INFINERA CORP
Form 10-Q
May 04, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 28, 2015
OR

o 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)

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 x 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 x No ¨

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of April 28, 2015, 129,624,376 shares of the registrant’s Common Stock, $0.001 par value, were issued and outstanding.

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INFINERA CORPORATION
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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements
INFINERA CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par values)
(Unaudited)

	March 28, 2015	December 27, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$118,623	$86,495
Short-term investments	215,080	239,628
Accounts receivable, net of allowance for doubtful accounts of $20 in 2015 and $38 in 2014	131,224	154,596
Inventory	157,195	146,500
Prepaid expenses and other current assets	23,112	24,636
Total current assets	645,234	651,855
Property, plant and equipment, net	82,661	81,566
Long-term investments	69,835	59,233
Cost-method investment	14,500	14,500
Long-term restricted cash	5,108	5,460
Other non-current assets	5,692	5,402
Total assets	$823,030	$818,016
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$50,183	$61,533
Accrued expenses	28,061	26,441
Accrued compensation and related benefits	24,406	38,795
Accrued warranty	11,453	12,241
Deferred revenue	36,757	35,321
Total current liabilities	150,860	174,331
Long-term debt, net	118,951	116,894
Accrued warranty, non-current	14,086	14,799
Deferred revenue, non-current	12,119	10,758
Other long-term liabilities	19,179	19,327
Commitments and contingencies (Note 14)		
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 as of March 28, 2015 and December 27, 2014		
Issued and outstanding shares – 129,094 as of March 28, 2015 and 126,160 as of December 27, 2014	129	126
Additional paid-in capital	1,090,676	1,077,225
Accumulated other comprehensive loss	(4,510)	(4,618)
Accumulated deficit	(578,460)	(590,826)
Total stockholders' equity	507,835	481,907

Total liabilities and stockholders’ equity	$823,030	$818,016

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

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INFINERA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended	
	March 28, 2015	March 29, 2014
Revenue:		
Product	$160,843	$124,242
Services	26,019	18,573
Total revenue	186,862	142,815
Cost of revenue:		
Cost of product	89,506	78,438
Cost of services	9,244	5,971
Total cost of revenue	98,750	84,409
Gross profit	88,112	58,406
Operating expenses:		
Research and development	39,257	29,346
Sales and marketing	21,042	17,862
General and administrative	12,656	12,254
Total operating expenses	72,955	59,462
Income (loss) from operations	15,157	(1,056)
Other income (expense), net:		
Interest income	414	336
Interest expense	(2,890)	(2,677)
Other gain (loss), net	301	(729)
Total other income (expense), net	(2,175)	(3,070)
Income (loss) before income taxes	12,982	(4,126)
Provision for income taxes	616	248
Net income (loss)	$12,366	$(4,374)
Net income (loss) per common share:		
Basic	$0.10	$(0.04)
Diluted	$0.09	$(0.04)
Weighted average shares used in computing net income (loss) per common share:		
Basic	127,840	121,352
Diluted	137,304	121,352

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

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INFINERA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended	
	March 28, 2015	March 29, 2014
Net income (loss)	$12,366	$(4,374)
Other comprehensive income (loss):		
Unrealized gain on all other available-for-sale investments	267	50
Foreign currency translation adjustment	(159)	244
Tax related to available-for-sale investment	—	(20)
Net change in accumulated other comprehensive income	108	274
Comprehensive income (loss)	$12,474	$(4,100)

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

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INFINERA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	March 28, 2015	March 29, 2014
Cash Flows from Operating Activities:		
Net income (loss)	$12,366	$(4,374)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,586	6,314
Amortization of debt discount and issuance costs	2,234	2,020
Amortization of premium on investments	954	828
Stock-based compensation expense	7,208	6,672
Other gain	(19)	(20)
Changes in assets and liabilities:		
Accounts receivable	23,391	(6,762)
Inventory	(12,103)	(3,354)
Prepaid expenses and other assets	1,141	(3,797)
Accounts payable	(10,317)	(2,080)
Accrued liabilities and other expenses	(12,895)	(13,448)
Deferred revenue	2,797	(909)
Accrued warranty	(1,501)	3,477
Net cash provided by (used in) operating activities	19,842	(15,433)
Cash Flows from Investing Activities:		
Purchase of available-for-sale investments	(80,022)	(80,223)
Proceeds from sale of available-for-sale investments	2,001	—
Proceeds from maturities of investments	91,280	57,063
Purchase of property and equipment	(7,367)	(5,608)
Change in restricted cash	352	(479)
Net cash provided by (used in) investing activities	6,244	(29,247)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	10,131	7,054
Minimum tax withholding paid on behalf of employees for net share settlement	(3,950)	(1,619)
Net cash provided by financing activities	6,181	5,435
Effect of exchange rate changes on cash	(139)	164
Net change in cash and cash equivalents	32,128	(39,081)
Cash and cash equivalents at beginning of period	86,495	124,330
Cash and cash equivalents at end of period	$118,623	$85,249
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net of refunds	$897	$303
Supplemental schedule of non-cash financing activities:		
Transfer of inventory to fixed assets	$1,403	$603

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

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INFINERA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Infinera Corporation (the "Company") prepared its interim condensed consolidated financial statements that accompany these notes in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"), consistent in all material respects with those applied in the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2014.

The Company has made 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 condensed 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, fair value measurement of investments 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, other-than-temporary impairments and derivative instruments. Management believes that the estimates and judgments upon which they rely are reasonable based upon information available to them at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, the Company's consolidated financial statements will be affected.

The interim financial information is unaudited, but reflects all adjustments that are, in management's opinion, necessary to provide a fair presentation of results for the interim periods presented. All adjustments are of a normal recurring nature. The Company reclassified certain amounts reported in previous periods to conform to the current presentation. This interim information should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2014.

There have been no material changes in the Company's significant accounting policies for the three months ended March 28, 2015 as compared to those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2014.

To date, a few of the Company's customers have accounted for a significant portion of its revenue. For the three months ended March 28, 2015, two customers individually accounted for 18% and 16% of the Company's total revenue, respectively. For the three months ended March 29, 2014, two customers individually accounted for 21% and 16% of the Company's total revenue, respectively.

2. Recent Accounting Pronouncements

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2015-02, "Consolidation (Topic 10): Amendments to the Consolidation Analysis" ("ASU 2015-02"). ASU 2015-02 provides guidance on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In accordance with ASU 2015-02, all legal entities are subject to reevaluation under the revised consolidation model. ASU 2015-02 will be effective for the Company in its first quarter of fiscal 2016. The Company is currently evaluating the impact of the pending adoption of ASU 2015-02 on its consolidated financial statements.

In January 2015, the FASB issued Accounting Standards Update 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items" ("ASU 2015-01"). ASU 2015-01 eliminates the concept of an extraordinary item from GAAP. As a result, an entity will no longer be required to segregate extraordinary items from the results of ordinary operations, to separately present an extraordinary item on its income statement, net of tax, after income from continuing operations or to disclose income taxes and earnings-per-share data applicable to an extraordinary item. However, ASU 2015-01 will still retain the presentation and disclosure guidance for items that are unusual in nature and occur infrequently. ASU 2015-01 will be effective for the Company in its first quarter of fiscal 2017. The adoption of ASU 2015-01 is not expected to have a material effect on the Company's consolidated financial statements.

