 2016 Equity Incentive Plan to increase the number of shares authorized for issuance thereunder by 6,400,000 shares;
3. To approve, on an advisory basis, the compensation of Infinera's named executive officers, as described in the Proxy Statement;
4. To approve, on an advisory basis, the frequency of stockholder advisory votes on the compensation of Infinera's named executive officers;
5. To ratify the appointment of Ernst & Young LLP as Infinera's independent registered public accounting firm for the fiscal year ending December 30, 2017; and
6. To transact such other business as may properly come before the meeting or any postponement or adjournment thereof.

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

The record date for the Annual Meeting is April 4, 2017. Only stockholders of record at the close of business on that date may vote at the Annual Meeting or any postponement or adjournment thereof. A list of our stockholders will be maintained and open for examination by any of our stockholders, for any purpose germane to the Annual Meeting, during regular business hours at the address listed above for ten days prior to the meeting.

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

As a stockholder, your vote is important. Whether or not you expect to attend the Annual Meeting in person, it is important that you vote as soon as possible so that your shares are represented. To vote your shares, please follow the instructions in the Notice of Internet Availability of Proxy Materials, which is being mailed to you on or about April 13, 2017.

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

By Order of the Board,
/s/ JAMES L. LAUFMAN

James L. Laufman
Senior Vice President, General Counsel and Secretary

Sunnyvale, California
April 12, 2017

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INFINERA CORPORATION

PROXY STATEMENT SUMMARY

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

2017 Annual Meeting of Stockholders

Time and Date:	10:00 a.m. Pacific Time, on Thursday, May 25, 2017
Place:	Infinera Corporation, 140 Caspian Court, Sunnyvale, California 94089
Record Date:	April 4, 2017
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 three nominees for Class I directors named in the Proxy Statement.	FOR EACH DIRECTOR NOMINEE	7
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4. To approve, on an advisory basis, the frequency of stockholder advisory votes on the compensation of Infinera's named executive officers.	1 YEAR	58
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6. To transact such other business that may properly come before the meeting or any postponement or adjournment thereof.		

Board Nominees

				Committee Memberships			
Name	Age	Director Since	Independent[(1)]	AC	CC	NGC	TAC
Thomas J. Fallon	55	2009	—	—	—	—	—
Kambiz Y. Hooshmand[(2)]	55	2009	X	M	—	M	M
Rajal M. Patel	48	2015	X	—	—	M	M

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

(1) Under the rules and regulations of the U.S. Securities and Exchange Commission and the listing standards of The NASDAQ Stock Market ("NASDAQ").

(2) Mr. Hooshmand currently serves as Chairman of the Board.

Board and Governance Highlights

Board Independence. Six out of eight of our directors are independent.

Board Composition. The size of the Board of Directors is fixed at eight and is divided into three classes. The Board of Directors annually assesses its performance through a board self-evaluation.

Board Tenure. The average tenure of our current board members is 4.9 years. We have appointed three new directors in the last three years.

Board Diversity. The Board of Directors consists of a diverse group of professionals who bring significant leadership and distinct qualities to Infinera. This group provides a diverse range of perspectives and experience to engage each other and management to effectively represent our stockholders.

Board Committees. We have four committees of the Board of Directors—Audit, Compensation, Nominating and Governance, and Technology and Acquisition. With the exception of the Technology and Acquisition Committee (David F. Welch, our President, serves on this committee), all other committees are composed entirely of independent directors.

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

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

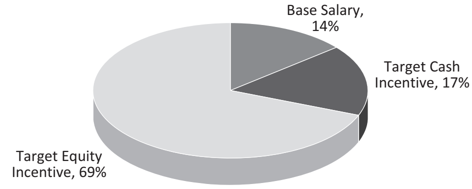
Risk Oversight. Members of our senior management team are responsible for implementation of our day-to-day risk management processes, while the Board of Directors, as a whole and through its committees, has responsibility for the oversight of overall risk management.

Executive Compensation Program Highlights

Our executive compensation program continues to be designed to balance near-term results with long-term success and continues to encourage our executive officers (including our named executive officers (“NEOs”) for fiscal 2016) 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 the Compensation Committee. As explained in more detail in the Compensation Discussion and Analysis section of this Proxy Statement, the design of our executive compensation program for fiscal 2016 promoted the continued strong alignment of the interests of our executive officers with those of our stockholders. Highlights of our executive compensation program for fiscal 2016 included:

- ***The majority of our CEO’s fiscal 2016 target total direct compensation was in equity.***
  - **69% of our CEO’s target total direct compensation (the sum of base salary, target cash incentive opportunity and target equity incentive compensation at grant date fair value) was in the form of equity awards**, which links our CEO’s compensation directly to the value of our common stock. In fiscal 2016, our CEO received a performance-based restricted stock unit (“PSU”) award for 135,990 shares of our common stock (at target attainment) and a time-based restricted stock unit (“RSU”) award for 86,850 shares of our common stock.

FY16 Total Direct Compensation: CEO



- ***The majority of our CEO's fiscal 2016 target total direct compensation and target equity incentive compensation were at risk.***
  - **58% of our CEO's target total direct compensation was fully "at risk."** This significant portion of his compensation was based on our performance against measurable performance objectives set forth under the fiscal 2016 bonus plan (the "2016 Bonus Plan") and PSU award.
  - **60% of our CEO's target equity incentive compensation was in the form of a PSU award**. The PSU award could be earned based on our relative total stockholder return ("TSR") performance measured over three performance periods against the Standard & Poor's North American Technology Multimedia Networking Index ("S&P Networking Index") (the "2016 TSR Award").
- ***Our fiscal 2016 PSU awards included rigorous performance requirements***. The 2016 TSR Award is consistent with prior year awards that measured our stock performance against a networking index. To support our "pay-for-performance" philosophy and further emphasize the importance of creating long-term stockholder value, the 2016 TSR Award contained several features we consider to be best practices.
  - **Sustained performance requirement**. To earn the maximum number of shares under the 2016 TSR Award, which is 200% of the target number of shares, our TSR must exceed that of the S&P Networking Index by 50 points or more as calculated on each of the one-, two- and three-year measurement periods (coinciding with the end of our fiscal 2016, 2017 and 2018).
  - **Steeper downside risk**. The number of shares that may be earned under the 2016 TSR Award is reduced one and one-half times faster if our TSR underperforms the S&P Networking Index (3-to-1 downside) than it is increased if our TSR outperforms the S&P Networking Index (2-to-1 upside). For example, if we underperform the S&P Networking Index by 10 points of TSR, 70% of the target number of shares subject to the award would be earned. If we outperform the S&P Networking Index by 10 points of TSR, 120% of the target number of shares subject to the award would be earned.
  - **Payment cap**. Regardless of our performance versus the S&P Networking Index, the number of shares that may be earned under the 2016 TSR Award is capped at 100% of target for any period in which our TSR is negative. Therefore, even if we significantly outperform the S&P Networking Index in challenging market conditions, this award only provides rewards above the target performance level if incremental stockholder value is created.
- ***Our fiscal 2016 payouts reflect our pay-for-performance philosophy***. Our fiscal 2016 payouts reflect the alignment of our executive compensation program to the performance of Infinera. As indicated above, a significant portion of our executive compensation program is designed to align the compensation outcomes for our NEOs on performance against measurable objectives. Our fiscal 2016 revenue and non-GAAP operating income results were lower compared to fiscal 2015 and did not meet the minimum threshold established by the Compensation Committee under the 2016 Bonus Plan, resulting in no payout for the financial component of the plan. During fiscal 2016, there were portions of four PSU awards for which payout was based entirely or in part on our performance during the year. We underperformed as compared to the S&P Networking Index for each of our fiscal 2016 PSU awards, fiscal 2015 PSU awards and fiscal 2014 PSU awards, which resulted in no payouts for each of the performance periods that concluded at the end of fiscal 2016. The fourth PSU award was tied to the achievement of a pre-established minimum revenue target for sales of our then-new Cloud Xpress family of products (the "CX PSU Award"). At the end of the performance period we exceeded the minimum revenue target for sales, which resulted in a payout at 136% of target.

- ***We continue to maintain sound corporate governance policies and practices***. We seek to maintain sound corporate governance standards and during fiscal 2016, the following policies and practices continued to be in effect:

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

PROXY STATEMENT
2017 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 is providing you access to these proxy materials in connection with the solicitation of proxies by the Board for use at the 2017 Annual Meeting of Stockholders (the "Annual Meeting") to be held on Thursday, May 25, 2017 at 10:00 a.m. Pacific Time, and at any adjournment or postponement thereof, for the purpose of considering and acting upon the matters described herein. These materials were first sent or given to stockholders on or about April 13, 2017.

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

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

Q: Where is the Annual Meeting?

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

Q: Can I attend the Annual Meeting?

A: You are invited to attend the Annual Meeting if you were a stockholder of record or a beneficial owner as of the close of business on April 4, 2017 (the "Record Date"). If you are a stockholder of record, please bring a form of personal identification to be admitted to the meeting. If your shares are held in the name of your broker, trustee or other nominee, you must obtain a legal proxy issued in your name from the broker, trustee or other nominee that holds your shares, together with a form of personal identification, to be admitted to the meeting. The Annual Meeting will begin promptly at 10:00 a.m. Pacific Time.

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

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

- The election of three Class I directors to serve until the 2020 Annual Meeting of Stockholders or until their successors have been duly elected and qualified;
- The approval of an amendment to the Infinera Corporation 2016 Equity Incentive Plan (the "2016 Plan") to increase the number of shares authorized for issuance thereunder by 6,400,000 shares;

- The approval, on an advisory basis, of the compensation of Infinera’s NEOs, as described in the Proxy Statement;
- The approval, on an advisory basis, of the frequency of stockholder advisory votes on the compensation of Infinera’s NEOs; and
- The ratification of the appointment of Ernst & Young LLP as Infinera’s independent registered public accounting firm for the fiscal year ending December 30, 2017.

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

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

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

Proposal 2—Approval of an amendment to the 2016 Plan 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 NEOs requires the affirmative vote of a majority of the total votes cast by holders of shares present in person, or represented by proxy, and entitled to vote on this proposal at the Annual Meeting. You may vote “FOR,” “AGAINST” or “ABSTAIN” on this proposal. Abstentions are deemed to be votes cast and have the same effect as a vote “AGAINST” this proposal. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote. **The Board unanimously recommends that you vote your shares “FOR” Proposal 3**.

Proposal 4—Approval, on an advisory basis, of the frequency of stockholder advisory votes on the compensation of Infinera’s NEOs will be determined by a plurality vote, which means the option that receives the highest number of votes cast by stockholders will be approved. You may vote for “1 YEAR,” “2 YEARS” or “3 YEARS” on this proposal. Abstentions will not affect the outcome of 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 “1 YEAR” for Proposal 4.**

Proposal 5—Ratification of the appointment of Ernst & Young LLP as Infinera’s independent registered public accounting firm for the fiscal year ending December 30, 2017, 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 5**.

Stock Ownership

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

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

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

Quorum and Voting

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

A: Stockholders of record of our common stock at the close of business on the Record Date are entitled to receive notice of and to vote their shares at the Annual Meeting. Such stockholders are entitled to cast one vote for each share of common stock held as of the Record Date. As of the close of business on the Record Date, there were 146,514,815 shares of common stock outstanding and entitled to vote at the Annual Meeting. Shares held as of the Record Date include shares that are held directly in your name as the stockholder of record and those shares held for you as a beneficial owner through a broker, 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 amendment to the 2016 Plan (Proposal 2), the non-binding advisory vote on Infinera's NEO compensation (Proposal 3) and the non-binding advisory vote on the frequency of stockholder votes on Infinera's NEO compensation (Proposal 4) are "non-routine" matters for which discretionary voting power does not exist under applicable rules. A broker, trustee or other nominee cannot vote without instructions on non-routine matters, and therefore, broker non-votes may exist in connection with Proposals 1 through 4. Thus, if you hold your shares beneficially in street name and you do not instruct your broker, bank or other nominee how to vote with respect to Proposals 1 through 4, no votes will be cast on your behalf.

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

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

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

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

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

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

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

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

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

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

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

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

Q: Can I change or revoke my vote?

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

Stockholders of Record—If you are a stockholder of record, you may change your vote by (1) filing with our Corporate Secretary, prior to your shares being voted at the Annual Meeting, a written notice of revocation or a duly executed proxy card, in either case dated later than the prior proxy relating to the same shares, or

(2) attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not, by itself, revoke a proxy). Any written notice of revocation or subsequent proxy card must be received by our Corporate Secretary prior to the taking of the vote at the Annual Meeting. Such written notice of revocation or subsequent proxy card should be hand delivered to our Corporate Secretary or should be sent to our principal executive offices, Attn: Corporate Secretary. A stockholder of record who has voted via the Internet or by telephone may also change his or her vote by making a timely and valid Internet or telephone vote at a later time but prior to 11:59 p.m. Eastern Time, on the day prior to the Annual Meeting.

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

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

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

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

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

Q: Are votes confidential? Who counts the votes?

A: We will continue to hold the votes of all stockholders in confidence from directors, officers and employees except:

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

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

Additional Information

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

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

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

A: Our proxy materials will be available on our website at *www.infinera.com/annual_meeting*, and all stockholders of record and beneficial owners will have the ability to vote free of charge online with their control number referred to in the Notice at *www.proxyvote.com*. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the “2016 Annual Report”) is also available on the Internet as indicated in the Notice. In addition, you can access this Proxy Statement and the 2016 Annual Report by going to Infinera’s website at *www.infinera.com/annual_meeting*. The 2016 Annual Report is not incorporated into this Proxy Statement and is not considered proxy soliciting material.

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

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

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

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

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

We will promptly deliver free of charge, upon request, a copy of the 2016 Annual Report and this Proxy Statement to any stockholder requesting a copy. Requests should be directed to Infinera Corporation, c/o Corporate Secretary, 140 Caspian Court, Sunnyvale, California 94089.

PROPOSAL 1—ELECTION OF DIRECTORS

General

The Board currently consists of eight directors and is divided into three classes. 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 Rajal M. Patel.

There are three nominees for election to Class I of the Board this year, Messrs. Fallon, Hooshmand and Patel. 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 2020 Annual Meeting of Stockholders, or until his successor is duly elected and qualified, or until his earlier death, resignation or removal from the Board.

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

We believe the current Board consists of a diverse group of professionals who bring significant leadership and distinct qualities to Infinera. This group provides a diverse range of perspectives and experience to engage each other and management to effectively represent our stockholders.

Director Qualifications

The Nominating and Governance Committee reviews candidates for service on the Board and recommends nominees for election to fill vacancies on the Board, including nomination for re-election of directors whose terms are due to expire. In discharging its responsibilities to nominate candidates for election to the Board, the Nominating and Governance Committee endeavors to identify, recruit and nominate candidates characterized by wisdom, maturity, sound judgment, excellent business skills and high integrity. The Nominating and Governance Committee seeks to assure that the Board is composed of individuals of diverse backgrounds who have a variety of complementary experience, training and relationships relevant to our business. This diversity of background and experience includes ensuring that the Board includes individuals with experience or skills sufficient to meet the requirements of the various rules and regulations of 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 the Record Date, the periods during which they have served as a director, certain information as to their principal occupations, directorships they hold in corporations whose shares are publicly registered and qualifications for serving as a member of the Board, including the skills, qualities, attributes and experiences that led the Board to determine it is appropriate to nominate these directors.

Nominees for Election as Class I Directors whose terms expire at the 2017 Annual Meeting of Stockholders. If re-elected, the Class I Directors terms would expire at the 2020 Annual Meeting of Stockholders.

Thomas J. Fallon
Director since 2009
Age 55

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

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

Kambiz Y. Hooshmand
Director since 2009
Age 55

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

Rajal M. Patel
Director since 2015
Age 48

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

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

Incumbent Class II Directors whose terms expire at the 2018 Annual Meeting of Stockholders.

Paul J. Milbury
Director since 2010
Age 68

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, Inc., a networking and telecommunications company, in December 2009. From December 2009 to July 2010, Mr. Milbury played a key role in integrating Starent Networks into Cisco Systems to create the Mobile Internet Technology Group. From December 2000 to March 2007, Mr. Milbury served as Vice President and CFO of Avid Technology, Inc., a digital media creation, management and distribution solutions company. Mr. Milbury currently serves on the board of directors of Gigamon, Inc., a provider of network traffic visibility solutions, enabling stronger security and superior performance.

As Chairman of the 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 as a member of the Compensation Committee, his executive management experience at Starent Networks, Cisco Systems and Avid Technology, and his experience as a director at various public and private companies.

David F. Welch, Ph.D.
Director since 2010
Age 56

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

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

Incumbent Class III Directors whose terms expire at the 2019 Annual Meeting of Stockholders.

John P. Daane
Director since 2016
Age 53

John P. Daane has been a member of our Board since January 2016. Mr. Daane served as President, CEO, and a board member of Altera Corporation, a semiconductor company, from November 2000 through Altera's acquisition by Intel Corporation in December 2015. Mr. Daane also served as Chairman of Altera's board from May 2003 through December 2015. From June 1985 through November 2000, Mr. Daane worked for LSI Logic Corporation, a semiconductor manufacturer, in a variety of positions starting as an engineering intern and ending as Executive Vice President of the Communication Product Divisions, including the Networking, Wireless, Telecom, Computer and Consumer Divisions, and central engineering. Mr. Daane also served as a board member of the Semiconductor Industry Association from January 2003 through December 2015. Mr. Daane holds a B.A. in Artificial Intelligence from the University of California at Berkeley.

Mr. Daane brings extensive executive leadership experience in the technology industry, including as the former CEO of Altera. His service as a former CEO of a large public company combined with his technology expertise allows him to provide significant contributions to the Board. The Board also benefits from Mr. Daane's service as Chairman of the Nominating and Governance Committee and as a member of the Compensation Committee.

Marcel Gani
Director since 2014
Age 64

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

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

Mark A. Wegleitner
Director since 2011
Age 66

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

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

Vote Required

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

Proposal 1—Recommendation of the Board

The Board unanimously recommends a vote “FOR” the election of each of the three 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 *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. At the direction of the Board, all mail received may be opened and screened for security purposes. Communications that are unduly hostile, threatening, illegal or similarly unsuitable will be excluded with the provision that any communication that is filtered out will be made available to any independent or non-employee director upon request.

Board Leadership Structure

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 responsibility for presiding over meetings of the Board, developing meeting agendas, facilitating communication between management and the Board, representing director views to management and improving meeting effectiveness, among other things. Mr. Hooshmand has served as Chairman of the Board since October 2010.

The Board 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 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 certain public reporting requirements. The Compensation Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs. The Nominating and Governance Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks associated with Board organization, membership and structure, succession planning for our directors and executive officers, and corporate governance. The Technology and Acquisition Committee assists the Board in fulfilling its oversight responsibilities with respect to managing the risks associated with technology development and acquisitions and investments. Each of the committee chairs reports to the full Board at regular meetings concerning the activities of the committee, the significant issues it has discussed and the actions taken by the committee.

Code of Business Conduct and Ethics

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

Corporate Governance Guidelines

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

Stock Ownership Policy

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

Information Regarding the Board and its Committees

The Board met seven times during fiscal 2016. The Board acted by written consent three times during fiscal 2016. During fiscal 2016, 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. Five members of the Board attended our 2016 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 2016:

Name	Board	Audit	Compensation	Nominating and Governance	Technology and Acquisition
John P. Daane[(1)]	M	—	M	C	—
Thomas J. Fallon	M	—	—	—	—
Marcel Gani	M	M	C	—	—
Kambiz Y. Hooshmand	C	M	—	M	M
Paul J. Milbury	M	C	M	—	—
Rajal M. Patel	M	—	—	M	M
Mark A. Wegleitner	M	—	—	M	C
David F. Welch, Ph.D.	M	—	—	—	M
Total Meetings in Fiscal 2016	7	8	6	6	6

C = Chairman; M = Member

(1) Mr. Daane was appointed to the Board effective January 14, 2016.

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

Audit Committee

The Audit Committee reviews and monitors our financial statements, financial reporting process and our external audits, including, among other things, our internal controls and audit functions, the results and scope of the annual audit and other services provided by our independent registered public accounting firm as well as our compliance with legal matters that have a significant impact on our financial statements. The Audit Committee also consults with our management and our independent registered public accounting firm prior to the presentation of financial statements to stockholders and, as appropriate, initiates inquiries into aspects of our financial affairs. The Audit Committee is responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. In addition, the Audit Committee is directly responsible for the appointment, retention, compensation and oversight of the work of our independent registered public accounting firm, including approving services and fee arrangements. Any related party transactions are subject to approval by the Audit Committee. A more detailed description of the Audit Committee's functions can be found in our Audit Committee charter. In addition, the Audit Committee meets in executive sessions, without management present and with the independent registered public accounting firm, during most regular meetings of the Audit Committee. A copy of the Audit Committee charter is available on our website at *www.infinera.com* in the Corporate Governance section on our Investor Relations page.

The current members of the Audit Committee are Messrs. Gani, Hooshmand and Milbury. Mr. Milbury chairs the Audit Committee. Each current member of the Audit Committee served the entire fiscal year. The Audit Committee met eight times during fiscal 2016. The Audit Committee did not act by written consent during fiscal 2016. Each member of the Audit Committee is independent for Audit Committee purposes under the rules and regulations of the SEC and the listing standards of NASDAQ. In addition to qualifying as independent under the NASDAQ rules, each member of the Audit Committee can read and understand fundamental financial statements in accordance with NASDAQ Audit Committee requirements. The Board has determined that Messrs. Gani and Milbury are each an "Audit Committee Financial Expert" as defined in Item 407(d)(5)(ii) of Regulation S-K. The designation does not impose on Messrs. Gani and Milbury any duties, obligations or liabilities that are greater than are generally imposed on them as members of the Audit Committee and the Board.

Compensation Committee

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

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

The current members of the Compensation Committee are Messrs. Daane, Gani and Milbury. Mr. Gani chairs the Compensation Committee. Messrs. Daane and Gani were appointed to the Compensation Committee on February 24, 2016. The Compensation Committee met six times during fiscal 2016. The Compensation Committee acted by written consent twice during fiscal 2016. Each member of the Compensation Committee is a non-employee director, as defined in Rule 16b-3 promulgated under the Exchange Act, an outside director, as defined pursuant to Section 162(m) ("Section 162(m)") of the Internal Revenue Code, as amended (the "Code") and satisfies the director and compensation committee independence requirements under the listing standards of NASDAQ.

Non-Executive Equity Award Subcommittee

The guidelines for the size of new hire, promotional and annual retention equity awards for Section 16 Officers are reviewed and approved by the Compensation Committee. The Compensation Committee has delegated to the Non-Executive Equity Award Subcommittee (the "Subcommittee"), consisting of the CEO, General Counsel and Senior 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 to the Subcommittee does not include the authority to grant equity awards to new employees who are or are reasonably expected to become Section 16 Officers or to current Section 16 Officers. The delegation of authority to the Subcommittee is not exclusive and the Board and Compensation Committee have retained the right to approve any equity awards at their discretion. The Subcommittee acted by written consent 14 times during fiscal 2016.

Nominating and Governance Committee

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

The current members of the Nominating and Governance Committee are Messrs. Daane, Hooshmand, Patel and Wegleitner. Mr. Daane chairs the Nominating and Governance Committee. Messrs. Patel and Wegleitner were appointed to the Nominating and Governance Committee on February 24, 2016, and Mr. Daane was appointed on June 20, 2016. The Nominating and Governance Committee met six times during fiscal 2016. The Nominating and Governance Committee did not act by written consent during fiscal 2016. Each member of the Nominating and Governance Committee satisfies the independence requirements under the listing standards of NASDAQ.

Board Nominees and Diversity

The Nominating and Governance Committee reviews and reports to the Board on a periodic basis with regard to matters of corporate governance, and reviews, assesses and makes recommendations on the effectiveness of our corporate governance policies. In addition, the Nominating and Governance Committee reviews and makes recommendations to the Board regarding the size and composition of the Board and the appropriate skills and characteristics required of our directors in the context of the then-current composition of the Board. This includes an assessment of each candidate's independence, personal and professional integrity, financial literacy or other professional or business experience relevant to an understanding of our business, ability to think and act independently and with sound judgment, and ability to serve our stockholders' long-term interests. 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 the Nominating and Governance Committee, are reviewed in the context of an assessment of the perceived needs of the Board at a particular point in time. As a result, the priorities and emphasis of the Nominating and Governance Committee and of the Board may change from time to time to take into account changes in business and other trends, as well as the portfolio of skills and experience of current and prospective directors.

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

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

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

Technology and Acquisition Committee

The Technology and Acquisition Committee reviews with management, makes recommendations to the Board on and, when expressly authorized by the Board, approves acquisitions, investments, joint ventures and other strategic transactions in which we may engage from time to time. The Technology and Acquisition Committee 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 *www.infinera.com* in the Corporate Governance section on our Investor Relations page.

The current members of the Technology and Acquisition Committee are Messrs. Hooshmand, Patel and Wegleitner and Dr. Welch. Mr. Wegleitner chairs the Technology and Acquisition Committee. Messrs. Patel and Wegleitner were appointed to the Technology and Acquisition Committee on February 24, 2016. The Technology and Acquisition Committee met six times during fiscal 2016. The Technology and Acquisition Committee did not act by written consent during fiscal 2016.

Compensation Committee Interlocks and Insider Participation

During fiscal 2016, Messrs. Daane, Gani, Milbury and Wegleitner (departed as of February 24, 2016) served on the Compensation Committee. None of these individuals was at any time during fiscal 2016, or at any other time, an executive officer or employee of Infinera. No member of the Compensation Committee had any relationship with Infinera during fiscal 2016 requiring disclosure under Item 404 of Regulation S-K under the Exchange Act. None of our executive officers has ever served as a member of the board or compensation committee of any other entity that has or has had one or more executive officers serving as a member of the Board or Compensation Committee.

COMPENSATION OF DIRECTORS

Our compensation program for our non-employee directors is designed to attract and retain highly-qualified, independent directors to represent stockholders on the Board and to act in their best interests. The Compensation Committee, which consists solely of independent directors, has the primary responsibility for reviewing and recommending any changes to our director compensation program, with compensation changes approved or ratified by the full Board. During fiscal 2015, the Compensation Committee engaged an outside advisor to provide relevant market data regarding our director compensation program in order to review the program. The Compensation Committee and Board determined that a mix of cash compensation and equity awards should continue to be used in our compensation program for our non-employee directors. Directors who are also employees of Infinera do not participate in our director compensation program, nor do they receive any additional compensation for their service as directors. The full Board last approved some changes to the director cash compensation program in September 2015 that took effect beginning in fiscal 2016.

Director Fees

During fiscal 2016, our cash compensation program for our non-employee directors was as follows:

Position	Annual Retainer Fee ($)
Non-Employee Director	50,000
Chairman of the Board	50,000
Audit Committee Chair	30,000
Audit Committee Member	12,500
Compensation Committee Chair	20,000
Compensation Committee Member	10,000
Nominating and Governance Committee Chair	11,000
Nominating and Governance Committee Member	6,000
Technology and Acquisition Committee Chair	10,000
Technology and Acquisition Committee Member	5,000

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

Director Equity Awards

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

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

In addition to the Initial RSU Award, 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 months remaining until the next scheduled annual meeting of stockholders.

For the Annual RSU Award in connection with the 2016 Annual Meeting of Stockholders, we granted RSU awards in the amount of 13,242 shares of Infinera common stock to each non-employee director then in office. These RSU awards vest in full on May 12, 2017, subject to each non-employee director's continued service to Infinera on the applicable vesting date.

Fiscal 2016 Director Compensation

The following table sets forth all of the compensation awarded to or earned by the non-employee members of the Board in fiscal 2016.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	Option Awards ($)	Total ($)
John P. Daane	60,981	329,190	—	390,171
Marcel Gani	80,231	164,201	—	244,432
Kambiz Y. Hooshmand	124,310	164,201	—	288,511
Paul J. Milbury	90,000	164,201	—	254,201
Rajal M. Patel	59,217	164,201	—	223,418
Mark A. Wegleitner	69,574	164,201	—	233,775

(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 2016 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 (#)
John P. Daane	23,771	—
Marcel Gani	19,168	—
Kambiz Y. Hooshmand	13,242	—
Paul J. Milbury	13,242	7,600
Rajal M. Patel	18,487	—
Mark A. Wegleitner	13,242	40,000

(1) Includes unvested RSU awards.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

- Each person known by us to be the beneficial owner of more than 5% of any class of our voting securities;
- Our NEOs;
- Each of our directors; and
- All current NEOs 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 146,514,815 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)	21,644,134	—	21,644,134	14.8%
The Vanguard Group(3)	10,916,753	—	10,916,753	7.5%
BlackRock, Inc.(4)	9,228,833	—	9,228,833	6.3%
Named Executive Officers and Directors				
Thomas J. Fallon(5)	1,132,619	425,787	1,558,406	1.1%
Brad D. Feller	139,107	35,088	174,195	*
David F. Welch, Ph.D.(6)	1,613,051	693,667	2,306,718	1.6%
Robert J. Jandro	83,097	27,366	110,463	*
James L. Laufman	26,286	7,305	33,591	*
John P. Daane	15,510	13,242	28,752	*
Marcel Gani	87,547	13,242	100,789	*
Kambiz Y. Hooshmand(7)	75,489	13,242	88,731	*
Paul J. Milbury	25,255	20,842	46,097	*
Rajal M. Patel	7,868	13,242	21,110	*
Mark A. Wegleitner	38,389	53,242	91,631	*
All Current Executive Officers and Directors as a Group (11 Persons)	3,244,218	1,316,265	4,560,483	3.1%

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

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

(2) Information based on a Schedule 13G/A filed with the SEC on February 14, 2017 by FMR LLC ("FMR"), Abigail P. Johnson (FMR's Director, Vice Chairman, Chief Executive Officer and President) and Fidelity Growth Company Fund ("Fidelity"). Such amendment states that FMR is deemed to be the beneficial owner of 21,644,134 shares by virtue of its control over Fidelity, which is deemed to be the beneficial owner of 11,952,328 shares as a result of its acting as investment advisor to various investment companies registered under Section 8 of the Investment Company Act of 1940. Such amendment further states that (a) FMR has sole voting power over 5,779,675 shares, shared voting power over no shares, sole dispositive power over 21,644,134 shares, and shared dispositive power over no shares; (b) Ms. Johnson has neither sole nor shared voting power over any shares, sole dispositive power over 21,644,134 shares, and shared dispositive power over no shares

and (c) Fidelity has sole voting power over 11,952,328 shares, shared voting power over no shares, sole dispositive power over no shares, and shared dispositive power over no shares. The address of FMR is 245 Summer Street, Boston, Massachusetts 02210.

(3) According to a Schedule 13G/A filed with the SEC on February 10, 2017 by The Vanguard Group ("Vanguard"). Vanguard is the beneficial owner of 10,916,753 shares and has sole voting power with respect to 245,452 shares, shared voting power with respect to 14,446 shares, sole dispositive power with respect to 10,663,809 shares and shared dispositive power with respect to 252,944 shares. The address of Vanguard is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355.

(4) According to a Schedule 13G/A filed with the SEC on January 25, 2017 by BlackRock, Inc. ("BlackRock"). BlackRock is the beneficial owner of 9,228,833 shares and has sole voting power with respect to 8,945,002 shares and sole dispositive power with respect to 9,228,833 shares. The address of BlackRock is 55 East 52nd Street, New York, New York 10055.

(5) Shares held by The Fallon Family Revocable Trust dated 9/7/94.

(6) Consists of (i) 620,408 shares held by The Welch Family Trust dated 4/3/96; (ii) 307,593 shares held by LRFA, LLC, a limited liability company of which Dr. Welch is the sole managing member; (iii) 140,000 shares held by The Welch Group, L.P., a limited partnership of which Dr. Welch is the general partner; (iv) 542,550 shares held by SEI Private Trust Company, Trustee of The Welch Family Heritage Trust I u/l dated 9/24/01; and (v) 2,500 shares held by Dr. Welch as trustee for his children. Dr. Welch disclaims beneficial ownership of the shares held in trust for his children.

(7) Consists of (i) 35,234 shares held by Mr. Hooshmand; and (ii) 40,255 shares held by 2002 Hooshmand Family Trust UA 03/01/2002.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis provides information related to the fiscal 2016 compensation program and related decisions for our NEOs identified below. For fiscal 2016, these individuals were:

- Thomas J. Fallon, our CEO;
- Brad D. Feller, our CFO;
- David F. Welch, Ph.D., our President;
- Robert J. Jandro, our Senior Vice President, Worldwide Sales; and
- James L. Laufman, our Senior Vice President, General Counsel and Secretary.

Executive Summary

Our executive compensation program is designed to balance near-term results with long-term success and to encourage our executive officers to continue 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 the Compensation Committee of the Board. In addition, we are committed to equity-based pay practices, which help ensure alignment of our executive officers' interests with the interests of our stockholders.

Fiscal 2016 Business Summary

After three years of solid revenue growth in which our total revenue grew from $544.1 million at the end of fiscal 2013 to $886.7 million by the end of fiscal 2015, total revenue of $870.1 million in fiscal 2016 was 2% lower than fiscal 2015 revenue. Technology and product transitions impacted the short-term competitiveness of our products, negatively impacting revenue. In addition, revenue was negatively impacted by the consolidation of some of our major customers and changes in their buying patterns, including shifting spend away from long-haul to other parts of their networks. Gross margin decreased to 45.2% in fiscal 2016 from 45.5% in fiscal 2015. In the second half of fiscal 2016, we experienced downward pressure on gross margin levels primarily attributable to making investments to secure future business with existing and prospective customers across our end markets.

Despite our challenges in the second half of fiscal 2016, we continued to diversify our customer base by delivering an end-to-end portfolio of packet-optical solutions for the long-haul, subsea, datacenter interconnect ("DCI") and metro markets. As we continued to expand the markets we address in fiscal 2016, we continued to generate a majority of our revenue from the long-haul market, despite the downturn we experienced in long-haul revenue during the second half of fiscal 2016. The general slowdown in the long-haul market was exacerbated by significant consolidation among our largest customers. In addition, we faced a technology shortfall around spectral efficiencies, which limited our ability to win substantial business in the subsea market. In DCI, we made solid progress with our Cloud Xpress platform as we expanded business with existing customers and also won new customers in this market. During fiscal 2016, we also made solid progress in broadening the deployments of our metro solutions both with existing and new customers. Of note in fiscal 2016:

- Revenue was $870.1 million in fiscal 2016, compared to $886.7 million in fiscal 2015 and $668.1 million in fiscal 2014.
- GAAP gross margin in fiscal 2016 was 45.2%, compared to 45.5% in fiscal 2015 and 43.2% in fiscal 2014. Non-GAAP gross margin(1) was 48.3% in fiscal 2016, compared to 47.8% in fiscal 2015 and 44.0% in fiscal 2014.
- GAAP operating loss was $(25.8) million in fiscal 2016, compared to operating income of $59.7 million in fiscal 2015 and operating income of $27.3 million in fiscal 2014. Non-GAAP operating income(1) was $54.4 million in fiscal 2016, compared to $116.5 million in fiscal 2015 and $55.7 million in fiscal 2014.

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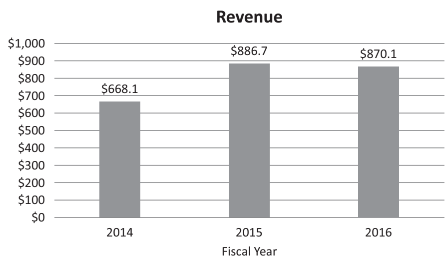
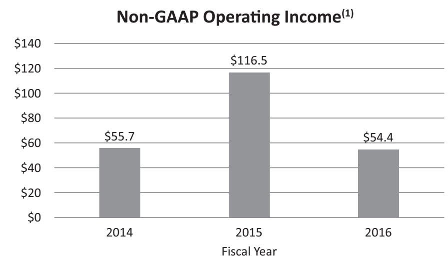
(1) For a reconciliation of GAAP to non-GAAP gross profit, gross margin and operating income (loss) for fiscal 2016, 2015 and 2014, please see Appendix A to this Proxy Statement.

• GAAP net loss in fiscal 2016 was $(23.9) million, or $(0.17) per share, compared to net income of $51.4 million, or $0.36 per diluted share, in fiscal 2015, and net income of $13.7 million, or $0.11 per diluted share, in fiscal 2014.

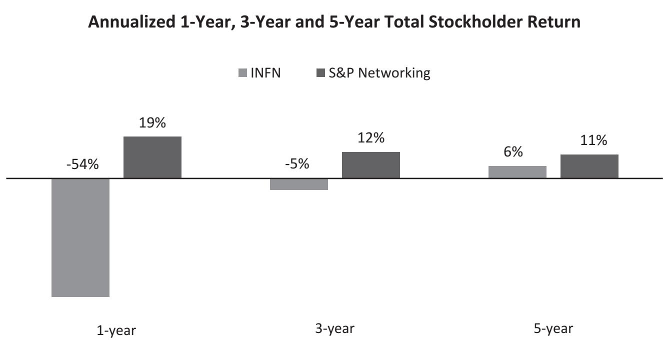
The following tables illustrate our revenue and non-GAAP operating income over the last three fiscal years (in millions):





(1) For a reconciliation of GAAP to non-GAAP gross profit, gross margin and operating income (loss) for fiscal 2016, 2015 and 2014, please see Appendix A to this Proxy Statement.

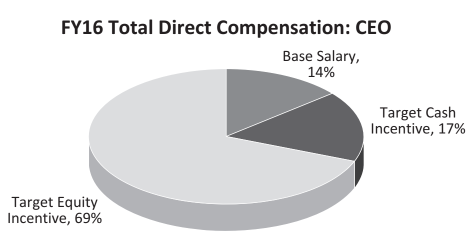
The following graph shows our 1-, 3- and 5-year TSR as compared to the S&P Networking Index.



Fiscal 2016 Executive Compensation Program Design Highlights

The design of our executive compensation program for fiscal 2016 promoted the continued strong alignment of the interests of our executive officers with those of our stockholders. Highlights of our executive compensation program for fiscal 2016 included the following:

- ***The majority of our CEO's fiscal 2016 target total direct compensation was in equity.***
  - **69% of our CEO's target total direct compensation (the sum of base salary, target cash incentive opportunity and target equity incentive compensation at grant date fair value) was in the form of equity awards**, which links our CEO's compensation directly to the value of our common stock. In fiscal 2016, our CEO received a PSU award (also the 2016 TSR Award) for 135,990 shares of our common stock (at target attainment) and a time-based RSU award for 86,850 shares of our common stock.



- ***The majority of our CEO's fiscal 2016 target total direct compensation and target equity compensation were at risk.***
  - **58% of our CEO's target total direct compensation was fully "at risk."** This significant portion of his compensation was based on our performance against measurable performance objectives set forth under the 2016 Bonus Plan and PSU award.
  - **60% of our CEO's target equity compensation was in the form of a PSU award**. The 2016 TSR Award could be earned based on our relative TSR performance measured over three performance periods against the S&P Networking Index.
- ***Our fiscal 2016 PSU awards included rigorous performance requirements***. The 2016 TSR Award is consistent with prior year awards that measured our stock performance against a networking index. To support our "pay-for-performance" philosophy and further emphasize the importance of creating long-term stockholder value, the 2016 TSR Award contained several features we consider to be best practices.
  - **Sustained performance requirement**. To earn the maximum number of shares under the 2016 TSR Award, which is 200% of the target number of shares, our TSR must exceed that of the S&P Networking Index by 50 points or more as calculated on each of the one-, two- and three-year measurement periods (coinciding with the end of our fiscal 2016, 2017 and 2018).
  - **Steeper downside risk**. The number of shares that may be earned under the 2016 TSR Award is reduced one and one-half times faster if our TSR underperforms the S&P Networking Index (3-to-1 downside) than it is increased if our TSR outperforms the S&P Networking Index (2-to-1 upside). For example, if we underperform the S&P Networking Index by 10 points of TSR, 70% of the target number of shares subject to the award would be earned. If we outperform the S&P Networking Index by 10 points of TSR, 120% of the target number of shares subject to the award would be earned.
  - **Payment cap**. Regardless of our performance versus the S&P Networking Index, the number of shares that may be earned under the 2016 TSR Award is capped at 100% of target for any period in which our TSR is negative. Therefore, even if we significantly outperform the S&P Networking Index in challenging market conditions, this award only provides rewards above the target performance level if incremental stockholder value is created.

Fiscal 2016 Executive Compensation Program Payout Highlights

Our fiscal 2016 payouts reflect the alignment of our executive compensation program to the performance of Infinera. As indicated above, a significant portion of our executive compensation program was designed to align the compensation outcomes for our NEOs on performance against measurable objectives.

Bonuses under the 2016 Bonus Plan for NEOs were determined based on our performance against a mix of financial objectives (weighted at 80%) and operational objectives (weighted at 20%). The financial performance objectives for the 2016 Bonus Plan consisted of revenue and non-GAAP operating income, as detailed below. Our fiscal 2016 revenue and non-GAAP operating income results were lower compared to fiscal 2015 and did not meet the minimum threshold established by the Compensation Committee under the 2016 Bonus Plan, resulting in no payout for the financial component (weighted at 80%) of the plan.

		Fiscal 2016 Financial Performance			
Performance Measure	**Fiscal 2015 Actual Results**	**Threshold (50%)**	**Target (100%)**	**Actual**	**Funding as a % of Target**
Revenue (in millions)	$886.7	$ 1,000.0	$ 1,100.0	$870.1	0%
Non-GAAP Operating Income (in millions)	$116.5	>$ 123.7	>$ 153.9	$ 54.4	

For the operational objectives (weighted at 20%) under the 2016 Bonus Plan, the Compensation Committee included (i) three quality-based objectives related to a mix of hardware and software reliability; (ii) two key technology development objectives; and (iii) the expansion of our enterprise resource planning system. For fiscal 2016, we achieved a majority of the operational objectives, resulting in a payout for the operational component of the 2016 Bonus Plan at 82.5%. This resulted in an aggregate bonus payout of 16.5% of target performance based on the weighting between financial and operational objectives.