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In June 2014, the FASB issued Accounting Standards Update No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" ("ASU 2014-12"). ASU 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Accounting Standard Codification ("ASC") 718, "Compensation—Stock Compensation" ("ASC 718"), as it relates to such awards. ASU 2014-12 will be effective for the Company's first quarter of fiscal 2017 with early adoption permitted using either of two methods: (i) prospective to all awards granted or modified after the effective date; or (ii) retrospective to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter, with the cumulative effect of applying ASU 2014-12 as an adjustment to the opening retained earnings balance as of the beginning of the earliest annual period presented in the financial statements. The Company is currently evaluating the impact of the pending adoption of ASU 2014-12 on the Company's consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (FASB") issued Accounting Standards Update 2014-09, "Revenue from Contracts from Customers" ("ASU 2014-09"). ASU 2014-09 provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s), which include (i) identifying the contract(s) with the customer; (ii) identifying the separate performance obligations in the contract; (iii) determining the transaction price; (iv) allocating the transaction price to the separate performance obligations; and (v) recognizing revenue when each performance obligation is satisfied. ASU 2014-09 will be effective for the Company's first quarter of 2017. The Company has the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of applying this ASU recognized at the date of initial application. Early adoption is not permitted. The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company's consolidated financial statements.

3. Fair Value Measurements

Fair Value Measurements

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.

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The Company classifies its certificates of deposit, commercial paper, corporate bonds and foreign currency exchange forward contracts within Level 2 of the fair value hierarchy as follows:

Certificates of Deposit

The Company reviews market pricing and other observable market inputs for the same or similar securities obtained from a number of industry standard data providers. In the event that a transaction is observed for the same or similar security in the marketplace, the price on that transaction reflects the market price and fair value on that day. In the absence of any observable market transactions for a particular security, the fair market value at period end would be equal to the par value. These inputs represent quoted prices for similar assets or these inputs have been derived from observable market data.

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.

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.

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.

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.

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

	As of March 28, 2015				As of December 27, 2014			
	Fair Value Measured Using				Fair Value Measured Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Money market funds	$39,633	$—	$ —	$39,633	$21,478	$—	$ —	$21,478
Certificates of deposit	—	9,465	—	9,465	—	8,060	—	8,060
Commercial paper	—	21,690	—	21,690	—	46,072	—	46,072
Corporate bonds	—	223,238	—	223,238	—	235,285	—	235,285
U.S. agency notes	—	14,508	—	14,508	—	—	—	—
U.S. treasuries	16,014	—	—	16,014	14,810	—	—	14,810
Foreign currency exchange forward contracts	—	—	—	—	—	—	—	—
Total assets	$55,647	$268,901	$ —	$324,548	$36,288	$289,417	$ —	$325,705
Liabilities								
Foreign currency exchange forward contracts	$—	$(117)	$ —	$(117)	$—	$(64)	$ —	$(64)

During the three months ended March 28, 2015, there were no transfers of assets or liabilities between Level 1 and Level 2.

Investments at fair value were as follows (in thousands):

	March 28, 2015			
	Adjusted Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$39,633	$—	$—	$39,633
Certificates of deposit	9,460	5	—	9,465
Commercial paper	21,691	—	(1)	21,690
Corporate bonds	223,425	12	(199)	223,238
U.S. agency notes	14,507	5	(4)	14,508
U.S. treasuries	16,009	9	(4)	16,014
Total available-for-sale investments	$324,725	$31	$(208)	$324,548

	December 27, 2014			
	Adjusted Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$21,478	$—	$—	$21,478
Certificates of deposit	8,060	—	—	8,060
Commercial paper	46,073	—	(1)	46,072
Corporate bonds	235,713	2	(430)	235,285
U.S. treasuries	14,825	1	(16)	14,810
Total available-for-sale investments	$326,149	$3	$(447)	$325,705

As of March 28, 2015, the Company's available-for-sale investments in certificates of deposit, commercial paper, corporate bonds, U.S. agency notes and U.S. treasuries have a contractual maturity term of up to 24 months. Gross realized gains (losses) on short-term and long-term investments for the three months ended March 28, 2015 and

March 29, 2014 were insignificant in both periods. The specific identification method is used to account for gains and losses on available-for-sale investments.

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As of March 28, 2015 and December 27, 2014, the Company held $79.0 million and $59.7 million of cash in banks, respectively, excluding restricted cash.

4. Cost-method Investment

As of March 28, 2015, the Company had an investment of $14.5 million in a privately-held company. This investment is accounted for as a cost-method investment, as the Company owns less than 20% of the voting securities and does not have the ability to exercise significant influence over operating and financial policies of the entity. This investment is carried at historical cost in the Company's condensed consolidated financial statements. The Company regularly evaluates the carrying value of this cost-method investment for impairment. If the Company believes that the carrying value of the cost basis investment is in excess of estimated fair value, the Company's policy is to record an impairment charge in other income (expense), net, in the accompanying condensed consolidated statements of operations to adjust the carrying value to estimated fair value, when the impairment is deemed other-than-temporary. As of March 28, 2015, no event had occurred that would adversely affect the carrying value of this investment and thus no impairment charges have been recorded for this cost-method investment.

5. Derivative Instruments

Foreign Currency Exchange Forward Contracts

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 and commercial letters of credit. Gains and losses on these contracts are intended to offset the impact of foreign exchange rate fluctuations on the underlying foreign currency denominated accounts receivables and restricted cash, and therefore, do not subject the Company to material balance sheet risk. The forward contracts are with one high-quality institution and the Company consistently monitors the creditworthiness of the counterparty. The forward contracts entered into during the three months ended March 28, 2015 were denominated in euros and British pounds, and had maturities of no more than 35 days. The contracts are settled for U.S. dollars at maturity at rates agreed to at inception of the contracts.

As of March 28, 2015, the Company did not designate foreign currency exchange forward contracts as hedges for accounting purposes, and accordingly changes in the fair value of these instruments are included in other gain (loss), net, in the accompanying condensed consolidated statements of operations. For the three months ended March 28, 2015 and March 29, 2014, the before-tax effect of foreign currency exchange forward contracts was a gain of $3.3 million and a loss of $1.2 million, respectively. In each of these periods, the impact of these gross gains and losses were offset by foreign exchange rate fluctuations on the underlying foreign currency denominated amounts and the combined effect is recorded in other gain (loss), net, in the accompanying condensed consolidated statements of operations.

The fair value of derivative instruments in the Company's condensed consolidated balance sheets was as follows (in thousands):

	As of March 28, 2015		As of December 27, 2014	
	Gross Notional[(1)]	Other Accrued Liabilities	Gross Notional[(1)]	Other Accrued Liabilities
Foreign currency exchange forward contracts				
Related to euro denominated receivables	$22,350	$(107)	$34,445	$(53)
Related to British pound denominated receivables	1,590	(5)	2,678	(9)
Related to restricted cash	1,103	(5)	1,236	(2)
	$25,043	$(117)	$38,359	$(64)

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

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6. Balance Sheet Details

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

	March 28, 2015	December 27, 2014
Inventory:		
Raw materials	$22,372	$15,169
Work in process	45,871	50,046
Finished goods (1)	88,952	81,285
Total inventory	$157,195	$146,500
Property, plant and equipment, net:		
Computer hardware	$9,584	$8,785
Computer software(2)	18,705	17,684
Laboratory and manufacturing equipment	166,514	162,004
Furniture and fixtures	1,433	1,340
Leasehold improvements	38,450	37,825
Construction in progress	15,340	14,726
Subtotal	$250,026	$242,364
Less accumulated depreciation and amortization	(167,365)	(160,798)
Total property, plant and equipment, net	$82,661	$81,566
Accrued expenses:		
Loss contingency related to non-cancelable purchase commitments	$5,048	$5,390
Professional and other consulting fees	2,631	1,831
Taxes payable	2,853	3,993
Royalties	3,009	2,648
Accrued rebate and customer prepay liability	1,026	941
Accrued interest on convertible senior notes	875	219
Other accrued expenses	12,619	11,419
Total accrued expenses	$28,061	$26,441

(1) Included in finished goods inventory at March 28, 2015 and December 27, 2014 were $12.9 million and $10.2 million, respectively, of inventory at customer locations for which product acceptance had not occurred.

(2) Included in computer software at March 28, 2015 and December 27, 2014 were $7.9 million and $7.9 million, respectively, related to an enterprise resource planning ("ERP") system that the Company implemented during 2012. The unamortized ERP costs at March 28, 2015 and December 27, 2014 were $4.9 million and $5.2 million, respectively.

Restricted Cash

The Company’s long-term restricted cash balance is primarily comprised of certificates of deposit, 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. Additionally, the Company’s restricted cash balance includes a leave encashment fund for India employees and a corporate bank card deposit for employees in the United Kingdom.

The following table sets forth the Company's restricted cash (in thousands):

	March 28, 2015	December 27, 2014
Restricted cash related to outstanding standby letters of credit		
Value added tax license	$1,177	$1,309
Customer proposal guarantee	2,832	3,074
Property leases	699	699
Other	400	378

Total restricted cash	$5,108	$5,460

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7. Accumulated Other Comprehensive Loss

Other comprehensive loss includes certain changes in equity that are excluded from net income (loss). The following table sets forth the changes in accumulated other comprehensive loss by component for the three months ended March 28, 2015 (in thousands):

	Unrealized Gain on Other Available-for-Sale Securities	Foreign Currency Translation	Accumulated Tax Effect	Total
Balance at December 27, 2014	$ (444)	$ (3,414)	$ (760)	$ (4,618)
Net current-period other comprehensive loss	267	(159)	—	108
Balance at March 28, 2015	$ (177)	$ (3,573)	$ (760)	$ (4,510)

8. Basic and Diluted Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed using net income (loss) and the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the assumed exercise of outstanding stock options, assumed release of outstanding restricted stock units ("RSUs") and performance stock units ("PSUs"), assumed conversion of the Notes from conversion spread (as defined in Note 9, "Convertible Senior Notes"), and assumed issuance of stock under the Company’s employee stock purchase plan ("ESPP") using the treasury stock method. 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 anti-dilutive and therefore, excluded from the diluted net loss calculation.

The following table sets forth the computation of net income (loss) per common share – basic and diluted (in thousands, except per share amounts):

	Three Months Ended	
	March 28, 2015	March 29, 2014
Numerator:		
Net income (loss)	$ 12,366	$ (4,374)
Denominator:		
Basic weighted average common shares outstanding	127,840	121,352
Effect of dilutive securities:		
Employee equity plans	6,569	—
Assumed conversion of convertible senior notes from conversion spread	2,895	—
Diluted weighted average common shares outstanding	137,304	121,352
Net income (loss) per common share		
Basic	$ 0.10	$ (0.04)
Diluted	$ 0.09	$ (0.04)

In the three months ended March 28, 2015, the Company included the dilutive effects of the Company's Notes in the calculation of diluted net income per common shares as the average market price was above the conversion price. The dilutive impact of the Company's Notes was based on the difference between the Company's average stock price during the quarter and the conversion price of the Notes. In the three months ended March 29, 2014, the Company excluded the potential shares issuable upon conversion of the Notes in the calculation of diluted earnings per share because the market price was below the conversion price. 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 potentially outstanding shares were not included in the calculation of diluted net income per share for the three months ended March 28, 2015 because their effect would have been anti-dilutive under the treasury stock method or the performance condition of the award has not been met. As the Company incurred a net loss during the three months ended March 29, 2014, all potential stock options, RSUs, PSUs and ESPP shares have been excluded from the diluted net loss per share computation as their effects were deemed anti-dilutive.
The following sets forth the potentially dilutive shares excluded from the computation of the diluted net income (loss) per share because their effect would have been anti-dilutive (in thousands):

	Three Months Ended	
	March 28, 2015	March 29, 2014
Stock options	10	6,135
Restricted stock units	1,505	5,386
Performance stock units	292	763
Employee stock purchase plan shares	415	431
Total	2,222	12,715

9. Convertible Senior Notes
In May 2013, the Company issued $150.0 million of 1.75% convertible senior notes due June 1, 2018 (the “Notes”). The Notes will mature on June 1, 2018, unless earlier purchased by the Company or converted. Interest is payable semi-annually in arrears on June 1 and December 1 of each year, commencing December 1, 2013. The net proceeds to the Company were approximately $144.5 million.
The Notes are governed by an indenture dated as of May 30, 2013 (the "Indenture"), between the Company, as issuer, and U.S. Bank National Association, as trustee. The Notes are unsecured and do not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of securities by the Company.
Upon conversion, it is the Company’s intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the Notes as cash, shares of common stock or a combination of cash and shares of common stock, at the Company’s election, for any remaining conversion obligation. The initial conversion rate is 79.4834 shares of common stock per $1,000 principal amount of Notes, subject to anti-dilution adjustments. The initial conversion price is approximately $12.58 per share of common stock.
Throughout the term of the Notes, the conversion rate may be adjusted upon the occurrence of certain events, including for any cash dividends. Holders of the Notes will not receive any cash payment representing accrued and unpaid interest upon conversion of a Note. Accrued but unpaid interest will be deemed to be paid in full upon conversion rather than canceled, extinguished or forfeited. Holders may convert their Notes under the following circumstances:

- during any fiscal quarter commencing after the fiscal quarter ended 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.

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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 may, 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):

	March 28, 2015	December 27, 2014
Principal	$150,000	$150,000
Unamortized discount [1]	(31,049)	(33,106)
Unamortized issuance cost [1]	(2,671)	(2,848)
Net carrying amount	116,280	114,046

(1) Unamortized debt conversion discount and issuance costs will be amortized over the remaining life of the Notes, which is approximately three years.

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. As of March 28, 2015 and December 27, 2014, the carrying amount of the equity component was $43.3 million, which represents the equity component of the debt discount related to the value of the conversion option of $45.0 million, net of the debt issuance costs attributable to the equity component of $1.7 million. 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. 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):

	Three Months Ended	
	March 28, 2015	March 29, 2014
Contractual interest expense	$656	$657
Amortization of debt issuance costs	177	160
Amortization of debt discount	2,057	1,860
Total interest expense	$2,890	$2,677

The coupon rate was 1.75%. For the three months ended March 28, 2015 and March 29, 2014, the debt discount and debt issuance costs are amortized, using an annual effective interest rate of 10.23%, to interest expense over the term of the Notes.

As of March 28, 2015, the fair value of the Notes was $245.4 million. The fair value was determined based on the quoted bid price of the Notes in an over-the-counter market on March 27, 2015. The Notes are classified as Level 2 of the fair value hierarchy.

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During the three months ended March 28, 2015, the closing price of the Company's common stock exceeded 130% of the applicable conversion price of the Notes on at least 20 of the last 30 consecutive trading days of the quarter; therefore, holders of the Notes may convert their notes during the three months ended June 27, 2015. Should the closing price conditions be met during the 30 consecutive trading days prior to the end of the second quarter of 2015 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 $19.59 on March 27, 2015, the if-converted value of the Notes exceeded their principal amount by approximately $83.6 million.

10. Stockholders' Equity

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 employee stock purchase plan ("ESPP") for all eligible employees. As of March 28, 2015, there were a total of 15.7 million shares of common stock available for grant under the Company's 2007 Equity Incentive Plan ("2007 Plan"). The following tables summarize the Company's equity award activity and related information (in thousands, except per share data):

	Number of Stock Options	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value
Outstanding at December 27, 2014	4,298	$ 7.29	$32,833
Stock options granted	—	$ —	
Stock options exercised	(559)	$ 6.74	$5,789
Stock options canceled	—	$ —	
Outstanding at March 28, 2015	3,739	$ 7.37	$45,711
Vested and expected to vest as of March 28, 2015	3,737		$45,690
Exercisable at March 28, 2015	3,687	$ 7.36	$45,097

The aggregate intrinsic value of unexercised stock options is calculated as the difference between the closing price of the Company's common stock of $19.59 at March 27, 2015 and the exercise prices of the underlying stock options. The aggregate intrinsic value of the stock options that 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.