During fiscal 2016, there were portions of four PSU awards for which payout was based entirely or in part on our performance during the year. Three of the awards (the fiscal 2014, 2015 and 2016 PSU awards) measured our TSR against the S&P Networking Index. As summarized in the table below, we failed to outperform the TSR of the S&P Networking Index for any of the applicable periods, which resulted in no payouts for each of the performance periods that concluded at the end of fiscal 2016.

				Performance Comparison			
Year of Grant	Benchmark(1)	Applicable Measurement Period(2)	% of Target Award Tied to Period	Infinera % Change	Index % Change	Infinera Minus Index	Payout as a % of Target
2016	S&P Networking Index	~1-year	33%	-59%	17%	-76 points	0%
2015	S&P Networking Index	~2-years	33%	-46%	21%	-67 points	0%
2014	S&P Networking Index	~3-years	33%	-2%	33%	-36 points	0%

(1) For the fiscal 2014 and 2015 awards, performance was calculated using a 60-day average closing stock price and index value leading up to and including the grant date and at the end of the performance period. For the fiscal 2016 awards, performance was calculated using a 60-day average closing stock price and index value up to and inclusive of December 26, 2015 (the last day of fiscal 2015), and at the end of the performance period.

(2) One-third of the target award is tied to the end of the first, second and third fiscal years after the grant date.

The fourth PSU award eligible to vest in fiscal 2016 was the CX PSU Award granted in fiscal 2015. The target shares subject to the CX PSU Award were tied to the achievement of pre-established minimum revenue thresholds for our then-new Cloud Xpress family of products. For the first measurement period, which measured cumulative revenue performance during fiscal 2015, no shares had been earned. Revenue performance was also measured from the first day of fiscal 2015 through the second quarter of fiscal 2016, which resulted in a payout at 136% of target.

Governance of Executive Compensation

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

- Executive Clawback Policy. We maintain an executive clawback policy that applies to our Section 16 Officers and provides for recovery of incentive compensation under specified circumstances as described below in the section entitled “Compensation Discussion and Analysis—Additional Information Regarding our Compensation Practices—Executive Clawback Policy.”
- Anti-Hedging Policy. Our Insider Trading Policy prohibits all employees, including our NEOs, from hedging their Infinera common stock.
- Anti-Pledging Policy. Our Insider Trading Policy prohibits our NEOs from pledging Infinera common stock as collateral for a loan.
- Fully Independent Compensation Committee. Our executive compensation program is administered annually by the Compensation Committee, which consists solely of independent directors.
- Stock Ownership Policy. Our Section 16 Officers and the non-employee members of the Board are subject to minimum stock ownership requirements as described below in the section entitled “Compensation Discussion and Analysis—Additional Information Regarding our Compensation Practices—Stock Ownership Policy.”
- No Guaranteed Bonuses. We do not provide any guaranteed bonuses for any of our executive officers with the exception of “sign on” bonuses that may be negotiated as part of an executive officer new hire package.
- No Tax Gross-Ups. We do not have any arrangements providing for tax “gross-ups” of any compensation elements with any of our executive officers.
- “Double-trigger” Change of Control Arrangements. Our change of control agreements contain “double-trigger” arrangements that require a termination of employment without cause or a constructive termination of employment following a change of control of Infinera before payments and benefits are triggered.

- Annual Compensation Risk Assessment. The Compensation Committee annually conducts a compensation risk assessment to determine whether our compensation arrangements, or components thereof, create risks that are reasonably likely to have a material adverse effect on Infinera.
- No Executive Perquisites. Our executive officers are only eligible to receive the same benefits and perquisites as our other U.S. salaried employees.
- Independent Compensation Consultant Reporting Directly to Compensation Committee. The Compensation Committee utilizes input from an independent compensation consultant that is retained directly by the Compensation Committee and performed no services for Infinera during fiscal 2016 other than services for the Compensation Committee.

Advisory Vote on Fiscal 2015 Named Executive Officer Compensation— "Say-on-Pay" Vote

In calendar 2016, stockholders were provided with the opportunity to cast an advisory (non-binding) vote (a "say-on-pay" proposal) on the compensation of our NEOs for fiscal 2015. Our stockholders overwhelmingly approved this say-on-pay proposal, with over 98% of votes cast voting in favor of our executive compensation program. Noting the results of this vote, for fiscal 2016, the Compensation Committee 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. The Compensation Committee considers input from our stockholders, as well as the outcome of our annual say-on-pay vote, when making executive compensation program decisions.

Overview of our Executive Compensation Program Philosophy and Process

Compensation Objectives and Philosophy

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

Compensation-Setting Process

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

Role of Compensation Consultant. During fiscal 2016, the Compensation Committee engaged the services of Compensia, Inc. ("Compensia"), a national compensation consulting firm. Compensia provided the Compensation Committee with an analysis of industry sector competitive market data regarding NEO compensation, information on compensation trends, peer group and general market data, as well as assistance with the parameters used to determine the peer group, base salary, incentive plan design and the structure of our executive compensation program. During fiscal 2016, Compensia also provided general observations about our compensation programs.

Compensia reports directly to the Compensation Committee. Compensia interacted with management at the direction of the Compensation Committee but did not provide any other services for Infinera or its management team in fiscal 2016. Compensia's fees were paid by Infinera. The Compensation Committee annually reviews the independence of its compensation consultant and during fiscal 2016 determined that there were no conflicts of interest in connection with Compensia's work.

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

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

Executive Compensation Elements

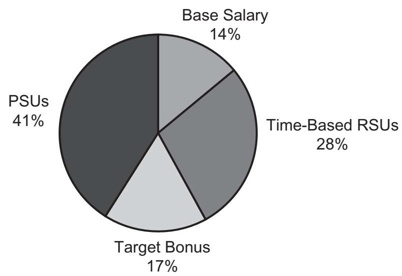
We provide base salaries to attract, retain and motivate our executive officers for their day-to-day contributions, annual incentive cash compensation to link payments to the achievement of our annual financial and/or operational objectives, and long-term incentive compensation delivered in the form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

Allocation of Compensation across Pay Elements

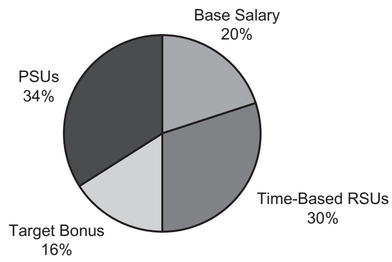
In determining how to allocate an NEO's target total direct compensation opportunity among these various elements, the Compensation Committee seeks to take into account market competitive practices for companies of a similar size and with a comparable business focus. Individual retention considerations specific to the individual are also factored in the Compensation Committee's final determination of target total direct compensation. Equity awards, which for fiscal 2016 consisted of a time-based RSU award and a PSU award, represented the largest component of our NEOs' target total direct compensation opportunity. This approach was designed to encourage sustained, long-term performance and to ensure alignment of the interests of our NEOs and our stockholders. Consistent with our "pay-for-performance" philosophy, a significant portion of our NEOs' fiscal 2016 target total direct compensation opportunity was completely "at risk," including 58% of our CEO's target total direct compensation opportunity. We define "at risk" compensation as opportunities for which vesting as well as the level of achievement is contingent upon achievement of specified performance conditions. In fiscal 2016, this included the 2016 Bonus Plan and PSU awards.

The following charts show the target total direct compensation mix for fiscal 2016 for our CEO and our other NEOs as a group (value of equity awards is determined using grant date fair value):

FY16 Mix of Pay: CEO



FY16 Mix of Pay: Other NEO Average



Competitive Positioning

In making compensation decisions for our executive officers (other than our President), the Compensation Committee reviews and analyzes competitive market practices using data drawn from a group of peer companies and the Radford Global Technology survey. In the case of our President, due to the lack of a representative sample of data specific to this position, the Compensation Committee used an approximation of peer compensation based on data available from these sources.

The Compensation Committee reviews the compensation peer group annually and updates its composition as necessary to take into account changes in both our business and the businesses of the peer group companies. The targeted selection criteria were adjusted to account for our improved revenue over the past several years as well as to account for the acquisition of Transmode AB ("Transmode"), which would add revenue in fiscal 2016. The fiscal 2016 peer group was based on the following targeted selection criteria:

- Industry: companies in the communications equipment or related industry segments;
- Annual Revenue: $400 million to $2.5 billion;
- Market Capitalization: $750 million to $5 billion; and
- Number of Employees: 660 to 2,635.

In addition to these criteria, the Compensation Committee considered each potential peer company's revenue growth rates, headcount, primary location and whether the potential peer company included Infinera in its compensation peer group. The Compensation Committee also considered whether a potential peer company was selected as a peer company of Infinera by one of the major proxy advisory firms. 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 targeted selection criteria. Further, a number of the companies in the fiscal 2015 peer group had been or were in the process of being acquired. The above factors resulted in a greater number of changes year over year as compared to prior years.

The compensation peer group established to assist in determining fiscal 2016 compensation for our NEOs included the following 18 companies:

ACI Worldwide*
ADTRAN, Inc.
Brocade Communications*
Ciena Corporation
Coherent, Inc.
FEI*
Finisar Corporation
Integrated Device Technology*
InterDigital, Inc.
IPG Photonics Corporation
Mentor Graphics*
Microsemi*
MicroStrategy*
Plantronics
QLogic
Silicon Laboratories*
Ubiquiti Networks*
ViaSat, Inc.

* Indicates an addition to the peer group for fiscal 2016. Companies removed from the fiscal 2015 peer group included Aruba Networks, Inc., Calix, Inc., Emulex Corporation, Extreme Networks, Inc., Harmonic, Inc., Ixia, NETGEAR, Inc., Riverbed Technology, Inc., ShoreTel, Inc. and Sonus Networks, Inc.

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

Use of Market Data

For its fiscal 2016 compensation decisions, the Compensation Committee maintained a holistic and flexible approach in its use of market data. The Compensation Committee's goal is generally to set all elements of compensation within a competitive range, using a balanced approach that does not use rigid percentiles to target pay levels for each compensation element, but instead makes its compensation decisions based on a variety of relevant factors, including those listed below. While the Compensation Committee continues to review and reference market data, the data generally is used to inform the Compensation Committee of market practices to ensure that our executive compensation program remains within a generally competitive range of our peers. In addition to the market data, several other factors are taken into account in setting the amount of each NEO's target total direct compensation opportunity. These factors include:

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

Relevant Qualitative Factors

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

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

- Internal pay equity across the executive management 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 NEOs.

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

Fiscal 2016 Compensation

Base Salaries

Base salary is a customary, fixed element of compensation intended to attract and retain executives. For fiscal 2016, the Compensation Committee reviewed the base salaries for each of our NEOs taking into consideration the market data provided by its independent compensation consultant and strong financial performance over the prior fiscal year, and approved an increase for each of our NEOs. Given that our CEO's and President's base salaries had historically been below market levels, and after taking into consideration their significant contributions and strong leadership during fiscal 2015 and over the last few years, the Compensation Committee determined that increases in their base salaries were appropriate to maintain competitiveness with market practices and to recognize their performance during the year. The other NEOs were also given increases in recognition of their contributions to Infinera and to maintain competitiveness with market practices.

The following table shows the annual base salary for each of our NEOs for fiscal 2015 and fiscal 2016:

Name	Fiscal 2015 Annual Base Salary	Fiscal 2016 Annual Base Salary
Thomas J. Fallon	$540,000	$650,000
Brad D. Feller	$360,000	$400,000
David F. Welch, Ph.D.	$450,000	$500,000
Robert J. Jandro	$350,000	$365,000
James L. Laufman	$325,000	$365,000

Performance-Based Incentive Cash Compensation (2016 Bonus Plan)

Target Bonus Opportunities. The Compensation Committee reviewed the target bonus opportunities (which are expressed as a percentage of base salary) for fiscal 2016 for each of our NEOs, and determined that an adjustment was appropriate in order to maintain competitiveness with market practices with respect to Dr. Welch, and in light of his significant contributions to Infinera. The Compensation Committee also increased the percentage for Mr. Feller in order to maintain competitiveness with market practices. The percentages for the other NEOs remained the same as the prior fiscal year. The following table shows the target bonus opportunities for each of our NEOs for fiscal 2015 and fiscal 2016:

Name	Fiscal 2015 Target Bonus (as a percentage of base salary)	Fiscal 2016 Target Bonus (as a percentage of base salary)
Thomas J. Fallon	125%	125%
Brad D. Feller	70%	75%
David F. Welch, Ph.D.	80%	90%
Robert J. Jandro	100%	100%
James L. Laufman	60%	60%

Bonus Plan Design. Bonuses under the 2016 Bonus Plan for NEOs were paid out based on our performance against a mix of financial objectives (weighted at 80%) and operational objectives (weighted at 20%) as discussed below.

The 2016 Bonus Plan also contained an individual performance component that could be used to adjust the bonus payouts for our NEOs by factors of 75% to 125% of the funded amount. Our CEO was responsible for reviewing the individual performance of each NEO (other than himself) and recommending a bonus adjustment for each NEO. The Compensation Committee then had sole discretion to determine any individual performance adjustments for each NEO (including the CEO) and the final bonus payout for fiscal 2016.

The financial performance objectives for the 2016 Bonus Plan consisted of revenue and non-GAAP operating income, and were selected to focus our NEOs on important and measurable financial measures, and to more closely align their interests with our stockholders' interests. 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 non-GAAP operating income would serve to make generating a return for stockholders a priority. For purposes of the 2016 Bonus Plan, "non-GAAP operating income" was calculated excluding non-cash stock-based compensation expenses, amortization and impairment of acquired intangible assets, acquisition-related costs and certain purchasing accounting adjustments related to our acquisition of Transmode, which closed during the third quarter of fiscal 2015. For a reconciliation of GAAP to non-GAAP operating income for fiscal 2016, please see Appendix A to this Proxy Statement.

For fiscal 2016, the financial performance objectives for revenue and non-GAAP operating income were as follows:

Revenue	Non-GAAP Operating Income	Payout as a Percentage of Target
$1,000 million	$123.67 million	50%
$1,050 million	$137.53 million	75%
$1,100 million	$153.95 million	100%
$1,110 million	$154.10 million	100%
$1,190 million	$175.68 million	138%
$1,250 million	$191.87 million	172%
$1,300 million	$205.36 million	200%

- If the level of performance for either of the financial objectives was below the minimum thresholds of $1,000 million for revenue or $123.67 million for non-GAAP operating income, there would be no payout for the financial objectives.
- For a payout to occur at each of the percentages indicated in the table above, both the revenue and non-GAAP operating income objectives had to be met at the specified levels applicable to that payout percentage. If the revenue and non-GAAP operating income objectives are achieved at levels that are at different payout percentages, then the payout will be governed by whichever objective is achieved at the lower level (and using straight line interpolation if achievement of such objective is between any two levels in the table above).
- For performance attainment above the maximum level, **the payout was capped at 200%**.

The Compensation Committee also believed that focusing on specific operational objectives was important to measuring our success in fiscal 2016. The Compensation Committee approved the following six operational objectives for the 2016 Bonus Plan (with an aggregate weighting of 20% under the 2016 Bonus Plan), which included (i) three quality-based objectives related to a mix of hardware and software reliability; (ii) two key technology development objectives; and (iii) the expansion of our enterprise resource planning system. Payouts tied to the operating objectives were based upon the achievement, as determined by the Compensation Committee, of each operating objective. No payout would be made for any operating objective that was behind schedule or failed to meet quality target measures. Payouts were capped at 100% for the operational objectives.

Operational Objectives	Weighting	Maximum Attainment
Three Quality Goals	16.6% each (50%)	100%
Two Development Goals	17.5% each (35%)	100%
One Goal Related to ERP Upgrade	15%	100%

Bonus Plan Results. The following table shows our actual performance with respect to each financial and operational objective under the 2016 Bonus Plan:

Performance Measures	**Actual Performance**
Financial Objectives (weighted at 80%)	
Revenue for Fiscal 2016	$ 870.1 Million
Non-GAAP Operating Income for Fiscal 2016	$ 54.4 Million
Operational Objectives (weighted at 20%)	
Quality	Achieved
Development	Partially Achieved[(1)]
Operations	Achieved

(1) We achieved one of the two development goals during fiscal 2016. For the development goal that was not achieved, the eligible NEOs received no payout for this portion of the bonus.

Upon review of our actual financial and operational performance for fiscal 2016 as compared to the pre-established target levels, the Compensation Committee approved a bonus payout to our NEOs based on the achievement of the financial objectives at 0% of target performance and the operational objectives at 82.5% of target performance, which resulted in an aggregate bonus payout of 16.5% of target performance based on the weighting between financial and operational objectives. No adjustments were made to the payouts of any of our NEOs, including our CEO, based on individual performance. The following table sets forth the bonus payments earned for fiscal 2016 by our NEOs pursuant to the 2016 Bonus Plan.

Name	**Fiscal 2016 Final Bonus Payout[(1)]**
Thomas J. Fallon	$134,062
Brad D. Feller	$ 49,500
David F. Welch, Ph.D.	$ 74,250
Robert J. Jandro	$ 60,225
James L. Laufman	$ 36,135

(1) Bonuses were paid in March 2017.

Long-Term Incentive Compensation

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

Equity Compensation Design. Under the 2016 Plan, and before its approval by stockholders the 2007 Equity Incentive Plan (the “2007 Plan”), the Compensation Committee grants equity awards to eligible employees, including our NEOs. The Compensation Committee actively monitors our annual aggregate equity utilization as measured by our burn rate.

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

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

Type of Award	Description	Why It Is Used
RSU Award	• Provide the opportunity to earn a specified number of shares of Infinera common stock 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.
PSU Award	• Provide the opportunity to earn shares of Infinera common stock 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 is 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 February 2016, the Compensation Committee granted annual equity awards for fiscal 2016 in the form of a time-based RSU award and a PSU award to each of our NEOs. For the PSU award in fiscal 2016, the Compensation Committee determined that with regards to the target value typically assigned to the PSU awards that 100% of the target value would be assigned to the 2016 TSR Award. This approach generally is consistent with the last several years' PSU awards, with the exception of the CX PSU Award grants in fiscal 2015, which were a one-time, performance-based incentive to drive revenue performance related to our then-new Cloud Xpress family of products. The Compensation Committee continued to believe that TSR remains an important metric for driving performance and promoting the alignment of the interests of our NEOs with those of our stockholders.

In determining the size of these annual equity awards, the Compensation Committee considered the factors described above in the sections entitled "Use of Market Data" and "Relevant Qualitative Factors," with particular attention to internal equity considerations, the potential dilutive impact of the equity awards and the amount and value of unvested equity awards held by each of our NEOs. The Compensation Committee believed a combination of time-based and performance-based equity awards promote close alignment of the interests of our NEOs with those of our stockholders. In addition, in awarding the same number of shares to the CEO and President, the Compensation Committee considered the value of the partnership in creating long-term value for the stockholders.

The following table sets forth the NEO equity awards in the fiscal 2016 program:

		2016 TSR Awards	
Name	**Number of Shares Subject to RSU Awards**	**Target Number of Shares**	**Maximum Number of Shares (200% of Target)**
Thomas J. Fallon	86,850	135,990	271,980
Brad D. Feller	32,270	33,690	67,380
David F. Welch, Ph.D.	86,850	135,990	271,980
Robert J. Jandro	31,320	32,700	65,400
James L. Laufman	29,220	30,500	61,000

The RSU awards in the table above vest in annual installments with one-fourth of the underlying shares of Infinera common stock vesting on May 5 of each of 2017, 2018, 2019 and 2020, subject to the NEO's continued service with Infinera through each applicable vesting date.

The shares of Infinera common stock subject to the 2016 TSR Award are eligible to vest based on our TSR performance relative to the S&P Networking Index over the applicable performance periods (as discussed below). The Compensation Committee selected relative TSR as the performance measure for this PSU award 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. In choosing an appropriate comparator group, the Compensation Committee selected the S&P Networking Index based on a review of its components (including the fact that Infinera is a component of the index, which shows its relevance), the relatively close correlation between our historical stock price movement and that of the S&P Networking Index, as well as the importance of the multimedia networking industry to our business.

Our relative TSR is measured against the S&P Networking Index at three intervals for the 2016 TSR Award, with one-third of the total number of shares of Infinera common stock subject to each NEO's 2016 TSR Award allocated to each of the three performance periods. For purposes of calculating TSR performance for Infinera and the S&P Networking Index, the performance periods are as follows:

(i) For the first performance period, the starting price is the 60-day average (of our closing stock price or the index, as applicable) leading up to and inclusive of December 26, 2015 (the last day of fiscal 2015), and the ending price is the 60-day average leading up to and inclusive of the last day of fiscal 2016;

(ii) For the second performance period, the starting price is the 60-day average leading up to and inclusive of December 26, 2015 (the last day of fiscal 2015), and the ending price is the 60-day average leading up to and inclusive of the last day of fiscal 2017; and

(iii) For the third performance period, the starting price is the 60-day average leading up to and inclusive of December 26, 2015 (the last day of fiscal 2015), and the ending price is the 60-day average leading up to and inclusive of the last day of fiscal 2018.

The table below summarizes the performance criteria used to determine the percentage of the shares subject to the 2016 TSR Award that would be eligible to vest by our NEOs for various levels of TSR performance relative to the S&P Networking Index for each performance period.

	Minimum	Target	Maximum
INFN TSR vs. Index	-33 Points	Match	+50 Points
Payment as a Percentage of Target	0%	100%	200%
Slope	3 to 1	—	2 to 1

Payment is capped at target if TSR is negative. To earn the maximum number of shares under the 2016 TSR Award, our TSR must be positive and at least 50 points higher than the S&P Networking Index at each of the three measurement periods.

As shown above, for each point of positive TSR we deliver above the TSR for the S&P Networking Index, the number of shares eligible to vest increases by 2% up to a maximum of 200% of the target award level. For each point of TSR we deliver below the TSR for the S&P Networking Index, the number of shares eligible to vest decreases by 3% and can be reduced to 0% of the target award level. The maximum cap was increased from 150% in fiscal 2015 to 200% for fiscal 2016. In conjunction with increasing the maximum cap, the performance threshold required to achieve the maximum payout also was increased by 25% so that our TSR must outperform the TSR of the S&P Networking Index by 50%. The Compensation Committee believed that it was appropriate to increase the maximum cap and maximum performance threshold required for such payout under the 2016 TSR Award, in order to provide strong incentive to continue driving the Company's TSR and reward high levels of performance.

Notwithstanding our TSR performance relative to the S&P Networking Index, if our TSR is negative for any performance period, the potential payout will be capped at 100% of the target number of shares allocated to that period. The 2016 TSR Award 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 100% 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, provided in each case that our TSR is positive and results achieved are at or above 100% of target for the applicable subsequent performance period.

As disclosed in last year's proxy statement, for executive officer awards measuring TSR against an index, the Compensation Committee has determined that the start of the measurement period will be the 60-day average (of our closing stock price or the index, as applicable) leading up to and inclusive of the last day of the fiscal year prior to the grant of the award.

PSU Results. For the initial performance period ended December 31, 2016 under the 2016 TSR Award, our TSR performance underperformed the TSR performance of the S&P Networking Index by approximately 76 points. As a result, 0% of the target number of shares of Infinera common stock allocated to the initial performance period vested, as shown in the table below.

	2016 TSR Award Summary for Initial Performance Period	
Name	**Target Number of PSUs Granted**	**Actual Number of PSUs Vested**
Thomas J. Fallon	135,990	0
Brad D. Feller	33,690	0
David F. Welch, Ph.D.	135,990	0
Robert J. Jandro	32,700	0
James L. Laufman	30,500	0

Outstanding PSU Awards Granted in Prior Fiscal Years. The following table provides information regarding outstanding PSU awards granted prior to fiscal 2016 that were eligible to be earned in fiscal 2016 by our NEOs, including the performance requirements and number of shares of Infinera common stock earned through fiscal 2016.

Name	**Fiscal Year of Grant**	**Total Target Number of PSUs Granted in Grant Year (#)**	**Target Number of Shares that Could Vest for Fiscal 2016 Performance Period (#)**	**Maximum Number of Shares that Could Vest for Fiscal 2016 Performance Period (#)**	**Actual Number of Shares Vested for Fiscal 2016 Performance Period (#)**	**Performance Measure**
Thomas J. Fallon	2015	51,920	17,307	25,960	0	Relative TSR(1)
	2015	27,620	27,620	55,240	37,563	CX Revenue(2)
	2014	160,330	53,443	80,164	0	Relative TSR(3)
Brad D. Feller	2015	11,630	3,877	5,815	0	Relative TSR(1)
	2015	6,190	6,190	12,380	8,418	CX Revenue(2)
David F. Welch, Ph.D.	2015	18,030	6,010	9,015	0	Relative TSR(1)
	2015	9,590	9,590	19,180	13,042	CX Revenue(2)
	2014	41,847	13,949	20,923	0	Relative TSR(3)
Robert J. Jandro	2015	11,270	3,757	5,635	0	Relative TSR(1)
	2015	6,000	6,000	12,000	8,160	CX Revenue(2)
	2014	27,079	9,026	13,539	0	Relative TSR(3)

(1) In fiscal 2015, the Compensation Committee granted to the then-current NEOs a PSU award that measures our TSR against the TSR of the S&P Networking Index. This PSU award pays out at 150% if our TSR outperforms the S&P Networking Index by 25 points or more and 0% if our TSR underperforms the S&P Networking Index by 33 points or more. Our TSR performance underperformed the TSR performance of this index by approximately 67 points for the performance period measured, which resulted in no payout for this performance period. For the second performance period, the start price was the 60-day average (of our closing stock price or the index value, as applicable) leading up to and inclusive of February 24, 2015 and the end price was the 60-day average (of our closing stock price or the index value, as applicable) leading up to and inclusive of the last day of fiscal 2016.

(2) In fiscal 2015, the Compensation Committee granted to the then-current NEOs a PSU award that measures the cumulative revenue performance of the then-new Cloud Xpress family of products over a period of 18 months. At the minimum threshold performance level, 100% of the target shares may be earned and at two times the minimum threshold revenue, 200% of the target shares may be earned. No shares would be earned if actual performance fell below the minimum threshold revenue level. For the first measurement period of this award, which measured cumulative revenue performance during fiscal 2015, no shares were earned. Revenue performance was also measured from the first day of fiscal 2015 through the second quarter of fiscal 2016, which resulted in a payout at 136% of target.

(3) In fiscal 2014, the Compensation Committee granted to the then-current NEOs a PSU award that measures our TSR against the TSR of the S&P Networking Index. This PSU award pays out at 150% if our TSR outperforms the S&P Networking Index by 25 points or more and 0% if our TSR underperforms the S&P Networking Index by 33 points or more. Our TSR

performance underperformed the TSR performance of this index by approximately 36 points for the performance period measured, which resulted in no payout for this performance period. For the third and final performance period, the start price was the 60-day average (of our closing stock price or the index value, as applicable) leading up to and inclusive of February 25, 2014 and the end price was the 60-day average (of our closing stock price or the index value, as applicable) leading up to and inclusive of the last day of fiscal 2016.

Employee Benefits and Perquisites

Our NEOs are only eligible to receive the same benefits as our U.S. salaried employees except with respect to accrued paid time off ("PTO") as explained below. Infinera and the Compensation Committee believe this approach is reasonable and consistent with the overall compensation objectives to attract and retain employees. These benefits include medical, dental, vision and disability benefits, a Section 401(k) plan, and other plans and programs, including the Infinera Corporation 2007 Employee Stock Purchase Plan ("2007 ESPP"), made available to other eligible employees in the applicable country of residence. In fiscal 2016, we began to provide a matching contribution under the Section 401(k) plan that is applicable to all eligible participants, including our NEOs. Employee benefits and perquisites are reviewed periodically to ensure that benefit levels remain competitive, but are not included in the Compensation Committee's annual determination of the total compensation for each of our NEOs.

U.S. employees at the Senior Vice President level and above, at any U.S. work location, participate in our "As Needed" PTO Program. Under this program, these employees may schedule PTO as they see fit and as business necessity allows, although they must continue to meet all job expectations and remain responsible for ensuring appropriate coverage for the time they will be out of the office. Under this program, PTO does not accrue for these employees.

Additional Information Regarding Our Compensation Practices

Change of Control Payments and Benefits

The Compensation Committee considers maintaining a stable and effective management team to be essential to protecting the best interests of Infinera and its stockholders. Accordingly, Infinera has entered into Change of Control Agreements (the "COC Agreements") with certain Vice President level officers and above, including each of our NEOs, to encourage their continued attention, dedication and continuity with respect to their roles and responsibilities without the distraction that may arise from the possibility or occurrence of a change of control of Infinera.

An NEO will receive payments and benefits under his or her COC Agreement only if his or her employment is terminated without "cause," or by him or her as a result of a "constructive termination" (as more fully described in the section entitled "Estimated Payments and Benefits upon Termination, Change of Control or Death/Disability" below), within 12 months following a change of control of Infinera. The Compensation Committee believes that this "double-trigger" structure provides an appropriate balance between the corporate objectives described above and the potential compensation payable to each NEO upon a change of control. The Compensation Committee also believes that should Infinera engage in any discussions or negotiations relating to a change of control that the Board believes is in the best interests of our stockholders, these COC Agreements will help to ensure that our NEOs remain focused on the consummation of such potential transaction, without significant distraction or concern regarding their personal circumstances, such as continued employment.

The following terms apply with respect to our NEOs if we undergo a change of control and the NEO's employment is terminated without cause or as a result of a constructive termination within 12 months following the change of control of Infinera, 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;
- Our CEO will be paid a lump sum severance payment equal to two times his annual base salary and our other NEOs will be paid a lump sum severance payment equal to one and one-half times their annual base salary; and
- Our CEO will be reimbursed for premiums under COBRA for a period of 24 months and our other NEOs will be reimbursed for premiums under COBRA for a period of 18 months.

Executive Severance Policy

In addition to the change of control-related payments and benefits discussed above, the Compensation Committee has taken appropriate steps to provide competitive post-employment compensation arrangements that promote the continued attention, dedication and continuity of the members of our senior management team, including our NEOs, and enable us to continue to recruit talented senior executive officers. Accordingly, the Compensation Committee has adopted an executive severance policy, under which the following severance payments and benefits will become payable if the employment of one of our NEOs is terminated by us without "cause" (as defined in the policy) subject to such individual entering into and not revoking a release of claims in our favor:

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

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

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

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

Equity Grant Policy

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

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

Executive Clawback Policy

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

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

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

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

Stock Ownership Policy

The Board believes that it is important to link the interests of our NEOs to those of our stockholders. Our Stock Ownership Policy requires our non-employee directors and Section 16 Officers (which includes each of our NEOs) to accumulate and hold a minimum number of shares of Infinera common stock within three years of the later of (i) the effective date of the policy or (ii) the date of appointment of the director or appointment/promotion of the Section 16 Officer. As of the Record Date, each of our Section 16 Officers and the non-employee members of the Board has either satisfied these ownership guidelines or had time remaining to do so. The specific Infinera stock ownership requirements for our Section 16 Officers and non-employee directors as a multiple of annual base salary (or cash retainer, in the case of the non-employee directors) 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: 4x annual cash retainer

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

Anti-hedging Policy

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

Anti-pledging Policy

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

Tax and Accounting Treatment of Compensation

Section 162(m) limits the amount that we may deduct for compensation paid to our CEO and to our three other most highly compensated executive officers (other than our CFO) to $1 million per individual in any tax year, unless such compensation is exempt from the deduction limit. One exemption from this deduction limit is available for various forms of “qualified performance-based compensation.”

While it 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 it has not adopted a formal policy regarding tax deductibility of compensation paid to our CEO and other senior executive officers, the Compensation Committee intends to consider tax deductibility under Section 162(m) as a factor in its compensation decisions. For example, in 2016, our stockholders approved the 2016 Plan that permits us to grant equity awards intended to qualify as “performance-based” with the meaning of Section 162(m). However, from time to time, the Compensation Committee 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

Marcel Gani (Chair)
Paul J. Milbury
John P. Daane

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 2016. As previously noted, we refer to these executive officers as our NEOs.

Fiscal 2016 Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)[1]	Option Awards ($)[1]	Non-Equity Incentive Plan Compensation ($)[2]	All Other Compensation ($)[3]	Total ($)
Thomas J. Fallon	2016	648,308	—	3,300,134	—	134,062[4]	312	4,082,816
CEO	2015	526,298	—	2,383,666	—	884,250[5]	312	3,794,526
	2014	468,029	—	2,036,202	—	808,594[5]	16,423	3,329,248
Brad D. Feller	2016	399,385	—	981,030	—	49,500[4]	312	1,430,227
CFO	2015	360,000	—	641,511	—	330,120[5]	281	1,331,912
	2014	346,154	30,000	1,499,999	96,323	285,796[5]	1,034	2,259,306
David F. Welch, Ph.D.	2016	499,231	—	3,300,134	—	74,250[4]	312	3,873,927
President	2015	435,577	—	1,494,385	—	471,600[5]	312	2,401,874
	2014	374,885	—	822,290	—	414,000[5]	31,774	1,642,949
Robert J. Jandro	2016	364,769	—	952,176	—	60,225[4]	285	1,377,455
Senior Vice President,	2015	350,000	—	621,760	—	458,500[5]	273	1,430,533
Worldwide Sales	2014	350,000	—	532,106	—	483,000[5]	11,068	1,376,174
James L. Laufman	2016	364,385	—	888,222	—	36,135[4]	285	1,289,027
Senior Vice President,	2015	325,000	—	—	—	255,450[5]	254	580,704
General Counsel and Secretary	2014	62,500	—	999,996	—	—	59	1,062,555

(1) The amounts reported in this column represent the aggregate grant date fair value of the listed equity awards, computed in accordance with ASC 718. See Notes 2 and 14 of the notes to our consolidated financial statements contained in our 2016 Annual Report on Form 10-K filed on February 23, 2017 for a discussion of all assumptions made by us in determining the ASC 718 values of equity awards.

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

(3) For fiscal 2016 and 2015, this amount represented the payment of life insurance premiums. For fiscal 2014, this amount represented the payment of accrued vacation time and life insurance premiums.

(4) The amounts reported represent annual incentive cash awards earned under the 2016 Bonus Plan. For additional information regarding the 2016 Bonus Plan, please see the section entitled "Fiscal 2016 Compensation—Performance-Based Incentive Cash Compensation (2016 Bonus Plan)" in the Compensation Discussion and Analysis above.

(5) The amounts reported represent annual incentive cash awards earned under our bonus plan for fiscal 2015 and 2014.

Fiscal 2016 Grants of Plan-Based Awards Table

The following table sets forth information regarding fiscal 2016 annual cash incentive compensation and equity awards granted to our NEOs during fiscal 2016.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[(1)]			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	(#)	(#)	($/Sh)	($)[(2)]
Thomas J. Fallon	2/23/2016	—	812,500	1,218,750	—	—	—	—	—	—	—
	2/23/2016	—	—	—	—	—	—	86,850[(3)]	—	—	1,320,120
	2/23/2016	—	—	—	—	135,990[(4)]	271,980[(4)]	—	—	—	1,980,014
Brad D. Feller	2/23/2016	—	300,000	450,000	—	—	—	—	—	—	—
	2/23/2016	—	—	—	—	—	—	32,270[(3)]	—	—	490,504
	2/23/2016	—	—	—	—	33,690[(4)]	67,380[(4)]	—	—	—	490,526
David F. Welch, Ph.D.	2/23/2016	—	450,000	675,000	—	—	—	—	—	—	—
	2/23/2016	—	—	—	—	—	—	86,850[(3)]	—	—	1,320,120
	2/23/2016	—	—	—	—	135,990[(4)]	271,980[(4)]	—	—	—	1,980,014
Robert J. Jandro	2/23/2016	—	365,000	547,500	—	—	—	—	—	—	—
	2/23/2016	—	—	—	—	—	—	31,320[(3)]	—	—	476,064
	2/23/2016	—	—	—	—	32,700[(4)]	65,400[(4)]	—	—	—	476,112
James L. Laufman	2/23/2016	—	219,000	328,500	—	—	—	—	—	—	—
	2/23/2016	—	—	—	—	—	—	29,220[(3)]	—	—	444,144
	2/23/2016	—	—	—	—	30,500[(4)]	61,000[(4)]	—	—	—	444,078

(1) Represents the potential cash payment that may be earned for fiscal 2016 under the 2016 Bonus Plan. For additional information regarding the 2016 Bonus Plan and final payouts, please see the section entitled "Fiscal 2016 Compensation—Performance-Based Incentive Cash Compensation (2016 Bonus Plan)" in the Compensation Discussion and Analysis above.

(2) For RSUs, represents the aggregate grant date fair value of each equity award computed in accordance with ASC 718. For PSUs, represents the aggregate grant date fair value of each equity award at the target payout level computed in accordance with ASC 718. See Notes 2 and 14 of the notes to our consolidated financial statements contained in our 2016 Annual Report on Form 10-K filed on February 23, 2017 for a discussion of all assumptions made by us in determining the ASC 718 values of equity awards.

(3) These RSU awards are scheduled to vest in annual installments with one-fourth of the underlying shares vesting on May 5 of each of 2017, 2018, 2019 and 2020, subject to each NEO's continued service to Infinera through each applicable vesting date.

(4) This PSU award is earned based on our TSR as compared to the S&P Networking Index for the one-, two- and three-year performance periods running from the first day of fiscal 2016 through the end of fiscal 2016, 2017 and 2018, and subject to each NEO's continued service to Infinera through each applicable vesting date. The vesting date shall be the fifth day of the month after certification of the award, which certification typically takes place in February for the prior performance period. If the performance objectives 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 NEOs in fiscal 2016, please see the section entitled "Fiscal 2016 Compensation—Long-Term Incentive Compensation" in the Compensation Discussion and Analysis above.

Fiscal 2016 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 31, 2016. 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 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	11/23/2009	90,056	—(2)	8.19	11/23/2019	2/25/2014	35,629(3)	302,490	—	—
	2/10/2011	14,286	—(2)	8.58	2/10/2021	2/25/2014	—	—	53,443(4)	453,731
	2/10/2011	32,965	—(2)	8.58	2/10/2021	2/24/2015	36,826(5)	312,653	—	—
	2/10/2011	30,475	—(2)	8.58	2/10/2021	2/24/2015	—	—	34,613(6)	293,864
	2/10/2011	182,250	—(2)	8.58	2/10/2021	2/23/2016	86,850(7)	737,357	—	—
	—	—	—	—	—	2/23/2016	—	—	135,990(8)	1,154,555
Brad D. Feller	1/13/2014	18,229	6,771(9)	9.02	1/13/2021	1/13/2014	83,148(10)	705,927	—	—
	—	—	—	—	—	2/24/2015	12,373(5)	105,047	—	—
	—	—	—	—	—	2/24/2015	—	—	7,753(6)	65,823
	—	—	—	—	—	2/23/2016	32,270(7)	273,972	—	—
	—	—	—	—	—	2/23/2016	—	—	33,690(8)	286,028
David F. Welch, Ph.D.	2/10/2009	100,000	—(2)	7.11	2/10/2019	6/19/2013	12,000(11)	101,880	—	—
	8/10/2009	150,000	—(2)	7.45	8/10/2019	2/25/2014	20,923(3)	177,636	—	—
	2/22/2010	29,214	—(2)	7.61	6/6/2017	2/25/2014	—	—	13,949(4)	118,427
	2/22/2010	101,342	—(2)	7.61	6/6/2017	2/24/2015	19,180(5)	162,838	—	—
	2/22/2010	2,817	—(2)	7.61	2/28/2018	2/24/2015	28,770(12)	244,257	—	—
	2/22/2010	81,683	—(2)	7.61	2/28/2018	2/24/2015	—	—	12,020(6)	102,050
	2/10/2011	39,465	—(2)	8.58	2/10/2021	2/23/2016	86,850(7)	737,357	—	—
	2/10/2011	41,535	—(2)	8.58	2/10/2021	2/23/2016	—	—	135,990(8)	1,154,555
	2/10/2011	20,250	—(2)	8.58	2/10/2021	—	—	—	—	—
	2/10/2011	60,750	—(2)	8.58	2/10/2021	—	—	—	—	—
Robert J. Jandro	—	—	—	—	—	7/1/2013	30,000(11)	254,700	—	—
	—	—	—	—	—	2/25/2014	13,539(3)	114,946	—	—
	—	—	—	—	—	2/25/2014	—	—	9,026(4)	76,631
	—	—	—	—	—	2/24/2015	11,993(5)	101,821	—	—
	—	—	—	—	—	2/24/2015	—	—	7,513(6)	63,785
	—	—	—	—	—	2/23/2016	31,320(7)	265,907	—	—
	—	—	—	—	—	2/23/2016	—	—	32,700(8)	277,623
James L. Laufman	—	—	—	—	—	10/20/2014	47,303(13)	401,602	—	—
	—	—	—	—	—	2/23/2016	29,220(7)	248,078	—	—
	—	—	—	—	—	2/23/2016	—	—	30,500(8)	258,945

(1) The closing price of our common stock as of the last trading day prior to our fiscal year end, December 30, 2016, was $8.49 per share, which was used as the value of our common stock in the calculations.

(2) This stock option grant is fully vested.

(3) The remaining unvested portion of this RSU grant vests in its entirety on May 5, 2017, subject to the NEO's continued service to Infinera through each applicable vesting date.

(4) This PSU award can be earned based on our TSR performance relative to that of the S&P Networking Index as measured over one-, two- and three-year performance periods. For purposes of calculating TSR performance for Infinera and the S&P Networking Index under the PSU awards, the baseline value for our relative TSR calculations is the 60-day average closing price of our common stock and the S&P Networking Index leading up to February 25, 2014, which was the grant date of the awards. TSR for Infinera and the S&P Networking Index is then calculated by comparing the average closing price of our common stock and the S&P Networking Index to this baseline value for the final 60 days of our fiscal 2014, 2015 and 2016. This PSU award pays out at a maximum of 150% if our TSR outperforms the S&P Networking Index by 25 points or more and 0% if our TSR underperforms the S&P Networking Index by 33 points or more. No PSUs subject to this award vested in March 2017, as the achievement of the third and final performance period was not met.

(5) The remaining unvested portion of this RSU grant vests in its entirety on May 5, 2018, subject to the NEO's continued service to Infinera through each applicable vesting date.

(6) This PSU award can be earned based on our TSR performance relative to that of the S&P Networking Index as measured over one-, two- and three-year performance periods. For purposes of calculating TSR performance for Infinera and the S&P Networking Index under the PSU awards, the baseline value for our relative TSR calculations is the 60-day average closing price of our common stock and the S&P Networking Index leading up to February 24, 2015, which was the grant date of the awards. TSR for Infinera and the S&P Networking Index is then calculated by comparing the average closing price of our common stock and the S&P Networking Index to this baseline value for the final 60 days of our fiscal 2015, 2016 and 2017. This PSU award pays out at a maximum of 150% if our TSR outperforms the S&P Networking Index by 25 points or more and 0% if our TSR underperforms the S&P Networking Index by 33 points or more. No PSUs subject to this award vested in March 2017, as the achievement of the second performance period was not met.

(7) The remaining unvested portion of this RSU grants vests in its entirety on May 5, 2020, subject to the NEO's continued service to Infinera through each applicable vesting date.

(8) This PSU award can be earned based on our TSR performance relative to that of the S&P Networking Index as measured over one-, two- and three-year performance periods. For purposes of calculating TSR performance for Infinera and the S&P Networking Index under the PSU awards, the baseline value for our relative TSR calculations is the 60-day average closing price of our common stock and the S&P Networking Index leading up to and inclusive of December 26, 2015, which was the last day of fiscal 2015. TSR for Infinera and the S&P Networking Index is then calculated by comparing the average closing price of our common stock and the S&P Networking Index to this baseline value for the final 60 days of our fiscal 2016, 2017 and 2018. This PSU award pays out at a maximum of 200% if our TSR outperforms the S&P Networking Index by 50 points or more and 0% if our TSR underperforms the S&P Networking Index by 33 points or more. No PSUs subject to his award vested in March 2017, as the achievement of the first performance period was not met. For a more detailed description of this PSU award, please see the section entitled "Fiscal 2016 Compensation—Long-Term Incentive Compensation" in the Compensation Discussion and Analysis above.

(9) This option vests and becomes exercisable as to 1/4th of the underlying shares on January 13, 2015 and then 1/48th per month thereafter, subject to Mr. Feller's continued service to Infinera through each applicable vesting date.

(10) The remaining unvested portion of this RSU grant vests in its entirety on February 5, 2018, subject to Mr. Feller's continued service to Infinera through each applicable vesting date.

(11) The remaining unvested portion of this RSU grant vests in its entirety on August 5, 2017, subject to the NEO's continued service to Infinera through each applicable vesting date.

(12) The remaining unvested portion of this RSU grant vests as to one-half of the underlying shares vesting on May 5, 2017 and one-half of the shares on May 5, 2018, subject to Dr. Welch's continued service to Infinera through each applicable vesting date.

(13) The remaining unvested portion of this RSU grant vests in its entirety on November 5, 2018, subject to Mr. Laufman's continued service to Infinera through each applicable vesting date.

Fiscal 2016 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 2016 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	—	—	320,395	4,288,182
Brad D. Feller	—	—	61,994	834,696
David F. Welch, Ph.D.	262,500	1,435,500	142,993	1,855,995
Robert J. Jandro	—	—	76,871	865,383
James L. Laufman	—	—	23,652	173,133

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

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

Change of Control Payments and Benefits

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

Executive Severance Policy

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

Death and Disability Benefits

Pursuant to the 2007 Plan and the 2016 Plan, accelerated vesting is provided in the event of the death (with exceptions in certain circumstances) or permanent disability of an employee, including our NEOs. 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.

Fiscal 2016 Estimated Payments and Benefits Table

The amount of compensation and benefits payable to each of our NEOs in the event of a termination of employment by Infinera, a termination of employment following a Change of Control transaction (as defined above), or a termination of employment due to death or permanent disability has been estimated in the table below. The value of the outstanding equity award vesting acceleration was calculated based on the assumption that the termination event occurred on December 31, 2016, the last day of fiscal 2016. The closing price of our common stock as of the last trading day of fiscal 2016, was $8.49 per share, which was used as the value of our common stock in the calculations below. The value of the vesting acceleration was calculated by (i) multiplying the number of accelerated shares of common stock underlying unvested, in-the-money equity awards by $8.49 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	972,462	1,296,616	—
	Vesting Acceleration[1]	—	3,254,650	3,254,650
	Continued Coverage of Employee Benefits	41,813	55,750	—
	Total Benefits	**1,014,275**	**4,607,016**	**3,254,650**
Brad D. Feller	Cash Severance	399,385	599,078	—
	Vesting Acceleration[2]	—	1,436,797	1,436,797
	Continued Coverage of Employee Benefits	21,930	32,896	—
	Total Benefits	**421,315**	**2,068,771**	**1,436,797**
David F. Welch, Ph.D.	Cash Severance	499,231	748,847	—
	Vesting Acceleration[3]	—	2,799,000	2,799,000
	Continued Coverage of Employee Benefits	27,875	41,813	—
	Total Benefits	**527,106**	**3,589,660**	**2,799,000**
Robert J. Jandro	Cash Severance	364,769	547,154	—
	Vesting Acceleration[4]	—	1,155,413	1,155,413
	Continued Coverage of Employee Benefits	15,963	23,944	—
	Total Benefits	**380,732**	**1,726,511**	**1,155,413**
James L. Laufman	Cash Severance	364,385	546,578	—
	Vesting Acceleration[5]	—	908,625	908,625
	Continued Coverage of Employee Benefits	21,930	32,896	—
	Total Benefits	**386,315**	**1,488,099**	**908,625**

(1) The vesting of 383,351 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 31, 2016.

(2) The vesting of 176,005 shares of common stock would accelerate if Mr. Feller was terminated without Cause, as a result of a Constructive Termination within 12 months following a Change of Control or upon death or permanent disability as of December 31, 2016.

(3) The vesting of 329,682 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 31, 2016.

(4) The vesting of 136,091 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 31, 2016.

(5) The vesting of 107,023 shares of common stock would accelerate if Mr. Laufman 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 31, 2016.

RISK ASSESSMENT OF COMPENSATION PRACTICES

During fiscal 2016, at the request of the Compensation Committee, a review of the risks associated with our organization-wide compensation policies and practices was conducted. This review was conducted by Compensia with input from our legal, finance and human resources departments. This assessment included:

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

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

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

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

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

PROPOSAL 2—APPROVAL OF AMENDMENT TO THE INFINERA CORPORATION 2016 EQUITY INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES AUTHORIZED FOR ISSUANCE THEREUNDER BY 6,400,000 SHARES

The Board believes that our future success depends on our ability to attract and retain talented employees and that the ability to grant equity awards is a necessary and powerful recruiting and retention tool for Infinera. The Board believes that equity awards motivate high levels of performance, more closely align the interests of employees and stockholders by giving employees an opportunity to hold an ownership stake in Infinera, and provide an effective means of recognizing employee contributions to the success of Infinera. At the Annual Meeting, we are requesting that stockholders approve an increase to the number of shares of our common stock (“Shares”) authorized for issuance under the 2016 Plan by 6,400,000 Shares.

The 2016 Plan has not been amended in any material way, other than this amendment, since our stockholders approved the 2016 Plan at our 2016 annual meeting of our stockholders. Upon recommendation of the Compensation Committee, the Board approved this amendment to the 2016 Plan on March 30, 2017, subject to the approval of our stockholders at the Annual Meeting.

As of April 1, 2017, there were 3,832,752 Shares available for issuance pursuant to awards that may be granted under the 2016 Plan, excluding Shares already subject to outstanding awards granted under our predecessor 2007 Plan that, if forfeited, would be added to the number of Shares reserved under the 2016 Plan. If the proposed amendment to the 2016 Plan to increase the Share reserve is not approved by our stockholders, the 2016 Plan will remain in effect without the amendment and awards will continue to be made under 2016 Plan to the extent Shares remain available. However, we may not be able to continue our equity incentive program in the future. This could preclude us from successfully attracting and retaining highly skilled employees. The Board and the Compensation Committee believe that the additional Shares under the increased Share reserve will enable us to continue to use the 2016 Plan to achieve our recruiting, retention and incentive goals and will be essential to our future success.

If our stockholders approve this amendment to the 2016 Plan, we currently anticipate that the Shares will be sufficient to meet our expected needs through the date of our 2018 annual meeting of our stockholders. In determining the number of Shares to be reserved for issuance under the 2016 Plan, the Compensation Committee and the Board considered the following:

- *Historical Grant Practices.* The Compensation Committee and the Board considered the historical amounts of equity awards that we granted in the past three years. In fiscal 2014, 2015 and 2016, we granted equity awards of 3.152 million, 2.534 million and 3.639 million Shares, respectively, or a total of approximately 9.325 million Shares over the three-year period.
- *Forecasted Grants.* In determining the projected Share utilization, the Compensation Committee and the Board considered a forecast that included the following factors: (i) the Shares that would be available for grant under the 2016 Plan, if our stockholders approve this amendment to the 2016 Plan, which was 10,232,752 Shares (consisting of 3,832,752 Shares available for issuance under the 2016 Plan as of April 1, 2017, plus the 6,400,000 additional Shares pursuant to this amendment to the 2016 Plan, and excluding Shares already subject to outstanding awards granted under the 2007 Plan that, if forfeited, would be added to the number of Shares reserved under the 2016 Plan); (ii) the estimated number of Shares to be added to the 2016 Plan from forfeited awards under the 2007 Plan; and (iii) forecasted future grants, which are “value-based,” meaning that Share amounts granted will be determined based on a dollar value of the award to be granted to the participant and stock price of Infinera. Due to our value-based grant program, any significant changes in our stock price as compared to the stock price we assumed for forecasting purposes could cause our actual Share usage to deviate significantly from our anticipated Share usage. The Compensation Committee and the Board also took into account future headcount growth on projected Share utilization.
- *Proxy Advisory Firm Guidelines.* Given our significant institutional stockholder base, the Compensation Committee and the Board considered proxy advisory firm guidelines.

Outstanding Awards

The following table sets forth information regarding all outstanding stock options and unvested RSUs and PSUs under all of our equity plans (other than the 2007 ESPP) as of April 1, 2017. The last sales price of our common stock as reported on NASDAQ on March 31, 2017, was $10.23 per share.

Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Unvested PSUs / RSUs Outstanding	Number of Shares Available for Grant under 2016 Plan
1,633,964	$8.2765	2.70	9,187,197	3,832,752

Reasons for Voting for the Proposal

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

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

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

Description of the 2016 Plan

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

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

Authorized Shares. Subject to the adjustment provisions contained in the 2016 Plan, the maximum number of Shares that may be issued pursuant to awards under the 2016 Plan is equal to the sum of (1) 7,500,000 Shares plus (2) Shares subject to awards granted under the 2007 Plan that after May 12, 2016, expire, are forfeited or otherwise terminate, or are repurchased by us due to failure to vest (provided that the maximum number of Shares that may be added to the 2016 Plan with respect to awards granted under the 2007 Plan pursuant to this clause (2) above is 7,700,000 Shares). Our stockholders are being asked to approve an increase of 6,400,000 Shares in the maximum number of Shares that may be issued pursuant to awards under the 2016 Plan. Thus, if our stockholders approve this increase, the maximum number of Shares that may be issued pursuant to awards under the 2016 Plan will be increased to 13,900,000 Shares, plus the number of Shares described in clause (2) above.

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

Plan Administration. The Compensation Committee (or other committee appointed by the Board) administers the 2016 Plan. With respect to awards granted or to be granted to certain officers and key employees intended to be an exempt transaction under Rule 16b-3 of the Securities Exchange Act of 1934, as amended ("Rule 16b-3"), the members of the committee administering the 2016 Plan with respect to those awards must qualify as "non-employee directors" under Rule 16b-3 will administer the 2016 Plan with respect to such awards. In the case of awards intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the committee administering the 2016 Plan with respect to those awards will consist of two or more "outside directors" within the meaning of Section 162(m).

Subject to the provisions of the 2016 Plan, the administrator will have the power to determine the award recipients and the terms of the awards, including the exercise price, the number of Shares subject to each such award, the exercisability of the awards, and the form of consideration, if any, payable upon exercise. The administrator also will have the authority to amend existing awards, to construe and interpret the 2016 Plan and awards granted under the 2016 Plan, to establish rules and regulations, including sub-plans for satisfying, or qualifying for favorable tax treatment under, applicable laws in jurisdictions outside of the United States, and to make all other determinations necessary or advisable for administering the 2016 Plan.

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

Vesting Requirements. 95% of the Shares reserved for issuance under the 2016 Plan may be issued only through awards that cannot vest in less than one year from the date of grant unless the vesting of such awards is accelerated due to the participant's death, disability, or retirement or upon a major capital change of Infinera (such as our change in control).

Eligibility. We will be able to grant all types of awards under the 2016 Plan to our employees, consultants, and non-employee directors and employees and consultants of our parent or subsidiary corporations. We will be able to grant incentive stock options under the 2016 Plan only to individuals who, as of the time of grant, are employees of ours or of any parent or subsidiary corporation of ours. As of April 1, 2017, we had six non-employee directors, and approximately 2,245 employees (including five named executive officers) and 34 consultants.

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

Certain Other Limits. In any fiscal year in which Infinera is publicly held and Section 162(m) applies to our employees who would be considered "covered employees" under Section 162(m), subject to any adjustment provisions contained in the 2016 Plan, the maximum aggregate number of Shares covering equity awards that a participant may receive is:

- With respect to stock options, 1,500,000 Shares, plus an additional 1,500,000 Shares in connection with his or her initial service as an employee;
- With respect to stock appreciation rights, 1,500,000 Shares, plus an additional 1,500,000 Shares in connection with his or her initial service as an employee;
- With respect to restricted stock, 1,500,000 Shares, plus an additional 1,500,000 Shares in connection with his or her initial service as an employee;
- With respect to RSUs, 1,500,000 Shares, plus an additional 1,500,000 Shares in connection with his or her initial service as an employee; and
- With respect to performance shares, 1,500,000 Shares, plus an additional 1,500,000 Shares in connection with his or her initial service as an employee.

In addition, for each such fiscal year, the maximum aggregate grant date value of performance units that a participant may receive is $7,500,000.

Stock Options. We will be able to grant stock options under the 2016 Plan. Each option will be evidenced by an award agreement that specifies the exercise price, the term of the option, forms of consideration for exercise, and such other terms and conditions as the administrator determines, subject to the terms of the 2016 Plan. The exercise price of options granted under the 2016 Plan must be at least equal to the fair market value of our common stock on the date of grant, except in special, limited circumstances as set forth in the 2016 Plan. The maximum term of an option will be specified in an award agreement, provided that an incentive stock option must have a term not exceeding 10 years. However, with respect to any participant who owns more than 10% of the voting power of all classes of outstanding stock of ours or of any parent or subsidiary of ours, the term must not exceed five years and the per share exercise price must equal at least 110% of the fair market value of a Share on the grant date. Generally, the fair market value of our common stock is the closing sales price on the relevant date as quoted on The NASDAQ Stock Market. Options will be exercisable at such times and under such conditions as determined by the administrator and as set forth in the applicable award agreement.

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

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

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

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

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

Performance Goals. Awards granted under the 2016 Plan that are intended to qualify as performance-based compensation under Section 162(m) will be granted in accordance with additional terms set forth in the 2016 Plan.

The administrator in its discretion may make performance goals applicable to any award granted in its discretion, including but not limited to one or more of the performance goals listed below. If the administrator desires that an award of restricted stock, RSUs, performance shares or performance units under the 2016 Plan intended to qualify as performance-based compensation under Section 162(m), then the award may be made subject to the attainment of performance goal(s) relating to one or more business criteria within the meaning of Section 162(m) and may provide for a targeted level or levels of achievement using one or more of the following measures: revenue; gross margin; operating margin; operating income; pre-tax profit; earnings before stock-based compensation expense, interest, taxes and depreciation and amortization; earnings before interest, taxes and depreciation and amortization; earnings before interest and taxes; net income; expenses; new product development; stock price; earnings per share; return on stockholder equity; return on capital; return on net assets; economic value added; market share; customer service; customer satisfaction; sales; total stockholder return; free cash flow; net operating income; operating cash flow; return on investment; employee satisfaction; employee retention; balance of cash, cash equivalents and marketable securities; product development; research and development expenses; completion of an identified special project; completion of a joint venture or other corporate transaction; inventory balance; or inventory turnover ratio.

The performance goal(s) may differ from participant to participant and from award to award. Any criteria used may be measured (as applicable), in absolute or relative terms, in combination with another performance goal or goals, on a per-share or per-capita basis, against the performance of the company as a whole or a segment of the company, and/or on a pre-tax or after-tax basis. Prior to the latest date that would meet the requirements under Section 162(m), the administrator will determine whether any significant elements or items will be included or excluded from the calculation of performance goals with respect to any award recipient. Except as so determined otherwise by the administrator, performance goals will be calculated in accordance with our financial statements, generally accepted accounting principles, or under a methodology established by the administrator prior to the issuance of the award.

Notwithstanding any other terms of the 2016 Plan, if we intend an award granted to a participant to qualify as performance-based compensation under Section 162(m), then in determining the amounts earned by a participant, the administrator may reduce or eliminate (but not increase) the amount payable at a given level of performance to take into account additional factors that the administrator deems relevant to the assessment of individual or corporate performance for the performance period. A participant may receive payment under such an award only if the performance goals for the performance period are achieved (unless otherwise permitted by Section 162(m) and determined by the administrator).

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

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

Merger or Change in Control. The 2016 Plan provides that in the event of a merger or change in control, as defined in the 2016 Plan, each outstanding award will be treated as the administrator determines, including that each award be assumed or substituted by the successor corporation or its parent or subsidiary for an equivalent award for each outstanding award. The administrator will not be required to treat all awards similarly. If there is no assumption or substitution of outstanding awards, the awards will fully vest, all restrictions will lapse, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels, and the awards will become fully exercisable. In addition, if an option or stock appreciation right is not assumed or substituted in the event of a change in control, the administrator will notify the participant that such award will be exercisable for a specified period prior to the transaction, and such award will terminate upon the expiration of such period.

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

Number of Awards Granted to Employees and Directors

The number of awards that an employee, director, or consultant may receive under the 2016 Plan is in the discretion of the administrator and therefore cannot be determined in advance. The following table sets forth the aggregate number of RSUs and PSUs (at target) granted under the 2007 Plan and the 2016 Plan during fiscal

2016 to each of our NEOs; our NEOs, as a group; directors who are not executive officers, as a group; and all employees who are not executive officers, as a group. We ceased granting awards under the 2007 Plan after stockholders approved the 2016 Plan on May 12, 2016. There were no stock options granted to any employees (including our NEOs) or directors in fiscal 2016.

Name of Individual or Identity of Group and Principal Position	**Number of RSUs and PSUs Granted (#)**	**Dollar Value of Award(s) ($)(1)**
Thomas J. Fallon *Chief Executive Officer*	222,840	3,300,134
Brad D. Feller *Chief Financial Officer*	65,960	981,030
David F. Welch, Ph.D. *President*	222,840	3,300,134
Robert J. Jandro *Senior Vice President, Worldwide Sales*	64,020	952,176
James L. Laufman *Senior Vice President, General Counsel and Secretary*	59,720	888,222
All current executive officers as a group	635,380	9,421,696
All current directors who are not executive officers as a group	89,981	1,150,195
All employees (excluding executive officers as a group)	2,904,685	40,207,056

(1) For RSUs, represents the aggregate grant date fair value of each equity award computed in accordance with ASC 718. For PSUs, represents the aggregate grant date fair value of each equity award at the target payout level computed in accordance with ASC 718. See Notes 2 and 14 of the notes to our consolidated financial statements contained in our 2016 Annual Report on Form 10-K filed on February 23, 2017 for a discussion of all assumptions made by us in determining the ASC 718 values of equity awards.

U.S. Federal Income Tax Consequences

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

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

Nonstatutory Stock Options. A participant generally recognizes no taxable income on the date of grant of a nonstatutory stock option with an exercise price equal to the fair market value of the underlying stock on the date of grant. Upon the exercise of a nonstatutory stock option, the participant generally will recognize ordinary income equal to the excess of the fair market value of the Shares on the exercise date over the exercise price of the option. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of Shares acquired through the exercise of a nonstatutory stock option, any subsequent gain or loss (generally based on the difference between the sale price and the fair market value on the exercise date) will be treated as long-term or short-term capital gain or loss, depending on how long the Shares were held by the participant.

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

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

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

Tax Effect for Infinera. We generally will be entitled to a tax deduction in connection with an award under the 2016 Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonqualified stock option). However, special rules limit the deductibility of compensation paid to our CEO and other "covered employees" as determined under Section 162(m) of the Code and applicable guidance. Under Section 162(m), the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed $1,000,000. However, we can preserve the deductibility of certain compensation in excess of $1,000,000 if the conditions of Section 162(m) are met. These conditions include (among others) stockholder approval of the 2016 Plan and its material terms, setting certain limits on the number of Shares subject to awards and, for awards other than options and stock appreciation rights, establishing performance criteria that must be met before the award actually will vest or be paid. The 2016 Plan has been designed to permit (but not require) the administrator to grant awards that are intended to qualify as performance-based for purposes of satisfying the conditions of Section 162(m).

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

Summary

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

Vote Required

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

Proposal 2—Recommendation of the Board

The Board unanimously recommends a vote “FOR” the approval of the amendment to the 2016 Plan to increase the number of Shares authorized thereunder by 6,400,000 Shares.

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 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 operational objectives, including specific revenue and non-GAAP operating income targets as well as important operational goals important to the short-term and long-term growth of Infinera. Please read the "Compensation Discussion and Analysis" section of this Proxy Statement beginning on page 22 for additional details about our executive compensation programs, including information about the fiscal 2016 compensation of our NEOs.

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

> "**RESOLVED:** That the stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Proxy Statement for the 2017 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the compensation tables, and the accompanying footnotes and narrative disclosures."

As an advisory vote, this say-on-pay proposal is not binding upon Infinera, the Board or the Compensation Committee. However, Infinera, the Board and the Compensation Committee, which are responsible for overseeing, reviewing and administering our executive compensation programs, value the opinions expressed by our stockholders and will continue to consider our stockholders' 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 are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on this proposal and will not affect the outcome of the vote.

Proposal 3—Recommendation of the Board

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

PROPOSAL 4—ADVISORY APPROVAL OF THE FREQUENCY OF STOCKHOLDER ADVISORY VOTES ON NAMED EXECUTIVE OFFICER COMPENSATION

In accordance with the requirements of Section 14A of the Exchange Act and the related rules of the SEC, our stockholders have the opportunity to cast an advisory vote to approve the compensation of our NEOs as described in Proposal 3 above. This Proposal 4 affords stockholders the opportunity to cast an advisory vote on how often we should include a say-on-pay proposal in our proxy materials for future annual stockholder meetings or any special stockholder meeting for which we must include executive compensation information in the proxy statement for that meeting (a "say-on-pay frequency proposal"). Under this Proposal 4, stockholders may vote to have the say-on-pay vote every year, every two years, or every three years.

Stockholders may also abstain from voting on this Proposal 4. In considering your vote, you may wish to review the information presented in connection with Proposal 3 in this Proxy Statement, together with the Compensation Discussion and Analysis and the tabular disclosures of this Proxy Statement, which provide more detailed discussion of our executive compensation policies and programs.

After careful consideration of this Proposal 4, our Board has determined that an annual advisory vote on executive compensation is the most appropriate alternative for Infinera and, therefore, the Board recommends that you vote for a one-year interval for the advisory vote on executive compensation.

The Board believes that an advisory say-on-pay vote should be conducted every year so that stockholders may annually express their views on the effectiveness of our executive compensation policies and programs.

As an advisory vote, this Proposal 4 is not binding upon Infinera or the Board. The Board may determine that it is in the best interests of our stockholders and Infinera to hold an advisory vote on executive compensation more or less frequently than the option approved by our stockholders. It is expected that the next vote on a say-on-pay frequency proposal will occur at the 2023 annual meeting of stockholders.

Vote Required

The option of "1 YEAR," "2 YEARS" or "3 YEARS" that receives the highest number of votes cast by stockholders will be the frequency for the advisory vote on executive compensation that has been selected by our stockholders.

Proposal 4—Recommendation of the Board

The Board unanimously recommends a vote for "1 YEAR" as the frequency with which stockholders are provided an advisory vote on executive compensation, as disclosed pursuant to the compensation disclosure rules of the SEC.

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

The Audit Committee of the Board has selected Ernst & Young LLP, independent registered public accounting firm, as our independent auditors for the fiscal year ending December 30, 2017 and has further directed that we submit the appointment of independent auditors for ratification by the stockholders at the Annual Meeting. Ernst & Young LLP has audited our financial statements since fiscal 2001. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

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

Independent Registered Public Accounting Firm's Fees

The following table sets forth the aggregate fees for audit, tax and other services provided by Ernst & Young LLP for the fiscal years ended December 31, 2016 and December 26, 2015. All of the services described in the following table were approved in conformity with the Audit Committee's pre-approval processes and procedures.

	2016	2015
Audit Fees	$2,321,000	$1,768,000
Audit-Related Fees	—	810,000
Tax Fees	389,000	73,000
All Other Fees	82,000	2,000
Total Fees	$2,792,000	$2,653,000

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. This category also includes statutory audits required by non-U.S. jurisdictions. The preparation of our audited consolidated financial statements includes compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and the preparation by Ernst & Young LLP of a report expressing its opinion regarding the effectiveness of our internal control over financial reporting.

Audit-Related Fees

Audit-related services principally include due diligence in connection with acquisitions, accounting consultations, audits in connection with proposed or consummated acquisitions and information systems audits. Audit-related fees for fiscal 2015 include $0.8 million of fees related to procedures in connection with the acquisition of Transmode.

Tax Fees

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

All Other Fees

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

Pre-Approval Policies and Procedures

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

Vote Required

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

Proposal 5—Recommendation of the Board

The Board unanimously recommends a vote "FOR" the ratification of the appointment of Ernst & Young LLP as Infinera's independent registered public accounting firm for its fiscal year ending December 30, 2017.

REPORT OF THE AUDIT COMMITTEE

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

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

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

The Audit Committee has reviewed and discussed the audited financial statements for the year ended December 31, 2016 with our management and Ernst & Young LLP. The Audit Committee has also discussed with Ernst & Young LLP the matters required to be discussed by Auditing Standard No. 1301, "Communications with Audit Committees" issued by Public Company Accounting Oversight Board ("PCAOB"). The Audit Committee also has received and reviewed the written disclosures and the letter from Ernst & Young LLP required by applicable requirements of the PCAOB regarding Ernst & Young LLP's communications with the Audit Committee concerning independence, and has discussed with Ernst & Young LLP its independence from Infinera.

Based upon the review and discussions described above, the Audit Committee recommended to the Board that the audited financial statements referred to above be included in our Annual Report on Form 10-K for the year ended December 31, 2016 for filing with the SEC.

Submitted by the members of the Audit Committee:

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

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

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

In fiscal 2016, 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 2016 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 2016.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2016 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	7,852,531(1)	$8.30	11,760,364(2)
Equity compensation plans not approved by security holders	—	—	—
Total	**7,852,531**		**11,760,364**

(1) This amount includes the following:
- 1,655,731 shares issuable upon the exercise of outstanding stock options granted under the 2000 Stock Plan and 2007 Plan.
- 5,293,179 shares subject to RSUs granted under the 2007 Plan and 2016 Plan. Since these awards have no exercise price, they are not included in the weighted average exercise price calculation in column (b).
- 903,621 shares issuable pursuant to outstanding stock awards that have been granted under the 2007 Plan, but not yet earned as of December 31, 2016. The number of shares, if any, to be issued pursuant to such outstanding awards will be determined based on certain performance metrics, as discussed above in the section entitled "Fiscal 2016 Compensation—Long-Term Incentive Compensation" in the Compensation Discussion and Analysis. Since these awards have no exercise price, they are not included in the weighted average exercise price calculation in column (b).

(2) This amount includes 4,664,239 shares of common stock available for future issuances under the 2007 ESPP.

STOCKHOLDER PROPOSALS FOR 2018 ANNUAL MEETING

To be considered for inclusion in our Proxy Statement for the 2018 Annual Meeting of Stockholders (the "2018 Annual Meeting"), stockholder proposals must comply with our Bylaws and the requirements of Rule 14a-8 under the Exchange Act and be received by our Corporate Secretary at our principal executive offices no later than December 14, 2017, 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 2018 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 2018 Annual Meeting. To be timely, the stockholder notice must be received by our Corporate Secretary no later than February 27, 2018 nor earlier than January 28, 2018, 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 materials or a notice of availability of proxy materials (whichever is earlier) to stockholders in connection with this year's Annual Meeting. To be in proper written form, the stockholder notice must contain a brief description of such business and the reasons for conducting such business at the meeting, as well as certain other information as set forth in greater detail in our Bylaws. In connection with a stockholder nomination of a candidate for the Board, the stockholder notice must also include certain information as set forth in our Bylaws about both the nominee and the stockholder making the nomination. If you wish to bring a stockholder proposal or nominate a candidate for director, you are advised to review our Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations. Our current Bylaws may be found on our website at *www.infinera.com* in the Corporate Governance section on our Investor Relations page.

Under Rule 14a-8 of the Exchange Act, if the date of the 2018 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 2018 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 2018 Annual Meeting and no later than the close of business on the later of (i) the 90th day prior to the 2018 Annual Meeting, or (ii) the tenth day following the day on which disclosure in a press release reported by GlobeNewswire, Associated Press or a comparable national news service or in a document publicly filed by Infinera with the SEC pursuant to Section 13, 14 or 15(d) of the Exchange Act of the date of the 2018 Annual Meeting is first made.

If we receive notice of a matter to come before the 2018 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 2018 Annual Meeting. If such matter is brought before the 2018 Annual Meeting, then our proxy card for such meeting will confer upon our proxy holders' discretionary authority to vote on such matter.

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

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

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

OTHER MATTERS

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

By Order of the Board,

/s/ James L. Laufman

James L. Laufman
Senior Vice President, General Counsel and Secretary

Sunnyvale, California
April 12, 2017

APPENDIX A—UNAUDITED RECONCILIATIONS FROM GAAP TO NON-GAAP

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

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Revenue	$870,135	$886,714	$668,079
Reconciliation of Gross Profit:			
U.S. GAAP as reported	$393,718	$403,477	$288,304
Stock-based compensation	6,463	6,090	5,607
Acquisition-related deferred revenue adjustment	400	1,326	—
Amortization of acquired intangible assets	19,715	6,562	—
Acquisition-related inventory step-up expense	—	6,710	—
Acquisition-related costs	144	39	—
Non-GAAP as adjusted	$420,440	$424,204	$293,911
Reconciliation of Gross Margin:			
U.S. GAAP as reported	45.2%	45.5%	43.2%
Stock-based compensation	0.7%	0.7%	0.8%
Acquisition-related deferred revenue adjustment	0.1%	0.1%	—
Amortization of acquired intangible assets	2.3%	0.7%	—
Acquisition-related inventory step-up expense	—	0.8%	—
Acquisition-related costs	—	—	—
Non-GAAP as adjusted	48.3%	47.8%	44.0%
Reconciliation of Operating Income (Loss):			
U.S. GAAP as reported	$ (25,774)	$ 59,736	$ 27,342
Stock-based compensation	40,533	32,580	28,394
Acquisition-related deferred revenue adjustment	400	1,326	—
Amortization of acquired intangible assets	25,904	8,904	—
Acquisition-related inventory step-up expense	—	6,710	—
Acquisition-related costs	2,013	7,280	—
Acquired in-process research & development	11,295	—	—
Non-GAAP as adjusted	$ 54,371	$116,536	$ 55,736

The non-GAAP measures of gross profit, gross margin and operating income exclude non-cash stock-based compensation expenses, amortization and impairment of acquired intangible assets, acquisition-related costs and certain purchase accounting adjustments related to our acquisition of Transmode AB, which closed during the third quarter of fiscal 2015. 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 gross profit, gross margin and operating income prepared in accordance with GAAP. Non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles and are subject to limitations.

APPENDIX B—AMENDED 2016 EQUITY INCENTIVE PLAN

INFINERA CORPORATION

2016 EQUITY INCENTIVE PLAN

(Effective as of May 12, 2016, as amended , 2017)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(l) "Covered Employee" means any Service Provider who would be considered a "covered employee" within the meaning of Section 162(m) of the Code.

(m) "Determination Date" means the latest possible date that will not jeopardize the qualification of an Award granted under the Plan as "performance-based compensation" under Section 162(m) of the Code.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(cc) “Participant” means the holder of an outstanding Award.

(dd) “Performance Goals” will have the meaning set forth in Section 12 of the Plan.

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

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

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

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

(ii) “Plan” means this 2016 Equity Incentive Plan, as may be amended from time to time.

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

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

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

(mm) “Securities Act” means the Securities Act of 1933, as amended.

(nn) “Section 16(b)” means Section 16(b) of the Exchange Act.

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

(pp) “Service Provider” means an Employee, Director or Consultant.

(qq) “Share” means a share of the Common Stock, as adjusted in accordance with Section 15 of the Plan.

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

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

(tt) “Tax Obligations” means tax, social insurance and social security liability obligations and requirements in connection with the Awards, including, without limitation, (i) all federal, state, and local income, employment and any other taxes (including the Participant’s Federal Insurance Contributions Act (FICA) obligation) that are required to be withheld by the Company (or Company’s Parent or Subsidiary, as applicable), (ii) the Participant’s and, to the extent required by the Company (or its Parent or Subsidiary, as applicable), the Company’s (or its

Parent's or Subsidiary's) fringe benefit tax liability, if any, associated with the grant, vesting, or exercise of an Award or sale of Shares issued under the Award, and (iii) any other taxes or social insurance or social security liabilities or premium the responsibility for which the Participant has, or has agreed to bear, with respect to such Award (or exercise thereof or issuance of Shares or other consideration thereunder).

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 15 of the Plan, the maximum aggregate number of Shares that may be issued under the Plan is (i) 13,900,000 Shares, plus (ii) any Shares subject to awards granted under the Company's 2007 Equity Incentive Plan (the "Existing Plan") that, after the effective date of the Plan, expire, are forfeited or otherwise terminate without having been exercised in full to the extent such awards were exercisable, and Shares issued pursuant to awards granted under the Existing Plan that, after the effective date of the Plan, are forfeited to or repurchased by the Company due to failure to vest, with the maximum number of Shares to be added to the Plan pursuant to clause (ii) equal to 7,700,000 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Lapsed Awards. Shares that actually have been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan (unless repurchased as specified in this subsection (b) below). If an Option or Stock Appreciation Right Award expires or becomes unexercisable without having been exercised in full, the unexercised Shares which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). If an Award of Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares (each, a "Full Value Award") is forfeited or repurchased by the Company due to failure to vest, then the forfeited or repurchased Shares subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to Stock Appreciation Rights settled in Shares, the gross number of Shares covered by the portion of the Award so exercised will cease to be available under the Plan. Shares used to pay the exercise or purchase price of an Award will cease to be available for future grant or sale under the Plan. Shares used to satisfy the Tax Obligations related to an Option or Stock Appreciation Right will not become available for future grant or sale under the Plan. Shares used to satisfy the Tax Obligations related to a Full Value Award will be available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. For purposes of clarification, no Shares purchased by the Company with proceeds received from the exercise of an Option will become available for issuance under this Plan or the Existing Plan. Notwithstanding the foregoing and, subject to adjustment as provided in Section 15, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to Section 3(b).

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

4. Administration of the Plan.

(a) Procedure.

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

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two (2) or more "outside directors" within the meaning of Section 162(m) of the Code.

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

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

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

(i) to determine the Fair Market Value;

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

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

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

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

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

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

(viii) to modify or amend each Award (subject to Section 5 and Section 20 of the Plan), including but not limited to the discretionary authority to extend the post-termination exercisability period of Awards and to extend the maximum term of an Option (subject to Section 5 of the Plan regarding Incentive Stock Options);

(ix) to allow Participants to satisfy Tax Obligations in such manner as prescribed in Section 16 of the Plan;

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

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

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

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

5. Limits.

(a) Share Limits. For so long as: (x) the Company is a "publicly held corporation" within the meaning of Code Section 162(m) and (y) the deduction limitations of Code Section 162(m) are applicable to the Company's Covered Employees, then, subject to Section 15, the limits specified below shall be applicable to Awards issued under the Plan:

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

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

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

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

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

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

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

(c) Vesting Limits. Awards granted under the Plan shall vest no earlier than the one (1) year anniversary of the Award's date of grant, provided that the Administrator, in its sole discretion, may provide an Award may accelerate vesting by reason of the Participant's death, Disability or retirement, or upon a major capital change of the Company (including without limitation upon the occurrence of a Change in Control, merger of the Company with or into another corporation or entity, or similar transaction), and provided further, that, notwithstanding the foregoing in this sentence, Awards that result in the issuance of an aggregate of up to 5% of the Shares reserved for issuance under Section 3(a) may be granted to Service Providers, or outstanding Awards modified, without regard to such minimum vesting, exercisability and distribution provisions.

(d) Incentive Stock Options.

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

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

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

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

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

7. Stock Options.

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

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

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

(d) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, but shall in no event be less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant, subject to Section 5. Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

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

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

(e) Exercise of Option.

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

An Option will be deemed exercised when the Company receives: (i) a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 15 of the Plan.

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

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

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

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

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

8. Restricted Stock.

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

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

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

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

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

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

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

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

(i) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock as "performance-based compensation" under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goal(s). The Performance Goal(s) will be set by the Administrator on or before the Determination Date. In granting Restricted Stock which is intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goal(s)).

9. Restricted Stock Units.

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

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

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

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

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

(f) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock Units as “performance-based compensation” under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goal(s). The Performance Goal(s) will be set by the Administrator on or before the Determination Date. In granting Restricted Stock Units which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goal(s)).

10. Stock Appreciation Rights.

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

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

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

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

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

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

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

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

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

11. Performance Units and Performance Shares.

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

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

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

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

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

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

(g) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Performance Units/Shares as “performance-based compensation” under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goal(s). The Performance Goal(s) will be set by the Administrator on or before the Determination Date. In granting Performance Units/Shares which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goal(s)).

12. Performance-based Compensation Under Code Section 162(m).

(a) General. If the Administrator, in its discretion, decides to grant an Award intended to qualify as "performance-based compensation" under Code Section 162(m), the provisions of this Section 12 will control over any contrary provision in the Plan; provided, however, that the Administrator in its discretion may grant Awards that are not intended to qualify as "performance-based compensation" under Section 162(m) of the Code to such Participants that are based on Performance Goal(s) or other specific criteria or goals but that do not satisfy the requirements of this Section 12.

(b) Performance Goals. The granting and/or vesting of Awards of Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units and other incentives under the Plan may be made subject to the attainment of performance goals relating to one or more business criteria within the meaning of Section 162(m) of the Code and may provide for a targeted level or levels of achievement ("Performance Goals") including (i) revenue; (ii) gross margin; (iii) operating margin; (iv) operating income; (v) pre-tax profit; (vi) earnings before stock-based compensation expense, interest, taxes and depreciation and amortization; (vii) earnings before interest, taxes and depreciation and amortization; (viii) earnings before interest and taxes; (ix) net income; (x) expenses; (xi) new product development; (xii) stock price; (xiii) earnings per share; (xiv) return on stockholder equity; (xv) return on capital; (xvi) return on net assets; (xvii) economic value added; (xviii) market share; (xix) customer service; (xx) customer satisfaction; (xxi) sales; (xxii) total stockholder return; (xxiii) free cash flow; (xxiv) net operating income; (xxv) operating cash flow; (xxvi) return on investment; (xxvii) employee satisfaction; (xxviii) employee retention; (xxix) balance of cash, cash equivalents and marketable securities; (xxx) product development; (xxxi) research and development expenses; (xxxii) completion of an identified special project; (xxxiii) completion of a joint venture or other corporate transaction; (xxxiv) inventory balance; or (xxxv) inventory turnover ratio. Any criteria used may be measured, as applicable, (A) in absolute terms, (B) in combination with another Performance Goal or Goals (for example, but not by way of limitation, as a ratio or matrix), (C) in relative terms (including, but not limited to, results for other periods, passage of time and/or against another company or companies or an index or indices), (D) on a per-share or per-capita basis, (E) against the performance of the Company as a whole or a segment of the Company (including, but not limited to, any combination of the Company and any subsidiary, division, business unit, joint venture and/or other segment), and/or (F) on a pre-tax or after-tax basis. The Performance Goals may differ from Participant to Participant and from Award to Award. Prior to the Determination Date, the Administrator will determine whether any significant element(s) will be included in or excluded from the calculation of any Performance Goal with respect to any Participant. In all other respects, Performance Goals will be calculated in accordance with the Company's financial statements, generally accepted accounting principles, or under a methodology established by the Administrator prior to the issuance of an Award.

(c) Procedures. To the extent necessary to comply with the performance-based compensation provisions of Code Section 162(m), with respect to any Award granted subject to Performance Goal(s), within the first twenty-five percent (25%) of the Performance Period, but in no event more than ninety (90) days following the commencement of any Performance Period (or such other time as may be required or permitted by Code Section 162(m)), the Administrator will, in writing, (i) designate one or more Participants to whom an Award will be made, (ii) select the Performance Goal(s) applicable to the Performance Period, (iii) establish the Performance Goal(s), and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (iv) specify the relationship between Performance Goal(s) and the amounts of such Awards, as applicable, to be earned by each Participant for such Performance Period. Following the completion of each Performance Period, the Administrator will certify in writing whether the applicable Performance Goal(s) have been achieved for such Performance Period. In determining the amounts earned by a Participant, the Administrator will have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Administrator may deem relevant to the assessment of individual or corporate performance for the Performance Period. A Participant will be eligible to receive payment pursuant to an Award for a Performance Period only if the Performance Goal(s) for such period are achieved.

(d) Additional Limitations. Notwithstanding any other provision of the Plan, any Award which is granted to a Participant and is intended to constitute qualified performance based compensation under Code Section 162(m) will be subject to any additional limitations set forth in the Code (including any amendment to Section 162(m)) or any regulations and rulings issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m) of the Code, and the Plan will be deemed amended to the extent necessary to conform to such requirements.

13. Service Provider Status.

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

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

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

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

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

(c) Change in Control. In the event of a merger of the Company with or into another corporation or other entity or a Change in Control, each outstanding Award will be treated as the Administrator determines, including, without limitation, that each Award be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. The Administrator will not be required to treat all Awards similarly in the transaction.