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Outstanding at December 27, 2014	6,042	$8.14	$90,085
RSUs granted	1,581	$17.95	
RSUs released	(1,393)	$7.97	$22,807
RSUs canceled	(78)	$8.58	
Outstanding at March 28, 2015	6,152	$10.69	$120,514
Expected to vest at March 28, 2015	5,798		$113,574

	Number of Performance Stock Units	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Outstanding at December 27, 2014	876	$7.49	$13,067
PSUs granted	438	$14.97	

PSUs released	(386)	$6.67	$6,585
PSUs canceled	(191)	$7.88	
Outstanding at March 28, 2015	737	$12.14	$14,444
Expected to vest at March 28, 2015	703		$13,764

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The aggregate intrinsic value of unreleased RSUs and unreleased PSUs is calculated using the closing price of the Company's common stock of $19.59 at March 27, 2015. 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 March 28, 2015. 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	170	1.5
RSUs	48,111	2.7
PSUs	7,083	1.6

Employee Stock Options

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):

Employee and Director Stock Options	Three Months Ended March 28, 2015	March 29, 2014
Volatility	N/A	52%
Risk-free interest rate	N/A	1.3%
Expected life	N/A	4.3 years
Estimated fair value	N/A	$3.85
Total stock-based compensation expense	$70	$388

N/A Not applicable because the Company did not grant any stock options during the period.

Employee Stock Purchase Plan

The fair value of the ESPP shares was estimated at the date of grant using the following assumptions (expense amounts in thousands):

Employee Stock Purchase Plan	Three Months Ended March 28, 2015	March 29, 2014
Volatility	53%	51%
Risk-free interest rate	0.13%	0.11%
Expected life	0.5 years	0.5 years
Estimated fair value	$5.15	$2.57
Total stock-based compensation expense	$1,051	$791

Restricted Stock Units

During the three months ended March 28, 2015, the Company granted RSUs to employees and members of the Company's board of directors to receive an aggregate of 1.6 million shares of the Company's common stock. 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 related to RSUs in the three months ended March 28, 2015 and March 29, 2014 was approximately $5.2 million and $5.1 million, respectively.

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Performance Stock Units

2015 Performance Stock Units

Pursuant to the 2007 Plan, during the first quarter of 2015, the Company granted 0.2 million target number of PSUs to certain of the Company's executive officers. The number of shares to be issued upon vesting of PSUs range from 0 to 1.5 times the target number PSUs granted depending on the relative performance of the Company's common stock price compared to the S&P North American Technology Multimedia Networking ("SPGIIPTR") Index over the span of one, two and three years of total shareholder returns.

The ranges of estimated values of the PSUs granted, as well as assumptions used in calculating these values were based on estimates as follows:

	Three Months Ended March 28, 2015
Infinera Volatility	48%
SPGIIPTR Index Volatility	18% - 19%
Risk-free interest rate	0.97% - 1.10%
Correlation with SPGIIPTR Index	0.52
Estimated fair value	$18.08 - $19.29

Additionally, pursuant to the 2007 Plan, during the three months ended March 28, 2015, the Company granted 0.1 million target number of PSUs to certain of its executive officers. These PSUs will only vest upon the achievement of certain specific revenue criteria and are subject to each employee's continued service to the Company through each applicable vesting date. If the financial performance metrics are not met within the time limits specified in the award agreements, the PSUs will be cancelled.

2014 Performance Stock Units

Pursuant to the 2007 Plan, during fiscal 2014, the Company granted 0.3 million target number of PSUs target number shares of PSUs to certain of the Company's executive officers. The number of shares to be issued upon vesting of PSUs range from 0 to 1.5 times the target number of PSUs granted depending on the relative performance of the Company's common stock price compared to the iShares North American Tech-Multimedia Networking ("IGN") Index over the span of one, two and three years of total shareholder returns. During the three months ended March 28, 2015, the Company released 0.2 million shares of PSUs, based on a payout of 1.5 times of the target number of PSUs.

The ranges of estimated values of the PSUs granted, as well as assumptions used in calculating these values were based on estimates as follows:

	Year Ended December 27, 2014
Infinera Volatility	49% - 50%
IGN Index Volatility	25%
Risk-free interest rate	0.66% - 0.71%
Correlation with IGN Index	0.60
Estimated fair value	$6.59 - $7.60

Additionally, pursuant to the 2007 Plan, during 2014, the Company granted 0.1 million shares of PSUs to several employees. These PSUs will only vest upon the achievement of certain specific performance criteria and are subject to each employee's continued service to the Company through each applicable vesting date. If the specific performance metrics are not met within the time limits specified in the award agreements, the PSUs will be cancelled.

2013 Performance Stock Units

Pursuant to the 2007 Plan, during fiscal 2013, the Company granted 0.6 million target number of PSUs to certain of its executive officers. The number of shares to be issued upon vesting of PSUs range from 0 to 1.5 times

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the target number of PSUs granted depending on the relative performance of the Company's common stock price compared to the NASDAQ Telecom Composite Index over the span of one, two and three years of total shareholder returns. During the three months ended March 28, 2015, the Company released 0.2 million shares of PSUs, based on a payout of 1.5 times of the target number of PSUs.

The ranges of estimated values of the PSUs granted, as well as assumptions used in calculating these values were based on estimates as follows:

	Year Ended December 28, 2013
Infinera Volatility	55%
NASDAQ Telecom Composite Index Volatility	23%
Risk-free interest rate	0.42%
Correlation with NASDAQ Telecom Composite Index	0.56
Estimated fair value	\$6.27 - \$7.06

2012 Performance Stock Units

Pursuant to the 2007 Plan, during fiscal 2012, the Company granted 0.5 million shares of PSUs to certain of its executive officers. These PSUs will only vest upon the achievement of certain specific revenue and operating profit criteria and are subject to each named executive officer's continued service to the Company. If the financial performance metrics are not met within the time limits specified in the award agreements, the PSUs will be canceled. During the three months ended March 28, 2015, the Company did not release any shares subject to these PSUs and were canceled as a result of the financial performance metrics not being met within the time limits specified in the award agreements.

Amortization of stock-based compensation related to PSUs in the three months ended March 28, 2015 and March 29, 2014 was approximately \$0.9 million and \$0.4 million, respectively.

Stock-Based Compensation

The following tables summarize the effects of stock-based compensation on the Company's condensed consolidated balance sheets and statements of operations for the periods presented (in thousands):

	March 28, 2015	December 27, 2014
Stock-based compensation effects in inventory	\$3,083	\$3,088
Stock-based compensation effects in deferred inventory cost	\$13	\$13
Stock-based compensation effects in fixed assets	\$113	\$119

	Three Months Ended	
	March 28, 2015	March 29, 2014
Stock-based compensation effects included in net income (loss) before income taxes		
Cost of revenue	\$482	\$452
Research and development	2,578	2,138
Sales and marketing	1,721	1,720
General and administration	1,666	1,530
	6,447	5,840
Cost of revenue – amortization from balance sheet(1)	761	832
Total stock-based compensation expense	\$7,208	\$6,672

(1) Stock-based compensation expense deferred to inventory and deferred inventory costs in prior periods and recognized in the current period.

11. Income Taxes

Provision for income taxes for three months ended March 28, 2015 was $0.6 million on pre-tax income of $13.0 million. This compared to a tax provision of $0.2 million on a pre-tax loss of $4.1 million for the three months ended March 29, 2014. The increase in tax provision for the three months ended March 28, 2015 compared to the corresponding period in 2014 is attributed to stronger expected profitability in 2015, taxes being accrued in proportion to quarterly profit as it relates to total profit expected for the year, and higher foreign taxes due to an increase in cost-plus taxable profits. In all periods, the tax expense projected in the Company's effective tax rate primarily represents foreign taxes of the Company's overseas subsidiaries compensated on a cost-plus basis regardless of the level of consolidated earnings. Because of the Company's significant loss carryforward position and corresponding full valuation allowance, 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 nominal amounts of state taxes for which the losses are limited by statute. 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 Company must assess the likelihood that some portion or all of our deferred tax assets will be recovered from future taxable income within the respective jurisdictions, and to the extent the Company believes that recovery does not meet the “more-likely-than-not” standard, it must establish a valuation allowance. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management judgment is required in determining the Company's provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. At March 28, 2015 and December 27, 2014, the Company's domestic net deferred tax assets were fully reserved with a valuation allowance because, based on the available evidence, management believed at that time it was more likely than not that the Company would not be able to utilize those deferred tax assets in the future. Notwithstanding the above, the Company has been profitable for four consecutive quarters beginning with the second quarter of 2014. If this trend continues and the Company is no longer in a cumulative loss position, it may consider the extent to which it can rely on forecasts of future income to support the realization of the Company's net U.S. deferred tax assets. These income forecasts would be considered with other 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. 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.