In the event that the successor corporation does not assume or substitute for the Award, (and for the avoidance of doubt, notwithstanding the vesting limitations under Section 5), the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels, and all other terms and conditions are met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

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

Notwithstanding anything in this Section 15(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant’s consent; provided, however, a modification to such performance goals only to reflect the successor corporation’s post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

Notwithstanding anything in this Section 15(c) to the contrary, if a payment under an Award Agreement is subject to Section 409A and if the change in control definition contained in the Award Agreement does not comply with the definition of “change in control” for purposes of a distribution under Section 409A, then any payment of an amount that otherwise is accelerated under this Section will be delayed until the earliest time that such payment would be permissible under Section 409A without triggering any penalties applicable under Section 409A.

16. Tax.

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

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

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

17. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant’s relationship as a Service Provider with the Company or any Parent

or Subsidiary, nor will they interfere in any way with the Participant's right or the right of the Company or any Parent or Subsidiary, as applicable, to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

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

19. Term of Plan. Subject to Section 23 of the Plan, the Plan will become effective upon approval of the Plan by the stockholders of the Company. It will continue in effect for a term of ten (10) years from the date of such stockholder approval, unless terminated earlier under Section 20 of the Plan.

20. Amendment and Termination of the Plan.

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

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

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

21. Conditions Upon Issuance of Shares.

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

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

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

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

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

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 31, 2016

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 25, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $1,017,455,960 (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 15, 2017, 146,415,351 shares of the registrant's common stock, $0.001 par value per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2017 Annual Meeting of Stockholders (the "2017 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2017 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

INFINERA CORPORATION

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2016

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Part I

ITEM 1. BUSINESS

Overview

Infinera Corporation ("we," "us," "our" or "Infinera") provides optical transport networking equipment, software and services to telecommunications service providers, internet content providers ("ICPs"), cable providers, wholesale and enterprise carriers, research and education institutions, enterprise customers, and government entities across the globe. Optical transport networks are deployed by customers facing significant demand for optical bandwidth prompted by increased use of high-speed internet access, mobile broadband, cloud-based services, high-definition video streaming services, virtual and augmented reality, the Internet of Things (IoT) and business Ethernet services.

Infinera is a leader in large-scale photonic integrated circuits ("PICs"), which is a key component inside many of our Intelligent Transport Network platforms. Infinera's PIC technology optimizes the manufacturing process by using indium phosphide with which it is possible to fabricate all of the necessary optical functions on a single semiconductor chip. The Infinera Intelligent Transport Network architecture is highly scalable, flexible and open, which enables us to leverage our core competency of vertically integrated technologies. Our third-generation PICs, commercially available since 2012, transmit and receive 500 gigabits per second ("Gb/s"), and incorporate over 600 discrete optical functions into a pair of PICs. Our PICs, combined with our FlexCoherent digital signal processors ("DSPs"), increase the capacity-reach performance of our products to deliver coherent optical transmission. 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 our 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.

In 2016, we announced the Infinite Capacity Engine (ICE), our next-generation technology, which delivers a family of multi-terabit opto-electronic subsystems powered by our fourth-generation PIC and next-generation FlexCoherent DSP. The Infinite Capacity Engine is a family of different subsystems that can be customized for different network applications across our product portfolio, spanning the long-haul, subsea, datacenter interconnect ("DCI") and metro markets.

Traditionally, we have focused on the long-haul portion of the optical transport market and a large portion of our revenue continues to be derived from long-haul and subsea customers. Over the past two years, we have significantly increased the number of products we offer, evolving from focusing entirely on the long-haul and subsea markets with the DTN-X Family of products to offering an end-to-end suite of solutions that spans terrestrial long-haul, subsea, DCI, and metro core and access.

In late 2014, we increased our addressable markets by introducing the Cloud Xpress platform for the DCI market. Since the initial introduction of the Cloud Xpress with 40 Gigabit Ethernet ("GbE") client interfaces, we have enhanced our position by expanding our Cloud Xpress Family to also offer 10 GbE and 100 GbE client interfaces to meet customer-specific requirements. Our next-generation Cloud Xpress solution, due to be released during 2017, further optimizes space and power, and delivers 1.2 terabits per second ("Tb/s") of capacity in a one rack unit ("RU") box without the need for external multiplexers or amplifiers for distances up to 130km.

In the second half of 2015, we entered the metro market with the acquisition of Transmode AB ("Transmode"), a leader in metro packet-optical applications, based in Stockholm, Sweden. With our entrance into DCI and metro markets over the last few years, we are now able to provide our customers with an end-to-end portfolio of solutions. The XTM Series and XTG Series are designed to address the metro market, with 100 Gb/s metro core/regional transport capabilities and packet-optical solutions optimized for fast-growing applications in the access portion of the network, including mobile fronthaul and backhaul, triple-play and cable broadband aggregation, and business Ethernet services with Metro Ethernet Forum ("MEF") certification. These products are complemented by the XTC-2 product designed for high-capacity handoffs of traffic from a long-haul network.

Our end-to-end packet-optical portfolio is designed to be managed with a single network management system. In addition to offering our traditional management system for wavelength-division multiplexing ("WDM") operations, we also provide solutions for enabling programmability of our Intelligent Transport Networks with our Digital Network Administrator ("DNA"), network management system ("NMS") and software-defined networking

(“SDN”) via the Xceed Software Suite (“Xceed”). Our multi-layer SDN platform enables customers to write software applications that leverage the scalability, flexibility and openness of our Intelligent Transport Networks to deliver innovative services while efficiently using their network resources.

We believe that our portfolio of purpose-built products benefits our customers by providing a unique combination of highly scalable capacity and features that address various applications and ultimately simplify and automate transport network operations.

We were incorporated in December 2000 and originally operated under the name “Zepton Networks.” We are incorporated in the State of Delaware. Our principal executive offices are located at 140 Caspian Court, Sunnyvale, CA 94089. Our telephone number is (408) 572-5200. “Infinera,” “Infinera DTN,” “Infinera DTN-X,” “ATN,” “Infinera Intelligent Transport Network,” “FlexCoherent,” “Infinera FlexILS,” “Infinera Instant Bandwidth” and “Infinera FastSMP” are trademarks or service marks of Infinera Corporation in the United States, certain other countries and/or the European Union. Any other trademarks or trade names mentioned are the property of their respective owners.

Industry Background

Optical transport networking equipment carries digital information using light waves over fiber optic cables. With the advent of WDM systems, data is transmitted by using multiple wavelengths of light using different frequencies or colors over a single optical fiber. Customers deploy WDM systems to carry information between continents, across countries, between cities and within metropolitan areas, and in some cases all the way to the end user. Fiber optic networks are generally capable of carrying most types of communications traffic. We believe that a number of trends in the communications industry are driving demand for network bandwidth and ultimately will increase demand for optical transport networking systems. These trends include:

- growth of cloud services;
- growth of bandwidth-intensive services like streaming high-definition video services;
- increasing use of connected virtual and augmented reality devices;
- proliferation of mobile services of Wi-Fi, 4G and future growth of 5G; and
- rise of the Internet of Things, driving massive growth in the number of network-connected devices.

As network traffic grows, customers add transmission bandwidth to existing optical networks or purchase and deploy additional systems to address bandwidth demands and offer expanded services to their respective customers. In particular, consumers and businesses increasingly rely on the cloud for their application needs across compute, storage and network functions. Today many applications have transformed from function-specific deployments on dedicated hardware platforms to virtualized services implemented on generic hardware within cloud data centers. This transformation is leading to the creation of a simplified model of Layer C (cloud services) supported by the underlying Layer T (intelligent transport). As cloud adoption increases, large network operators are reporting a magnification effect on incoming traffic, such that a single request from an end-user can generate many times the amount of traffic between data centers as compared to the amount of traffic contained in the original request. This server-to-server traffic is also called east-west traffic, and this magnification effect is accelerating the deployment of high-bandwidth optical transport solutions to support cloud network infrastructures.

We believe that our customers seek the following solutions in order to increase their revenue and/or expand their service offerings:

- high-bandwidth solutions that scale optical transmission bandwidth to meet increasing demand while providing wide-ranging granularity for service efficiency;
- efficient solutions with the right mix of integrated and disaggregated systems that optimize performance and increase reliability while reducing physical space, power consumption and heat dissipation, leading to lower operational expenses;
- easy-to-use solutions that are highly programmable and open, which help reduce the time and complexity of deploying new transmission bandwidth;

- improved integration between packet or Internet Protocol equipment such as routers and optical transport networking equipment; and
- strong encryption at the transport layer processed at line-rate speeds.

We believe that the Infinera Intelligent Transport Network architecture is uniquely enabled to deliver improvements in these areas compared to competitive WDM systems. We also believe that our Intelligent Transport Networks enable our customers to deploy scalable, flexible and open solutions that simplify and automate optical network operations.

Strategy

Our goal is to be the preeminent provider of optical transport networking systems to our customers around the world. Key aspects of our strategy to achieve this goal include:

- *Proliferating our broad base of purpose-built technologies and products to existing customers, as well as obtain new customers.* We have introduced multiple purpose-built products to allow us to address a broader portion of our existing customer networks but also to expand into adjacent markets.
- *Enhancing our existing product portfolio for the long-haul, subsea, DCI and metro markets.* We are enhancing existing products and building new products across long-haul, subsea, DCI and metro aggregation markets. We anticipate that these products will be released over the course of 2017 with a focus on advanced features and further integration to improve our cost structure.
- *Improving the cadence under which new products are brought to market.* Historically, we have brought new generations of our products based on our optical engine, which includes advanced PICs and DSPs, to market every four to five years. Current competitive market conditions include increased investments from our larger competitors that allows for faster cadences of new products. In addition, the emergence of certain component providers who build enhanced components have allowed other competitors to bring products to market much faster than they could have in the past. As a result, we have committed to bring new generations of our products to market approximately every two to three years.
- *Continuing our commitment to provide world-class product quality and support services to our customers.* We believe that providing the most reliable products and our customer experience capabilities are major differentiators. Our global customer service and technical support team is committed to making our customers successful by providing the highest quality support services to deploy, operate and maintain their networks.
- *Maintaining and extending our technology lead.* We intend to continually invest in key technologies such as various forms of the PIC, our FlexCoherent processor, application-specific integrated circuits ("ASICs"), software and other important technologies. We plan to incorporate the functionality of additional discrete functions into our PICs and take advantage of the advanced features in our new DSPs. In addition, we intend to pursue the expansion of our packet switching and bandwidth management capabilities in order to enhance the performance, scalability and economic advantages of our products.
- *Continuing investment in vertically integrated manufacturing activities.* We believe that our vertical integration and manufacturing capabilities serve as competitive advantages from a technology, supply chain and financial perspective, and we plan to continue to invest in our next-generation PIC technologies. We will supplement that strategy through the use of certain merchant components in certain cases where it can provide us with a performance, cost or time-to-market advantage.
- *Investing in our network management system and SDN.* We believe that we lead the industry in ease of use, facilitated through our Infinera Management System and Xceed suite of software products. We continue to invest in our software products, including adding capabilities such as Infinera Instant Bandwidth. We are extending the management and control capabilities across our entire portfolio with a goal of achieving end-to-end service provisioning. Based on customers' desire for more programmable networks, we have added open application programming interfaces

(“APIs”) to our Infinera Intelligent Transport Network architecture so they can be used by our customers to build more agile networks and deliver competitive services.

Customers

Our customer verticals include:

- Tier-1 carriers for domestic and international networks;
- Tier-2 and Tier-3 carriers;
- ICP and data center operators;
- wholesale carriers;
- submarine network operators;
- multiple system operators/cable companies;
- enterprise customers; and
- research and education/government entities.

We sell our products both directly to customers who are end users, and to channel partners that sell on our behalf. We believe one of our strengths is the diversity of our customer base as we generate annual revenues from each of the verticals listed above, and have multiple customers within each vertical that have historically spent significantly on our solutions. We do not have long-term sales commitments from our customers. One customer accounted for over 10% of our revenue in 2016. Revenue from this customer accounted for 16% of our revenue in 2016. Two customers each accounted for over 10% of our revenue in 2015. These two customers accounted for 17% and 13%, respectively, of our revenue in 2015. One customer accounted for over 10% of our revenue in 2014. Revenue from this customer accounted for 19% of our revenue in 2014.

Technology

Infinera Intelligent Transport Network Architecture

We were founded with a vision of enabling an infinite pool of intelligent bandwidth upon which the next communications infrastructure is built upon. We have focused our efforts, time and capital on developing application-optimized platforms based on our Infinera Intelligent Transport Network architecture, which enables customers to create rich end-user experiences based on efficient, high-bandwidth transport by combining the following elements:

- *Scalable.* The proliferation of data centers, rise of cloud computing, increasing consumption of video and growth in mobile access is fundamentally changing traffic characteristics in operator networks. Infinera Intelligent Transport Networks deliver multi-terabit coherent super-channels today. This technology allows a massive pool of bandwidth to be provisioned in a single operational motion. We expect to introduce products in the course of 2017 that will utilize our new Infinite Capacity Engine and deliver sliceable super-channels up to 2.4 Tb/s. Sliceable photonics provide wavelength granularity for wide-ranging control of the network.
- *Flexible.* Networks are growing in complexity with the proliferation of internet protocols, network layers and fiber interconnects. Complexity increases the time it takes to plan and deploy network services and increases the cost of maintenance, operation, power, space and cooling. By combining packet and Optical Transport Network (“OTN”) switching functions with WDM, integrated platforms offer a wide variety of services. Conversely, disaggregated platforms offer optimized functionality that prioritizes lowering overall network operating costs without compromising performance. Infinera Intelligent Transport Networks offer a mix of integrated and disaggregated platforms to reduce complexity in the network.
- *Open.* Network operators are facing intensifying competition to meet customer demand for immediate bandwidth needs and better visibility into the network. Our Intelligent Transport Networks feature highly programmable platforms with SDN APIs enabling networks to be open; this helps simplify end to end multi-layer provisioning. Additionally, there is growing demand

from certain customers for line systems that are open, which entails having the ability to use transponders from one vendor over a different vendor's line system. We are addressing this dynamic, both by seeking opportunities to sell our transponders over other vendors' line systems and also offering an Infinera platform that supports both fixed and flexible grid technology, thus allowing a seamless mix of multi-vendor transponders.

Infinera Photonic Integrated Circuits

We believe that our custom-built PICs and FlexCoherent processors, part of the Infinite Capacity Engine, are key components of our value proposition and a competitive advantage. We manufacture and package our PICs at our own facilities for use exclusively with our Infinera DTN, DTN-X Family and Cloud Xpress Family platforms. Our PICs are purpose-built for diverse network locations and applications. As a leader in 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. We believe that large-scale photonic integration using indium phosphide 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 and increased device density.

Infinera FlexCoherent Processor

Optical transmission is based on a number of technologies, namely: phase modulation, polarization multiplexing, coherent detection and advanced digital signal processing. These "coherent technologies" are used by network operators 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 the previous generation. We have integrated advanced coherent technologies onto our FlexCoherent DSP, such as cutting-edge Nyquist subcarriers and soft-decision forward error correction gain sharing techniques. The processor works in conjunction with our large-scale PICs based on advanced photonics to construct the Infinite Capacity Engine for exceptional optical transport performance.

Super-Channels

The Infinera DTN-X Family of products and the Cloud Xpress Family are designed to support multiple channels of 100 Gb/s capacity in a single line card or unit depending on the platform form factor. This pool of bandwidth is managed as a single super-channel, up to 500 Gb/s that can be deployed in a single operational motion. In 2017, we expect to release products that will allow channels of up to 200 Gb/s and up to 2.4 Tb/s super channels. In order to achieve the same system capacity, competitive solutions would require the installation of discrete line modules or units, which in some cases could number as many as 10, each turned up with its own operational motion. Super-channels result in competitive advantages in the areas of space and power consumption, leading to lower operational costs and long-term system reliability, as well as significant reductions in time to install and repair.

Sliceable Photonics

Our soon to be released platforms are designed to provide up to 2.4 Tb/s of capacity in a single module with a single fiber pair using the Infinite Capacity Engine, while being able to slice the 2.4 Tb/s capacity into a 100 Gb/s wavelength or 100 Gb/s increments. Each increment can be tuned and routed in multiple separate directions, with each fully tuned to its own flexible grid frequency as well as having its own coherent modulation profile. This significantly reduces requirements for modules in networks, resulting in lower total cost of ownership and a highly flexible optical transport network. This solution simplifies traffic aggregation while providing 100 Gb/s economics at multi-terabit scale. It contrasts with competitive solutions that are being built without sliceable photonics technology and in which granularity gets progressively reduced as bandwidth increases, resulting in more fibers, more power consumption and more rack space.

Disaggregation

The Infinera Intelligent Transport Network is a mix of disaggregated and integrated platforms. Disaggregated platforms are optimized for certain applications that need point-to-point or point-to-multipoint interconnects. As a result, they are low-power compact units that are server-like and adopt the rack-and-stack operational model. The Infinera Cloud Xpress provides a point-to-point DCI solution and was the first small form factor platform in its category. We have also announced DTN-X XT Series meshponders, which are designed to leverage the Infinite Capacity Engine, combining muxponder technology with sliceable photonics in a server-like WDM appliance to deliver multi-terabit capacities along with fine-grained granularity for optical mesh networks. These meshponders are expected to be released over the course of 2017.

Integrated Digital Switching

Our unique PIC technology allows the Infinera DTN-X XTC Series platforms to fully integrate WDM transport and OTN switching capabilities in a single platform, without compromising overall system functionality or capacity. The integrated OTN switching capability along with generalized multi-protocol label switching automation allows customers to deploy Infinera FastSMP (Fast Shared Mesh Protection), a standards-based resiliency technique for networks to recover from local and network-wide multiple failures without the need to dedicate backup bandwidth for every active circuit. We implement this technology using a purpose-built hardware acceleration chip included in every single card of the Infinera DTN-X XTC Series platform, ensuring a sub-50 milliseconds recovery.

Infinera Instant Bandwidth

Infinera Instant Bandwidth enables customers to license a super-channel pool of bandwidth in 100 Gb/s increments. With Infinera Instant Bandwidth technology, which is available with the Infinera DTN-X XTC Series, DTN-X XT Series and Cloud Xpress platforms, customers can provision an additional 100 Gb/s of transmission capacity on demand without the deployment of any incremental equipment. The Infinera Instant Bandwidth technology is uniquely enabled by our super-channel capability and PICs, providing customers the ability to adopt a success-based business model for network growth. This technology has been extended to include a time-based capability offering network bandwidth in 100 Gb/s increments for a certain duration.

Infinera Packet-Optical Transport

Our packet-optical technologies included in both the Infinera DTN-X XTC Series and the XTM Series platforms offer the right amount of packet and optical switching integrated into efficient packet-optical platforms. This enables customers to support Ethernet and multi-protocol label switching (“MPLS”) packet transport, aggregation and service functions directly within the optical WDM layer. Operators can build highly efficient router interconnects and bandwidth engineering capabilities within the transport layer, without having to send the traffic to the router layer for transit. Our Intelligent Transport Networks not only enhance network efficiency but also provide scalable bandwidth and performance for revenue-yielding MEF-certified Carrier Ethernet and MPLS packet services.

Multi-layer Switching and Optimization

The Intelligent Transport Network combines coherent super-channels, WDM switching, non-blocking OTN switching and packet switching in a unified architecture for comprehensive flexibility. Wavelength switching using the Infinera FlexILS manages bulk WDM capacity while packet-OTN switching on the DTN-X XTC and XTM platforms manage sub-wavelength service capacity, providing a complete multi-layer transport and switched solution for any traffic mix. Operators can design and optimize their networks with the right set of platforms and tools from Infinera to achieve maximum efficiency.

Management, Control and Security

Unified network management, control and security is critical to achieving scale and service simplicity that maximizes the value of the network elements as well as the network as a whole. Infinera Management Suite is a feature-rich suite of tools that provides enhanced value for transport networks. Our Xceed suite of software products is a portfolio of SDN solutions that combines an open, multi-layer SDN control platform with applications that enhance revenue sources while increasing network efficiency. Xceed is designed for multi-layer networks and unified SDN control across end-to-end transport networks. Our advanced security capabilities within the Infinite Capacity Engine are designed to provide state-of-the-art encryption technologies at wire speed, with the highest levels of data protection.

Products and Services

Our product portfolio consists of the Infinera DTN-X Family (including the XTC Series, XTS Series and XT Series), the Infinera DTN platform, the Infinera Cloud Xpress Family, the Infinera XTM Series, the Infinera

XTG Series and the Infinera FlexILS platform, addressing long-haul, subsea and metro networks end-to-end. The emerging DCI application is a subset of these networks. We also provide software solutions including the Xceed Software Suite and Infinera Management Suite to increase the efficiency and optimization of the network.

Product Portfolio

Infinera DTN-X Family

The Infinera DTN-X Family of next-generation terabit-class transport network platforms comprises the DTN-X XTC Series, DTN-X XTS Series and the DTN-X XT Series. The DTN-X Family is positioned to meet the needs of network operators seeking to offer new and innovative services with scalability, flexibility and openness. We have designed the DTN-X Family to integrate the Infinera Infinite Capacity Engine technology for long-haul, subsea, DCI and metro networks. The DTN-X Family is designed to support Infinera Instant Bandwidth, sliceable super-channels, in-flight wire-speed encryption and the Advanced Coherent Toolkit for enhanced capacity-reach performance.

The Infinera DTN-X XTC Series are multi-terabit packet optical transport platforms that integrate Ethernet and MPLS packet services with digital OTN switching and optical WDM transmission. The highest end XTC-10 platform provides fiber capacity of 9.5 Tb/s that is designed to support up to 25 Tb/s. The XTC-4 supports a half-rack platform for more space-constrained applications. The XTC-2/2E is the smallest platform, designed for metro applications or lower capacity sites requiring 100 Gb/s dense WDM. In most competitive solutions, network operators must make a choice between maximizing either the system’s transmission capacity or its switching capability. The DTN-X XTC platforms combine switching with WDM transport without compromising the performance of either function. These platforms also support a broad range of Ethernet and OTN client interfaces for flexibility and are designed for long-haul, subsea, regional and metro mesh networks that require 100 Gb/s wavelengths.

The Infinera DTN-X XT-500 is 2 RUs high with 500Gbps line-side capacity and a mix of 10/100GbE client interfaces. It provides high levels of reliability, low power consumption and operational simplicity. It integrates with the Infinera FlexILS line system and can be managed as a single node when combined with the XTC series. The XT 500 is designed for long-haul networks that require 100Gbps wavelengths as well as long-haul DCI applications.

The Infinera DTN-X XT Series and XTS Series are recently announced small-form-factor, server-like meshponder WDM platforms, which are designed to blend sliceable photonics and muxponder functionality to deliver hyperscalable WDM (up to 2.4 Tb/s) along with fine-grained granularity. The platforms expected to be released in 2017 are optimized for delivery of cloud scale network services over subsea, long-haul, DCI and metro networks.

Infinera DTN Platform

The Infinera DTN platform is built on 100 Gb/s PIC technology, integrating digital OTN switching with optical WDM transmission at 10 Gb/s wavelengths for a fiber capacity of 1.6 Tb/s and per-chassis capacity of 400 Gb/s. It supports a broad range of Ethernet and OTN client interfaces for flexibility. The platform is designed for long-haul, subsea and regional mesh networks that require 10 Gb/s wavelengths.

Infinera XTM Series

The Infinera XTM Series carrier-grade packet-optical transport platform enables high-performance metro networks with service-aware, application-specific capabilities. Supporting integrated packet-optical features, the XTM Series builds on key design philosophies such as low power, high density and high scalability. It offers advanced capabilities for 3G and 4G mobile infrastructure such as superior sync features for backhaul, WDM in cloud radio access network architecture and fronthaul. The platform supports the Intelligent WDM Passive Optical Network solution providing simple operations for FTTx (fiber to the X) applications along with Intelligent Small-form-factor Pluggables for transparent delivery of Synchronous Digital Hierarchy/Synchronous Optical Networking services over a packet-optical network. It provides error correction, OTN transport, Ethernet, MPLS - transport profile (“MPLS-TP”) and optics, all on one packet optical transport switch module. It includes a fully backwards compatible terabit scale packet-optical transport switching with a rich set of MEF Carrier Ethernet 2.0 and MPLS-TP service options. This platform is designed for application-rich packet-optical metro and regional networks providing cable, mobile, broadband and business services that require 10 Gb/s and 100 Gb/s wavelengths.

Infinera XTG Series

The Infinera XTG Series is a family of passive optical WDM products. Designed for metro access applications, it fits in a wide range of applications from controlled environments in central offices to street cabinets or even underground enclosures such as manhole applications that require environmentally hardened products, such as fiber to the curb, fiber to the building and high-security access networks. The XTG Series is fully compatible and interoperable with the XTM Series.

Infinera Cloud Xpress Platform

The Infinera Cloud Xpress Family includes multiple platforms designed to meet the varying needs of cloud service providers, ICPs, internet exchange service providers, enterprises and other large-scale data center operators. The first generation of the Cloud Xpress includes four models supporting varying configurations of 10 GbE, 40 GbE and 100 GbE Ethernet ports for client-side connectivity, and a 500 Gb/s WDM super-channel output, all in 2 RUs. Due to be released in 2017, our second generation, the Cloud Xpress 2, based on the Infinera Infinite Capacity Engine, is designed for scalable 100 GbE DCI over a 1.2 Tb/s super-channel output in 1 RU. These platforms are designed with a rack-and-stack form factor and a new software approach that enables them to easily plug into existing cloud provisioning systems using open SDN APIs, an approach similar to the server and storage infrastructure deployed in the cloud.

Infinera FlexILS Open Line System

The Infinera FlexILS open line system platform connects various Infinera and third-party terminal equipment platforms over long-distance fiber optic cable while providing switching, multiplexing, amplification and management channels. It is designed to support over 50 Tb/s of fiber capacity when used with the Infinera DTN-X platform over extended C-band and L-band. The platform supports a flexible grid architecture and provides unconstrained optical switching by eliminating the restrictions of fixed wavelengths per port (colorless), allows any wavelength to be added/dropped to/from any direction (directionless), and enables multiple copies of the same wavelength on a single add/drop structure (contentionless) for a comprehensive C/CD/CDC ROADM (Reconfigurable Optical Add Drop Multiplexer) solution up to 20 degrees. The FlexILS platform is designed to provide open APIs interfacing with SDN control for multi-layer switching when combined with other platforms featuring WDM, OTN and packet switching.

Software and Services

Infinera Xceed Software Suite

Infinera’s Xceed Software Suite delivers an open, purpose-built multi-layer SDN platform and revenue-ready applications, leveraging the scalability, flexibility and openness of Infinera transport networks. It is designed to deliver revenue-ready applications including Dynamic Bandwidth and Instant Virtual Networks and is built to be open, extensible and optimized for multi-layer control. The Xceed Software Suite controls networks from metro to long-haul, and takes advantage of terabit-scale, pre-deployed capacity to accelerate time-to-market for SDN-based applications and services. Infinera’s Xceed Software Suite is powered by open source software and interfaces with third-party solutions via open APIs to provide revenue-ready applications for agile, assured orchestration of new services.

Infinera Management Suite

The Infinera Management Suite is a network management system used by network operators to manage all Infinera platforms in an integrated manner. The suite includes DNA, a scalable, robust, feature-rich element management system for the entire Infinera product portfolio. The suite also includes Graphical Node Manager, an easy-to-use web-based management interface and Network Planning System for offline graphical modeling, planning and configuration capabilities.

Customer Support Services

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

Our support organization continues to scale and provide world-class services that successfully support customers in over 80 countries around the world. In addition, we continue to expand our services portfolio in order to meet the evolving needs of our customers.

Competition

Our current technologies and platforms support three transport equipment markets - long-haul/subsea, DCI and metro.

The optical transport networking equipment market for long-haul and subsea networks is highly competitive but has consolidated significantly over the last decade. The metro market is a highly competitive market that we entered in 2015. The DCI market, which is a subset of the long-haul and metro markets, is a relatively new market that we expect to be highly competitive. Competition in the markets we serve is based on any one or a combination of the following factors:

- price and other commercial terms;
- functionality;
- form factor or density;
- power consumption;
- heat dissipation;
- customer qualification testing;
- existing business and customer relationships;
- the ability of products and services to meet customers' immediate and future network requirements;
- installation and operational simplicity;
- service and support;
- security and encryption requirements;
- scalability and investment protection; and
- product lead times.

Competition in the optical transport equipment market is intense, and we expect such competition to increase. In the long-haul market, our main competitors include WDM suppliers such as Ciena Corporation, Coriant, Huawei, Nokia and ZTE. In the metro market, we face the same competitors as in long-haul, plus Cisco Systems, Inc., ADVA Optical Networking and Fujitsu. In addition, there are several smaller but established companies that offer one or more products that compete with our offerings. During 2016, several competitors including many named above announced or started to ship competing small-form-factor DCI solutions. In addition to the current competitors, other companies have, or may in the future develop, products that are or could be competitive with our products. We also expect to encounter further consolidation in the markets in which we compete. Consolidation among our competitors could lead to a changing competitive landscape, capabilities and market share, which could harm our results of operations.

Some of our competitors have substantially greater name recognition and technical, financial and marketing resources along with better established relationships with service providers and other potential customers than we have. Many of our competitors have more resources and more experience in developing or acquiring new products and technologies and in creating market awareness for those products and technologies. In addition, many of our competitors have the financial resources to offer competitive products at aggressive pricing levels that could prevent us from competing effectively. Further, many of our competitors have built long-standing relationships with some of our prospective customers and have the ability to provide financing to customers and could, therefore, have an inherent advantage in selling products to those customers.

Sales and Marketing

We market and sell our products and related support services primarily through our direct sales force, supported by marketing and product management personnel. We also use distribution or support partners to enter new markets or when requested by a potential customer. Our sales team has significant previous experience with the buying process and sales cycles typical of high-value telecommunications products.

The sales process for our products entails discussions with prospective customers, analyzing their networks and identifying how they can utilize our systems capabilities within their networks. This process requires developing strong customer relationships, and 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, potential customers often test our products before buying. Prior to commercial deployment, the customer will generally perform a field trial of our products. Upon successful completion, the customer generally accepts the products installed in its network and may continue with commercial deployment of additional products. We anticipate that our sales cycle, from initial contact with a 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, Australia, Belgium, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, Singapore, South Africa, Spain, Sweden, Russia and the United Kingdom. We continued to expand our sales force in 2016 to increase our presence in certain key customer verticals 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 and, resale and logistics partners 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 and support of our products.

Marketing and Product Management. Our product management team is responsible for defining the product features and go-to-market plan required to maximize our success in the marketplace. Product management supports our sales efforts with product and application expertise. Our corporate marketing team works to create demand for our products by communicating our value proposition and differentiation through direct customer interaction, public relations, attendance at tradeshows and other events, as well as programs 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, software and components. Our research and development efforts are currently focused in Sunnyvale, California; Allentown, Pennsylvania; Beijing, China; Bangalore, India; Kanata, Canada; and Stockholm, Sweden. We have invested significant time and financial resources into the enhancement of existing products and the development of new products. We will continue to expand our product offerings and the capabilities of existing products in the future and plan to dedicate significant resources to these continued research and development efforts. We are continually increasing the scalability and software features of our current platforms. We are also working to develop new generations of optical engines, and we intend to enable further integration in the Infinera Intelligent Transport Network architecture through continued research and development. We also plan to increase the cadence by which we bring new products to market. We believe that these efforts will continue to allow us to be competitive in the markets we currently serve but will allow us to address adjacent markets to fuel our future growth.

Our research and development expenses were $232.3 million, $180.7 million and $133.5 million in 2016, 2015 and 2014, respectively.

Employees

As of December 31, 2016, we had 2,240 employees. A total of 1,034 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 products. This includes significant investments in personnel, equipment and the facilities needed to manufacture and package our products 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 through a combination of trade secrets, patents and contractual protections. We believe that the investments we have made towards the manufacturing and packaging of our products provide us with a significant competitive advantage. We also believe that our current manufacturing facilities, including our fabrication facility for our PICs in Sunnyvale, California, can accommodate an increase in production capacity as our business continues to grow.

We also use contract manufacturers to assemble portions of our products. Each contract manufacturer procures components necessary to assemble the products in our forecast according to our specifications and bills of material. Despite outsourcing certain 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. We currently use four contract manufacturers in six different countries, China, Malaysia, Mexico, Sweden, Hungary and Thailand, as well as the capability to redirect manufacturing to U.S. qualified factories of three electronic manufacturing services partners.

We expect all suppliers to comply with our Supplier Code of Conduct, which addresses the rights of workers to safe and healthy working conditions, environmental responsibility and compliance with applicable laws.

Backlog

As of December 31, 2016 and December 26, 2015, our total order backlog was approximately $74.0 million and $87.1 million, respectively. Our backlog represents purchase orders received from customers for future shipments. Our backlog is subject to future events that could cause the amount or timing of the related revenue to change, and, in certain cases, may be canceled without penalty. Orders in backlog may be fulfilled several quarters following receipt or may relate to multi-year support service obligations. As a result, we believe that backlog should not be viewed as an accurate indicator of future operating results for any particular period. A backlogged order may not result in revenue in a particular period, and the actual revenue may not be equal to our backlog amounts. Our presentation of backlog may not be comparable with that of other companies in our industry.

Intellectual Property

We believe our success depends upon our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, as well as customary contractual protections.

Our PIC and PIC manufacturing processes, including design, fabrication and testing of our PICs, are protected through a combination of patents, trade secrets and contractual protections. However, there can be no assurances that these protections will be sufficient to provide us with a competitive advantage or that others have not or will not reverse engineer our designs or discover, develop or disclose the same or similar designs and manufacturing processes.

As of December 31, 2016, we held 386 U.S. patents and 80 international patents expiring between 2021 and 2036, and held 118 U.S. and 47 foreign pending patent applications. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims.

We may not receive any competitive advantages from the rights granted under our patents and other intellectual property. Any patents granted to us may be contested, circumvented or invalidated over the course of our business, and we may not be able to prevent third parties from infringing these patents. Therefore, the impact of these patents cannot be predicted with certainty.

We believe that the frequency of assertions of patent infringement is increasing as patent holders, including entities that are not in our industry and who purchase patents as an investment or to monetize such rights by obtaining royalties, use such actions as a competitive tactic as well as a source of additional revenue. For example, we are currently involved in litigation for alleged patent infringement. See Item 3. “Legal Proceedings” for additional information regarding this lawsuit. Any claim of infringement from a third party, even those without merit, could cause us to incur substantial costs defending against such claims, and could distract our management from running our business. Furthermore, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages or could include an injunction or other court order that could prevent us from offering our products. In addition, we might be required to seek a license for the use of such intellectual property, which may not be available on commercially reasonable terms or at all. Alternatively, we may be required to develop non-infringing technology, which would require significant effort and expense and may ultimately not be successful.

In addition to trade secret and patent protections, we generally control access to and the use of our proprietary software and other confidential information. This protection is accomplished through a combination of internal and external controls, including contractual protections with employees, contractors, customers and partners, and through a combination of U.S. and international copyright laws.

We license some of our software pursuant to agreements that impose restrictions on our customers’ ability to use such software, such as prohibiting reverse engineering and limiting the use of copies. We also seek to avoid disclosure of our intellectual property by relying on non-disclosure and assignment of intellectual property agreements with our employees and consultants that acknowledge our exclusive ownership of all intellectual property developed by the individual during the course of his or her work with us. The agreements also require that each person maintain the confidentiality of all proprietary information disclosed to them. Other parties may not comply with the terms of their agreements with us, and we may not be able to enforce our rights adequately against these parties. We also rely on contractual rights to establish and protect our proprietary rights in our products.

We incorporate 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

We are committed to maintaining compliance with all environmental laws and regulations applicable to our operations, products and services. Our business and operations are subject to various federal, state, local and foreign laws and regulations that have been adopted with respect to the environment, including the Waste Electrical and Electronic Equipment (“WEEE”) Directive, Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (“RoHS”), and Registration, Evaluation, Authorization, and Restriction of Chemicals (“REACH”) regulations adopted by the European Union. Environmental regulation is increasing and we expect that our operations will be subject to additional environmental compliance requirements, which may expose us to additional costs. We are also subject to disclosure requirements related to the presence of "conflict minerals" in our products. To date, our compliance costs relating to environmental regulations have not resulted in a material adverse effect on our business, results of operations or financial condition.

Business Segment Data and Our Foreign Operations

We operate in the single industry segment of optical transport networking systems. Information concerning revenue, results of operations and revenue by geographic area is set forth in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 16, “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 16, “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

Our executive officers and their ages and positions as of December 31, 2016, are set forth below:

Name	Age	Position
Thomas J. Fallon	55	Chief Executive Officer and Director
David F. Welch, Ph.D.........	56	Co-founder, President and Director
Brad D. Feller	43	Chief Financial Officer
Robert J. Jandro	61	Senior Vice President, Worldwide Sales
James L. Laufman	51	Senior Vice President, General Counsel and Corporate Secretary

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

David F. Welch, Ph.D. co-founded our company and has served as our President since June 2013. Dr. Welch has 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, and from October 2010 to present. Prior to joining us, Dr. Welch served in various executive roles, including as Chief Technology Officer of the Transmission Products Group of JDS Uniphase Corporation, an optical component company, and 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. Dr. Welch holds a B.S. in Electrical Engineering from the University of Delaware and a Ph.D. in Electrical Engineering from Cornell University.

Brad D. Feller was appointed as our Chief Financial Officer in March 2014 after joining us as Senior Vice President of Finance in January 2014. Prior to joining us, Mr. Feller served as Interim Chief Financial Officer of Marvell Technology Group Ltd., a fabless semiconductor company, from October 2012 to December 2013, and as Marvell's Vice President, Corporate Controller, from September 2008 to October 2012. Prior to Marvell, Mr. Feller served as Corporate Controller for Integrated Device Technology, Inc., a semiconductor company, from April 2005 to September 2008 and Financial Reporting Manager from October 2003 to April 2005. Prior to that, Mr. Feller served in various roles at Ernst & Young LLP in the technology practice. Mr. Feller is a certified public accountant (inactive) in the State of California and holds a B.S. degree in Business Administration from San Jose State University.

Robert J. Jandro has served as our Senior Vice President, Worldwide Sales, since May 2013. Prior to joining us, Mr. Jandro served as Vice President of Business Development of Openwater Software, Inc., a large data and analytics cloud company, from January 2008 to August 2012. From February 2004 to November 2006, Mr. Jandro served as Chief Executive Officer and President of Nsite Software, Inc., an early cloud company acquired by Business Objects. From March 2000 to August 2002, Mr. Jandro served as Executive Vice President of Global Sales and Services for ONI Systems, an optical networking company. Prior to that, Mr. Jandro worked at Oracle where he last served as the Group Vice President of Oracle's Communications and Utilities Industries. Mr. Jandro holds a M.S. in Management from Northwestern University's Kellogg Graduate School of Management and a B.S. in Business from the University of Missouri-St. Louis.

James L. Laufman has served as our Senior Vice President, General Counsel and Corporate Secretary since October 2014. Prior to joining us, Mr. Laufman served as Vice President and General Counsel of Marvell Semiconductor, Inc. from October 2008 to October 2014. From September 1999 to October 2008. Mr. Laufman served as Vice President, General Counsel and Secretary of Integrated Device Technology, Inc. Prior to that, Mr. Laufman served as Senior Corporate Counsel for Quantum Corporation from January 1999 to September 1999. From November 1994 to December 1998, Mr. Laufman served as Vice President and General Counsel of Rohm Corporation. From December 1990 to November 1994, Mr. Laufman worked as an Associate Attorney at the Berliner Cohen and Popelka Allard law firms specializing in the litigation and resolution of commercial transaction matters. Mr. Laufman holds a B.S. in Business Administration, Finance (cum laude) from California State University, Chico and a J.D. from Santa Clara University School of Law.

Available Information

Our website address is *http://www.infinera.com*. Information contained on our website or any website referred to in this Form 10-K is not incorporated by reference unless expressly noted. We file reports with the Securities and Exchange Commission ("SEC"), which we make available on our website free of charge. These reports include Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to such reports, each of which is provided on our website as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC. 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. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report on Form 10-K and in our other public filings.

Our quarterly results may vary significantly from period to period, which could make our future results difficult to predict and could cause our operating results to fall below investor or analyst expectations.

Our quarterly results, in particular, our revenue, gross margins, operating expenses, operating margins and net income (loss), have historically varied from period to period and may continue to do so in the future. As a result, comparing our operating results on a period-to-period basis may not be meaningful. Our budgeted expense levels are based, in large part, on our expectations of future revenue and the development efforts associated with that future revenue. 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 to execute and may take significant 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 potential operating losses. For example, in the third quarter of 2016 and fourth quarter of 2016, we had operating losses of $10.9 million and $45.9 million, respectively, as a result of lower than expected revenue, lower gross margins and increased operating expenses.

Factors that may contribute to fluctuations in our quarterly results, many of which are outside our control and may be difficult to predict, include:

- fluctuations in demand, sales cycles and prices for products and services, including discounts given in response to competitive pricing pressures, as well as the timing of purchases by our key customers;
- changes in customers' budgets for optical transport network equipment purchases and changes or variability in their purchasing cycles;
- fluctuations in our customer, product or geographic mix, including the impact of new customer deployments, which typically carry lower gross margins, and increased customer consolidation, which may affect our ability to grow revenue;
- the timing of new product releases;
- how quickly, or at all, the markets in which we operate adopt our solutions;
- order cancellations or reductions or delays in delivery schedules by our customers;
- our ability to control costs, including our operating expenses and the costs and availability of components we purchase for our products;
- our ability to maintain volumes and yields on products manufactured in our internal manufacturing facilities;
- any significant changes in the competitive dynamics of our market, including any new entrants, or customer or competitor consolidation;
- readiness of customer sites for installation of our products as well as the availability of third party suppliers to provide contract engineering and installation services for us;
- the timing of recognizing revenue in any given quarter, including the impact of revenue recognition standards and any future changes in U.S. GAAP or new interpretations of existing accounting rules;
- the impact of a significant natural disaster, such as an earthquake, severe weather, or tsunami or other flooding, as well as interruptions or shortages in the supply of utilities such as water and

electricity, in a key location such as our Northern California facilities, which is located near major earthquake fault lines and in a designated flood zone; and

- general economic conditions in domestic and international markets.

Many factors affecting our results of operations are beyond our control and make it difficult to predict our results for a particular quarter or to accurately predict future revenue beyond a one-quarter time horizon. If our revenue or operating results do not meet the expectations of investors or securities analysts or fall below any guidance we provide to the market, the price of our common stock may decline substantially.

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

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

At any given time, various new product introductions and enhancements to our existing products, including future products based on our next-generation PICs and specialized ASICs, 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 development and completion of our next-generation PICs and specialized ASICs, 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.

Our ability to increase our revenue will depend upon continued growth of demand by consumers and businesses for additional network capacity and on the level and timing of capital spending by our customers.

Our future success depends on factors that increase the amount of data transmitted over communications networks and the growth of optical transport networks to meet the increased demand for optical capacity. These factors include the growth of mobile, video and cloud-based services, increased broadband connectivity and the continuing adoption of high-capacity, revenue-generating services. If demand for such bandwidth does not continue, or slows down, the need for increased bandwidth across networks and the market for optical transport networking equipment may not continue to grow and our product sales would be negatively impacted.

In addition, demand for our products depends on the level and timing of capital spending in optical networks by service providers as they construct, expand and upgrade the capacity of their optical networks. Capital spending is cyclical in our industry and spending by customers can change on short notice. Any future decisions by our customers to reduce capital spending, whether caused by weakening economic conditions, changes in government regulations relating to telecommunications and data networks, or other reasons, could have a material adverse effect on our business, results of operations and financial condition.

Increased consolidation among our customers in the communications networking industry could adversely affect our business, financial condition and results of operations.

We have seen increased consolidation in the communications networking industry. For example, during 2016, Charter Communications completed its acquisition of Time Warner Cable, Inc. and Altice completed its acquisition of Cablevision, and during the first quarter of 2017, Verizon completed its acquisition of XO Communications. In addition, in 2016, CenturyLink announced its intent to acquire Level 3 Communications. In the short term, customer consolidation can lead to changes in buying patterns, slowdown in spending, redeployment of existing equipment or re-architecture of parts of an existing network or future networks, as the combined companies evaluate the needs of the combined business. In the longer term, the significant purchasing power of these large companies could increase pricing and competitive pressures for us, including the potential for decreases in our average selling prices. If one of our customers is acquired by another company that does not rely on us to provide it with products or relies on another provider of similar products, we may lose that customer's business. Such consolidation may further reduce the number of customers that generate a significant percentage of our net revenue and may exacerbate the risks relating to dependence on a small number of customers. Any of the foregoing results could adversely affect our business, financial condition and results of operations.

We are dependent on a small number of key customers for a significant portion of our revenue from period to period and the loss of, or a significant reduction in, orders from one or more of our key customers would reduce our revenue and harm our operating results.

A relatively small number of customers account for a large percentage of our revenue from period to period. For example, for the fiscal year 2016, our top two customers accounted for approximately 25% of our total revenue and for fiscal year 2015, our top two customers accounted for approximately 30% of our total 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, delay anticipated product purchases, or substantially reduce their orders to us. In addition, our business will be harmed if we fail to maintain our competitive advantage with our key customers. While we view our diverse customer base across multiple customer verticals as a strength, we expect a relatively small number of customers to continue to account for a large percentage of revenue from period to period.

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 canceled or reduced readily. In the event of a cancellation or reduction of an order, we may not have enough time to reduce operating expenses to minimize the effect of the lost revenue on our business. Our operating results will continue to depend on our ability to sell our products to our key customers.

Our gross margin 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 margin fluctuates from period-to-period and varies by customer and by product. Over the past eight fiscal quarters, our gross margin has ranged from 38.1% to 47.8%. Our gross margin is likely to continue to fluctuate and will be affected by a number of factors, including:

- the mix in any period of the types of customers purchasing our products as well as the product mix;
- significant new deployments to existing and new customers, often with a higher portion of lower margin common equipment as we deploy network footprint;
- pricing and commercial terms designed to secure long-term customer relationships;
- the volume of Infinera Instant Bandwidth-enabled solutions sold, and Infinera Instant Bandwidth licenses activated;
- price discounts negotiated by our customers;
- charges for excess or obsolete inventory;
- changes in the price or availability of components for our products;
- changes in our manufacturing costs, including fluctuations in yields and production volumes; and
- changes in warranty related costs.

It is likely that the average unit prices of our products will decrease over time in response to competitive pricing pressures, increased negotiated sales discounts, new product introductions by us or our competitors or other factors. In addition, some of our customer contracts contain clauses that require us to annually decrease the sales price of our products to these customers. In response, we will need to reduce the cost of our products through manufacturing efficiencies, design improvements and cost reductions from our supply partners. If these efforts are not successful or if we are unable to reduce our costs by more than the reduction in the price of our products, our 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 this often results in aggressive business tactics by our competitors, including:

- aggressively pricing their optical transport products and other portfolio products, including offering significant one-time discounts and guaranteed future price decreases;
- offering optical products at a substantial discount or for free when bundled together with broader technology purchases, such as router or wireless equipment purchases;
- providing financing, marketing and advertising assistance to customers;
- influencing customer requirements to emphasize different product capabilities, which better suit their products; and
- offering to repurchase our equipment from existing customers.

The level of competition and pricing pressure tend to increase when competing for larger high-profile opportunities or during periods of economic weakness when there are fewer network build-out projects. If we fail to compete successfully against our current and future competitors, or if our current or future competitors continue or expand their aggressive business tactics, including those described above, demand for our products could decline, we could experience delays or cancellations of customer orders, and/or we could be required to reduce our prices to compete in the market.

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 does not result in network disruption for our customers. We believe our future success will depend in large part upon our ability to identify, attract and retain highly skilled 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.

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

Competition in the optical transport networking equipment market is intense, and we expect such competition to increase. In the long-haul market, our main competitors include WDM suppliers, such as Ciena, Coriant, Huawei, Nokia and ZTE. In the metro market we face the same competitors as in long-haul, plus Cisco, ADVA and Fujitsu. In addition, there are several smaller but established companies that offer one or more products that compete with our offerings. During 2016, several competitors including many named above announced or started to ship competing small-form-factor DCI solutions.

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

- price and other commercial terms;
- functionality;
- form factor or density;
- power consumption;
- heat dissipation;
- customer qualification testing;
- existing business and customer relationships;
- the ability of products and services to meet customers’ immediate and future network requirements;
- installation and operational simplicity;
- service and support;
- security and encryption requirements;
- scalability and investment protection; and
- product lead times.

In addition to the current competitors, other companies have, or may in the future develop, products that are or could be competitive with our products. We also expect to encounter further consolidation in the markets in which we compete. Consolidation among our competitors could lead to a changing competitive landscape, capabilities and market share, which could harm our results of operations.

Some of our competitors have substantially greater name recognition and technical, financial and marketing resources along with better established relationships with service providers and other potential customers than we have. Many of our competitors have more resources and more experience in developing or acquiring new products and technologies and in creating market awareness for those products and technologies. In addition, many of our competitors have the financial resources to offer competitive products at aggressive pricing levels that could prevent us from competing effectively. Further, many of our competitors have built long-standing relationships with some of our prospective customers and have the ability to provide financing to customers and could, therefore, have an inherent advantage in selling products to those customers.

We also compete with low-cost producers that can increase pricing pressure on us and a number of smaller companies that provide competition for a specific product, customer segment or geographic market. In addition, we may also face increased competition from system and component companies that develop products based on commoditized or off-the-shelf hardware. These competitors often base their products on the latest commercially available technologies. Due to the narrower focus of their efforts, these competitors may achieve commercial availability of their products more quickly than we can and may provide attractive alternatives to our customers.

We must respond to rapid technological change and comply with evolving industry standards and requirements for our products to be successful.

The optical transport networking equipment market is characterized by rapid technological change, changes in customer requirements and evolving industry standards. We continually invest in research and development to sustain or enhance our existing products, but the introduction of new communications technologies and the emergence of new industry standards or requirements could render our products obsolete. Further, in developing our products, we have made, and will continue to make, assumptions with respect to which standards or requirements will be adopted by our customers and competitors. If the standards or requirements adopted by our prospective customers are different from those on which we have focused our efforts, market acceptance of our products would be reduced or delayed and our business would be harmed.

We are continuing to invest a significant portion of our research and development efforts in the development of our next-generation products. We expect our competitors 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.

Our business and operations have experienced rapid growth in recent years, including growth related to the acquisition of Transmode, and if we do not effectively manage any future growth or are unable to improve our systems, processes and controls, our operating results may be adversely affected.

We have experienced rapid growth and increased demand for our products in recent years. In addition, in periods of strong growth, our employee headcount and number of end customers have increased significantly. For example, from the end of fiscal 2014 to the end of fiscal 2016, our headcount increased from 1,495 to 2,240 employees. The growth and expansion of our business and product and service offerings places a continuous significant strain on our management, and operational and financial resources. To manage any future growth effectively, we must continue to improve and expand our information technology and financial infrastructure, our operating and administrative systems, and our ability to manage headcount and retain key talent.

We may not be able to successfully scale improvements to our enterprise resource planning system or implement or scale improvements to our other systems, processes and controls in an efficient or timely manner, or in a manner that does not negatively affect our operating results. In addition, our existing systems, processes and controls may not prevent or detect all errors, omissions or fraud. We may experience difficulties in managing improvements to our systems, processes and controls, or in connection with third-party software, which could disrupt existing customer relationships, cause us to lose customers, or increase our technical support costs. Our failure to improve our systems, processes and controls, or their failure to operate in the intended manner, may result in our inability to manage the growth of our business and to accurately forecast our revenue, expenses and earnings, or to prevent certain losses. Failure to manage any future growth effectively could result in increased costs, negatively impact our customers' satisfaction with our products and services, and harm our operating results.

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

Many of our customers are large 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. We have and may continue to agree to unfavorable commercial terms with these customers, including the potential of reducing the average selling price of our products, increasing cost of sales or agreeing to extended payment terms in response to these commercial requirements or competitive pricing pressures. To maintain acceptable operating results, we will need to comply with these commercial terms, develop and introduce new products and product enhancements on a timely basis, and continue to reduce our costs.

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

The manufacturing process for our PICs and certain components of our products is very complex. In the event that any of the manufacturing facilities utilized to build these components 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 damage customer relations and cause business reputation problems, harming our business and operating results.

Our inability to obtain sufficient manufacturing capacity to meet demand, either in our own facilities or through foundry or similar arrangements with third parties, could harm our relationships with our customers, our business and our operating results.

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

The loss of a source of supply, or lack of sufficient availability of key components, could require us to redesign products that use such components, which could result in lost revenue, additional product costs and deployment delays that could harm our business and customer relationships. In addition, if 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 the past, we have experienced delivery delays because of lack of availability of components or reliability issues with components that we were purchasing. In addition, some of our suppliers have gone out of business, merged with another supplier, or limited their supply of components to us, which may cause us to experience longer than normal lead times 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 problems experienced by our suppliers or contract manufacturers, strong demand in the industry for such components, or other disruptions in our supply chain. In addition, global macroeconomic conditions are 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. Any failure to meet our customers' product delivery requirements could harm our reputation and our customer relationships, either of which would harm our business and operating results.

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

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 portion of the manufacturing of our products, and our future success will depend on our ability to have sufficient volumes of our products manufactured in a cost-effective and quality-controlled manner. We have engaged third parties to manufacture certain elements of our products at multiple contract manufacturing sites located around the world but do not have long-term agreements in place with some of our manufacturers and suppliers that will guarantee product availability, or the continuation of particular pricing or payment terms. There are a number of risks associated with our dependence on contract manufacturers, including:

- reduced control over delivery schedules, particularly for international contract manufacturing sites;
- reliance on the quality assurance procedures of third parties;
- potential uncertainty regarding manufacturing yields and costs;
- potential lack of adequate capacity during periods of high demand;
- potential uncertainty related to the use of international contract manufacturing sites;
- limited warranties on components;
- 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. If our contract manufacturers are unable or unwilling to continue manufacturing our products or components of our products in required volumes or our relationship with any of our contract manufacturers is discontinued for any reason, we would be required to identify and qualify alternative manufacturers, which could cause us to be unable to meet our supply requirements to our customers and result in the breach of our customer agreements. Qualifying a new contract manufacturer and commencing volume production is expensive and time-consuming and if we are required to change or qualify a new contract manufacturer, we could lose revenue and damage our customer relationships.

If we fail to protect our intellectual property rights, our competitive position could be harmed or we could incur significant expense to enforce our rights.

We depend on our ability to protect our proprietary technology. We rely on a combination of methods to protect our intellectual property, including limiting access to certain information, and utilizing trade secret, patent, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. The steps we have taken to protect our proprietary rights may be inadequate to preclude misappropriation or unauthorized disclosure of our proprietary information or infringement of our intellectual property rights, and our ability to police such misappropriation, unauthorized disclosure or infringement is uncertain, particularly in countries outside of the United States. This is likely to become an increasingly important issue if we expand our operations and product development into countries that provide a lower level of intellectual property protection. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims, and even if patents are issued, they may be contested, circumvented or invalidated. Moreover, the rights granted under any issued patents may not provide us with a competitive advantage, and, as with any technology, competitors may be able to develop similar or superior technologies to our own now or in the future.

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

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

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In particular, many leading companies in the optical transport networking industry, including our competitors, have extensive patent portfolios with respect to optical transport networking technology. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. From time to time, third parties may assert exclusive patent, copyright, trademark and other intellectual property rights to technologies and related standards that are important to our business or seek to invalidate the proprietary rights that we hold. Competitors or other third parties have, and may continue to assert claims or initiate litigation or other proceedings against us or our manufacturers, suppliers or customers alleging infringement of their proprietary rights, or seeking to invalidate our proprietary rights, with respect to our products and technology. In addition, we have had certain patent licenses with third parties that have not been renewed, and if we cannot successfully renew these licenses, we could face claims of infringement. In the event that we are unsuccessful in defending against any such claims, or any resulting lawsuit or proceedings, we could incur liability for damages and/or have valuable proprietary rights invalidated.

Any claim of infringement from a third party, even one without merit, could cause us to incur substantial costs defending against the claim, and could distract our management from running our business. Furthermore, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages or could include an injunction or other court order that could prevent us from offering our products. In addition, we might be required to seek a license for the use of such intellectual property, which may not be available on commercially reasonable terms or at all. Alternatively, we may be required to develop non-infringing technology, which would require significant effort and expense and may ultimately not be successful. Any of these events could harm our business, financial condition and operating results. Competitors and other third parties have and may continue to assert infringement claims against our customers and sales partners. Any of these claims would require us to initiate or defend potentially protracted and costly litigation on their behalf, regardless of the merits of these claims, because we generally indemnify our customers and sales partners from claims of infringement of proprietary rights of third parties. If any of these claims succeed, we may be forced to pay damages on behalf of our customers or sales partners, which could have an adverse effect on our business, financial condition and operating results.

We may also be required to indemnify some customers under our contracts if a third party alleges, or a court finds, that our products have infringed upon the proprietary rights of other parties. From time to time, we have agreed to indemnify select customers for claims made against our products, where such claims allege infringement of third party intellectual property rights, including, but not limited to, patents, registered trademarks and/or copyrights. If we are required to make a significant payment under any of our indemnification obligations, our result of operations may be harmed.

We incorporate 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.

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

Our products can have a lengthy sales cycle, which can extend from six to twelve months and may take even longer for larger prospective customers. Our prospective customers conduct significant evaluation, testing, implementation and acceptance procedures before they purchase our products. We incur substantial sales and marketing expenses and expend significant management effort during this time, regardless of whether we make a sale.

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

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

The trading prices of our common stock and the securities of other technology companies have been and may continue to be highly volatile. Factors affecting the trading price of our common stock include:

- variations in our operating results;
- announcements of technological innovations, new services or service enhancements, the gain or loss of customers, strategic alliances or agreements by us or by our competitors;
- market conditions in our industry, the industries of our customers and the economy as a whole;
- changes in the estimates of our future operating results or external guidance on those results or changes in recommendations or business expectations by any securities analysts that elect to follow our common stock;
- recruitment or departure of key personnel;
- mergers and acquisitions by us, by our competitors or by our customers; and
- adoption or modification of regulations, policies, procedures or programs applicable to our business.

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

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

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

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

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

- reduced demand for our products as a result of constraints on capital spending by our customers;
- increased price competition for our products, not only from our competitors, but also as a result of our customer's or potential customer's utilization of inventoried or underutilized products, which could put additional downward pressure on our near term gross profits;
- risk of excess or obsolete inventories;
- excess manufacturing capacity and higher associated overhead costs as a percentage of revenue; and
- more limited ability to accurately forecast our business and future financial performance.

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

Product performance problems, including undetected errors in our hardware or software, or deployment delays could harm our business and reputation.

The development and production of products with high technology content is complicated and often involves problems with software, 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 issues in the past in connection with our products, including failures due to the receipt of faulty components from our suppliers. In addition, performance issues can be heightened during periods where we are developing and introducing multiple new products to the market, as any performance issues we encounter in one technology or product could impact the performance or timing of delivery of other products. Our products may suffer degradation of performance and reliability over time.

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

- reduced orders from existing customers;
- declining interest from potential customers;
- delays in our ability to recognize revenue or in collecting accounts receivables;
- costs associated with fixing 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; and
- payment of liquidated damages, performance guarantees or similar penalties.

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

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

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 the $150.0 million 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; and
- 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.

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 that may be beyond our control. There can be no assurance that our business will generate positive cash flow from operations, or that additional capital will be available to us, in an amount sufficient to enable us to meet our debt payment obligations and to fund other liquidity needs. If we are unable to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we 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 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 need additional capital in the future, it may not be available to us on favorable terms, or at all.

Our business requires significant capital. We have historically relied on outside debt or equity financing as well as cash flow from operations to fund our operations, capital expenditures and expansion. We may require additional capital from equity or debt financings in the future to fund our operations or respond to competitive pressures or strategic opportunities. 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.

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

Sales of our products into international markets are an important part of our business. During fiscal years 2016 and 2015, we derived approximately 38% and 32%, respectively, of our revenue from customers outside of the United States. We expect that significant management attention and financial resources will be required for our international activities over the foreseeable future as we continue to expand our international presence. We have a limited history and experience selling our products into international markets, such as Asia Pacific, Middle East and Africa, and Latin America. Furthermore, in some countries, our success in selling our products and growing revenue will depend in part on our ability to form relationships with local partners. Our inability to identify appropriate partners or reach mutually satisfactory arrangements for international sales of our products could impact our ability to maintain or increase international market demand for our products. In addition, many of the companies we compete against internationally have greater name recognition and a more substantial sales and marketing presence.

We have sales and support personnel in numerous countries worldwide. In addition, we have established development centers in Canada, China, India and Sweden. There is no assurance that our reliance upon development resources in international locations will enable us to achieve meaningful cost reductions or greater resource efficiency.

Our international operations are subject to inherent risks, and our future results could be adversely affected by a variety of factors, many of which are outside of our control, including:

- greater difficulty in collecting accounts receivable and longer collection periods;
- difficulties of managing and staffing international offices, and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- political, social and economic instability, including wars, terrorism, political unrest, boycotts, curtailment of trade and other business restrictions;
- tariff and trade barriers and other regulatory requirements or contractual limitations on our ability to sell or develop our products in certain foreign markets;
- less effective protection of intellectual property than is afforded to us in the United States or other developed countries;
- local laws and practices that favor local companies, including business practices that we are prohibited from engaging in by the Foreign Corrupt Practices Act and other anti-corruption laws and regulations;
- potentially adverse tax consequences; and
- effects of changes in currency exchange rates, particularly relative increases in the exchange rate of the U.S. dollar versus other currencies that could negatively affect our financial results and cash flows.

International customers may also require that we comply with certain testing or customization of our products to conform to local standards. The product development costs to test or customize our products could be extensive and a material expense for us.

Our international operations are subject to increasingly complex foreign and U.S. laws and regulations, including but not limited to anti-corruption laws, such as the Foreign Corrupt Practices Act and the UK Bribery Act and equivalent laws in other jurisdictions, antitrust or competition laws, and data privacy laws, among others. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially affect our reputation, our international expansion efforts, our ability to attract and retain employees, our business, and our operating results. Although we have implemented policies, procedures and training designed to ensure compliance with these laws and regulations, there can be no complete assurance that any individual employee, contractor or agent will not violate our policies. Additionally, the costs of complying with these laws (including the costs of investigations, auditing and monitoring) could also adversely affect our current or future business.

As we continue to expand our business globally, our success will depend, in large part, on our ability to effectively anticipate and manage these and other risks and expenses associated with our international operations. For example, political instability and uncertainty in the European Union and, in particular, the United Kingdom's pending exit from the E.U. (Brexit) as well as other countries potentially choosing to exit the E.U., could slow economic growth in the region, affect foreign exchange rates, and could further discourage near-term economic activity, including our customers delaying purchases of our products. Our failure to manage any of these risks successfully could harm our international operations and reduce our international sales, and business generally, adversely affecting our business, operating results and financial condition.

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

A portion of our sales and expenses stem from countries outside of the United States, and are in currencies other than U.S. dollars, and therefore subject to foreign currency fluctuation. Accordingly, fluctuations in foreign currency rates could have a material impact on our financial results in future periods. We may enter into other financial contracts to reduce the impact of foreign currency fluctuations. We currently enter into foreign currency exchange forward contracts to reduce the impact of foreign currency fluctuations on accounts receivable. These forward contracts reduce the impact of currency exchange rate movements on certain transactions, but do not cover all foreign-denominated transactions and therefore do not entirely eliminate the impact of fluctuations in exchange rates that could negatively affect our results of operations and financial condition.

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

Our effective tax rate can be adversely affected by several factors, many of which are outside of our control, including:

- changes in the valuation of our deferred tax assets and liabilities, and in deferred tax valuation allowances;
- changes in the relative proportions of revenues and income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
- changing tax laws, regulations, rates and interpretations in multiple jurisdictions in which we operate;
- changes in accounting and tax treatment of equity-based compensation;
- changes to the financial accounting rules for income taxes; and
- the resolution of issues arising from tax audits.

The international tax environment continues to change as a result of both coordinated actions by governments and unilateral measures designed by individual countries, both intended to tackle concerns over base erosion and profit shifting ("BEPS") and perceived international tax avoidance techniques. The recommendations of the BEPS Project led by the Organization for Economic Cooperation and Development are involved in much of the coordinated activity, although the timing and methods of implementation vary. Additionally, comprehensive U.S. tax reform has been stated to be a priority for the U.S. Congress and the new administration. Such changes in tax laws or their interpretation, if adopted, could adversely affect our effective tax rates and our results.

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 may make strategic acquisitions of businesses, technologies and other assets. For example, we completed the acquisition of Transmode in August 2015. If we are not able to achieve the anticipated strategic benefits of such acquisitions, it could adversely affect our business, financial condition and results of operations. In addition, the market price of our common stock could be adversely affected if the integration or the anticipated financial and strategic benefits of such acquisitions are not realized as rapidly as, or to the extent anticipated by investors and analysts.

The expansion of our business through acquisitions allows us to complement our technological capabilities and address new markets. 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;
- use a substantial portion of our cash resources; or
- incur amortization expenses related to other intangible assets and/or incur large and immediate write-offs.

Acquisitions can result in adverse tax consequences, warranty or product liability exposure related to acquired assets, additional stock-based compensation expense, and write-up of acquired inventory to fair value. In addition, we may record goodwill and other purchased intangible assets in connection with an acquisition and incur impairment charges in the future. If our actual results, or the plans and estimates used in future impairment analyses, are less favorable than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

Acquisitions also involve numerous risks that could disrupt our ongoing business and distract our management team, including:

- problems integrating the acquired operations, technologies or products with our own;
- diversion of management's attention from our core business;
- adverse impact on overall company operating results;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering new markets; and
- loss of key employees.

Our failure to adequately manage the risks associated with an acquisition could have an adverse effect on our business, financial condition and operating results.

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

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

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

We are subject to export control laws that limit which products we sell and where and to whom we sell our products. These 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.

Our product or manufacturing standards could also be impacted by new or revised environmental rules and regulations or other social initiatives. For instance, the SEC adopted new disclosure requirements in 2012 relating to the sourcing of certain minerals from the Democratic Republic of Congo and certain other adjoining countries. Those rules, which required reporting for the first time in calendar 2014, could adversely affect our costs, the availability of minerals used in our products and our relationships with customers and suppliers.

The Federal Communications Commission ("FCC") has jurisdiction over the entire U.S. communications industry and, as a result, our products and our U.S. customers are subject to FCC rules and regulations. Current and future FCC regulations, including regulations on net neutrality or generally 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 cybersecurity, 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, floods and other natural disasters. Further, a terrorist attack aimed at Northern California or at the United States energy or telecommunications infrastructure could hinder or delay the development and sale of our products. In the event that an earthquake, terrorist attack or other man-made or natural catastrophe were to destroy any part of our facilities, or certain of our contract manufacturers' facilities, destroy or disrupt vital infrastructure systems or interrupt our operations for any extended period of time, our business, financial condition and operating results would be harmed.

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

In the ordinary course of our business, we maintain sensitive data on our networks, including data related to our intellectual property and data related to our business, customers and business partners, which is considered proprietary or confidential information. We believe that companies in the technology industry have been increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access. While the secure maintenance of this information is critical to our business and reputation, our network and storage applications 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.

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 31, 2016:

Location	Function	Square Footage
Sunnyvale, CA	Corporate headquarters and manufacturing	321,000
Allentown, PA	Manufacturing and research and development	60,000
Annapolis Junction, MD	Research and development, service and support	12,000
Carrollton, TX	Sales, service and support	5,000
Kanata, Canada	Research and development	13,000
Stockholm, Sweden	Research and development, sales, service and support	78,000
London, United Kingdom	Sales, service and support	6,000
Bangalore, India	Software development	122,000
Beijing, China	Research and development	22,000
Hong Kong, China	Sales, service and support	2,000
Tokyo, Japan	Sales and support	2,000

The above leases expire between 2017 and 2029. We intend to add new facilities or 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

On November 23, 2016, Oyster Optics, LLP ("Oyster Optics") filed a complaint against us in the United States District Court for the Eastern District of Texas. The complaint asserts U.S. Patent Nos. 6,469,816, 6,476,952, 6,594,055, 7,099,592, 7,620,327, 8,374,511 and 8,913,898 (collectively, the "Oyster Optics patents in suit"). The complaint seeks unspecified damages and a permanent injunction. We believe that we do not infringe any valid and enforceable claim of the Oyster Optics patents in suit, and intend to litigate this action vigorously. Because this action is in the early stages, we are unable to reasonably estimate the possible loss or range of loss, if any, arising from this matter.

In addition to the matter described above, we are subject to various legal proceedings, claims and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material effect on our consolidated financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NASDAQ Global Select Market under the symbol "INFN." 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 2016	$ 9.62	$ 7.23
Third Quarter 2016	$ 13.24	$ 8.20
Second Quarter 2016	$ 16.25	$ 10.95
First Quarter 2016	$ 19.16	$ 13.02
Fourth Quarter 2015	$ 22.85	$ 16.98
Third Quarter 2015	$ 25.24	$ 18.35
Second Quarter 2015	$ 22.95	$ 17.58
First Quarter 2015	$ 19.70	$ 13.00

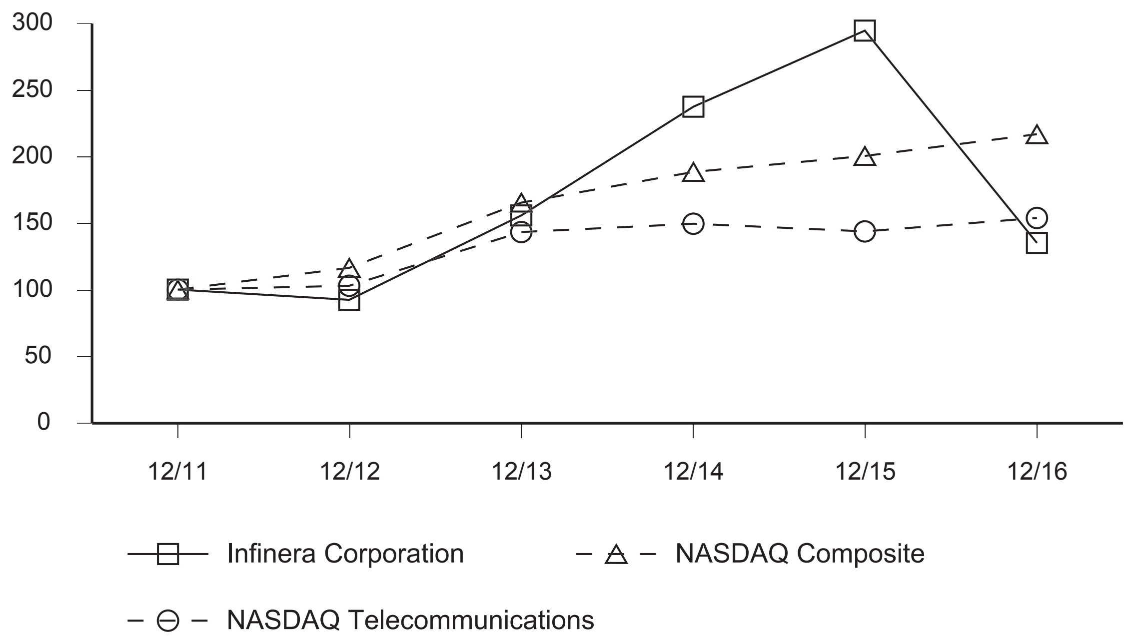
As of February 15, 2017, there were 102 registered holders of record of Infinera's common stock. A substantially greater number of holders of Infinera common stock are "street name" or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

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 near future.

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative five-year total return provided stockholders on our common stock relative to the cumulative total returns of the NASDAQ Composite Index and the NASDAQ Telecommunications Index. An investment of $100 (with reinvestment of all dividends, if any) is assumed to have been made in our common stock and in each of the indexes on December 31, 2011 and its relative performance is tracked through December 31, 2016. The NASDAQ Telecommunications Index contains securities of NASDAQ-listed companies classified according to the Industry Classification Benchmark as Telecommunications and Telecommunications Equipment. They include providers of fixed-line and mobile telephone services, and makers and distributors of high-technology communication products. This graph is not deemed to be “filed” with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the graph shall not be deemed to be incorporated by reference into any prior or subsequent filing by Infinera under the Securities Act of 1933 or the Exchange Act.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
Among Infinera Corporation, the NASDAQ Composite Index,
and the NASDAQ Telecommunications Index



*$100 invested on December 31, 2011 in our common stock or December 31, 2011 in the NASDAQ Composite Index and the NASDAQ Telecommunications Index, with reinvestment of all dividends, if any. Indexes calculated on month-end basis.

ITEM 6. SELECTED FINANCIAL DATA

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

We derived the statements of operations data for the years ended December 31, 2016, December 26, 2015 and December 27, 2014 and the balance sheet data as of December 31, 2016 and December 26, 2015 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 28, 2013 and December 29, 2012 and the balance sheet data as of December 27, 2014, December 28, 2013 and December 29, 2012 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 31, 2016	December 26, 2015	December 27, 2014	December 28, 2013	December 29, 2012
	(In thousands, except per share data)				
Revenue	$ 870,135	$ 886,714	$ 668,079	$ 544,122	$ 438,437
Gross profit	$ 393,718	$ 403,477	$ 288,304	$ 218,639	$ 157,569
Net income (loss)	$ (24,430)	$ 50,950	$ 13,659	$ (32,119)	$ (85,330)
Net income (loss) attributable to Infinera Corporation	$ (23,927)	$ 51,413	$ 13,659	$ (32,119)	$ (85,330)
Net income (loss) per common share attributable to Infinera Corporation:					
Basic	$ (0.17)	$ 0.39	$ 0.11	$ (0.27)	$ (0.77)
Diluted	$ (0.17)	$ 0.36	$ 0.11	$ (0.27)	$ (0.77)
Weighted average number of shares used in computing basic and diluted net income (loss) per common share:					
Basic	142,989	133,259	123,672	117,425	110,739
Diluted	142,989	143,171	128,565	117,425	110,739
Total cash and cash equivalents, investments and restricted cash	$ 360,056	$ 356,479	$ 390,816	$ 365,313	$ 187,554
Cost-method investments	$ 7,000	$ 14,500	$ 14,500	$ 9,000	$ 9,000
Intangible assets, net	$ 108,475	$ 156,319	$ 361	$ 416	$ 470
Goodwill	$ 176,760	$ 191,560	$ —	$ —	$ —
Total assets	$ 1,198,583	$ 1,226,294	$ 818,016	$ 700,926	$ 528,170
Long-term debt, net	$ 133,586	$ 125,440	$ 116,894	$ 109,164	$ —
Common stock and additional paid-in capital	$ 1,354,227	$ 1,300,441	$ 1,077,351	$ 1,025,781	$ 930,730
Infinera stockholders' equity	$ 762,328	$ 762,151	$ 481,907	$ 417,810	$ 356,136
Noncontrolling interest	$ —	$ 14,910	$ —	$ —	$ —
Total stockholders' equity	$ 762,328	$ 777,061	$ 481,907	$ 417,810	$ 356,136

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report on Form 10-K contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include our expectations regarding revenue, gross margin, expenses, cash flows and other financial items; any statements of the plans, strategies and objectives of management for future operations and personnel; factors that may affect our operating results; anticipated customer activity; statements concerning new products or services, including new product features and delivery dates; statements related to capital expenditures; statements related to future economic conditions, performance, market growth or our sales cycle; statements related to our convertible senior notes; statements related to the effects of litigation on our financial position, results of operations or cash flows; statements related to the timing and impact of transfer pricing reserves or our effective tax rate; statements as to industry trends and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," or "will," and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in Item 1A of this Annual Report on Form 10-K. You should review these risk factors for a more complete understanding of the risks associated with an investment in our securities. Such forward-looking statements speak only as of the date of this report. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. The following discussion and analysis should be read in conjunction with our "Selected Financial Data" included in Item 6 of this Annual Report on Form 10-K and consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

Overview

We provide optical transport networking equipment, software and services to telecommunications service providers, ICPs, cable providers, wholesale and enterprise carriers, research and education institutions, enterprise customers, and government entities across the globe. Optical transport networks are deployed by customers facing significant demand for optical bandwidth prompted by increased use of high-speed internet access, mobile broadband, cloud-based services, high-definition video streaming services, virtual and augmented reality, the internet of Things (IoT) and business Ethernet services. Our end-to-end packet-optical portfolio is designed to be managed with a single network management system.

In 2016, we announced the Infinite Capacity Engine (ICE), our next-generation technology, which delivers a family of multi-terabit opto-electronic subsystems powered by our fourth-generation PIC and next-generation FlexCoherent DSP. The Infinite Capacity Engine is a family of different subsystems that can be customized for different network applications across our product portfolio, spanning the long-haul, subsea, DCI and metro markets.

Traditionally, we have focused on the long-haul portion of the optical transport market and a large portion of our revenue continues to be derived from long-haul and subsea customers. Over the past two years, we have significantly increased the number of products we offer, evolving from focusing entirely on the long-haul and subsea markets with the DTN-X Family of products to offering an end-to-end suite of solutions that spans terrestrial long-haul, subsea, DCI, and metro core and access.

In late 2014, we increased our addressable markets by introducing the Cloud Xpress platform for the DCI market. Since the initial introduction of the Cloud Xpress with 40 GbE client interfaces, we have enhanced our position by expanding our Cloud Xpress Family.

In the second half of 2015, we entered the metro market with the acquisition of Transmode, a leader in metro packet-optical applications. WIth our entrance into the DCI and metro markets over the last few years, we are now able to provide our customers with an end-to-end portfolio of solutions. The XTM Series and XTG Series are designed to address the metro market, with 100 Gb/s metro core/regional transport capabilities and packet-optical solutions optimized for fast-growing applications in the access portion of the network, including mobile fronthaul and backhaul, triple-play and cable broadband aggregation, and business Ethernet services with MEF certification. These products are complemented by the XTC-2 product designed for high-capacity handoffs of traffic from a long-haul network.

We primarily sell our products through our direct sales force, with a small portion sold indirectly through resellers. We derived 93%, 93% and 95% of our revenue from direct sales to customers for 2016, 2015 and 2014, respectively. We expect to continue generating a substantial majority of our revenue from direct sales in the future.

We are headquartered in Sunnyvale, California, with employees located throughout the Americas, Europe and the Asia Pacific region.

2016 Financial and Business Performance

Total revenue decreased by 2% in 2016 compared to 2015. Delayed product transitions impacted the short-term competitiveness of our products negatively impacting revenue. In addition, revenue was negatively impacted by the consolidation of some of our major customers and changes in their buying patterns, including shifting spend to other parts of their networks. Gross margin decreased to 45.2% in 2016 from 45.5% in 2015. In the second half of 2016, we experienced downward pressure on gross margin levels as we made investments to secure future business with existing and prospective customers across our end markets.

During the year, we continued to diversify our customer base by providing an end-to-end portfolio of packet-optical solutions for long-haul, subsea, DCI and metro markets. We generated a majority of our revenue from the long-haul market, despite the downturn we experienced during the second half of 2016. The general slowdown in the long-haul market was exacerbated by significant consolidation among our largest customers. In addition, we faced a technology shortfall around spectral efficiencies, which limited our ability to win substantial business in the subsea market. In DCI, we made solid progress with our Cloud Xpress platform as we grew with existing customers and also won new customers in this market. During 2016, we made solid progress in broadening the deployments of our metro solutions both with existing and new customers.

Our goal is to be the preeminent provider of optical transport networking systems to telecommunications service providers, ICPs, cable providers, wholesale and enterprise carriers, research and education institutions, enterprise customers, and government entities across the globe. Our ability to grow revenue in 2017 will be largely dependent on the timing of delivering of our next-generation products and their adoption by key customers in the market. This 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. In the short-term, we expect to see heightened variability in our margins as we work to diversify our business and continue to make strategic investments to win new footprint with both existing and new customers as well as when we bring our new products to market over the course of fiscal 2017. Given our current revenue levels and necessity of investing in current and future opportunities, we anticipate that research and development expenses will remain at elevated levels as a percentage of revenue during 2017.

Over a longer period of time, we believe that we can further leverage our vertically-integrated manufacturing model, which combined with the introduction of additional purpose-built products, the ability to continue to sell incremental bandwidth capacity into deployed networks, and expense management, can result in improved profitability and cash flow.

Our near-term quarter-over-quarter revenue may likely be volatile and could be impacted by several factors, including delivery of our next-generation products, general economic and market conditions, customer buying patterns, market acceptance of new products, acquisitions of new customers, and the timing of large customer network deployments.

One customer accounted for approximately 16% of our revenue in 2016. Two customers accounted for approximately 17% and 13%, respectively, of our revenue in 2015. One customer accounted for approximately 19% of our revenue in 2014.

Results of Operations

Revenue

The results of operations for 2016 reflects the inclusion of the Transmode business, which was acquired on August 20, 2015. The following sets forth, for the periods presented, certain consolidated statements of operations information (in thousands, except percentages):

	Years Ended					
	December 31, 2016	% of total revenue	December 26, 2015	% of total revenue	Change	% Change
Revenue:						
Product	$ 751,167	86%	$ 769,230	87%	$ (18,063)	(2)%
Services	118,968	14%	117,484	13%	1,484	1 %
Total revenue	$ 870,135	100%	$ 886,714	100%	$ (16,579)	(2)%
Cost of revenue:						
Product	$ 433,266	50%	$ 436,916	49%	$ (3,650)	(1)%
Services	43,151	5%	46,321	5%	(3,170)	(7)%
Total cost of revenue	$ 476,417	55%	$ 483,237	54%	$ (6,820)	(1)%
Gross profit	$ 393,718	45.2%	$ 403,477	45.5%	$ (9,759)	(2)%

	Years Ended					
	December 26, 2015	% of total revenue	December 27, 2014	% of total revenue	Change	% Change
Revenue:						
Product	$ 769,230	87%	$ 572,276	86%	$ 196,954	34%
Services	117,484	13%	95,803	14%	21,681	23%
Total revenue	$ 886,714	100%	$ 668,079	100%	$ 218,635	33%
Cost of revenue:						
Product	$ 436,916	49%	$ 340,856	51%	$ 96,060	28%
Services	46,321	5%	38,919	6%	7,402	19%
Total cost of revenue	$ 483,237	54%	$ 379,775	57%	$ 103,462	27%
Gross profit	$ 403,477	45.5%	$ 288,304	43.2%	$ 115,173	40%

2016 Compared to 2015. Product revenue decreased by $18.1 million, or 2%, in 2016 from 2015. We experienced a slowdown in spending from multiple key customers partly due to the effects of significant customer consolidation during the second half of 2016, which resulted in decreased revenue compared to 2015. This decrease was partially offset by increased revenue due to the inclusion of a full year's worth of revenue from Transmode metro products.

Services revenue increased by $1.5 million, or 1%, in 2016 from 2015, primarily due to higher on-going support services as we grew our installed base over the last year.

With the introduction of our next-generation products, we believe our wholesale and ICP verticals should continue to be strong for the foreseeable future. With the slowdown in spending from multiple long-haul customers and our metro opportunity still in its early phases, our telco customer verticals could remain challenged for the next few quarters. We currently expect that total revenue in the first quarter of 2017 will be slightly lower on a sequential basis compared to the prior quarter.

2015 Compared to 2014. Total product revenue increased by $197.0 million, or 34%, in 2015 from 2014. The increase was primarily driven by continued momentum associated with the Infinera DTN-X platform through both new network builds and capacity adds to existing networks. Additionally, we benefited from the inclusion of revenue from Transmode's metro products since the acquisition. In 2015, we also experienced significant growth in revenue associated with our Cloud Xpress platform, which was introduced during the fourth quarter of 2014. These increases were partially offset by a reduction in sales of the DTN platform, reflecting the continued shift to 100 Gb/s network deployments.

Services revenue increased by $21.7 million, or 23%, in 2015 from 2014. The increase was primarily due to higher on-going support services as we continued to grow our installed base. Additionally, during 2015, we experienced higher levels of deployment services as customers built new networks utilizing our teams' expertise. Our services revenue also benefited from the inclusion of Transmode's services revenue since the acquisition.