12. 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. Accordingly, the Company is considered to be in a single reporting segment and operating unit structure.

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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

	Three Months Ended	
	March 28, 2015	March 29, 2014
Americas:		
United States	$127,003	$110,691
Other Americas	7,086	3,536
	134,089	114,227
Europe, Middle East and Africa	45,879	25,613
Asia Pacific and Japan	6,894	2,975
Total revenue	$186,862	$142,815

Property, plant and equipment, net

	March 28, 2015	December 27, 2014
United States	$79,898	$79,025
Other Americas	154	196
Europe, Middle East and Africa	797	1,477
Asia Pacific and Japan	1,812	868
Total property, plant and equipment, net	$82,661	$81,566

13. Guarantees

Product Warranties

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 range from one to five yearsfrom date of acceptance for hardware and 90 days for software warranty. Upon delivery of the Company's 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 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.

Activity related to product warranty was as follows (in thousands):

	Three Months Ended	
	March 28, 2015	March 29, 2014
Beginning balance	$27,040	$22,908
Charges to operations	5,348	5,561
Utilization	(1,818)	(3,242)
Change in estimate[1]	(5,031)	1,158
Balance at the end of the period	$25,539	$26,385

(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 and new parts. As our products mature over time, failure rates and repair costs generally decline leading to favorable changes in warranty reserves.

14. Litigation and Contingencies

Legal Matters

From time to time, 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.

Cambrian Science Patent Infringement Litigation

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

On June 17, 2013, the court issued an order regarding claim construction, in which the court agreed with almost all of the Company's proposed claim constructions. On October 17, 2013, the parties met for a court-mandated mediation. On April 24, 2014, the Company filed two motions for summary judgment relating to non-infringement and Cambrian's claim to an earlier date of invention. The court held a hearing on the summary judgment motions on June 9, 2014. On July 2, 2014, the court granted the Company's motion for summary judgment on non-infringement and entered a final judgment of non-infringement of the '312 Patent. On August 1, 2014, Cambrian filed a notice of appeal regarding the ruling of non-infringement to the Court of Appeals for the Federal Circuit and Cambrian's appeal brief was filed on November 6, 2014. The Company filed its responsive brief on January 5, 2015, and on February 5, 2015, Cambrian filed their reply brief. Oral argument of this appeal has been set for May 5, 2015. After the court granted summary judgment, the Company sought to recover certain costs and attorney's fees from Cambrian.

As of March 28, 2015, the Company concluded that the likelihood of a loss with respect to this suit was remote and the amount of any loss would be insignificant. The Company does not believe the outcome of this matter will have a material adverse effect on the Company's business, consolidated financial position, results of

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operations, or cash flows. Factors that the Company considered in the determination of the likelihood of a loss and the estimate of that loss in respect to this matter included the merits of the case, the district court granting the Company's motion for summary judgment for non-infringement, the entry of final judgment of non-infringement and the current stage of the litigation. However, the outcome of such legal matters is inherently unpredictable and subject to uncertainty.

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 March 28, 2015, the Company has accrued an immaterial amount for such liabilities.

15. Subsequent Event

On April 8, 2015, the Company issued a press release in Sweden and in the U.S. announcing the Company’s intent to combine with Sweden-based Transmode AB, a Swedish company ("Transmode"), pursuant to a public exchange offer to acquire all issued and outstanding shares of Transmode (the “Offer”). In the Offer, the Company is offering Transmode’s shareholders cash and common stock as follows: (i) with respect to approximately 73.8 percent of the Transmode shares exchanged by each shareholder, approximately 0.6376 new shares of Infinera’s common stock per Transmode share; and (ii) with respect to the remaining approximately 26.2 percent of the Transmode shares exchanged by such shareholder, Swedish kronor ("SEK") 107.05 in cash per Transmode share. The board of directors of Transmode has unanimously recommended that Transmode’s shareholders accept the Offer. The foregoing reflects the payment by Transmode to its shareholders of a dividend of SEK 1.95 per share on April 23, 2015. If Transmode pays another dividend or makes any other distributions to its shareholders, with a record date occurring prior to the settlement of the Offer, the Offer consideration will be reduced accordingly.

If the Offer is accepted in its entirety, 13,037,699 shares of Infinera’s common stock ("Infinera Shares") will be issued under the Offer, corresponding to approximately 10.1 percent of Infinera’s shares outstanding. Following completion of the Offer, if accepted in its entirety, former Transmode shareholders would hold Infinera Shares representing approximately 9.2 percent of the outstanding shares of and voting power in the combined company and approximately 8.7 percent of the combined company on a fully diluted basis. The cash portion of the Offer totals approximately $88.9 million and will be financed through existing cash resources. The foregoing numbers in this paragraph are based on 27,709,236 outstanding shares in Transmode as of March 31, 2015 (excluding 79,440 of its own shares held in treasury by Transmode) and 129,093,644 outstanding shares in the Company as of March 28, 2015.

On April 9, 2015, the Company entered into a foreign currency forward contract with a notional amount of SEK 831 million ($95.3 million) at an exchange rate of 8.7402 to hedge currency exposures associated with the cash portion of the Offer. In addition, changes in the fair value of this forward contract will impact the Company's financial statements for the interim reporting periods prior to the close of the Offer.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q 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 earnings, 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; statements related to our intent to acquire all the shares of Transmode AB; 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; 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 elsewhere in this Form 10-Q and in our other SEC filings, including our Annual Report on Form 10-K for the fiscal year ended December 27, 2014 filed on February 18, 2015. 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 condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

Overview

We provide optical transport networking equipment, software and services to Tier 1 and Tier 2 telecommunications service providers, Internet content providers ("ICPs"), cable providers, wholesale and enterprise carriers, research and education institutions, and government entities (collectively, "Service Providers") across the globe. Optical transport networks are deployed by Service Providers facing significant demands for transmission capacity prompted by increased use of high-speed Internet access, mobile broadband, high-definition video streaming services, business Ethernet services and cloud-based services.

Our technologies and platforms enable Service Providers to deliver vast amounts of bandwidth with greater ease. We leverage our unique large-scale photonic integrated circuits ("PICs") to deliver innovative optical networking solutions for the most demanding network environments. The Infinera Intelligent Transport Network is an architecture that enables Service Providers to automate, converge and scale their data center, metro, long-haul and subsea optical networks. This architectural approach helps Service Providers to rapidly deploy reliable, differentiated services while reducing their operating costs through scale, multi-layer convergence and automation.

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

The Infinera DTN-X platform supports 100 Gbps WDM transmission capacity with 500 Gbps super-channels and also integrates 5 Tbps of OTN switching in a single bay. The Infinera DTN-X platform leverages the unique capabilities of our 500 Gbps PICs to deliver our high-capacity Intelligent Transport Networks that reduce power, cooling and space requirements while simplifying transport network operations. The Infinera DTN platform currently supports 10 Gbps WDM transmission capacity combined with integrated switching capabilities.

In addition to Service Providers that are looking for network architectures to respond to continued demand for bandwidth across their long-haul and subsea networks, Service Providers are now starting to build networks to support data center interconnections across metro cloud and campus environments. Our recently introduced Cloud Xpress platform is optimized to help Service Providers build cloud networks with hyper-scale density, simplified operations and low power.

As of March 28, 2015, we have sold our products for deployment in the optical networks of 144 customers worldwide. Since the commencement of shipping our DTN-X platform in the second quarter of 2012, we have 62 customers who have purchased our DTN-X platform. We do not have long-term sales commitments from our customers. To date, a few of our customers have accounted for a significant portion of our revenue. For the three months ended March 28, 2015, two customers individually accounted for 18% and 16% of our total revenue, respectively. For the three months ended March 29, 2014, two customers individually accounted for 21% and 16% of our total revenue, respectively.

We are headquartered in Sunnyvale, California, with employees located throughout the Americas, Europe and the Asia Pacific region. We expect to continue to add personnel in the United States and internationally to develop our products and provide additional geographic sales and technical support coverage. We primarily sell our products through our direct sales force, with a small portion sold indirectly through resellers. We derived 95% and 98% of our revenue from direct sales to customers during the three months ended March 28, 2015 and 2014, respectively. We expect to continue generating a substantial majority of our revenue from direct sales in the future.

On April 8, 2015, we announced our intent to combine with Transmode AB, a Swedish company ("Transmode"), pursuant to a public exchange offer to acquire all issued and outstanding shares of Transmode (the “Offer”). Complementing our strength in the long-haul optical transport market and our early traction in the metro Cloud market, we believe Transmode’s suite of metro core, edge and access solutions will allow us to address the entire end-to-end WDM market and to capitalize on the transition of major 100G metro aggregation deployments expected by industry analysts to commence in 2016.

We intend to continue to leverage the Infinera DTN-X platform to increase revenue and expand our market share as customers continue to deploy 100 Gbps transport solutions in their networks. In addition, to the DTN-X platform for the long-haul market, we are also optimistic about opportunities in the metro cloud market with our Cloud Xpress platform. This focus on revenue growth will be complemented with overall prudent financial management and continued efforts to drive cost improvements across all of our products and services. We believe that with sustained revenue growth, we can leverage our vertically-integrated manufacturing model, which combined with selling bandwidth capacity into deployed networks, can result in improved future profitability and cash flow. We will continue to make significant investments in the business, and management currently believes that research and development expenses, excluding stock-based compensation expenses, will be approximately 20% of our total revenue. Furthermore, we plan to continue to tightly manage other operating expenses.

Our goal is to be the preeminent provider of optical transport networking systems to Service Providers around the world. In 2015 and beyond, we intend to increase our presence with new and existing customers while leveraging our Infinera DTN-X and Cloud Xpress platforms. Our revenue growth will depend on the continued acceptance of our products, growth of communications traffic and the proliferation of next-generation bandwidth-intensive services, which are expected to drive the need for increased levels of bandwidth.

Critical Accounting Policies and Estimates

Management’s Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which we have prepared in accordance with the U.S. generally accepted accounting principles ("U.S. GAAP"). The preparation of these financial statements requires management to make estimates, assumptions and judgments that can affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. Management believes that there have been no significant changes during the first

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quarter of 2015 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 27, 2014.

Results of Operations

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

	Three Months Ended									
	March 28, 2015			March 29, 2014						
	Amount	% of total revenue		Amount	% of total revenue		Change	% Change	
Revenue:									
Product	$160,843	86	%	$124,242	87	%	$36,601	29	%
Services	26,019	14	%	18,573	13	%	7,446	40	%
Total revenue	$186,862	100	%	$142,815	100	%	$44,047	31	%
Cost of revenue:									
Product	$89,506	48	%	$78,438	55	%	$11,068	14	%
Services	9,244	5	%	5,971	4	%	3,273	55	%
Total cost of revenue	$98,750	53	%	$84,409	59	%	$14,341	17	%
Gross profit	$88,112	47	%	$58,406	41	%	$29,706	51	%

Revenue

Total revenue increased by $44.0 million, or 31%, during the three months ended March 28, 2015 compared to the corresponding period in 2014. Total product revenue increased by $36.6 million, or 29%, during the three months ended March 28, 2015 compared to the corresponding period in 2014. These increases were primarily driven by continued strong market adoption of the Infinera DTN-X platform as our existing and new customers deployed our products to meet the growing bandwidth needs of their networks. Additionally, we began to ramp up shipments of our Cloud Xpress platform during the three months ended March 28, 2015.

Total services revenue increased by $7.4 million, or 40%, during the three months ended March 28, 2015 compared to the corresponding period in 2014 primarily due to higher on-going support services as we continued to grow our installed base, and to a lesser extent, to higher levels of deployment services as existing and new customers built new networks utilizing our teams' expertise.

The following table summarizes our revenue by geography and sales channel for the periods presented (in thousands, except percentages):

	Three Months Ended								
	March 28, 2015			March 29, 2014					
	Amount	% of total revenue		Amount	% of total revenue		Change	% Change	
Total revenue by geography:									
Domestic	$127,003	68	%	$110,691	78	%	$16,312	15	%
International	59,859	32	%	32,124	22	%	27,735	86	%
	$186,862	100	%	$142,815	100	%	$44,047	31	%
Total revenue by sales channel:									
Direct	$177,993	95	%	$140,474	98	%	$37,519	27	%
Indirect	8,869	5	%	2,341	2	%	6,528	279	%
	$186,862	100	%	$142,815	100	%	$44,047	31	%

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Domestic revenue increased by $16.3 million during the three months ended March 28, 2015 compared to the corresponding period in 2014. As a percentage of revenue, domestic revenue decreased to 68% of total revenue during the three months ended March 28, 2015 from 78% of total revenue in the corresponding period in 2014. Domestic revenue increased in absolute dollars as we saw sales growth in the enterprise and wholesaler carriers, ICPs and Tier 1 customer verticals based in this region. International revenue increased by $27.7 million to 32% of total revenue during the three months ended March 28, 2015 from 22% of total revenue in the corresponding period in 2014. International revenue increased in absolute dollars and as a percentage of revenue primarily due to increased sales to enterprise and wholesale carriers as they continued to build out their networks.

We believe that the Infinera DTN-X platform is well positioned across our diverse customer base, as existing customers continue to build out their networks and as we gain opportunities to deploy our products with new customers. We continue to see strong demand across multiple regions and customer verticals. We also expect growing momentum with our Cloud Xpress platform as we continue to ramp up shipments in 2015. We currently expect overall revenue in the second quarter of 2015 to be higher on a sequential basis.

Cost of Revenue and Gross Margin

Gross margin increased to 47% during the three months ended March 28, 2015 from 41% in the corresponding period of 2014. The increase was primarily driven by financial leverage gained from our vertically integrated operating model. As volumes continued to grow, we were able to spread our fixed manufacturing costs over a much broader base of units. In addition, we continued to experience yield improvements in our manufacturing operations. We also improved our services margin, which was driven by our deployment and spares management offerings.

Based on our current outlook, we expect that gross margin in the second quarter of 2015 will be down moderately as compared to the first quarter of 2015.

Operating Expenses

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

	Three Months Ended								
	March 28, 2015			March 29, 2014					
	Amount	% of total revenue		Amount	% of total revenue		Change	% Change	
Operating expenses:									
Research and development	$39,257	21	%	$29,346	21	%	$9,911	34	%
Sales and marketing	21,042	11	%	17,862	13	%	3,180	18	%
General and administrative	12,656	7	%	12,254	9	%	402	3	%
Total operating expenses	$72,955	39	%	$59,462	43	%	$13,493	23	%

Research and Development Expenses

Research and development expenses increased by $9.9 million, or 34%, during the three months ended March 28, 2015 compared to the corresponding period in 2014 primarily due to increased compensation costs of $5.0 million related to increased hiring to support our product roadmap. In addition, we had increased spending on prototype and other engineering materials of $2.6 million, increased outside professional services of $1.0 million and higher discretionary spending of $1.3 million to support our growing business.