The following table summarizes our revenue by geography and sales channel for the periods presented (in thousands, except percentages):

	Years Ended					
	December 31, 2016	% of total revenue	December 26, 2015	% of total revenue	Change	% Change
Total revenue by geography						
Domestic	$ 541,889	62%	$ 602,433	68%	$ (60,544)	(10)%
International	328,246	38%	284,281	32%	43,965	15 %
	$ 870,135	100%	$ 886,714	100%	$ (16,579)	(2)%
Total revenue by sales channel						
Direct	$ 809,681	93%	$ 825,952	93%	$ (16,271)	(2)%
Indirect	60,454	7%	60,762	7%	(308)	(1)%
	$ 870,135	100%	$ 886,714	100%	$ (16,579)	(2)%

	Years Ended					
	December 26, 2015	% of total revenue	December 27, 2014	% of total revenue	Change	% Change
Total revenue by geography						
Domestic	$ 602,433	68%	$ 476,172	71%	$ 126,261	27%
International	284,281	32%	191,907	29%	92,374	48%
	$ 886,714	100%	$ 668,079	100%	$ 218,635	33%
Total revenue by sales channel						
Direct	$ 825,952	93%	$ 633,619	95%	$ 192,333	30%
Indirect	60,762	7%	34,460	5%	26,302	76%
	$ 886,714	100%	$ 668,079	100%	$ 218,635	33%

2016 Compared to 2015. Domestic revenue decreased by $60.5 million, or 10%, during 2016 compared to 2015, primarily driven by customers across multiple end markets slowing spend due to a variety of factors including shifts of spending to other parts of customer networks, the build-up of inventory at customer sites, along with customer consolidation and competitive challenges in certain markets.

International revenue increased by $44.0 million, or 15%, during 2016 compared to 2015, primarily led by the Europe, Middle East and Africa ("EMEA") region due to the inclusion of revenue from Transmode, which generates most of its revenue from the EMEA region.

2015 Compared to 2014. Domestic revenue increased by $126.3 million, or 27%, during 2015 compared to 2014, primarily driven by customers in our wholesale and enterprise carrier and ICP verticals. Many of our largest customers are based in this region, including our two greater than 10% of revenue customers for the year.

International revenue increased by $92.4 million, or 48%, during 2015 compared to 2014. In 2015, growth in the EMEA region was primarily driven by customers in our wholesale and enterprise carrier and ICP verticals, and the inclusion of revenue from Transmode's metro products across various verticals since the acquisition. Within the Other Americas region, during 2015, we experienced significant growth with our wholesale and enterprise carrier customers expanding into the Latin America region, including large subsea deployments, as well as continued traction with multiple carriers based in this region. Within the Asia Pacific and Japan region, we also had strong growth in 2015 compared to 2014 primarily within the subsea market as customers expanded their footprints.

Cost of Revenue and Gross Margin

2016 Compared to 2015. Gross margin decreased to 45.2% in 2016 from 45.5% in 2015, primarily driven by the impact of reduced volumes on our manufacturing infrastructure. We also experienced downward pressure on gross margin throughout the year as we made strategic pricing decisions to secure future business with existing and prospective customers across our end markets. Additionally, 2015 included a full year of purchase accounting costs, primarily related to amortization of intangibles associated with the Transmode acquisition.

2015 Compared to 2014. Gross margin increased to 45.5% in 2015 from 43.2% in 2014. Gross margin increased primarily as a result of financial leverage gained from our vertically integrated operating model. As volumes continue to grow, we are able to spread our fixed manufacturing costs over a much broader base of units. In addition, we continued to see an increased level of capacity additions to existing customer networks both in the form of line card additions and additional licenses under the Infinera Instant Bandwidth program. These capacity additions carry a higher gross margin profile than the footprint builds of new networks. These increases were partially offset by the impact of purchase accounting adjustments of $13.3 million.

We currently expect that gross margin in the first quarter of 2017 will be slightly lower compared to the fourth quarter of 2016 as we experience continued downward pressure on gross margin in the near-term while we make investments to secure future business with existing and prospective customers across our end markets. In addition, the absorption of fixed costs over a smaller volume of units will negatively impact our gross margin. We expect to see heightened variability in our margins as we work to diversify our business and continue to make strategic investments to win new footprint with both existing and new customers as well as when we bring our new products to market over the course of fiscal 2017.

Operating Expenses

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

	Years Ended					
	December 31, 2016	% of total revenue	December 26, 2015	% of total revenue	Change	% Change
Research and development	$ 232,291	27%	$ 180,703	20%	$ 51,588	29%
Sales and marketing	118,858	14%	101,398	11%	17,460	17%
General and administrative	68,343	8%	61,640	7%	6,703	11%
Total operating expenses	$ 419,492	49%	$ 343,741	38%	$ 75,751	22%

	Years Ended					
	December 26, 2015	% of total revenue	December 27, 2014	% of total revenue	Change	% Change
Research and development	$ 180,703	20%	$ 133,484	20%	$ 47,219	35%
Sales and marketing	101,398	11%	79,026	12%	22,372	28%
General and administrative	61,640	7%	48,452	7%	13,188	27%
Total operating expenses	$ 343,741	38%	$ 260,962	39%	$ 82,779	32%

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

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Research and development	$ 13,732	$ 11,055	$ 8,927
Sales and marketing	11,043	8,081	7,477
General and administration	9,295	7,354	6,383
Total	$ 34,070	$ 26,490	$ 22,787

Research and Development Expenses

2016 Compared to 2015. Research and development expenses increased $51.6 million, or 29%, in 2016 from 2015 primarily due to increased personnel costs of $34.5 million as a result of incremental headcount primarily from the acquisition of Transmode and an $11.3 million impairment on acquired in-process technology resulting from our decision to abandon previously acquired technologies related to Transmode. Additionally, we had increased spending on prototype and other engineering materials of $7.4 million, incremental outside professional services costs of $2.1 million and other engineering expenses of $1.0 million to support the development of our next generation of products. These increases were partially offset by a decrease in management bonuses of $4.7 million.

2015 Compared to 2014. Research and development expenses increased $47.2 million, or 35%, in 2015 from 2014 primarily due to increased personnel costs of $23.8 million as a result of incremental headcount to support our expanding product roadmap. In addition, we had increased spending on prototype and other engineering materials of $12.8 million in 2015 compared to 2014, as we further enhanced our product portfolio to ensure we deliver on our next generation platforms. During 2015, we also incurred increased costs of outside professional services of $7.1 million and higher discretionary spending of $3.5 million to support our growing business compared to 2014. The inclusion of the Transmode business increased research and development expenses by $10.1 million in 2015.

Sales and Marketing Expenses

2016 Compared to 2015. Sales and marketing expenses increased $17.5 million, or 17%, in 2016 from 2015 primarily due to increased personnel costs of $14.5 million as a result of incremental headcount primarily from the acquisition of Transmode and to support the expansion of our business into new markets and customer verticals. In addition, the increase also included amortization of intangible assets of $3.9 million, higher professional services costs of $1.3 million and an increase in discretionary spending of $0.2 million. These increases were partially offset by a decrease in management bonuses of $2.4 million.

2015 Compared to 2014. Sales and marketing expenses increased $22.4 million, or 28%, in 2015 from 2014 primarily driven by increased personnel costs of $11.7 million as a result of higher sales commissions and incremental headcount to support the continued expansion of our business into new markets and customer verticals. We also had increased discretionary spending of $2.6 million, amortization of intangible assets of $2.2 million, prototype and lab trial spending of $2.0 million, and other marketing expenses of $3.9 million. The inclusion of the Transmode business during 2015 increased sales and marketing expense by $12.1 million.

General and Administrative Expenses

2016 Compared to 2015. General and administrative expenses increased $6.7 million, or 11%, in 2016 from 2015 primarily due to increased personnel costs of $9.3 million as a result of incremental headcount from the acquisition of Transmode and to a lesser extent, to scale our infrastructure to support the business. In addition, during 2016, we incurred increased facilities and related costs of $1.3 million and higher depreciation expense of $1.2 million. These increases were partially offset by a decrease in management bonuses of $2.6 million and professional services costs of $2.5 million.

2015 Compared to 2014. General and administrative expenses increased $13.2 million, or 27%, in 2015 from 2014. During 2015, the increases were primarily due to acquisition-related expenses related to the Transmode acquisition of $6.8 million. Additionally, we incurred increased personnel costs of $4.6 million driven by incremental headcount and higher discretionary spending of $1.7 million to support our growing business. The inclusion of the Transmode business increased general and administrative expenses by $2.2 million.

Other Income (Expense), Net

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
		(In thousands)	
Interest income	$ 2,478	$ 1,837	$ 1,456
Interest expense	(12,887)	(11,941)	(11,021)
Other gain (loss), net	7,002	2,399	(1,365)
Total other income (expense), net	$ (3,407)	$ (7,705)	$ (10,930)

2016 Compared to 2015. Interest income increased $0.6 million primarily due to a higher return on investments. Interest expense for 2016 increased $0.9 million due to cash interest payments and an increase of amortization of discount and issuance costs related to the Notes. The change in other gain (loss), net, during 2016 was primarily due to a $9.0 million gain on the sale of a cost-method investment, partially offset by losses due to foreign currency exchange. Other gain (loss), net, for 2015 mainly comprised of $1.3 million of gains due to foreign currency exchange rate changes and a $1.1 million gain primarily from foreign currency forward contracts that we entered into to hedge currency exposures associated with the cash portion of the offer to acquire Transmode.

2015 Compared to 2014. Interest income increased mainly due to a higher average investment balance due to cash generated from the business during the year. Interest expense for 2015 increased by $0.9 million due to an increase of amortization of discount and issuance costs related to the Notes. Other gain (loss), net, for 2015 mainly comprised of $1.3 million of gains due to foreign currency exchange rate changes and a $1.1 million gain primarily from foreign currency forward contracts that we entered into to hedge currency exposures associated with the cash portion of the offer to acquire Transmode. Other gain (loss), net, for 2014 mainly comprised of $1.4 million of losses due to foreign currency exchange rate changes.

Income Tax Provision

We recognized an income tax benefit of $4.8 million on a loss before income tax benefit of $29.2 million, income tax expense of $1.1 million on income before income taxes of $52.0 million, and $2.8 million on income before income taxes of $16.4 million in fiscal years 2016, 2015 and 2014, respectively. The resulting effective tax rates were (16.3)%, 2.1% and 16.8% for 2016, 2015, and 2014, respectively. The 2016 and 2015 effective tax rates differ from the expected statutory rate of 35% based upon the utilization of unbenefited U.S. loss carryforwards, offset by state income taxes, non-deductible stock-based compensation expenses and foreign taxes provided on foreign subsidiary earnings. The 2016 income tax benefit compared to the 2015 income tax expense primarily relates to the tax benefit of acquisition related amortization expenses and charges, lower state income taxes because of lower profit in our U.S. operations, and reduction in tax reserves, offset by an increase in taxable foreign profits in certain jurisdictions. The tax expense for 2015 was less than 2014 due to acquisition related amortization expenses and charges offset by higher state taxes, additional tax reserves, and an increase in taxable foreign profits.

Because of our significant loss carryforward position and corresponding full valuation allowance, in all periods, we have not been subject to federal or state tax on its U.S. income because of the availability of loss carryforwards, with the exception of amounts for certain states' taxes for which the losses are limited by statute or amount in 2016 and more significantly in 2015, and federal and state taxes associated with a discontinued US subsidiary. If these losses and other tax attributes become fully utilized, our taxes will increase significantly to a more normalized, expected rate on U.S. earnings. The release of transfer pricing reserves in the future will have a beneficial impact to tax expense, but the timing of the impact depends on factors such as expiration of the statute of limitations or settlements with tax authorities. No significant releases are expected in the near future based on information available at this time.

The valuation allowance for deferred tax assets as of December 31, 2016 and December 26, 2015 was $200.5 million and $169.2 million, respectively. The net change in the valuation allowance was an increase of $31.2 million and decrease of $30.5 million for the years ended December 31, 2016 and December 26, 2015, respectively.

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. We must consider all positive and negative evidence, including our forecasts of taxable income over the applicable carryforward periods, our current financial performance, our market environment, and other factors in evaluating the need for a full or partial valuation allowance against our net U.S. deferred tax assets. 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 in the foreseeable future. Accordingly, we have provided a full valuation allowance against our domestic deferred tax assets, net of deferred tax liabilities, as of December 31, 2016 and December 26, 2015. To the extent that we determine that deferred tax assets are realizable on a more likely than not basis, and adjustment is needed, that adjustment will be recorded in the period that the determination is made and would generally decrease the valuation allowance and record a corresponding benefit to earnings.

As of December 31, 2016, we had net operating loss carryforwards of approximately $205.9 million for federal tax purposes and $104.0 million for state tax purposes. The carryforward balance reflects expected utilization of both federal and state net operating losses for the year ended December 31, 2016. Federal net operating loss carryforwards will begin to expire in 2025 while certain unutilized California losses have expired in 2016. Additionally, we have federal and California research and development credits available to reduce future income taxes payable of approximately $35.0 million and $39.4 million, respectively, as of December 31, 2016. Infinera Canada Inc., an indirect wholly owned subsidiary, has Scientific Research and Experimental Development Expenditures (“SRED”) credits available of $2.2 million to offset future Canadian income tax payable as of December 31, 2016. The federal research credits will begin to expire in the year 2022 if not utilized and the California research credits have no expiration date. Canadian SRED credits will begin to expire in the year 2030 if not fully utilized.

On March 30, 2016, FASB issued Accounting Standards Update 2016-09, “Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”), which we early adopted as of June 26, 2016. As a result of the adoption of ASU 2016-09, excess windfall tax benefits and tax deficiencies related to our stock option exercises and vestings of restricted stock units (“RSUs”) are recognized as an income tax benefit or expense in our condensed consolidated statements of operations. The adoption of ASU 2016-09 did not have any material impact on our income tax expense for the year ended December 31, 2016 due primarily to our valuation allowance position.

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 31, 2016, we had determined that while ownership changes had occurred in the past, the resulting limitations were not significant enough to impact the utilization of the tax attributes against our taxable profits earned to date.

In determining future taxable income, we make assumptions to forecast federal, state and international operating income, the reversal of temporary differences, and the implementation of any feasible and prudent tax planning strategies. The assumptions require significant judgment regarding the forecasts of future taxable income, and are consistent with our income forecasts used to manage our business.

Liquidity and Capital Resources

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
		(In thousands)	
Net cash flow provided by (used in):			
Operating activities	$ 38,377	$ 133,176	$ 35,963
Investing activities	$ (12,115)	$ (91,475)	$ (96,059)
Financing activities	$ (8,866)	$ 20,983	$ 22,861

	Years Ended	
	December 31, 2016	December 26, 2015
	(In thousands)	
Cash and cash equivalents	$ 162,641	$ 149,101
Short-term and long-term investments	182,476	202,068
Restricted cash	14,939	5,310
	$ 360,056	$ 356,479

Cash, cash equivalents and short-term investments consist of highly-liquid investments in certificates of deposits, money market funds, commercial paper, corporate bonds and U.S. treasuries. Long-term investments primarily consist of corporate bonds. Our restricted cash balance amounts are primarily pledged as collateral for certain stand-by and commercial letters of credit related to customer proposal guarantees, value added tax licenses and property leases. Additionally, our restricted cash balance in 2016 consists of a security pledge related to the Transmode acquisition and an escrow account to fund our facility expansion.

Operating Activities

Net cash provided by operating activities was $38.4 million for 2016, $133.2 million for 2015 and $36.0 million for 2014.

Net loss for 2016 was $24.4 million, which included non-cash charges of $116.3 million, compared to a net income of $51.0 million for 2015, which included non-cash charges of $80.1 million. Net income for 2014 was $13.7 million, which included non-cash charges of $66.5 million.

Net cash used in working capital was $53.5 million for 2016. Accounts receivables decreased by $33.9 million as our revenue levels decreased significantly during the second half of 2016. Inventory levels increased by $64.1 million as a result of stocking more components due to longer lead times with component suppliers, building up our PIC die bank inventory for our current generation of products to allow us to shift manufacturing capacity to our next generation PICs, building up new product inventory, as well as lower shipment volumes in recent periods. Accounts payable decreased by $28.3 million primarily due to lower business volume during 2016. Deferred revenue increased $21.4 million primarily due to higher ongoing support services as we continued to grow our installed base.

Net cash provided by working capital was $2.1 million for 2015. Accounts receivables increased by $16.0 million primarily due to the timing of invoicing in the period and inventory levels increased by $17.1 million to support the higher expected demand including multiple new products. Accounts payable increased by $19.2 million primarily reflecting the volume of the business and timing of payments during the period. Accrued warranty increased by $10.8 million due to general warranty reserves, the incremental cost to support the increased installed base and higher repair costs.

Net cash used to fund working capital was $44.2 million for 2014. Accounts receivables increased by $54.0 million primarily due to higher revenue levels and the timing of invoicing of network deployments and collections during the period. Inventory levels increased by $25.5 million to support the higher expected demand.

Accounts payable increased by $18.8 million primarily reflecting increased inventory purchases and timing of payments during the period. Accrued liabilities increased by $11.9 million primarily reflecting higher levels of compensation related accruals.

Investing Activities

Net cash used in investing activities for 2016 was $12.1 million, including $43.3 million of capital expenditures to support our growing business and $7.0 million invested in a new cost-method investment. Partially offsetting those spend activities were proceeds from the sale of a cost-method investment of $23.5 million and net proceeds of $18.8 million associated with purchases and maturities of investments during the year. In addition, we spent

Net cash used in investing activities for 2015 was $91.5 million, including the payment of $144.4 million in connection with the acquisition of Transmode and $42.0 million of capital expenditures to support our growing business. Partially offsetting those spend activities, we had net proceeds of $93.8 million associated with purchases, maturities and sales of investments during the year as we rearranged our portfolio to fund the acquisition and realized a $1.1 million of gain from foreign currency exchange forward contracts.

Net cash used in investing activities for 2014 was $96.1 million. This included net cash used of $65.9 million associated with purchases, maturities and sales of investments and $23.1 million of capital expenditures. We also invested an additional $5.5 million in an existing cost-method equity investment during 2014.

Financing Activities

Net proceeds from financing activities were $8.9 million, $21.0 million and $22.9 million for 2016, 2015 and 2014, respectively. Financing activities in 2016 included $16.8 million related to the purchase of the noncontrolling interest upon award on advance title to acquire the remaining 4.2% of Transmode shares and $6.1 million associated with the security pledge related to the Transmode acquisition. For more information regarding the security pledge, see Note 6, “Business Combination” to the Notes to Condensed Consolidated Financial Statements. Additionally, financing activities in 2016 included net proceeds from the exercise of stock options and the issuance of shares under our 2007 Employee Stock Purchase Plan (“ESPP”). These proceeds were offset by the minimum tax withholdings paid on behalf of certain employees for net share settlements of restricted stock units.

Financing activities in 2015 and 2014 primarily included net proceeds from the exercise of stock options and purchase of shares under our ESSP. Financing activities during 2015 also included proceeds from the exercise of stock options. These proceeds were offset by the minimum tax withholdings paid on behalf of employees for net share settlements of restricted stock units.

Liquidity

We believe that our current cash, cash equivalents and investments, and purchases under our ESPP 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 financings may place limits on our financial and operating flexibility. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer dilution in their percentage ownership of us, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

In May 2013, we issued the Notes, which 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 and were intended to be used for working capital and other general corporate purposes.

During the quarter ended December 31, 2016, the closing price of our common stock did not meet the conversion criteria; therefore, holders of the Notes may not convert their notes during the first quarter of 2017. Any conversion of the Notes prior to their maturity or acceleration of the repayment of the Notes could have a material adverse effect on our cash flows, business, results of operations and financial condition, if we choose to settle the amounts in cash. Should the closing price conditions be met during the 30 consecutive trading days prior to the end of the first quarter of 2017 or a future quarter, the Notes will be convertible at their holders' option during the immediately following quarter. Under current market conditions, we do not expect the Notes will be converted in the short-term, even if the conversion criteria is met. Holders may also convert their Notes 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.

Upon conversion, it is our intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the Notes. For any remaining conversion obligation, we intend to pay cash, shares of common stock or a combination of cash and shares of common stock, at our election. As of December 31, 2016, long-term debt, net, was $133.6 million, which represents the liability component of the $150.0 million principal balance, net of $16.4 million of unamortized debt discount and debt issuance costs. The debt discount and debt issuance costs are currently being amortized over the remaining term until maturity of the Notes on June 1, 2018. To the extent that the holders of the Notes request conversion during an early conversion window, we may require funds for repayment of such Notes prior to their maturity date.

As of December 31, 2016, contractual obligations related to the Notes are payments of $2.6 million due in 2017 and $151.3 million due in 2018. These amounts represent principal and interest cash payments over the term of the Notes. Any future redemption or conversion of the Notes could impact the amount or timing of our cash payments. For more information regarding the Notes, see Note 11, "Convertible Senior Notes" to the Notes to Consolidated Financial Statements.

As of December 31, 2016, we had $304.3 million of cash, cash equivalents, and short-term investments, including $43.2 million of cash and cash equivalents held by our foreign subsidiaries. Our cash in foreign locations is used primarily for operational activities in those locations, and we do not currently have the need or the intent to repatriate those funds to the United States. 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.

Contractual Obligations

The following is a summary of our contractual obligations as of December 31, 2016:

		Payments Due by Period			
	Total	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
			(In thousands)		
Purchase obligations[1]	$ 111,932	$ 111,932	$ —	$ —	$ —
Operating leases[2]	55,589	12,073	22,460	12,713	8,343
Convertible senior notes, including interest	153,938	2,625	151,313	—	—
Total contractual obligations[3]	$ 321,459	$ 126,630	$ 173,773	$ 12,713	$ 8,343

(1) We have service agreements with our major production suppliers under which we are committed to purchase certain parts.

(2) We lease facilities under non-cancelable operating lease agreements. These leases have varying terms that range from one to 12 years, and contain leasehold improvement incentives, rent holidays and escalation clauses. In addition, some of these leases have renewal options for up to five years. We also have contractual commitments to remove leasehold improvements and return certain properties to a specified condition when the leases terminate. At the inception of a lease with such conditions, we record an asset retirement obligation liability and a corresponding capital asset in an amount equal to the estimated fair value of the obligation. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. An assumption of lease renewal where a renewal option exists is used only when the renewal has been determined to be reasonably assured. The estimated useful life of leasehold improvements is one to 12 years.

(3) Tax liabilities of $2.8 million related to uncertain tax positions are not included in the table because we cannot reliably estimate the timing and amount of future payments, if any.

The Company had $8.7 million of standby letters of credit and bank guarantees outstanding as of December 31, 2016. These consisted of $4.5 million related to property leases, $3.1 million related to customer performance guarantees and $1.1 million related to a value added tax and customs authorities' licenses. We had $5.2 million of standby letters of credit outstanding as of December 26, 2015. These consisted of $3.1 million related to customer performance guarantees, $1.2 million related to a value added tax license and $0.9 million related to property leases.

Off-Balance Sheet Arrangements

As of December 31, 2016, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). These accounting principles require us to make certain estimates, assumptions and judgments that can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates, assumptions and judgments made by management include revenue recognition, stock-based compensation, inventory valuation, accrued warranty and accounting for income taxes. Management believes that the estimates, assumptions and judgments upon which they rely are reasonable based upon information available to them at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, our consolidated financial statements will be affected.

Revenue Recognition

Many of our product sales are sold in combination with installation and deployment services along with initial hardware and software support. Periodically, our product sales are also sold with spares management, on-site hardware replacement services, network management operations, software subscription, extended hardware warranty or training. Initial software and hardware support services are generally delivered over a one-year period in connection with the initial purchase. Software warranty provides customers with maintenance releases during the warranty support period and hardware warranty provides replacement or repair of equipment that fails to perform in line with specifications. Software subscription service includes software warranty and additionally provides customers with rights to receive unspecified software product upgrades released during the support period.

Spares management and on-site hardware replacement services include the replacement of defective units at customer sites in accordance with specified service level agreements. Network operations management includes the day-to-day operation of a customer's network. These services are generally delivered on an annual basis. Training services include the right to a specified number of instructor-led or web based training classes, and installation and deployment services may include customer site assessments, equipment installation and testing. These services are generally delivered over a 30 to 120 day 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 revenue recognition accounting guidance. Revenue related to these offerings have historically not been material.

Services revenue includes software subscription services, installation and deployment services, spares management, on-site hardware replacement services, network operations management, extended hardware warranty services and training. Revenue from software subscription, spares management, on-site hardware replacement services, network operations management and extended hardware warranty contracts is deferred and is recognized ratably over the contractual support period, which is generally one year. 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 recognized only after 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. 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. The expected forfeiture rate was estimated based on our historical forfeiture data and compensation costs were recognized only for those equity awards expected to vest. The estimation of the forfeiture rate required judgment, and to the extent actual forfeitures differed from expectations, changes in estimate were recorded as an adjustment in the period when such estimates were revised. We historically recorded stock-based compensation expense by applying the forfeiture rates and adjusted estimated forfeiture rates to actual. During the third fiscal quarter beginning on June 26, 2016, we elected to early adopt ASU 2016-09. We also elected to change our accounting policy to account for forfeitures when they occur on a modified retrospective basis.

We make a number of estimates and assumptions in determining stock-based compensation related to stock options including the following:

- The expected term represents the weighted-average period that the stock options are expected to be outstanding prior to being exercised. The expected term is estimated based on our historical data on employee exercise patterns and post vesting termination behavior to estimate expected exercises over the contractual term of grants.
- Expected volatility of our stock 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 we 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 provides for consecutive six-month offering periods and we use our own historical volatility data in the valuation of ESPP shares.

We granted performance stock units (“PSUs”) to our executive officers and senior management in 2014, 2015 and 2016 as part of our annual refresh grant process. These PSUs entitle our executive officers and senior management to receive a number of shares of the Company's common stock based on its stock price performance compared to a specified target composite index for the same period. These PSUs vest over the span of one year, two years and three years, and the number of shares to be issued upon vesting ranges from 0 to 2.0 times the number of PSUs granted depending on the relative performance of the Company's common stock price compared to the target composite index. This performance metric is classified as a market condition.

We use a Monte Carlo simulation model to determine the fair value of PSUs on the date of grant. The Monte Carlo simulation model is based on a discounted cash flow approach, with the simulation of a large number of possible stock price outcomes for our stock and the target composite index. The use of the Monte Carlo simulation model requires the input of a number of assumptions including expected volatility of our stock price, expected volatility of target composite index, correlation between changes in our stock price and changes in the target composite index, risk-free interest rate, and expected dividends as applicable. Expected volatility of our stock is based on the weighted-average historical volatility of our stock. Expected volatility of target composite index is based on the historical data. Correlation is based on the historical relationship between our stock price and the target composite index average. The risk-free interest rate is based upon the treasury zero-coupon yield appropriate for the term of the PSU as of the grant date. The expected dividend yield is zero for us as we do not expect to pay dividends in the future. The expected dividend yield for the target composite index is the annual dividend yield expressed as a percentage of the composite average of the target composite index on the grant date.

In addition, we have granted other PSUs to certain employees that only vest upon the achievement of specific operational performance criteria.

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. In evaluating the need for a full or partial valuation allowance, all positive and negative evidence must be considered, including our forecasts of taxable income over the applicable carryforward periods, our current financial performance, our market environment, and other factors. Based on the available objective evidence, at December 31, 2016, management believes it is more likely than not that the domestic net deferred tax assets will not be realizable in the foreseeable future. Accordingly, the domestic net deferred tax assets were fully reserved with a valuation allowance. To the extent that we determine that deferred tax assets are realizable on a more likely than not basis, and adjustment is needed, that adjustment will be recorded in the period that the determination is made and would generally decrease the valuation allowance and record a corresponding benefit to earnings.

Inventory Valuation

Inventories consist of raw materials, work-in-process and finished goods and are stated at standard cost adjusted to approximate the lower of actual cost or market. Costs are recognized utilizing the first-in, first-out method. 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. 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.

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.

Accrued Warranty

We warrant that our products will operate substantially in conformity with product specifications. Hardware warranties provide the purchaser with protection in the event that the product does not perform to product specifications. During the warranty period, the purchaser's sole and exclusive remedy in the event of such defect or failure to perform is limited to the correction of the defect or failure by repair, refurbishment or replacement, at our sole option and expense. Our hardware warranty periods generally range from one to five years from date of acceptance for hardware and our software warranty is 90 days. Upon delivery of our products, we provide for the estimated cost to repair or replace products that may be returned under warranty. The hardware warranty accrual is based on actual historical returns and cost of repair experience and the application of those historical rates to our in-warranty installed base. The provision for warranty claims fluctuates depending upon the installed base of products and the failure rates and costs of repair associated with these products under warranty. Furthermore, our costs of repair vary based on repair volume and our ability to repair, rather than replace, defective units. In the event that actual product failure rates and costs to repair differ from our estimates, revisions to the warranty provision are required. In addition, from time to time, specific hardware warranty accruals may be made if unforeseen technical problems arise with specific products. We regularly assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

Business Combinations

Accounting for acquisitions requires our management to estimate the fair value of the assets and liabilities acquired, which involves a number of judgments, assumptions and estimates that could materially affect the timing or amounts recognized in our financial statements. The items involving the most significant assumptions, estimates, and judgments include determining the fair value of the following:

- intangible assets including valuation methodology, estimations of future cash flows and discount rates, as well as the estimated useful life of the intangible assets;
- the acquired company's brand, as well as assumptions about the period of time the acquired brand will continue to be used; and
- deferred tax assets and liabilities, uncertain tax positions and tax-related valuation allowances, which are initially estimated as of the acquisition date.

While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year following the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill.

Recent Accounting Pronouncements

See Note 2, "Significant Accounting Policies," to the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoptions and effects on us.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

We operate in international markets, which expose us to market risk associated with foreign currency exchange rate fluctuations between the U.S. dollar and various foreign currencies, the most significant of which is the euro and Swedish kronor (“SEK”). Historically, the majority of our revenue contracts are denominated in U.S. dollars, with the most significant exception being in Europe, where we invoice primarily in euros and SEK. Additionally, a portion of our expenses, primarily the cost of personnel for research and development, sales and sales support to deliver technical support on our products and professional services, and the cost to manufacture, are denominated in foreign currencies, primarily the Indian rupee, the euro, SEK and the British pound. Revenue resulting from selling in local currencies and costs incurred in local currencies are exposed to foreign currency exchange rate fluctuations that can affect our operating income. As exchange rates vary, operating income may differ from expectations.

We currently enter into foreign currency exchange forward contracts to reduce the impact of currency exchange rate movements on certain transactions, but do not cover all foreign-denominated transactions and therefore do not entirely eliminate the impact of fluctuations in exchange rates that could negatively affect our results of operations and financial condition.

We enter into foreign currency exchange forward contracts to reduce the impact of foreign currency fluctuations on accounts receivable and restricted cash denominated in euros and British pound. As a result, we do not expect a significant impact to our results from a change in exchange rates on foreign denominated accounts receivable balances and restricted cash in the near-term. Gains and losses on these contracts are intended to offset the impact of foreign exchange rate fluctuations on the underlying foreign currency denominated accounts receivables and restricted cash. Accordingly, the effect of an immediate 10% adverse change in foreign exchange rates on these transactions during 2016 would not be material to our results of operations.

During 2016, we also entered into foreign currency exchange contracts to reduce the volatility of cash flows primarily related to forecasted revenues and expenses denominated in euros, British pound and SEK. The contracts are settled for U.S. dollars and SEK at maturity and at rates agreed to at inception of the contracts. The gains and losses on these foreign currency derivatives are recorded to the consolidated statement of operations line item, in the current period, to which the item that is being economically hedged is recorded. The effect of an immediate 10% adverse change in foreign exchange rates on these transactions during 2016 would not be material to our results of operations.

Interest Rate Sensitivity

We had cash and cash equivalents, short-term and long-term investments, and short-term and long-term restricted cash totaling $360.0 million and $356.5 million as of December 31, 2016 and December 26, 2015, respectively. As of December 31, 2016, we have invested in certificates of deposit, money market funds, commercial paper, U.S. agency notes, corporate bonds and U.S. treasuries. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for speculative purposes. We 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 2016 and 2015, our interest income would have declined approximately $0.2 million and $0.2 million, respectively, assuming consistent investment levels.

Market Risk and Market Interest Risk

Holders may convert the Notes prior to maturity upon the occurrence of certain circumstances. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. If our common stock price is above the initial conversion price of $12.58 upon conversion or at maturity, the amount of cash or shares of common stock required to pay the conversion premium is not fixed and would increase if our common stock price increases.

As of December 31, 2016, the fair value of the Notes was $154.3 million. The fair value was calculated using a valuation model. The fair value of 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 only.

See Note 11, “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 31, 2016 and December 26, 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(a). 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 31, 2016 and December 26, 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, 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, presents 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 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 23, 2017

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 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). 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 31, 2016, 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 31, 2016 and December 26, 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016 of Infinera Corporation and our report dated February 23, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 23, 2017

INFINERA CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands, except par values)

	December 31, 2016	December 26, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 162,641	$ 149,101
Short-term investments	141,697	125,561
Short-term restricted cash	8,490	—
Accounts receivable, net of allowance for doubtful accounts of $772 in 2016 and $630 in 2015	150,370	186,243
Inventory	232,955	174,699
Prepaid expenses and other current assets	34,270	29,511
Total current assets	730,423	665,115
Property, plant and equipment, net	124,800	110,861
Intangible assets	108,475	156,319
Goodwill	176,760	191,560
Long-term investments	40,779	76,507
Cost-method investments	7,000	14,500
Long-term restricted cash	6,449	5,310
Other non-current assets	3,897	4,009
Total assets	$ 1,198,583	$ 1,224,181
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 62,486	$ 92,554
Accrued expenses	31,580	33,736
Accrued compensation and related benefits	46,637	49,887
Accrued warranty	16,930	17,889
Deferred revenue	58,900	42,977
Total current liabilities	216,533	237,043
Long-term debt, net	133,586	123,327
Accrued warranty, non-current	23,412	20,955
Deferred revenue, non-current	19,362	13,881
Deferred tax liability, non-current	25,327	35,731
Other long-term liabilities	18,035	16,183
Commitments and contingencies (Note 12)		
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 2016 and 2015 Issued and outstanding shares—145,021 in 2016 and 140,197 in 2015	145	140
Additional paid-in capital	1,354,082	1,300,301
Accumulated other comprehensive income (loss)	(28,324)	1,123
Accumulated deficit	(563,575)	(539,413)
Total Infinera Corporation stockholders' equity	762,328	762,151
Noncontrolling interest	—	14,910
Total stockholders' equity	762,328	777,061
Total liabilities and stockholders' equity	$ 1,198,583	$ 1,224,181

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 31, 2016	December 26, 2015	December 27, 2014
Revenue:			
Product	$ 751,167	$ 769,230	$ 572,276
Services	118,968	117,484	95,803
Total revenue	870,135	886,714	668,079
Cost of revenue:			
Cost of product	433,266	436,916	340,856
Cost of services	43,151	46,321	38,919
Total cost of revenue	476,417	483,237	379,775
Gross profit	393,718	403,477	288,304
Operating expenses:			
Research and development	232,291	180,703	133,484
Sales and marketing	118,858	101,398	79,026
General and administrative	68,343	61,640	48,452
Total operating expenses	419,492	343,741	260,962
Income (loss) from operations	(25,774)	59,736	27,342
Other income (expense), net:			
Interest income	2,478	1,837	1,456
Interest expense	(12,887)	(11,941)	(11,021)
Other gain (loss), net	7,002	2,399	(1,365)
Total other income (expense), net	(3,407)	(7,705)	(10,930)
Income (loss) before income taxes	(29,181)	52,031	16,412
Provision for (benefit from) income taxes	(4,751)	1,081	2,753
Net income (loss)	(24,430)	50,950	13,659
Less: Loss attributable to noncontrolling interest	(503)	(463)	—
Net income (loss) attributable to Infinera Corporation	$ (23,927)	$ 51,413	$ 13,659
Net income (loss) per common share attributable to Infinera Corporation:			
Basic	$ (0.17)	$ 0.39	$ 0.11
Diluted	$ (0.17)	$ 0.36	$ 0.11
Weighted average shares used in computing net income (loss) per common share:			
Basic	142,989	133,259	123,672
Diluted	142,989	143,171	128,565

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

INFINERA CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Net income (loss)	$ (24,430)	$ 50,950	$ 13,659
Other comprehensive income (loss):			
Unrealized gain (loss) on available-for-sale investments	297	(62)	(320)
Foreign currency translation adjustment	(29,625)	5,803	(812)
Tax effect on items related to available-for-sale investments	(119)	—	—
Net change in accumulated other comprehensive income (loss)	(29,447)	5,741	(1,132)
Less: Comprehensive loss attributable to noncontrolling interest	(503)	(463)	—
Comprehensive income (loss) attributable to Infinera Corporation	$ (53,374)	$ 57,154	$ 12,527

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

INFINERA CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 27, 2014, December 26, 2015 and December 31, 2016
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount						
Balance at December 28, 2013	119,887	$ 120	1,025,661	$ (3,486)	$ (604,485)	$ 417,810	$ —	$ 417,810
Stock options exercised	2,001	2	13,981	—	—	13,983	—	13,983
ESPP shares issued	1,438	1	10,727	—		10,728	—	10,728
Shares withheld for tax obligations	(217)	—	(1,846)	—	—	(1,846)	—	(1,846)
Restricted stock units released	3,051	3	(3)	—	—	—	—	—
Stock-based compensation	—	—	28,705	—	—	28,705	—	28,705
Other comprehensive loss	—	—	—	(1,132)	—	(1,132)	—	(1,132)
Net income	—	—	—	—	13,659	13,659	—	13,659
Balance at December 27, 2014	126,160	$ 126	$1,077,225	$ (4,618)	$ (590,826)	$ 481,907	$ —	$ 481,907
Stock options exercised	1,787	2	13,092	—	—	13,094	—	13,094
ESPP shares issued	1,229	1	12,252	—	—	12,253	—	12,253
Shares withheld for tax obligations	(300)	—	(5,227)	—	—	(5,227)	—	(5,227)
Restricted stock units released	3,448	3	(3)	—	—	—	—	—
Issuance of common stock related to acquisition	7,873	8	169,499	—	—	169,507	—	169,507
Stock-based compensation	—	—	32,621	—	—	32,621	—	32,621
Noncontrolling interest investment	—	—	—	—	—	—	15,373	15,373
Tax benefit from share-based award activity	—	—	842	—	—	842	—	842
Other comprehensive income	—	—	—	5,741	—	5,741	—	5,741
Net income	—	—	—	—	51,413	51,413	(463)	50,950
Balance at December 26, 2015	140,197	$ 140	$1,300,301	$ 1,123	$ (539,413)	$ 762,151	$ 14,910	$ 777,061

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

INFINERA CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 27, 2014, December 26, 2015 and December 31, 2016 — (Continued)
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount						
Balance at December 26, 2015	140,197	$ 140	$ 1,300,301	$ 1,123	$ (539,413)	$ 762,151	$ 14,910	$ 777,061
Stock options exercised	825	1	4,094	—	—	4,095	—	4,095
ESPP shares issued	1,369	1	13,607	—	—	13,608	—	13,608
Shares withheld for tax obligations	(287)	—	(3,657)	—	—	(3,657)	—	(3,657)
Restricted stock units released	2,917	3	(3)	—	—	—	—	—
Stock-based compensation	—	—	42,552	—	—	42,552	—	42,552
Noncontrolling interest investment	—	—	—	—	—	—	(14,407)	(14,407)
Squeeze-out Proceedings	—	—	(2,812)	—	—	(2,812)	—	(2,812)
Cumulative-effect adjustment from adoption of ASU 2016-09	—	—	—	—	(235)	(235)	—	(235)
Tax benefit from share-based award activity	—	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	(29,447)	—	(29,447)	—	(29,447)
Net loss	—	—	—	—	(23,927)	(23,927)	(503)	(24,430)
Balance at December 31, 2016	145,021	$ 145	$ 1,354,082	$ (28,324)	$ (563,575)	$ 762,328	$ —	$ 762,328

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

INFINERA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Cash Flows from Operating Activities:			
Net income (loss)	$ (24,430)	$ 50,950	$ 13,659
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	61,489	35,777	25,917
Amortization of debt discount and issuance costs	10,260	9,281	8,395
Amortization of premium on investments	1,069	2,917	3,772
Impairment on acquired in-process research and development	11,295	—	—
Realized gain on sale of cost-method investments	(8,983)	—	—
Stock-based compensation expense	40,533	32,580	28,394
Other (gain) loss	672	(442)	(12)
Changes in assets and liabilities:			
Accounts receivable	33,895	(15,971)	(53,948)
Inventory	(64,095)	(17,116)	(25,486)
Prepaid expenses and other assets	(5,501)	(3,248)	(8,324)
Accounts payable	(28,254)	19,223	18,810
Accrued liabilities and other expenses	(11,012)	8,448	15,998
Deferred revenue	21,439	10,777	8,788
Net cash provided by operating activities	38,377	133,176	35,963
Cash Flows from Investing Activities:			
Purchase of available-for-sale investments	(124,077)	(186,737)	(302,398)
Proceeds from sales of available-for-sale investments	—	67,303	28,481
Proceeds from maturities and calls of investments	142,898	213,234	208,051
Purchase of cost-method investments	(7,000)	—	(5,500)
Proceeds from sale of cost-method investments	23,483	—	—
Purchase of property and equipment	(43,335)	(42,018)	(23,122)
Acquisition of business, net of cash acquired	—	(144,445)	—
Realized gain from forward contract for business acquisition	—	1,053	—
Change in restricted cash	(4,084)	135	(1,571)
Net cash used in investing activities	(12,115)	(91,475)	(96,059)
Cash Flows from Financing Activities:			
Security pledge related to Squeeze-out Proceedings	(6,086)	—	—
Acquisition of noncontrolling interest	(16,771)	—	—
Proceeds from issuance of common stock	17,648	25,351	24,707
Minimum tax withholding paid on behalf of employees for net share settlement	(3,657)	(5,227)	(1,846)
Excess tax benefit from stock option transactions	—	859	—
Net cash provided by (used in) financing activities	(8,866)	20,983	22,861
Effect of exchange rate changes on cash	(3,856)	(78)	(600)
Net change in cash and cash equivalents	13,540	62,606	(37,835)
Cash and cash equivalents at beginning of period	149,101	86,495	124,330
Cash and cash equivalents at end of period	$ 162,641	$ 149,101	$ 86,495
Supplemental disclosures of cash flow information:			
Cash paid for income taxes, net of refunds	$ 6,625	$ 4,570	$ 1,697
Cash paid for interest	$ 2,776	$ 2,647	$ 2,625
Supplemental schedule of non-cash investing and financing activities:			
Transfer of inventory to fixed assets	$ 5,597	$ 9,314	$ 2,569
Common stock issued in connection with acquisition	$ —	$ 169,507	$ —

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

INFINERA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

Infinera Corporation ("Infinera" or the "Company"), headquartered in Sunnyvale, California, was founded in December 2000 and incorporated in the State of Delaware. Infinera provides optical transport networking equipment, software and services to telecommunications service providers, Internet Content Providers, cable providers, wholesale and enterprise carriers, research and education institutions, enterprise customers, and government entities across the globe. Optical transport networks are deployed by customers facing significant demand for optical bandwidth prompted by increased use of high-speed internet access, mobile broadband, cloud-based services, high-definition video streaming services, virtual and augmented reality, the Internet of Things (IoT) and business Ethernet services.