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Sales and Marketing Expenses

Sales and marketing expenses increased by $3.2 million, or 18%, during the three months ended March 28, 2015 compared to the corresponding period in 2014 primarily due to increased compensation costs of $1.7 million due to hiring to support the continued expansion of our business and higher sales commissions associated with revenue growth. We also had increased expenses related to customer lab trials of $0.8 million primarily related to our ramp up of the Cloud Xpress platform. In addition, we had $0.7 million of higher discretionary spending to support our growing business.

General and Administrative Expenses

General and administrative expenses increased by $0.4 million, or 3%, during the three months ended March 28, 2015 compared to the corresponding period in 2014 primarily due to higher compensation and personnel-related costs of $0.7 million, offset by an overall decrease in outside professional services of $0.2 million and lower discretionary spending of $0.1 million.

Other Income (Expense), Net

	Three Months Ended			
	March 28, 2015	March 29, 2014	Change	% Change
	(In thousands)			
Interest income	$414	$336	$78	23 %
Interest expense	(2,890)	(2,677)	(213)	8 %
Other gain (loss), net	301	(729)	1,030	(141)%
Total other income (expense), net	$(2,175)	$(3,070)	$895	(29)%

Interest income increased slightly during the three months ended March 28, 2015 compared to the corresponding period in 2014 reflecting a higher average investment balance due to cash generated from the business. Interest expense for the first quarter of 2015 and 2014 consisted of cash interest payments and amortization of discount and issuance costs related to the Notes. The change in other gain (loss), net, during the three months ended March 28, 2015 as compared to the same period of 2014 was primarily due to more favorable foreign currency transactions based on the strengthening of the U.S. dollar.

Income Tax Provision

Provision for income taxes during the three months ended March 28, 2015 was $0.6 million on pre-tax income of $13.0 million. This compared to a tax provision of $0.2 million on a pre-tax loss of $4.1 million during the three months ended March 29, 2014. The increase in tax provision during the three months ended March 28, 2015 compared to the corresponding period in 2014 is attributed to stronger expected profitability in 2015, taxes being accrued in proportion to quarterly profit as it relates to total profit expected for the year, and higher foreign taxes due to an increase in cost-plus taxable profits. In all periods, the tax expense projected in our effected tax rate primarily represents foreign taxes of our overseas subsidiaries compensated on a cost-plus basis regardless of the level of consolidated earnings. Because of our significant loss carryforward position and corresponding full valuation allowance, we have not been subject to federal or state tax on our U.S. income because of the availability of loss carryforwards, with the exception of nominal amounts of state taxes for which the losses are limited by statute. 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.

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Liquidity and Capital Resources

	Three Months Ended	
	March 28, 2015	March 29, 2014
	(In thousands)	
Net cash flow provided by (used in):		
Operating activities	$19,842	$(15,433)
Investing activities	$6,244	$(29,247)
Financing activities	$6,181	$5,435

	March 28, 2015	December 27, 2014
	(In thousands)	
Cash and cash equivalents	$118,623	$86,495
Short-term and long-term investments	284,915	298,861
Long-term restricted cash	5,108	5,460
	$408,646	$390,816

Cash, cash equivalents and short-term investments consist of highly-liquid investments in certificates of deposits, money market funds, commercial paper, corporate bonds, U.S. agency notes and U.S. treasuries. Long-term investments primarily consist of corporate bonds. The 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.

Operating Activities

Net cash provided by operating activities during the three months ended March 28, 2015 was $19.8 million as compared to net cash used in operating activities of $15.4 million for the corresponding period in 2014.

Net income adjusted for non-cash items was $29.3 million during the three months ended March 28, 2015 compared to a net loss adjusted for non-cash items of $11.4 million for the corresponding period in 2014.

Net cash used to fund working capital was $9.5 million during the three months ended March 28, 2015. Accounts receivables decreased by $23.4 million primarily reflecting linearity of invoicing and collections activities in the period. Inventory increased by $12.1 million in order to support higher expected demand. Accounts payable decreased by $10.3 million primarily reflecting timing of inventory purchases during the period. Accrued liabilities decreased $12.9 million primarily due to reduced levels of compensation related accruals and the corporate bonus payout in the first quarter of 2015.

Net cash used to fund working capital was $26.9 million during the three months ended March 29, 2014. Accounts receivables increased by $6.8 million primarily due to timing of acceptance and invoicing of product deployments during the period. Inventory increased due to increased levels of DTN-X inventory in anticipation of higher customer shipments in the second quarter of 2014. Accounts payable decreased by $2.1 million primarily reflecting timing of purchases and payments of purchases during the period. Accrued liabilities decreased $13.4 million primarily due to reduced levels of compensation related accruals and the corporate bonus payout in the first quarter of 2014.

Investing Activities

Net cash provided by investing activities during the three months ended March 28, 2015 was $6.2 million compared to net cash used in investing activities of $29.2 million in the corresponding period of 2014. Investing activities during the three months ended March 28, 2015 primarily related to net proceeds of $13.3 million associated with purchases, maturities and sales of investments, offset by capital expenditures of $7.4 million. Investing activities during the three months ended March 29, 2014 primarily related to purchases of investments, net of proceeds from maturities of investments of $23.2 million, and capital expenditures of $5.6 million.

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Financing Activities

Net cash provided by financing activities during the three months ended March 28, 2015 was $6.2 million compared to $5.4 million in the corresponding period of 2014. Financing activities during the three months ended March 28, 2015 and the corresponding period in 2014 included net proceeds from the exercise of stock options and issuance of shares under the employee stock purchase plan ("ESPP"). 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, together with cash generated from operations, exercise of employee stock options 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, including any cash we may be required to expend as part of the Offer. For more information regarding the Offer, see Note 15, "Subsequent Event," to the Notes to Consolidated Financial Statements. If these sources of cash are insufficient to satisfy our liquidity requirements beyond 12 months, we may require additional capital from equity or debt financings to fund our operations, to respond to competitive pressures or strategic opportunities, or otherwise. We may not be able to secure timely additional financing on favorable terms, or at all. The terms of any additional financing may place limits on our financial and operating flexibility. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer dilution in their percentage ownership of us, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

In May 2013, we issued $150.0 million of 1.75% convertible senior notes (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 three months ended March 28, 2015, the closing price of our common stock exceeded 130% of the applicable conversion price of the Notes on at least 20 of the last 30 consecutive trading days of the quarter; therefore, holders of the Notes may convert their notes during the second quarter of 2015. 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. Should the closing price conditions be met during the 30 consecutive trading days prior to the end of the second quarter of 2015 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.

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. The carrying value of the Notes was $119.0 million as of March 28, 2015, which represents the liability component of the $150.0 million principal balance, net of $31.0 million debt discount. The debt discount is currently being amortized over the remaining term until maturity of the Notes on June 1, 2018. Any future redemption or conversion of the Notes could impact the timing of the repayment of these Notes.

As of March 28, 2015, contractual obligations related to the Notes are payments of $2.6 million due each year from 2015 through 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 9, "Convertible Senior Notes," to the Notes to Consolidated Financial Statements.

As of March 28, 2015, we had $333.7 million of cash, cash equivalents, and short-term investments, including $15.8 million of cash and cash equivalents held by our foreign subsidiaries. Our cash in foreign locations is used for operational and investing activities in those locations, and we do not currently have the need or the intent to repatriate those funds to the 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.