During the third quarter of 2015, the Company completed its public offer to the shareholders of Transmode AB ("Transmode"), acquiring 95.8% of the outstanding common shares and voting interest in Transmode. This acquisition was accounted for as a business combination, and accordingly, the Company has consolidated the financial results of Transmode with its financial results for the period from August 20, 2015, the date the acquisition closed (the "Acquisition Date"). The noncontrolling interest position is reported as a separate component of consolidated equity attributable to Transmode's shareholders. The noncontrolling interest in the Transmode entity's net loss is reported as a separate component of consolidated net income attributable to Transmode's shareholders. In August 2016, the Company received advance title to acquire the remaining 4.2% of Transmode shares not tendered in the initial offer.

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 year 2016 was a 53-week year that ended on December 31, 2016, and 2015 and 2014 were 52-week years that ended on December 26, 2015 and December 27, 2014, respectively. The next 53-week year will end on December 31, 2022.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated. The Company reclassified certain amounts reported in previous periods to conform to the current presentation.

2. Significant Accounting Policies

Use of Estimates

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). These accounting principles require the Company to make certain estimates, assumptions and judgments that can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates, assumptions and judgments made by management include revenue recognition, stock-based compensation, inventory valuation, accrued warranty, business combinations and accounting for income taxes. Other estimates, assumptions and judgments made by management include allowances for sales returns, allowances for doubtful accounts, useful life of property, plant and equipment, fair value measurement of the liability component of the convertible senior notes and derivative instruments. Management believes that the estimates, assumptions and judgments upon which they rely are reasonable based upon information available to them at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, the Company's consolidated financial statements will be affected.

Revenue Recognition

Many of the Company's product sales are sold in combination with installation and deployment services along with initial hardware and software support. Periodically, the Company's product sales are also sold with spares management, on-site hardware replacement services, network management operations, software subscription, extended hardware warranty or training. Initial software and hardware support services are generally delivered over a one-year period in connection with the initial purchase. Software warranty provides customers with maintenance releases during the warranty support period and hardware warranty provides replacement or repair of equipment that fails to perform in line with specifications. Software subscription service includes software warranty and additionally provides customers with rights to receive unspecified software product upgrades released during the support period.

Spares management and on-site hardware replacement services include the replacement of defective units at customer sites in accordance with specified service level agreements. Network operations management includes the day-to-day operation of a customer's network. These services are generally delivered on an annual basis. Training services include the right to a specified number of instructor-led or web based training classes, and installation and deployment services may include customer site assessments, equipment installation and testing. These services are generally delivered over a 30 to120 day 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. 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 revenue recognition accounting guidance. Revenue related to these offerings have historically not been material.

Services revenue includes software subscription services, installation and deployment services, spares management, on-site hardware replacement services, network operations management, extended hardware warranty services and training. Revenue from software subscription, spares management, on-site hardware replacement services, network operations management and extended hardware warranty contracts is deferred and is recognized ratably over the contractual support period, which is generally one year. 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 recognized only after 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. 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.

Commission Expense

Sales commissions are recorded as sales and marketing expense and accrued compensation and related benefits. The Company generally records commission expense when it bills the customers; thus no contract acquisition costs are capitalized.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award, and is recognized as expense over the requisite service period (generally the vesting period) under the straight-line amortization method. The expected forfeiture rate was estimated based on the Company's historical forfeiture data and compensation costs were recognized only for those equity awards expected to vest. The estimation of the forfeiture rate required judgment, and to the extent actual forfeitures differed from expectations, changes in estimate were recorded as an adjustment in the period when such estimates were revised. The Company historically recorded stock-based compensation expense by applying the forfeiture rates and adjusted estimated forfeiture rates to actual. During the third fiscal quarter beginning on June 26, 2016, the Company elected to early adopt ASU 2016-09. The Company also elected to change its accounting policy to account for forfeitures when they occur on a modified retrospective basis.

The Company makes a number of estimates and assumptions in determining stock-based compensation related to stock options including the following:

- The expected term represents the weighted-average period that the stock options are expected to be outstanding prior to being exercised. The expected term is estimated based on the Company’s historical data on employee exercise patterns and post vesting termination behavior to estimate expected exercises over the contractual term of grants.

- Expected volatility of the Company’s stock 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 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 or four years.

The Company granted performance stock units (“PSUs”) to its executive officers and senior management in 2014, 2015 and 2016 as part of the Company's annual refresh grant process. These PSUs entitle the Company's executive officers and senior management to receive a number of shares of the Company's common stock based on its stock price performance compared to a specified target composite index for the same period. These PSUs vest over the span of one year, two years and three years, and the number of shares to be issued upon vesting ranges from 0 to 2.0 times the number of PSUs granted depending on the relative performance of the Company's common stock price compared to the targeted composite index. This performance metric is classified as a market condition.

The Company uses a Monte Carlo simulation model to determine the fair value of PSUs on the date of grant. The Monte Carlo simulation model is based on a discounted cash flow approach, with the simulation of a large number of possible stock price outcomes for the Company's stock and the target composite index. The use of the Monte Carlo simulation model requires the input of a number of assumptions including expected volatility of the Company's stock price, expected volatility of target composite index, correlation between changes in the Company's stock price and changes in the target composite index, risk-free interest rate, and expected dividends as applicable. Expected volatility of the Company's stock is based on the weighted-average historical volatility of its stock. Expected volatility of target composite index is based on the historical and implied data. Correlation is based on the historical relationship between the Company's stock price and the target composite index average. The risk-free interest rate is based upon the treasury zero-coupon yield appropriate for the term of the PSU as of the grant date. The expected dividend yield is zero for the Company as it does not expect to pay dividends in the future. The expected dividend yield for the target composite index is the annual dividend yield expressed as a percentage of the composite average of the target composite index on the grant date.

In addition, the Company has granted other PSUs to certain employees that only vest upon the achievement of specific operational performance criteria.

Research and Development

All costs to develop the Company’s hardware products are expensed as incurred. Software development costs are capitalized beginning when a product’s technological feasibility has been established and ending when a product is available for general release to customers. Generally, the Company’s software products are released soon after technological feasibility has been established. As a result, costs subsequent to achieving technological feasibility have not been significant and all software development costs have been expensed as incurred.

Advertising

All advertising costs are expensed as incurred. Advertising expenses in 2016, 2015 and 2014 were $1.9 million, $1.8 million and $1.5 million, respectively.

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. In evaluating the need for a full or partial valuation allowance, all positive and negative evidence must be considered, including the Company's forecasts of taxable income over the applicable carryforward periods, its current financial performance, its market environment, and other factors. Based on the available objective evidence, at December 31, 2016, management believes it is more likely than not that the domestic net deferred tax assets will not be realizable in the foreseeable future. Accordingly, the domestic net deferred tax assets were fully reserved with a valuation allowance. To the extent that the Company determines that deferred tax assets are realizable on a more likely than not basis, and adjustment is needed, that adjustment will be recorded in the period that the determination is made and would generally decrease the valuation allowance and record a corresponding benefit to earnings.

Foreign Currency Translation and Transactions

The Company considers the functional currencies of its foreign subsidiaries to be the local currency. Assets and liabilities recorded in foreign currencies are translated at the exchange rate as of the balance sheet date, and costs and expenses are translated at average exchange rates in effect during the period. Equity transactions are translated using historical exchange rates. The effects of foreign currency translation adjustments are recorded as a separate component of Accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

For all non-functional currency account balances, the re-measurement of such balances to the functional currency will result in either a foreign exchange transaction gain or loss which is recorded to other gain (loss), net in the same period that the re-measurement occurred. Aggregate foreign exchange transactions recorded in 2016, 2015 and 2014 were a loss of $1.8 million, a gain of $2.4 million and a loss of $1.4 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 pounds, and restricted cash denominated in euros.

During 2016, the Company also entered into foreign currency exchange contracts to reduce the volatility of cash flows primarily related to forecasted revenues and expenses denominated in euro, British pound and Swedish kronor (“SEK”). The contracts are settled for U.S. dollars and SEK at maturity and at rates agreed to at inception of the contracts. The gains and losses on these foreign currency derivatives are recorded to the condensed consolidated statement of operations line item, in the current period, to which the item that is being economically hedged is recorded.

Cash, Cash Equivalents and Short-term and Long-term Investments

The Company considers all highly liquid instruments with an original maturity at the date of purchase of 90 days or less to be cash equivalents. These instruments may include cash, money market funds, commercial paper and U.S. treasuries. The Company 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.

Cash, cash equivalents and short-term investments consist of highly-liquid investments in certificates of deposits, money market funds, commercial paper, U.S. agency notes, corporate bonds and U.S. treasuries. Long-term investments primarily consist of certificates of deposits, U.S. agency notes and corporate bonds. The Company considers all debt instruments with original maturities at the date of purchase greater than 90 days and remaining time to maturity of one year or less to be short-term investments. The Company classifies debt instruments with remaining maturities greater than one year as long-term investments, unless the Company intends to settle its holdings within one year or less and in such case it is considered to be short-term investments. The Company determines the appropriate classification of its marketable securities at the time of purchase and re-evaluates such designations as of each balance sheet date.

Available-for-sale investments are stated at fair market value with unrealized gains and losses recorded in Accumulated other comprehensive income (loss) in the Company's consolidated balance sheets. The Company evaluates its available-for-sale marketable debt securities for other-than-temporary impairments and records any credit loss portion in Other income (expense), net, in the Company's consolidated statements of operations. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity and for any credit losses incurred on these securities. Gains and losses are recognized when realized in the Company's consolidated statements of operations under the specific identification method. Because the Company does not intend to sell its debt securities and it is not more likely than not that it will be required to sell the investment before recovery of their amortized cost basis, which may be maturity.

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 the best information available. Observable inputs are the preferred source of values. These two types of inputs create the following fair value hierarchy:

Level 1	–	Quoted prices in active markets for identical assets or liabilities.
Level 2	–	Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	–	Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

The Company measures its cash equivalents, foreign currency exchange forward contracts and debt securities at fair value and classifies its securities in accordance with the fair value hierarchy. The Company's money market funds and U.S. treasuries are classified within Level 1 of the fair value hierarchy and are valued based on quoted prices in active markets for identical securities.

The Company classifies the following assets within Level 2 of the fair value hierarchy as follows:

Certificates of Deposit

The Company reviews market pricing and other observable market inputs for the same or similar securities obtained from a number of industry standard data providers. In the event that a transaction is observed for the same or similar security in the marketplace, the price on that transaction reflects the market price and fair value on that day. In the absence of any observable market transactions for a particular security, the fair market value at period end would be equal to the par value. These inputs represent quoted prices for similar assets or these inputs have been derived from observable market data.

Commercial Paper

The Company reviews market pricing and other observable market inputs for the same or similar securities obtained from a number of industry standard data providers. In the event that a transaction is observed for the same or similar security in the marketplace, the price on that transaction reflects the market price and fair value on that day and then follows a revised accretion schedule to determine the fair market value at period end. In the absence of any observable market transactions for a particular security, the fair market value at period end is derived by accreting from the last observable market price. These inputs represent quoted prices for similar assets or these inputs have been derived from observable market data accreted mathematically to par.

U.S. Agency Notes

The Company reviews trading activity and pricing for its U.S. agency notes as of the measurement date. When sufficient quoted pricing for identical securities is not available, the Company uses market pricing and other observable market inputs for similar securities obtained from a number of industry standard data providers. These inputs represent quoted prices for similar assets in active markets or these inputs have been derived from observable market data.

Corporate Bonds

The Company reviews trading activity and pricing for each of the corporate bond securities in its portfolio as of the measurement date and determines if pricing data of sufficient frequency and volume in an active market exists in order to support Level 1 classification of these securities. If sufficient quoted pricing for identical securities is not available, the Company obtains market pricing and other observable market inputs for similar securities from a number of industry standard data providers. In instances where multiple prices exist for similar securities, these prices are used as inputs into a distribution-curve to determine the fair market value at period end.

Foreign Currency Exchange Forward Contracts

As discussed in Note 5, "Derivative Instruments," to the Notes to Condensed 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 of December 31, 2016, none of the Company’s existing securities were classified as Level 3 securities.

Accounts Receivable and Allowances for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company reviews its aging by category to identify significant customers or invoices with known dispute or collectability issues. The Company makes judgments as to its ability to collect outstanding receivables based on various factors including ongoing customer credit evaluations and historical collection experience. The Company provides an allowance for receivable amounts that are potentially uncollectible.

Allowances for Sales Returns

Customer product returns are approved on a case by case basis. Specific reserve provisions are made based upon a specific review of all the approved product returns where the customer has yet to return the products to generate the related sales return credit at the end of a period. Estimated sales returns are provided for as a reduction to revenue. At December 31, 2016, December 26, 2015 and December 27, 2014, revenue was reduced for estimated sales returns by $0.6 million, $0.6 million and $0.2 million, respectively.

Concentration of Risk

Financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash equivalents, short-term investments, long-term investments and accounts receivable. Investment policies have been implemented that limit investments to investment-grade securities.

The risk with respect to accounts receivable is mitigated by ongoing credit evaluations that the Company performs on its customers. As the Company continues to expand its sales internationally, it may experience increased levels of customer credit risk associated with those regions. Collateral is generally not required for accounts receivable but may be used in the future to mitigate credit risk associated with customers located in certain geographical regions.

As of December 31, 2016, two customers accounted for approximately 17% and 15% of the Company's net accounts receivable balance, respectively. As of December 26, 2015, one customer accounted for approximately 17% of the Company’s net accounts receivable balance.

To date, a few of the Company’s customers have accounted for a significant portion of its revenue. One customer accounted for over 10% of the Company’s revenue in 2016. Revenue from this customer accounted for 16% of the Company's revenue in 2016. Two customers each accounted for over 10% of the Company's revenue in 2015. These two customers accounted for 17% and 13%, respectively, of the Company's revenue in 2015. One customer accounted for over 10% of the Company's revenue in 2014. Revenue from this customer accounted for 19% of the Company's revenue in 2014.

The Company depends on a sole source or limited source suppliers for several key components and raw materials. The Company generally purchases these sole source or limited source components and raw materials through standard purchase orders and does not have long-term contracts with many of these limited-source suppliers. While the Company seeks to maintain sufficient reserve stock of such components and raw materials, the Company’s business and results of operations could be adversely affected if any of our sole source or limited source suppliers suffer from capacity constraints, lower than expected yields, deployment delays, work stoppages or any other reduction or disruption in output.

Derivative Instruments

The Company is exposed to foreign currency exchange rate fluctuations in the normal course of its business. As part of its risk management strategy, the Company uses derivative instruments, specifically forward contracts, to reduce the impact of foreign exchange fluctuations on earnings. The forward contracts are with high-quality institutions and the Company monitors the creditworthiness of the counter parties consistently. The Company’s objective is to offset gains and losses resulting from these exposures with gains and losses on the derivative contracts used to hedge them, thereby reducing volatility of earnings or protecting fair values of assets. None of the Company’s derivative instruments contain credit-risk related contingent features, any rights to reclaim cash collateral or any obligation to return cash collateral. The Company does not have any leveraged derivatives. The Company does not use derivative contracts for trading or speculative purposes.

The Company enters into foreign currency exchange forward contracts to manage its exposure to fluctuations in foreign exchange rates that arise primarily from its euro and British pound denominated receivables and euro denominated restricted cash balance amounts that are pledged as collateral for certain stand-by letters of credit. Gains and losses on these contracts are intended to offset the impact of foreign exchange rate changes on the underlying foreign currency denominated accounts receivables and restricted cash, and therefore, do not subject the Company to material balance sheet risk. The Company also entered into foreign currency exchange contracts to reduce the volatility of cash flows primarily related to forecasted revenues and expenses denominated in euros, British pound and SEK. These contracts are settled for U.S. dollars and SEK at maturity and at rates agreed to at inception of the contracts. The forward contracts are with one high-quality institution and the Company consistently monitors the creditworthiness of the counterparty. The forward contracts entered into during 2016 were denominated in euros, British pounds and SEK, and the contracts are settled for reporting currencies at maturity at rates agreed to at inception of the contracts.

Inventory Valuation

Inventories consist of raw materials, work-in-process and finished goods and are stated at standard cost adjusted to approximate the lower of actual cost or market. Costs are recognized utilizing the first-in, first-out method. 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. 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 actual cost or market.

The Company considers whether it should accrue losses on firm purchase commitments related to inventory items. Given that the net realizable value of common equipment is below contractual purchase price, the Company has also recorded losses on these firm purchase commitments in the period in which the commitment is made. When the inventory parts related to these firm purchase commitments are received, that inventory is recorded at the purchase price less the accrual for the loss on the purchase commitment.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. This includes enterprise-level business software that the Company customizes to 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 7 years
Leasehold improvements	1 to 12 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.

Accrued Warranty

The Company warrants that its products will operate substantially in conformity with product specifications. Hardware warranties provide the purchaser with protection in the event that the product does not perform to product specifications. During the warranty period, the purchaser’s sole and exclusive remedy in the event of such defect or failure to perform is limited to the correction of the defect or failure by repair, refurbishment or replacement, at the Company’s sole option and expense. The Company's hardware warranty periods generally range from one to five years from date of acceptance for hardware and the Company's software warranty is 90 days. Upon delivery of the Company's products, the Company provides for the estimated cost to repair or replace products that may be returned under warranty. The hardware warranty accrual is based on actual historical returns and cost of repair experience and the application of those historical rates to the Company's in-warranty installed base. The provision for warranty claims fluctuates depending upon the installed base of products and the failure rates and costs of repair associated with these products under warranty. Furthermore, the Company's costs of repair vary based on repair volume and its ability to repair, rather than replace, defective units. In the event that actual product failure rates and costs to repair differ from the Company's estimates, revisions to the warranty provision are required. In addition, from time to time, specific hardware warranty accruals may be made if unforeseen technical problems arise with specific products. The Company regularly assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Business Combinations

Accounting for acquisitions requires our management to estimate the fair value of the assets and liabilities acquired, which involves a number of judgments, assumptions and estimates that could materially affect the timing or amounts recognized in the Company's financial statements. The items involving the most significant assumptions, estimates and judgments include determining the fair value of the following:

- Intangible assets, including valuation methodology, estimations of future cash flows and discount rates, as well as the estimated useful life of the intangible assets;
- the acquired company’s brand, as well as assumptions about the period of time the acquired brand will continue to be used;
- deferred tax assets and liabilities, uncertain tax positions and tax-related valuation allowances, which are initially estimated as of the acquisition date;

While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year following the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill.

Amortization of Intangible Assets

Intangible assets with finite lives are carried at cost, less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets. In-process research and development represents the fair value of incomplete research and development projects that have not reached technological feasibility as of the date of acquisition. Initially, these assets are not subject to amortization. Once projects have been completed they are transferred to developed technology, which are subject to amortization, while assets related to projects that have been abandoned are impaired and expensed to research and development.

Impairment of Intangible Assets and Goodwill

Goodwill is evaluated for impairment on an annual basis in the fourth quarter of the Company's fiscal year, and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. The Company has elected to first assess qualitative factors to determine whether it is more likely than not that the fair value of its single reporting unit is less than its carrying amount. If the Company determines that it is more likely than not that the fair value of its single reporting unit is less than its carrying amount, then the two-step goodwill impairment test will be performed. The first step, identifying a potential impairment, compares the fair value of its single reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step will be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the implied fair value is recognized as an impairment loss. The Company evaluates events and changes in circumstances that could indicate carrying amounts of purchased intangible assets may not be recoverable. When such events or changes in circumstances occur, the Company assesses the recoverability of these assets by determining whether or not the carrying amount will be recovered through undiscounted expected future cash flows. If the total of the future undiscounted cash flows is less than the carrying amount of an asset, the Company records an impairment loss for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (the “FASB”) issued ASU No. 2017-04, “Simplifying the Test for Goodwill Impairment ” (“ASU 2017-04”). The guidance eliminates Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. ASU 2017-04 is effective for the Company's annual or any interim goodwill impairment tests in fiscal years beginning after the fourth quarter of 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact the adoption of ASU 2017-04 will have on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As such, restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and ending-of-period total amounts shown on the statement of cash flows. The Company is required to adopt ASU 2016-18 for fiscal years, and for interim periods within those fiscal years, beginning after the fourth quarter of 2017 on a retrospective basis. Early adoption is permitted, including adoption in an interim period. Subsequent to the adoption of ASU 2016-18 the change in restricted cash would be excluded from the change in cash flows from financing activities and included in the change in total cash, restricted cash and cash equivalents as reported in the statement of cash flows. The Company is currently evaluating the impact the adoption of ASU 2016-18 will have on its consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update 2016-15, “Statement of Cash Flows (Topic 320): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain transactions are presented and classified in the statement of cash flows. This guidance is effective for the Company in its first quarter of fiscal 2018 and will be applied on a retrospective basis. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-15 will have on its consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”), which requires measurement and recognition of expected credit losses for financial assets held. This guidance is effective for the Company in its first quarter of fiscal 2020 and early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements.

In May 2016, the FASB issued Accounting Standards Update 2016-11, “Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC

Update)" ("ASU 2016-11"), which rescinds various standards codified as part of Topic 605, Revenue Recognition in relation to the future adoption of Topic 606. These rescissions include changes to topics pertaining to revenue and expense recognition for freight services in process, accounting for shipping and handling fees and costs, and accounting for consideration given by a vendor to a customer. This guidance is effective for the Company in its first quarter of fiscal 2018 and early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-11 will have on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements, including the income tax effects of share-based payments and accounting for forfeitures. ASU 2016-09 requires companies to record excess tax benefits and tax deficiencies as income tax benefit or expense in the statement of operations when the awards vest or are settled, eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the statement of cash flows, and allows for an accounting policy election to either estimate the number of forfeitures (current U.S. GAAP) or account for forfeitures when they occur, amongst other provisions.

The Company elected to early adopt ASU 2016-09 as of its third fiscal quarter that began on June 26, 2016. The Company also elected to change its accounting policy to account for forfeitures when they occur on a modified retrospective basis. The adoption of ASU 2016-09 and the change in the Company's accounting policy resulted in a $0.2 million increase to additional paid-in capital and accumulated deficit as of December 27, 2015. The Company also recorded $0.3 million of stock-based compensation expense during 2016 to true-up for the differential between the amount of stock-based compensation cost previously recorded for the first six months ended June 25, 2016 and the amount that would have been recorded without assuming forfeitures. Additionally, the Company adopted the change in presentation in the condensed consolidated statement of cash flows related to excess tax benefits on a prospective basis. Accordingly, prior periods have not been adjusted. There was no impact for the change in presentation in the condensed consolidated statement of cash flows related to statutory tax withholding requirements as the Company has historically classified the statutory tax withholding as a financing activity in its consolidated statement of cash flows.

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which amends the existing accounting standards for leases. The new standard requires lessees to record a right-of-use asset and a corresponding lease liability on the balance sheet (with the exception of short-term leases). For lessees, leases will continue to be classified as either operating or financing in the income statement. This guidance is effective for the Company in its first quarter of fiscal 2019 and early adoption is permitted. ASU 2016-02 is required to be applied with a modified retrospective approach and requires application of the new standard at the beginning of the earliest comparative period presented. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

In September 2015, the FASB issued Accounting Standards Update 2015-16, "Business Combinations and Simplifying the Accounting for Measurement-Period Adjustments" ("ASU 2015-16"), which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The Company adopted ASU 2015-16 during the first quarter of fiscal 2016. The Company's adoption of ASU 2015-16 had no impact on the Company's financial position, results of operations or cash flow.

In July 2015, the FASB issued Accounting Standards Update 2015-11, "Simplifying the Measurement of Inventory" ("ASU 2015-11"), to simplify the guidance on the subsequent measurement of inventory, excluding inventory measured using last-in, first-out or the retail inventory method. Under ASU 2015-11, inventory should be at the lower of cost and net realizable value. This guidance is effective for the Company in its first quarter of fiscal 2017. The Company is currently evaluating the impact the adoption of ASU 2015-11 will have on its consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. The Company adopted ASU 2015-03 during the first quarter of fiscal 2016. The December 26, 2015 balance sheet was retrospectively adjusted to reclassify $2.1 million from other non-current assets to a reduction of the Notes payable liability.

In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts from Customers (Topic 606)" ("ASU 2014-09"), which creates a single, joint revenue standard that is consistent across all industries and markets for companies that prepare their financial statements in accordance with GAAP. Under ASU 2014-09, an entity is required to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to receive in exchange for those goods or services. In July 2015, the FASB decided to delay the effective date of the new revenue standard by one year. In April 2016, the FASB issued Accounting Standards Update 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," which clarifies the implementation guidance on identifying performance obligations and licensing. In May 2016, the FASB issued Accounting Standards Update 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," which amends the guidance on collectability, noncash consideration, presentation of sales tax and transition. In December 2016, the FASB issued Accounting Standards Update 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," to increase stakeholders' awareness of the proposals and to expedite improvements to ASU 2014-09. These standards will be effective for the Company's first quarter of 2018. The Company has not yet selected a transition method and it is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

The Company is still in the process of completing its analysis and assessing all potential impacts of the new standard. In terms of the Company's evaluation efforts, it has assigned internal resources and engaged a third party service provider to assist in the evaluation assessment phase and documentation of new policies and processes. Furthermore, the Company has made and will continue to make investments in systems and processes to enable timely and accurate reporting under the new standard. The Company currently expects that necessary operational changes will be implemented prior to the adoption date.

3. 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 31, 2016			As of December 26, 2015		
	Fair Value Measured Using			Fair Value Measured Using		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets						
Money market funds	$41,773	$ —	$ 41,773	$37,829	$ —	$ 37,829
Certificates of deposit	—	1,881	1,881	—	5,001	5,001
Commercial paper	—	39,310	39,310	—	10,997	10,997
Corporate bonds	—	88,324	88,324	—	163,400	163,400
U.S. agency notes	—	11,759	11,759	—	10,717	10,717
U.S. treasuries	52,092	—	52,092	24,853	—	24,853
Foreign currency exchange forward contracts	$ —	$ 187	$ 187	$ —	$ 490	$ 490
Total assets	$93,865	$141,461	$235,326	$62,682	$190,605	$253,287
Liabilities						
Foreign currency exchange forward contracts	$ —	$ (71)	$ (71)	$ —	$ (44)	$ (44)

During 2016 and 2015, there were no transfers of assets or liabilities between Level 1 and Level 2. As of December 31, 2016 and December 26, 2015, none of the Company's existing securities were classified as Level 3 securities.

Cash, cash equivalents and investments were as follows (in thousands):

	December 31, 2016			
	Adjusted Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash	$ 109,978	$ —	$ —	$ 109,978
Money market funds	41,773	—	—	41,773
Commercial paper	8,892	—	(1)	8,891
U.S. agency notes	1,999	—	—	1,999
Total cash and cash equivalents	$ 162,642	$ —	$ (1)	$ 162,641
Certificates of deposit	1,881	—	—	1,881
Commercial paper	30,425	—	(6)	30,419
Corporate bonds	63,097	1	(59)	63,039
U.S. agency notes	7,285	—	(8)	7,277
U.S. treasuries	39,093	9	(21)	39,081
Total short-term investments	$ 141,781	$ 10	$ (94)	$ 141,697
Corporate bonds	25,374	—	(89)	25,285
U.S. agency notes	2,499	—	(16)	2,483
U.S. treasuries	13,032	2	(23)	13,011
Total long-term investments	$ 40,905	$ 2	$ (128)	$ 40,779
Total cash, cash equivalents and investments	$ 345,328	$ 12	$ (223)	$ 345,117

	December 26, 2015			
	Adjusted Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash	$ 98,372	$ —	$ —	$ 98,372
Money market funds	37,829	—	—	37,829
Commercial paper	6,000	—	—	6,000
U.S. treasuries	6,900	—	—	6,900
Total cash and cash equivalents	$ 149,101	$ —	$ —	$ 149,101
Certificates of deposit	3,120	—	—	3,120
Commercial paper	4,997	—	—	4,997
Corporate bonds	111,608	—	(148)	111,460
U.S. agency notes	2	—	—	2
U.S. treasuries	5,986	—	(4)	5,982
Total short-term investments	$ 125,713	$ —	$ (152)	$ 125,561
Certificates of deposit	1,880	1	—	1,881
Corporate bonds	52,189	—	(249)	51,940
U.S. agency notes	10,784	—	(69)	10,715
U.S. treasuries	12,010	—	(39)	11,971
Total long-term investments	$ 76,863	$ 1	$ (357)	$ 76,507
Total cash, cash equivalents and investments	$ 351,677	$ 1	$ (509)	$ 351,169

As of December 31, 2016, the Company’s available-for-sale investments have a contractual maturity term of up to 24 months. Gross realized gains and losses on short-term and long-term investments were insignificant for all periods. The specific identification method is used to account for gains and losses on available-for-sale investments.

As of December 31, 2016, the Company had $304.3 million of cash, cash equivalents and short-term investments, including $43.2 million of cash and cash equivalents held by its foreign subsidiaries. The Company's cash in foreign locations is used for operational and investing activities in those locations, and the Company does not currently have the need or the intent to repatriate those funds to the United States.

4. Cost-method Investments

In 2016, the Company invested $7.0 million in a privately-held company. In addition to the $7.0 million investment, the transaction included a customer supply agreement and warrants to purchase up to $10.0 million of additional shares of preferred stock. The warrants vest and become exercisable upon certain conditions being met.

Additionally, in 2016, the Company recognized a gain of $9.0 million from the sale of an existing cost-method investment. As of December 31, 2016 and December 26, 2015, the Company's cost-method investments balance was $7.0 million and $14.5 million, respectively. These investments are accounted for as cost-basis investments 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 either entity. The Company's investments are carried at historical cost in its consolidated financial statements. The Company regularly evaluates the carrying value of its cost-method investments for impairment. If the Company believes that the carrying value of the cost basis investments are in excess of estimated fair value, the Company’s policy is to record an impairment charge in other income (expense), net, in the accompanying condensed consolidated statements of operations to adjust the carrying value to estimated fair value, when the impairment is deemed other-than-temporary. As of December 31, 2016 and December 26, 2015, no event had occurred that would adversely affect the carrying value of these investments. The Company did not record any impairment charges during 2016, 2015 and 2014.

5. Derivative Instruments

Foreign Currency Exchange Forward Contracts

The Company transacts business in various foreign currencies and has international sales, cost of sales, and expenses denominated in foreign currencies, and carries foreign-currency-denominated monetary assets and liabilities, subjecting the Company to foreign currency risk. The Company's primary foreign currency risk management objective is to protect the U.S. dollar value of future cash flows and minimize the volatility of reported earnings. The Company utilizes foreign currency forward contracts, primarily short term in nature.

Historically, the Company enters into foreign currency exchange forward contracts to manage its exposure to fluctuation in foreign exchange rates that arise from its euro and British pound denominated receivables and restricted cash balances. Gains and losses on these contracts are intended to offset the impact of foreign exchange rate fluctuations on the underlying foreign currency denominated accounts receivables and restricted cash, and therefore, do not subject the Company to material balance sheet risk.

During 2016, the Company also entered into foreign currency exchange contracts to reduce the volatility of cash flows primarily related to forecasted revenues and expenses denominated in euros, British pound and SEK. The contracts are settled for U.S. dollars and SEK at maturity and at rates agreed to at inception of the contracts. The gains and losses on these foreign currency derivatives are recorded to the consolidated statement of operations line item, in the current period, to which the item that is being economically hedged is recorded.

In April 2015, the Company entered into a foreign currency exchange forward contract with a notional amount of SEK 831 million ($95.3 million) to hedge currency exposures associated with the cash consideration of the offer to acquire Transmode. In July 2015, the Company entered into a series of additional foreign currency exchange option contracts to purchase up to an additional SEK 1.3 billion ($153.8 million) and to sell up to SEK 650 million ($76.9 million), which achieves the economic equivalent of a "participating forward" in order to hedge the anticipated foreign currency cash outflows associated with the additional cash consideration related to the enhanced offer to acquire the shares of Transmode. As these contracts are not formally designated as hedges, the gains and losses were recognized in the statement of operations. For 2015, the Company recorded a realized gain of $1.6 million, which was included in Other gain (loss), net, in the accompanying condensed consolidated statements of operations.

The before-tax effect of foreign currency exchange forward contracts was a loss of $0.9 million for 2016, a gain of $3.8 million for 2015 and a gain of $1.6 million in 2014, included in Other gain (loss), net, in the consolidated statements of operations. In each of these periods, the impact of the gross gains and losses were offset by foreign exchange rate fluctuations on the underlying foreign currency denominated amounts.

As of December 31, 2016, the Company did not designate foreign currency exchange forward contracts as hedges for accounting purposes and accordingly, changes in the fair value are recorded in the accompanying consolidated statements of operations. These contracts were with two high-quality institutions and the Company consistently monitors the creditworthiness of the counterparties.

The fair value of derivative instruments not designated as hedging instruments in the Company's consolidated balance sheets was as follows (in thousands):

	As of December 31, 2016			As of December 26, 2015		
	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	$ 23,887	$ 137	$ (71)	$ 46,753	$ 319	$ (44)
Related to British pound denominated receivables	$ 6,353	$ 48	$ —	$ 6,686	$ 171	$ —
Related to euro denominated restricted cash	$ 242	$ 2	$ —	$ 252	$ —	$ —
Total		$ 187	$ (71)		$ 490	$ (44)

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

6. Business Combination

On the Acquisition Date, the Company completed its public offer to the shareholders of Transmode, acquiring 95.8% of the outstanding common shares and voting interest in Transmode. Transmode is a metro packet-optical networking company based in Stockholm, Sweden. The combination of the two companies brings together a complementary set of customers, products, and technologies into one company.

Shortly after the Acquisition Date, the Company initiated compulsory acquisition proceedings in accordance with Swedish law (the "Squeeze-out Proceedings") in order to acquire the remaining 4.2% or 1.2 million Transmode shares, not tendered through the end of the offer period. As of the Acquisition Date, the fair value of the noncontrolling interest was approximately $15.4 million, which was based on the implied enterprise value of Transmode at the Acquisition Date. In August 2016, the Company received advance title and paid an undisputed purchase price of $16.8 million to acquire the remaining 4.2% of Transmode shares not tendered in the initial offer. The additional $16.8 million paid resulted in the elimination of the noncontrolling interest and an increase in additional paid-in capital. As of December 31, 2016, the Company continues to maintain a security pledge of approximately $6.1 million required by Swedish law. The final amount and timing of the final disposition will be determined by an arbitration tribunal at the completion of the Squeeze-out Proceedings, which is currently expected in 2017.

Noncontrolling interest was as follows (in thousands):

	December 31, 2016	December 26, 2015
Beginning noncontrolling interest	$ 14,910	$ —
Noncontrolling interest investment	—	15,373
Acquisition of noncontrolling interest	(14,407)	—
Loss attributable to noncontrolling interest	(503)	(463)
Ending noncontrolling interest	$ —	$ 14,910

7. Goodwill and Intangible Assets

Goodwill

Goodwill is recorded when the purchase price of an acquisition exceeds the fair value of the net tangible and identified intangible assets acquired.

The following table presents details of the Company's goodwill for the year ended December 31, 2016 (in thousands):

Balance as of December 26, 2015	$	191,560
Foreign currency translation adjustments		(14,800)
Accumulated impairment loss		—
Balance as of December 31, 2016	$	176,760

The gross carrying amount of goodwill may change due to the effects of foreign currency fluctuations as these assets are denominated in SEK.

Intangible Assets

The following table presents details of the Company's intangible assets as of December 31, 2016 and December 26, 2015 (in thousands):

	December 31, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life (In Years)
Intangible assets with finite lives:				
Trade names	$ 220	$ (220)	$ —	0.0
Customer relationships	46,125	(7,793)	38,332	6.6
Developed technology	94,320	(24,715)	69,605	3.7
Other intangible assets	819	(567)	252	4.6
Total intangible assets with finite lives	$ 141,484	$ (33,295)	$ 108,189	4.7
Acquired in-process technology	286	—	286	
Total intangible assets	$ 141,770	$ (33,295)	$ 108,475	

	December 26, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life (In Years)
Intangible assets with finite lives:				
Trade names	$ 239	$ (168)	$ 71	0.2
Customer relationships	49,991	(2,197)	47,794	7.7
Developed technology	94,256	(6,629)	87,627	4.6
Other intangible assets	819	(513)	306	5.6
Total intangible assets with finite lives	$ 145,305	$ (9,507)	$ 135,798	5.7
Acquired in-process technology	20,521	—	20,521	
Total intangible assets	$ 165,826	$ (9,507)	$ 156,319	

The gross carrying amount of intangible assets and the related amortization expense of intangible assets may change due to the effects of foreign currency fluctuations as these assets are denominated in SEK. Amortization expense was $26.0 million and $9.0 million for the years ended December 31, 2016 and December 26, 2015, respectively.

Intangible assets are carried at cost less accumulated amortization. Amortization expenses are recorded to the appropriate cost and expense categories. During 2016, the Company transferred $3.8 million of its in-process technology to developed technology, which is being amortized over a maximum useful life of seven years. In-process technology of $0.3 million as of December 31, 2016 is not subject to amortization. As such, the Company excluded it in the future amortization expense table below. Additionally, during 2016, the Company recorded an impairment charge of $11.3 million related to in-process research and development, resulting from the Company's decision to abandon previously acquired in-process technologies.

The following table summarizes the Company’s estimated future amortization expense of intangible assets with finite lives as of December 31, 2016 (in thousands):

	Fiscal Years					
	Total	2017	2018	2019	2020	2021 and Thereafter
Total future amortization expense	$ 108,189	$ 24,924	$ 24,924	$ 24,364	$ 17,779	$ 16,198

8. Balance Sheet Details

Restricted Cash

The Company's long-term restricted cash balance is primarily comprised of certificates of deposit and money market funds, of which the majority is not insured by the Federal Deposit Insurance Corporation. These amounts primarily collateralize the Company's issuances of stand-by and commercial letters of credit and bank guarantees. Additionally, the Company's long-term restricted cash balance includes a leave encashment fund for India employees and a corporate bank card deposit for employees in the United Kingdom. The short-term restricted cash balance consists of a security pledge related to the Transmode acquisition Squeeze-out Proceedings and an escrow account to fund our facility expansion.

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

	December 31, 2016	December 26, 2015
Inventory:		
Raw materials	$ 33,158	$ 27,879
Work in process	74,533	52,599
Finished goods	125,264	94,221
Total	$ 232,955	$ 174,699
Property, plant and equipment, net:		
Computer hardware	$ 12,775	$ 11,097
Computer software[1]	26,779	22,548
Laboratory and manufacturing equipment	222,311	189,168
Furniture and fixtures	2,075	1,897
Leasehold improvements	42,267	38,946
Construction in progress	33,633	31,060
Subtotal	$ 339,840	$ 294,716
Less accumulated depreciation and amortization[2]	(215,040)	(183,855)
Total	$ 124,800	$ 110,861
Accrued expenses:		
Loss contingency related to non-cancelable purchase commitments	$ 5,555	$ 6,821
Professional and other consulting fees	4,955	5,363
Taxes payable	2,384	3,295
Royalties	5,375	4,290
Other accrued expenses	13,311	13,967
Total	$ 31,580	$ 33,736

(1) Included in computer software at December 31, 2016 and December 26, 2015 were $9.1 million and $7.9 million, respectively, related to enterprise resource planning ("ERP") systems that the Company implemented. The unamortized ERP costs at December 31, 2016 and December 26, 2015 were $4.0 million and $4.0 million, respectively.

(2) Depreciation expense was $35.5 million, $26.8 million and $25.9 million (which includes depreciation of capitalized ERP costs of $1.2 million, $1.2 million and $1.1 million, respectively) for 2016, 2015 and 2014, respectively.

9. Comprehensive Income (Loss)

Other comprehensive income (loss) includes certain changes in equity that are excluded from net income (loss). The following table sets forth the changes in accumulated other comprehensive income (loss) by component for the periods presented (in thousands):

	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation	Accumulated Tax Effect	Total
Balance at December 28, 2013	$ (124)	$ (2,602)	$ (760)	$ (3,486)
Other comprehensive loss before reclassifications	(320)	(812)	—	(1,132)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—
Net current-period other comprehensive loss	(320)	(812)	—	(1,132)
Balance at December 27, 2014	$ (444)	$ (3,414)	$ (760)	$ (4,618)
Other comprehensive income before reclassifications	(62)	5,803	—	5,741
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—
Net current-period other comprehensive income	(62)	5,803	—	5,741
Balance at December 26, 2015	$ (506)	$ 2,389	$ (760)	$ 1,123
Other comprehensive loss before reclassifications	297	(29,625)	(119)	(29,447)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—
Net current-period other comprehensive loss	297	(29,625)	(119)	(29,447)
Balance at December 31, 2016	$ (209)	$ (27,236)	$ (879)	$ (28,324)

10. Basic and Diluted Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to Infinera Corporation by the weighted average number of common shares outstanding during the period. Diluted net income (loss) attributable to Infinera Corporation per common share is computed using net income (loss) attributable to Infinera Corporation and the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the assumed exercise of outstanding stock options, assumed release of outstanding RSU and PSUs, and assumed issuance of common stock under the ESPP using the treasury stock method. Potentially dilutive common shares also include the assumed conversion of convertible senior notes from the conversion spread (as discussed in Note 11, "Convertible Senior Notes"). The Company includes the common shares underlying PSUs in the calculation of diluted net income per share only when they become contingently issuable. In net loss periods, these potentially diluted common shares have been excluded from the diluted net loss calculation.

The following table sets forth the computation of net income (loss) per common share attributable to Infinera Corporation - basic and diluted (in thousands, except per share amounts):

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Numerator:			
Net income (loss) attributable to Infinera Corporation	$ (23,927)	$ 51,413	$ 13,659
Denominator:			
Basic weighted average common shares outstanding	142,989	133,259	123,672
Effect of dilutive securities:			
Employee equity plans	—	5,686	4,778
Assumed conversion of convertible senior notes from conversion spread	—	4,226	115
Dilutive weighted average common shares outstanding	142,989	143,171	128,565
Net income (loss) per common share attributable to Infinera Corporation			
Basic	$ (0.17)	$ 0.39	$ 0.11
Diluted	$ (0.17)	$ 0.36	$ 0.11

The Company incurred a net loss during 2016, and as a result, potential common shares from options, RSUs, PSUs and assumed release of outstanding stock under the ESPP were not included in the diluted shares used to calculate net loss per share, as their inclusion would have been anti-dilutive.

During 2015 and 2014, the Company included the dilutive effects of the Notes in the calculation of diluted net income per common share as the applicable average market price was above the conversion price of the Notes. The dilutive impact of the Notes (as defined in Note 11, "Convertible Senior Notes") for the year was based on the average dilution of the four quarters, which is calculated as the difference between the Company's average stock price during the period and the conversion price of the Notes. Given the average market price at the end of 2016 was below the conversion price, no shares were included in the dilutive share count. Upon conversion of the Notes, it is the Company’s intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the 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.

The effects of certain potentially outstanding shares were not included in the calculation of diluted net income per share for years ended December 26, 2015 and December 27, 2014 because their effect were anti-dilutive under the treasury stock method or the performance condition of the award had not been met.

The following sets forth the potentially dilutive shares excluded from the computation of the diluted net income (loss) per share because their effect was anti-dilutive (in thousands):

	As of		
	December 31, 2016	December 26, 2015	December 27, 2014
Stock options outstanding	2,042	8	362
Restricted stock units	5,302	415	331
Performance stock units	896	73	124
Employee stock purchase plan shares	1,010	225	741
Total	9,250	721	1,558

11. Convertible Senior Notes

In May 2013, the Company issued the $150.0 million of 1.75% convertible senior notes due June 1, 2018 (the “Notes”), which will mature on June 1, 2018, unless earlier 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 or the conversion value of the Notes. For any remaining conversion obligation, The Company intends to pay cash, shares of common stock or a combination of cash and shares of common stock, at the Company's election. 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 net carrying amounts of the debt obligation were as follows (in thousands):

	December 31, 2016	December 26, 2015
Principal	$ 150,000	$ 150,000
Unamortized discount [(1)]	(15,114)	(24,560)
Unamortized issuance cost [(1)]	(1,300)	(2,113)
Net carrying amount	$ 133,586	$ 123,327

(1) Unamortized debt conversion discount and issuance costs will be amortized over the remaining life of the Notes, which is approximately 17 months.

As of December 31, 2016 and December 26, 2015, the carrying amount of the equity component of the Notes was $43.3 million.

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 convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the 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.

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. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. The Company adopted ASU 2015-03 during the first quarter of 2016. The December 26, 2015 balance sheet was retrospectively adjusted to reclassify $2.1 million from other non-current assets to a reduction of the Notes payable liability.

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 issuance of the Notes, and a corresponding reduction in valuation allowance. The impact of both was recorded to stockholders’ equity.

The Company determined that the embedded conversion option in the 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):

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Contractual interest expense	$ 2,625	$ 2,625	$ 2,626
Amortization of debt issuance costs	813	735	665
Amortization of debt discount	9,447	8,546	7,730
Total interest expense	$ 12,885	$ 11,906	$ 11,021

The coupon rate was 1.75%. For the years ended December 31, 2016 and December 26, 2015, the debt discount and debt issuance costs were amortized, using an annual effective interest rate of 10.23%, to interest expense over the term of the Notes.

As of December 31, 2016, the fair value of the Notes was $154.3 million. The fair value was determined based on the quoted bid price of the Notes in an over-the-counter market on December 30, 2016. The Notes are classified as Level 2 of the fair value hierarchy.

During the three months ended December 31, 2016, the closing price of the Company's common stock did not meet the conversion criteria; therefore, holders of the Notes may not convert their notes during the first quarter of 2017. Should the closing price conditions be met during the 30 consecutive trading days prior to the end of the first quarter of 2017 or a future quarter, the Notes will be convertible at their holders' option during the immediately following quarter. Based on the closing price of the Company's common stock of $8.49 on December 30, 2016, the if-converted value of the Notes did not exceed their principal amount.

12. 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 12 years, and contain leasehold improvement incentives, rent holidays and escalation clauses. In addition, some of these leases have renewal options for up to five years. The Company has contractual commitments to remove leasehold improvements and return certain properties to a specified condition when the leases terminate. At the inception of a lease with such conditions, the Company records an asset retirement obligation liability and a corresponding capital asset in an amount equal to the estimated fair value of the obligation. Asset retirement obligations were $3.6 million and $2.8 million as of December 31, 2016 and December 26, 2015, 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 $11.0 million, $8.6 million and $7.2 million for 2016, 2015 and 2014, respectively. The Company did not have any sublease rental income for 2016, 2015 and 2014.

Future annual minimum operating lease payments at December 31, 2016 were as follows (in thousands):

	2017	2018	2019	2020	2021	Thereafter	Total
Operating lease payments	$ 12,073	$ 11,723	$ 10,737	$ 9,445	$ 3,268	$ 8,343	$ 55,589

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 purchase needs. As of December 31, 2016, December 26, 2015 and December 27, 2014, these non-cancelable purchase commitments were $111.9 million, $137.4 million and $128.3 million, respectively.

Future purchase commitments at December 31, 2016 were as follows (in thousands):

	2017	2018	2019	2020	2021	Thereafter	Total
Purchase obligations	$ 111,932	$ —	$ —	$ —	$ —	$ —	$ 111,932

The contractual obligation tables above exclude tax liabilities of $2.8 million related to uncertain tax positions because the Company cannot reliably estimate the timing and amount of future payments, if any.

Legal Matters

On November 23, 2016, Oyster Optics, LLP ("Oyster Optics") filed a complaint against the Company in the United States District Court for the Eastern District of Texas. The complaint asserts U.S. Patent Nos. 6,469,816, 6,476,952, 6,594,055, 7,099,592, 7,620,327, 8,374,511 and 8,913,898 (collectively, the "Oyster Optics patents in suit"). The complaint seeks unspecified damages and a permanent injunction. The Company believes that it does not infringe any valid and enforceable claim of the Oyster Optics patents in suit, and intends to litigate this action vigorously. Because this action is in the early stages, the Company is unable to reasonably estimate the possible loss or range of loss, if any, arising from this matter.

In addition to the matter described above, the Company is subject to various legal proceedings, claims and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, the Company does not expect that the ultimate costs to resolve these matters will have a material effect on its consolidated financial position, results of operations or cash flows.

Loss Contingencies

The Company is subject to the possibility of various losses arising in the ordinary course of business. These may relate to disputes, litigation and other legal actions. In the preparation of its quarterly and annual financial statements, the Company considers the likelihood of loss or the incurrence of a liability, including whether it is probable, reasonably possible or remote that a liability has been incurred, as well as the Company's ability to reasonably estimate the amount of loss, in determining loss contingencies. In accordance with U.S. GAAP, an estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company regularly evaluates current information to determine whether any accruals should be adjusted and whether new accruals are required. As of December 31, 2016, the Company has accrued the estimated liabilities associated with these potential loss contingencies.

Indemnification Obligations

From time to time, the Company enters into certain types of contracts that contingently require it to indemnify parties against third party claims. The terms of such indemnification obligations vary. These contracts may relate to: (i) certain real estate leases under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; and (ii) certain agreements with the Company's officers, directors and certain key employees, under which the Company may be required to indemnify such persons for liabilities.

In addition, the Company has agreed to indemnify certain customers for claims made against the Company's products, where such claims allege infringement of third party intellectual property rights, including, but not limited to, patents, registered trademarks, and/or copyrights. Under the intellectual property indemnification clauses, the Company may be obligated to defend the customer and pay for the damages awarded against the customer under an infringement claim as well as the customer's attorneys' fees and costs. These indemnification obligations generally do not expire after termination or expiration of the agreement containing the indemnification obligation. In certain cases, there are limits on and exceptions to the Company's potential liability for indemnification. The Company cannot estimate the amount of potential future payments, if any, that it might be required to make as a result of these agreements. The maximum potential amount of any future payments that the Company could be required to make under these indemnification obligations could be significant. 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.

As permitted under Delaware law and the Company's charter and bylaws, the Company has agreements whereby it indemnifies certain of its officers and each of its directors. The term of the indemnification period is for the officer's or director's lifetime for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements could be significant; however, the Company has a director and officer insurance policy that may reduce its exposure and enable it to recover all or a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal.

13. Guarantees

Product Warranties

Activity related to product warranty was as follows (in thousands):

	December 31, 2016	December 26, 2015
Beginning balance	$ 38,844	$ 27,040
Charges to operations	25,135	31,258
Utilization	(16,884)	(15,114)
Change in estimate[1]	(6,753)	(4,340)
Balance at the end of the period	$ 40,342	$ 38,844

[1] The Company records hardware warranty liabilities based on the latest quality and cost information available as of that date. The changes in estimate shown here are due to changes in overall actual failure rates, the mix of new versus used units related to replacement of failed units, and changes in the estimated cost of repair. Over time, the Company's failure rates and repair costs have generally declined leading to favorable changes in warranty reserves.

Letters of Credit and Bank Guarantees

The Company had $8.7 million of standby letters of credit and bank guarantees outstanding as of December 31, 2016. These consisted of $4.5 million related to property leases, $3.1 million related to customer performance guarantees and $1.1 million related to a value added tax and customs authorities' licenses. The Company had $5.2 million of standby letters of outstanding as of December 26, 2015. These consisted of $3.1 million related to customer performance guarantees, $1.2 million related to a value added tax license and $0.9 million related to property leases.

As of December 31, 2016 and December 26, 2015, the Company has a line of credit for approximately $1.1 million and $1.5 million, respectively, to support the issuance of letters of credit, of which $0.3 million had been issued and outstanding for both periods. The Company has pledged approximately $4.5 million and $4.7 million of assets of a subsidiary to secure this line of credit and other obligations as of December 31, 2016 and December 26, 2015, respectively.

14. Stockholders' Equity

2000 Stock Plan, 2007 Equity Incentive Plan, 2016 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 31, 2016, options to purchase 20 thousand shares of the Company's common stock were outstanding under the 2000 Plan. The Company has not granted any additional options or other awards under the 2000 Plan since the Company's initial public offering (the "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 2000 Plan since prior to the IPO.

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. The Company has reserved a total of 46.8 million shares of common stock for issuance under the 2007 Plan. Upon stockholder approval of the 2016 Equity Incentive Plan ("2016 Plan"), the Company has ceased granting equity awards under the 2007 Plan, however the 2007 Plan will continue to govern the terms and conditions of the outstanding options previously granted under the 2007 Plan. As December 31, 2016, options to purchase 1.6 million shares of the Company's common stock were outstanding and 5.5 million RSUs were outstanding under the 2007 Plan.

In February 2016, the Company's board of directors adopted the 2016 Plan and the Company's stockholders approved the 2016 Plan in May 2016. As of December 31, 2016, the Company reserved a total of 7.5 million shares of common stock for issuance of stock options, RSUs and PSUs to employees, non-employees, consultants and members of the Company's board of directors, pursuant to the 2016 Plan, plus any shares subject to awards granted under the Company's 2007 Equity Incentive Plan (the "2007 Plan") that, after the effective date of the 2016 Plan, expire, are forfeited or otherwise terminate without having been exercised in full to the extent such awards were exercisable, and shares issued pursuant to awards granted under the 2007 Plan that, after the effective date of the 2016 Plan, are forfeited to or repurchased by the Company due to failure to vest. The 2016 Plan has a maximum term of 10 years from the date of adoption, or it can be earlier terminated by the Company's board of directors.

The ESPP was adopted by the board of directors in February 2007 and approved by the stockholders in May 2007. The ESPP was last amended by the stockholders in May 2014 to increase the shares authorized under the ESPP to 16.6 million shares of common stock. The ESPP has a 20-year term. Eligible employees may purchase the Company's common stock through payroll deductions at a price equal to 85% of the lower of the fair market values of the stock as of the beginning or the end of six-month offering periods. An employee's payroll deductions under the ESPP are limited to 15% of the employee's compensation and employees may not purchase more than $25,000 of stock during any calendar year.

Shares Reserved for Future Issuances

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

	December 31, 2016
Outstanding stock options and awards	7,853
Reserved for future option and award grants	7,096
Reserved for future ESPP	4,664
Total common stock reserved for stock options and awards	19,613

Stock-based Compensation Plans

The Company has stock-based compensation plans pursuant to which the Company has granted stock options, RSUs and PSUs. The Company also has an ESPP for all eligible employees. The following tables summarize the Company's equity award activity and related information (in thousands, except per share data):

	Number of Options	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value
Outstanding at December 28, 2013	**6,367**	**$ 7.26**	**$ 17,452**
Options granted	25	$ 9.02	
Options exercised	(2,001)	$ 6.99	$ 8,182
Options canceled	(93)	$ 12.38	
Outstanding at December 27, 2014	**4,298**	**$ 7.29**	**$ 32,833**
Options granted	—	$ —	
Options exercised	(1,787)	$ 7.33	$ 21,566
Options canceled	—	$ —	
Outstanding at December 26, 2015	**2,511**	**$ 7.26**	**$ 28,288**
Options granted	—	$ —	
Options exercised	(825)	$ 4.97	$ 4,433
Options canceled	(31)	$ 12.46	
Outstanding at December 31, 2016	**1,655**	**$ 8.30**	**$ 965**
Exercisable at December 31, 2016	**1,649**	**$ 8.30**	**$ 965**

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Outstanding at December 28, 2013	**6,583**	**$ 7.72**	**$ 64,443**
RSUs granted	2,705	$ 8.80	
RSUs released	(2,797)	$ 7.84	$ 24,858
RSUs canceled	(449)	$ 7.85	
Outstanding at December 27, 2014	**6,042**	**$ 8.14**	**$ 90,085**
RSUs granted	2,202	$ 18.48	
RSUs released	(3,035)	$ 7.88	$ 53,892
RSUs canceled	(277)	$ 10.95	
Outstanding at December 26, 2015	**4,932**	**$ 12.76**	**$ 91,285**
RSUs granted	2,992	$ 13.94	
RSUs released	(2,303)	$ 11.06	$ 26,407
RSUs canceled	(328)	$ 13.9	
Outstanding at December 31, 2016	**5,293**	**$ 14.1**	**$ 44,939**

	Number of Performance Stock Units	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Outstanding at December 28, 2013	**721**	**$ 7.04**	**$ 7,054**
PSUs granted	508	$ 8.34	
PSUs released	(255)	$ 6.36	$ 2,097
PSUs canceled	(98)	$ 7.18	
Outstanding at December 27, 2014	**876**	**$ 7.49**	**$ 13,067**
PSUs granted	332	$ 18.23	
PSU performance earned[1]	129	$ 7.32	
PSUs released	(413)	$ 7.00	$ 7,231
PSUs canceled	(193)	$ 8.03	
Outstanding at December 26, 2015	**731**	**$ 12.35**	**$ 13,540**
PSUs granted	647	$ 15.28	
PSU performance earned[1]	234	$ 12.28	
PSUs released	(614)	$ 11.34	$ 8,077
PSUs canceled	(94)	$ 15.18	
Outstanding at December 31, 2016	**904**	**$ 14.13**	**$ 7,672**
Expected to vest as of December 31, 2016	**81**		**$ 691**

(1) Represents the additional PSUs awarded resulting from the achievement of performance goals above the performance targets established at grant.

The aggregate intrinsic value of unexercised options is calculated as the difference between the closing price of the Company's common stock of $8.49 at December 30, 2016 and the exercise prices of the underlying stock options. The aggregate intrinsic value of the options which have been exercised is calculated as the difference between the fair market value of the common stock at the date of exercise and the exercise price of the underlying stock options. The aggregate intrinsic value of unreleased RSUs and unreleased PSUs is calculated using the closing price of the Company's common stock of $8.49 at December 30, 2016. The aggregate intrinsic value of RSUs and PSUs released is calculated using the fair market value of the common stock at the date of release.

The following table presents total stock-based compensation cost for instruments granted but not yet amortized, net of estimated forfeitures, of the Company's equity compensation plans as of December 31, 2016. These costs are expected to be amortized on a straight-line basis over the following weighted-average periods (in thousands, except for weighted-average period):

	Unrecognized Compensation Expense, Net	Weighted-Average Period (in years)
Stock options	$ 24	1.0
RSUs	$ 53,340	2.4
PSUs	$ 5,346	1.5

The following table summarizes information about options outstanding at December 31, 2016.

	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)	
$6.30 - $ 7.25	293	2.74	$ 6.86	293	$ 6.86
$7.45 - $ 7.61	400	1.74	$ 7.54	400	$ 7.54
$7.68 - $ 8.19	250	3.63	$ 8.06	250	$ 8.06
$ 8.58	509	4.11	$ 8.58	509	$ 8.58
$9.02 - $ 22.36	203	2.20	$ 11.46	197	$ 11.54
	1,655	2.99	$ 8.30	1,649	$ 8.30

Employee Stock Options

The weighted-average remaining contractual term of options outstanding and exercisable was 3.0 years as of December 31, 2016. The Company did not grant any stock options during 2016 or 2015. Total fair value of stock options granted to employees and directors that vested during 2016 was insignificant and was approximately $0.2 million and $0.8 million for 2015 and 2014, respectively, based on the grant date fair value. Amortization of stock-based compensation expense related to stock options in 2016 was insignificant, and was $0.2 million and $0.7 million in 2015 and 2014, respectively.

The estimated values of stock options, as well as assumptions used in calculating these values were based on estimates as follows (expense amounts in thousands):

	Year Ended
Employee and Director Stock Options	December 27, 2014
Volatility	52%
Risk-free interest rate	1.3%
Expected life	4.3 years
Estimated fair value	3.85

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 31, 2016	December 26, 2015	December 27, 2014
Volatility	56% - 67%	39% - 53%	46% - 51%
Risk-free interest rate	0.51% - 0.52%	0.13% - 0.26%	0.02% - 0.11%
Expected life	0.5 years	0.5 years	0.3 - 0.5 years
Estimated fair value	$3.16 - $4.53	$5.15 - $6.43	$2.05 - $2.57

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

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Stock-based compensation expense	$ 6,094	$ 4,472	$ 3,760
Employee contributions	$ 13,609	$ 12,253	$ 10,728
Shares purchased	1,369	1,229	1,438

Restricted Stock Units

The Company granted RSUs to employees and members of the Company's board of directors to receive shares of the Company's common stock. All RSUs awarded are subject to each individual's continued service to the Company through each applicable vesting date. The Company accounted for the fair value of the RSUs using the closing market price of the Company's common stock on the date of grant. Amortization of stock-based compensation expense related to RSUs in 2016, 2015 and 2014 was approximately $29.6 million, $22.9 million and $21.6 million, respectively.

Performance Stock Units

Pursuant to the 2007 Plan, the Company has granted PSUs to certain of the Company's executive officers, senior management and certain employees. All PSUs awarded are subject to each individual's continued service to the Company through each applicable vesting date and if the performance metrics are not met within the time limits specified in the award agreements, the PSUs will be canceled.

A number of PSUs granted to the Company's executive officers and senior management are based on the total shareholder return of the Company's common stock price as compared to the total shareholder return of the S&P North American Technology Multimedia Networking Index ("SPGIIPTR") over the span of one year, two years and three years. The number of shares to be issued upon vesting of these PSUs range from 0 to 2.0 times the target number of PSUs granted depending on the Company's performance against the SPGIIPTR.

The ranges of estimated values of the PSUs granted that are compared to the SPGIIPTR, as well as the assumptions used in calculating these values were based on estimates as follows:

	2016	2015	2014
Index	SPGIIPTR	SPGIIPTR	SPGIIPTR
Index volatility	18%	18% - 19%	25%
Infinera volatility	55%	48%	49% - 50%
Risk-free interest rate	0.95% - 1.07%	0.97% - 1.10%	0.66% - 0.71%
Correlation with index	0.58 - 0.59	0.52	0.60
Estimated fair value	$10.31 - $16.62	$18.08 - $19.29	$6.59 - $7.60

In addition, the Company has granted other PSUs to certain employees that only vest upon the achievement of specific operational performance criteria.

The following table summarizes by grant year, the Company's PSU activity for the year ended December 31, 2016 (in thousands):

	Total Number of Performance Stock Units	Grant Year			
		2013	2014	2015	2016
Outstanding at December 26, 2015	731	147	260	324	—
PSUs granted	647	—	—	—	647
PSUs performance earned[(1)]	234	70	53	111	—
PSUs released	(614)	(210)	(179)	(225)	—
PSUs canceled	(94)	(7)	(11)	(62)	(14)
Outstanding at December 31, 2016	904	—	123	148	633

(1) Represents the additional PSUs awarded resulting from the achievement of performance goals above the performance targets established at grant since the original grants were at 100% of target amounts.

Amortization of stock-based compensation expense related to PSUs in 2016, 2015 and 2014 was approximately $6.6 million, $5.0 million and $2.2 million, respectively.

Stock-based Compensation Expense

The following tables summarize the effects of stock-based compensation on the Company's consolidated balance sheets and statements of operations for the periods presented (in thousands):

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Stock-based compensation effects in inventory	$ 4,911	$ 3,129	$ 3,088
Stock-based compensation effects in fixed assets	$ 67	$ 93	$ 119
Stock-based compensation effects in net income (loss) before income taxes			
Cost of revenue	$ 2,966	$ 2,405	$ 1,921
Research and development	13,732	11,055	8,927
Sales and marketing	11,043	8,081	7,477
General and administrative	9,295	7,354	6,383
	37,036	28,895	24,708
Cost of revenue—amortization from balance sheet [(1)]	3,497	3,685	3,686
Total stock-based compensation expense	$ 40,533	$ 32,580	$ 28,394

(1) Represents stock-based compensation expense deferred to inventory and deferred inventory costs in prior periods and recognized in the current period.

15. Income Taxes

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

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Current:			
Federal	$ 32	$ —	$ —
State	861	1,239	446
Foreign	2,288	3,482	2,423
Total current	$ 3,181	$ 4,721	$ 2,869
Deferred:			
Federal	$ —	$ —	$ —
State	—	—	—
Foreign	(7,932)	(3,640)	(116)
Total deferred	$ (7,932)	$ (3,640)	$ (116)
Total provision (benefit)	$ (4,751)	$ 1,081	$ 2,753

Loss before provision for income taxes from international operations was $23.1 million and $6.3 million, respectively, for the years ended December 31, 2016 and December 26, 2015. Income before provision for income taxes from international operations was $5.6 million for the year ended December 27, 2014.

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

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Expected tax (benefit) at federal statutory rate	(35.0)%	35.0 %	35.0 %
State taxes, net of federal benefit	2.2 %	1.5 %	1.8 %
Research credits	(8.9)%	(5.0)%	(11.4)%
Stock-based compensation	22.3 %	9.6 %	14.7 %
Change in valuation allowance	(5.9)%	(43.0)%	(25.3)%
Foreign rate differential	9.4 %	4.0 %	2.0 %
Other	(0.4)%	— %	— %
Effective tax rate	(16.3)%	2.1 %	16.8 %

The Company recognized an income tax benefit of $4.8 million on a loss before income taxes of $29.2 million, income tax expense of $1.1 million on income before income taxes of $52.0 million and income tax expense of $2.8 million on income before income taxes of $16.4 million in fiscal years 2016, 2015 and 2014, respectively. The resulting effective tax rates were (16.3)%, 2.1% and 16.8% for 2016, 2015 and 2014, respectively. The 2016 and 2015 effective tax rates differ from the expected statutory rate of 35% based upon the utilization of unbenefited U.S. loss carryforwards, offset by state income taxes, non-deductible stock-based compensation expenses and foreign taxes provided on foreign subsidiary earnings. The 2016 income tax benefit compared to the 2015 income tax expense primarily relates to the tax benefit of acquisition related amortization expenses and charges, lower state income taxes because of lower profit in our U.S. operations, and reduction in tax reserves, offset by an increase in taxable foreign profits in certain jurisdictions. The tax expense for 2015 was less than 2014 due to acquisition related amortization expenses and charges offset by higher state taxes, additional tax reserves, and an increase in taxable foreign profits.

Because of the Company's significant loss carryforward position and corresponding full valuation allowance, in all periods, the Company has not been subject to federal or state tax on its U.S. income because of the availability of loss carryforwards, with the exception of certain states' taxes for which the losses are limited by statute or amount in 2016 and more significantly in 2015, and fed and state taxes associated with a discontinued US subsidiary. If these losses and other tax attributes become fully utilized, our taxes will increase significantly to a more normalized, expected rate on U.S. earnings. The release of transfer pricing reserves in the future will have a beneficial impact to tax expense, but the timing of the impact depends on factors such as expiration of the statute of limitations or settlements with tax authorities. No significant releases are expected in the near future based on information available at this time.

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 31, 2016	December 26, 2015
Deferred tax assets:		
Net operating losses	$ 77,670	$ 67,973
Research credits	47,405	42,093
Nondeductible accruals	42,507	38,978
Inventory valuation	30,449	21,550
Property, plant and equipment	1,692	989
Intangible assets	119	796
Stock-based compensation	9,412	9,299
Total deferred tax assets	$ 209,254	$ 181,678
Valuation allowance	(200,476)	(169,240)
Net deferred tax assets	$ 8,778	$ 12,438
Deferred tax liabilities:		
Depreciation	(239)	(232)
Accruals, reserves and prepaid expenses	(4,008)	(3,874)
Acquired intangible assets	(24,088)	(34,894)
Convertible senior notes	(5,653)	(9,070)
Total deferred tax liabilities	$ (33,988)	$ (48,070)
Net deferred tax liabilities	$ (25,210)	$ (35,632)

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company must consider all positive and negative evidence, including the Company's forecasts of taxable income over the applicable carryforward periods, its current financial performance, its market environment, and other factors in evaluating the need for a full or partial valuation allowance against its net U.S. deferred tax assets. Based on the available objective evidence, management believes it is more likely than not that the domestic net deferred tax assets will not be realizable in the foreseeable future. Accordingly, the Company has provided a full valuation allowance against its domestic deferred tax assets, net of deferred tax liabilities, as of December 31, 2016 and December 26, 2015.

To the extent that the Company determines that deferred tax assets are realizable on a more likely than not basis, and adjustment is needed, that adjustment will be recorded in the period that the determination is made and would generally decrease the valuation allowance and record a corresponding benefit to earnings.

As of December 31, 2016, the Company has net operating loss carryforwards of approximately $205.9 million for federal tax purposes and $104.0 million for state tax purposes. The carryforward balance reflects expected utilization of both federal and state net operating losses for the year ended December 31, 2016. Federal net operating loss carryforwards will begin to expire in 2025 while certain unutilized California losses have expired in 2016. Additionally, the Company has federal and California research and development credits available to reduce future income taxes payable of approximately $35.0 million and $39.4 million, respectively, as of December 31, 2016. Infinera Canada Inc., an indirect wholly owned subsidiary, has Scientific Research and Experimental Development Expenditures (“SRED”) credits available of $2.2 million to offset future Canadian income tax payable as of December 31, 2016. The federal research credits will begin to expire in the year 2022 if not utilized and the California research credits have no expiration date. Canadian SRED credits will begin to expire in the year 2030 if not fully utilized.

On March 30, 2016, FASB issued Accounting Standards Update 2016-09, which the Company early adopted as of June 26, 2016. As a result of the adoption of ASU 2016-09, excess windfall tax benefits and tax deficiencies related to our stock option exercises and RSU vestings are recognized as an income tax benefit or expense in our condensed consolidated statements of operations. The adoption of ASU 2016-09 did not have any material impact on our income tax expense for the year ended December 31, 2016 due primarily to our valuation allowance position.

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 31, 2016, the Company had determined that while ownership changes had occurred in the past, the resulting limitations were not significant enough to impact the utilization of the tax attributes against its taxable profits earned to date.

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 31, 2016, the undistributed earnings approximated $28.5 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 31, 2016	December 26, 2015	December 27, 2014
Beginning balance	$ 19,130	$ 16,978	$ 15,148
Tax position related to current year			
Additions	2,548	2,891	1,990
Tax positions related to prior years			
Additions	1,292	—	140
Reductions	—	(497)	(76)
Lapses of statute of limitations	(688)	(242)	(224)
Ending balance	$ 22,282	$ 19,130	$ 16,978

As of December 31, 2016, the cumulative unrecognized tax benefit was $22.3 million, of which $20.0 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 31, 2016, approximately $2.3 million, if recognized, would impact the Company's effective tax rate.

As of December 31, 2016, December 26, 2015 and December 27, 2014, the Company had $0.5 million, $0.5 million and $0.4 million, respectively, of accrued interest or penalties related to unrecognized tax benefits, of which less than $0.2 million was included in the Company's provision for income taxes in each of the years ended December 31, 2016, December 26, 2015 and December 27, 2014, respectively.

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the Company's provision for income taxes.

The Company is potentially subject to examination by the Internal Revenue Service and the relevant state income taxing authorities under the statute of limitations for years 2002 and forward.

The Company has received assessments of tax resulting from transfer pricing examinations in India for all but two years in the range of fiscal years ending March 2005 through March 2014. While some of the assessment years have been settled with no change from the original tax return position, the Company intends to appeal all remaining assessment years, and does not expect a significant adjustment to unrecognized tax benefits as a result of these inquiries. The Company believes that the resolution of these disputed issues will not have a material impact on our financial statements.

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 31, 2016.

16. Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Company's Chief Executive Officer ("CEO"). The Company's CEO reviews financial information presented on a consolidated basis, accompanied by information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. The Company has one business activity as a provider of optical transport networking equipment, software and services. Accordingly, the Company is considered to be in a single reporting segment and operating unit structure.

Revenue by geographic region is based on the shipping address of the customer. The following tables set forth revenue and long-lived assets by geographic region (in thousands):

Revenue

	Years Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Americas:			
United States	$ 541,889	$ 602,433	$ 476,172
Other Americas	40,036	65,075	34,379
	$ 581,925	$ 667,508	$ 510,551
Europe, Middle East and Africa	243,783	174,380	132,271
Asia Pacific and Japan	44,427	44,826	25,257
Total revenue	$ 870,135	$ 886,714	$ 668,079

Property, plant and equipment, net

	December 31, 2016	December 26, 2015
United States	$ 117,715	$ 102,702
Other Americas	218	173
	117,933	102,875
Europe, Middle East and Africa	3,822	5,417
Asia Pacific and Japan	3,045	2,569
Total property, plant and equipment, net	$ 124,800	$ 110,861

17. Employee Benefit Plan

Defined Contribution Plans

The Company has established a savings plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). As allowed under Section 401(k) of the Internal Revenue Code, the 401(k) Plan provides tax-deferred salary contributions for eligible U.S. employees. Employee contributions are limited to a maximum annual amount as set periodically by the Internal Revenue Code. The Company made voluntary cash contributions and matched a portion of employee contributions of $2.1 million and $1.7 million for 2016 and 2015, respectively. Expenses related to the 401(k) Plan were insignificant for 2016, 2015 and 2014.

In connection with the Company's acquisition of Transmode during the third quarter of 2015, the Company has an ITP pension plan covering its Swedish employees. Commitments for old-age and survivors' pension for salaried employees in Sweden are vested through an insurance policy. Expenses related to the ITP pension plan were $2.6 million for 2016 and $0.8 million from the Acquisition Date through December 26, 2015.

The Company also provides defined contribution plans in certain foreign countries where required by local statute or at the Company's discretion.

18. Financial Information by Quarter (Unaudited)

The following table sets forth the Company's unaudited quarterly consolidated statements of operations data for 2016 and 2015. 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)							
	2016				2015			
	Dec. 31	Sep. 24	Jun. 25	Mar. 26	Dec. 26	Sep. 26	Jun. 27	Mar. 28
	(In thousands, except per share data)							
Revenue:								
Product	$151,365	$156,188	$227,532	$216,082	$227,040	$202,365	$178,982	$160,843
Services	29,678	29,264	31,290	28,736	32,994	30,107	28,364	26,019
Total revenue	181,043	185,452	258,822	244,818	260,034	232,472	207,346	186,862
Cost of revenue:								
Cost of product	101,702	91,064	122,438	118,062	130,765	117,154	99,491	89,506
Cost of services	10,309	9,786	12,638	10,418	13,505	12,513	11,059	9,244
Total cost of revenue	112,011	100,850	135,076	128,480	144,270	129,667	110,550	98,750
Gross profit	69,032	84,602	123,746	116,338	115,764	102,805	96,796	88,112
Operating expenses	114,900	95,461	107,664	101,467	101,975	88,545	80,266	72,955
Income (loss) from operations	(45,868)	(10,859)	16,082	14,871	13,789	14,260	16,530	15,157
Other income (expense), net.	5,589	(2,854)	(3,295)	(2,847)	(2,013)	(5,901)	2,384	(2,175)
Income (loss) before income taxes	(40,279)	(13,713)	12,787	12,024	11,776	8,359	18,914	12,982
Provision for (benefit from) income taxes	(4,026)	(2,416)	1,475	216	(392)	(151)	1,008	616
Net income (loss)	$ (36,253)	$ (11,297)	$ 11,312	$ 11,808	$ 12,168	$ 8,510	$ 17,906	$ 12,366
Less: Net loss attributable to noncontrolling interest	—	(125)	(171)	(207)	(463)	—	—	—
Net income (loss) attributable to Infinera Corporation	$ (36,253)	$ (11,172)	$ 11,483	$ 12,015	$ 12,631	$ 8,510	$ 17,906	$ 12,366
Net income (loss) per common share attributable to Infinera Corporation								
Basic	$ (0.25)	$ (0.08)	$ 0.08	$ 0.09	$ 0.09	$ 0.06	$ 0.14	$ 0.10
Diluted	$ (0.25)	$ (0.08)	$ 0.08	$ 0.08	$ 0.08	$ 0.06	$ 0.13	$ 0.09

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 year 2016 was a 53-week year that ended on December 31, 2016, and fiscal year 2015 was a 52-week year that ended on December 26, 2015 . The quarters for fiscal years 2016 and 2015 were 14-week and 13-week quarters, respectively.

During the third quarter of 2015, the Company completed its public offer to the shareholders of Transmode, acquiring 95.8% of the outstanding common shares and voting interest in Transmode. This acquisition was accounted for as a business combination, and accordingly, the Company has consolidated the financial results of Transmode with its financial results since the Acquisition Date.

During the fourth quarter of 2016, the Company recorded an impairment charge of $11.3 million related to in-process research and development, resulting from the Company's decision to abandon previously acquired in-process technologies. Additionally, during the same period, the Company recognized a gain of $9.0 million on the sale of a cost-method investment.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), which are required in accordance with Rule 13a-14 of the Exchange Act. This "Controls and Procedures" section includes information concerning the internal controls and controls evaluation referred to in the certifications.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed by our management, with the participation of our CEO and our CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d -15(e) under the Exchange Act). Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our CEO and CFO concluded that, as of December 31, 2016, our disclosure controls and procedures are effective.

Inherent Limitations on Effectiveness of Controls

The Company's management, including the CEO and CFO, does not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in business conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Control over Financial Reporting

During the fourth quarter of fiscal 2016, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The Company's management, with the participation of our CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016, the end of our fiscal year. Management based its assessment on the framework established in the 2013 *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO framework"). Management's assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed by our internal audit and finance personnel utilizing the 2013 COSO framework.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of our fiscal year 2016 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.

The effectiveness of our internal control over financial reporting as of the end of fiscal year 2016 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2017 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K. For information pertaining to our executive offers, refer to the section entitled “Executive Officers” in Part 1, Item 1 of this Annual Report on Form 10-K.

As part of our system of corporate governance, our board of directors has adopted a code of business conduct and ethics. The code applies to all of our employees, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions), agents and representatives, including our independent directors and consultants, who are not employees of Infinera, with regard to their Infinera-related activities. The full text of our code of business conduct and ethics is posted on our web site at *http://www.infinera.com*. We intend to disclose future amendments to certain provisions of our code of business conduct and ethics, or waivers of such provisions, applicable to any principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions or our directors on our web site identified above. The inclusion of our web site address in this report does not include or incorporate by reference the information on our web site into this report.

ITEM 11. EXECUTIVE COMPENSATION

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2017 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 2017 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 2017 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 2017 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 31, 2016	December 26, 2015	December 27, 2014
		(In thousands)	
Deferred tax asset, valuation allowance			
Beginning balance	$ 169,240	$ 199,698	$ 202,747
Additions	31,913	15,266	17,276
Reductions	(677)	(45,724)	(20,325)
Ending balance	$ 200,476	$ 169,240	$ 199,698
Allowance for doubtful accounts			
Beginning balance	$ 630	$ 38	$ 43
Additions	772	657	18
Reductions	(630)	(65)	(23)
Ending balance	$ 772	$ 630	$ 38

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, incorporated herein by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on June 12, 2007.
3.2	Amended and Restated Bylaws, incorporated herein by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on February 29, 2016.
4.1	Form of Common Stock Certificate, incorporated herein by reference to Exhibit 4.1 of the Registrant's Form S-1/A (No. 333-140876), filed with the SEC on April 27, 2007.
4.2	Indenture dated May 30, 2013, between the Registrant and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on May 30, 2013.
10.1*	Form of Indemnification Agreement between Registrant and each of its directors and executive officers, incorporated herein by reference to Exhibit 10.1 of the Registrant's Form S-1 (No. 333-140876), filed with the SEC on February 26, 2007.
10.2*	2000 Stock Plan, as amended, and forms of stock option agreements thereunder, incorporated herein by reference to Exhibit 10.2 of the Registrant's Form S-1 (No. 333-140876), filed with the SEC on February 26, 2007.
10.3*	2007 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.3 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on February 18, 2015.
10.4*	Infinera Corporation 2007 Employee Stock Purchase Plan.
10.5*	Form of 2007 Employee Stock Purchase Plan Subscription Agreement, incorporated herein by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K (no. 001-33486), filed with the SEC on May 20, 2014.
10.6*	Bonus Plan, incorporated by reference herein to Exhibit 10.1 of the Registrant's Current Report on 8-K (No. 001-33486), filed with the SEC on February 14, 2011.
10.7*	Form of Section 16 Officer Restricted Stock Unit Agreement under the 2007 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.7 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on February 18, 2015.
10.8*	Form of Section 16 Officer Performance Share Agreement under the 2007 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.8 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on February 18, 2015.
10.9*	Form of Director Restricted Stock Unit Agreement under the 2007 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on February 18, 2015.
10.10*	Form of Stock Option Agreement under the 2007 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q (No. 001-33486), filed with the SEC on May 5, 2010.
10.11*	Form of CEO Amended and Restated Change of Control Severance Agreement, incorporated herein by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on March 5, 2013.
10.12*	Form of Section 16 Officer Amended and Restated Change of Control Severance Agreement, incorporated herein by reference to Exhibit 10.11 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on March 5, 2013.
10.13*	Executive Clawback Policy, incorporated herein by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on January 17, 2013.
10.14	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, incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on May 24, 2013.
10.15*	Executive Severance Policy, incorporated herein by reference to Exhibit 10.19 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on February 18, 2015.
10.16*	Infinera Corporation 2016 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on May 17, 2016.

Exhibit No.	Description
10.17*	Form of Notice of Grant of Restricted Stock Units under the 2016 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on May 17, 2016.
10.18*	Form of Notice of Grant of Restricted Stock Units for Directors under the 2016 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on May 17, 2016.
10.19*	Form of Notice of Grant of Performance Shares under the 2016 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on May 17, 2016.
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

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* Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.

** This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Securities Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 23, 2017

Infinera Corporation

By: /s/ BRAD D. FELLER

Brad D. Feller
Chief Financial Officer
Principal Financial and Accounting Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas J. Fallon and Brad D. Feller, and each of them individually, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name and Signature	Title	Date
/s/ THOMAS J. FALLON **Thomas J. Fallon**	Chief Executive Officer and Director and Principal Executive Officer	February 23, 2017
/s/ BRAD D. FELLER **Brad D. Feller**	Chief Financial Officer, Principal Financial and Accounting Officer	February 23, 2017
/s/ DAVID F. WELCH, PH.D. **David F. Welch, Ph.D.**	Co-founder, President and Director	February 23, 2017
/s/ KAMBIZ Y. HOOSHMAND **Kambiz Y. Hooshmand**	Chairman of the Board	February 23, 2017
/s/ JOHN P. DAANE **John P. Daane**	Director	February 23, 2017
/s/ MARCEL GANI **Marcel Gani**	Director	February 23, 2017
/s/ PAUL J. MILBURY **Paul J. Milbury**	Director	February 23, 2017
/s/ RAJAL M. PATEL **Rajal M. Patel**	Director	February 23, 2017
/s/ MARK A. WEGLEITNER **Mark A. Wegleitner**	Director	February 23, 2017

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 23, 2017

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, Brad D. Feller, certify that:

1. I have reviewed this Annual Report on Form 10-K of Infinera Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 23, 2017

By: /s/ BRAD D. FELLER

Brad D. Feller
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 31, 2016 (the "Annual Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Infinera Corporation.

Date: February 23, 2017

/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, Brad D. Feller, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended, that, to my knowledge on the date hereof:

(a) that the Annual Report on Form 10-K of Infinera Corporation for the year ended December 31, 2016 (the "Annual Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Infinera Corporation.

Date: February 23, 2017

/s/ BRAD D. FELLER

Brad D. Feller
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Infinera Corporation and will be retained by Infinera Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

This certification "accompanies" the Annual Report on Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Annual Report on Form 10-K), irrespective of any general incorporation language contained in such filing.