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Off-Balance Sheet Arrangements
As of March 28, 2015, 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.
Item 3. Quantitative and Qualitative Disclosures about Market Risk
For quantitative and qualitative disclosures about market risk affecting us, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A. of Part II of our Annual Report on Form 10-K for the fiscal year ended December 27, 2014, which is incorporated herein by reference. Our exposure to market risk has not changed materially since December 27, 2014, with the exception of the items below.
Foreign Currency Risk
In connection with the Offer, on April 9, 2015, we entered into a foreign exchange forward contract with a notional amount of SEK 831 million ($95.3 million) at an exchange rate of 8.7402 to hedge currency exposures associated with the cash portion of the Offer. If the Offer is not completed, we will still be obligated to purchase Swedish kronor in the quantity, at the price and at the time set forth in the forward contract. To provide an assessment of the potential foreign currency exchange loss associated with this forward contract if the Offer is not completed, we performed a sensitivity analysis to determine the impact that an adverse change in exchange rates would have on our financial statements. If the Swedish kronor weakened by 10%, the impact to our financial statements would be approximately $9.0 million.
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. 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 as cash, shares of common stock or a combination of cash and shares of common stock, at the Company’s election, for any remaining conversion obligation.
During the three months ended March 28, 2015, the closing price of our common stock exceeded 130% of the applicable conversion price of the Notes on at least 20 of the last 30 consecutive trading days of the quarter; therefore, holders of the Notes may convert their notes during the second quarter of 2015. 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. Should the closing price conditions be met during the 30 consecutive trading days prior to the end of the second quarter of 2015 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.
As of March 28, 2015, the fair value of the Notes was $245.4 million. The fair value was determined based on the quoted bid price of the Notes in an over-the-counter market on March 27, 2015. 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.
Item 4. Controls and Procedures
Evaluation of Disclosure Controls and Procedures
An evaluation was performed by management, with the participation of our chief executive officer ("CEO") and our chief financial officer ("CFO"), of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d -15(e) under the Securities Exchange Act of 1934, as amended (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

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specified in the SEC's rules and forms. Based on this evaluation, our CEO and CFO have concluded that, as of the end of the fiscal period covered by this quarterly report on Form 10-Q, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three months ended March 28 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within us have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, 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.

Cambrian Science Patent Infringement Litigation

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

On June 17, 2013, the court issued an order regarding claim construction, in which the court agreed with almost all of our proposed claim constructions. On October 17, 2013, the parties met for a court-mandated mediation. On April 24, 2014, we filed two motions for summary judgment relating to non-infringement and Cambrian's claim to an earlier date of invention. The court held a hearing on the summary judgment motions on June 9, 2014. On July 2, 2014, the court granted our motion for summary judgment on non-infringement and entered a final judgment of non-infringement of the '312 Patent. On August 1, 2014, Cambrian filed a notice of appeal regarding the ruling of non-infringement to the Court of Appeals for the Federal Circuit and Cambrian's appeal brief was filed on November 6, 2014. We filed our response brief on January 5, 2015, and on February 2, 2015, Cambrian filed their reply brief. Oral argument of this appeal has been set for May 5, 2015. After the court granted summary judgment, we sought to recover certain costs and attorney's fees from Cambrian.

As of December 27, 2014, we concluded that the likelihood of a loss with respect to this suit was remote and the amount of any loss would be insignificant. We do not believe the outcome of this matter will have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows. Factors that we considered in the determination of the likelihood of a loss and the estimate of that loss in respect to this matter included the merits of the case, the district court granting our motion for summary judgment for non-infringement, the entry of final judgment of non-infringement and the current stage of the litigation. However, the outcome of such legal matters is inherently unpredictable and subject to uncertainty.

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Item 1A. Risk Factors

A description of the risks and uncertainties associated with our business is set forth below. This description includes any material changes to and supersedes the description of the risks and uncertainties associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 27, 2014. You should carefully consider such risks and uncertainties, together with the other information contained in this report, our Annual Report on Form 10-K for the fiscal year ended December 27, 2014 and in our other public filings. 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 report and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, which could cause the market price of our stock to decline, perhaps significantly.

Risks Related to the Offer

Uncertainty regarding the completion of the Offer may have a negative impact on the market price of our common stock.

We have established certain conditions for completion of the Offer, including the condition that holders of over 90% of the shares of Transmode accept the Offer. Since the fulfillment of these conditions is beyond our control, there are no guarantees for when the Offer will be completed, or that it will be completed at all. The uncertainty that may occur on the market due to such conditions may negatively affect the market price of our shares.

We may not be able to successfully integrate our business with the business of Transmode, and may not be able to achieve the anticipated strategic benefits of the proposed combination.

If the Offer is completed, Transmode's business will become a part of our business (the resulting company after the completion of the Offer, the "Combined Company"). This may be a complex, costly and time-consuming process, as it will require the integration of the operations, technology and personnel of two companies based in a range of different countries that currently operate independently. We may face challenges integrating operations as substantial and geographically diverse as those of Transmode, which has installed systems for over 650 customers in more than 50 countries across the globe, and which has employees located in five different countries. The integration process will require substantial management time and attention, which may divert attention and resources from other important areas, including our existing business. Additional unanticipated costs may be incurred in the course of integrating the respective businesses of Infinera and Transmode. As a result of these potential challenges, and other challenges that may be unknown to us, we may not successfully integrate our operations with those of Transmode in a timely manner, or at all. In addition, we may not be able to fully realize the anticipated strategic benefits of the combination, which include the ability to leverage revenue synergies, increased negotiating leverage with third-party suppliers as a result of higher volumes, and, to a lesser extent, operating expense synergies expected from avoiding duplicative costs. The failure to successfully integrate the two businesses' operations, including retention of key employees, could impact our ability to realize the full benefits of this transaction. If we are not able to achieve the anticipated strategic benefits of the combination, it could adversely affect the Combined Company's business, financial condition and results of operations, and could adversely affect the market price of shares of the Combined Company's common stock if the integration or the anticipated financial and strategic benefits of the acquisition are not realized as rapidly or to the extent anticipated by stock market analysts or investors.

We expect to expend cash in connection with the Offer, which will partially deplete our cash balance, which could have an adverse effect on our financial and operational flexibility.

Transmode shareholders who accept the Offer will receive cash consideration in exchange for approximately 26.2 percent of our shares they tender. We also expect to incur costs as we integrate Transmode's business and operations with our business and operations. Additionally, if we acquire more than 90% of the outstanding shares in Transmode, which is necessary to initiate compulsory acquisition proceedings under Swedish law, we intend to purchase the remaining Transmode shares for cash, pursuant to such compulsory acquisition proceedings. The actual price per share purchased pursuant to Swedish compulsory acquisition proceedings, initiated after a share exchange offer, will be determined by an arbitration tribunal. As a result of the compulsory acquisition proceedings under Swedish law, we may ultimately have to pay, in the aggregate, a higher price per share in order to purchase the remaining Transmode shares that are outstanding after completion of the Offer, further depleting our cash reserves.

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On the assumption that all Transmode shareholders accept the Offer, the cash portion of the Offer will be approximately $88.9 million. We also expect to incur costs associated with the Offer, including financial advisor, legal and accounting fees (a large portion of which must be paid regardless of whether the Offer is completed). In addition, we expect to incur costs associated with realizing synergies from the Offer. As a result of these expenditures, the Combined Company's overall liquidity after completion of the Offer may be reduced relative to our current liquidity, which could have an adverse effect on our financial and operational flexibility.

Charges to earnings resulting from acquisition and integration costs may materially adversely affect the market value of our common stock following the completion of the Offer.

In accordance with U.S. GAAP, the Combined Company will account for the completion of the Offer using the purchase method of accounting. The Combined Company will allocate the total estimated purchase price to Transmode's net tangible assets, amortizable intangible assets and non-amortized intangibles, and based on their fair values as of the date of completion of the Offer, record the excess of the purchase price over those fair values as goodwill. The Combined Company's financial results, including earnings per share, could be adversely affected by a number of financial adjustments required by U.S. GAAP including the following:

- the Combined Company will incur additional amortization expense over the estimated useful lives of certain of the intangible assets acquired in connection with the Offer during such estimated useful lives;
- the Combined Company may have additional depreciation expense as a result of recording purchased tangible assets at fair value, in accordance with U.S. GAAP, as compared to book value as recorded by Transmode;
- to the extent the value of goodwill or intangible assets with indefinite lives becomes impaired, the Combined Company may be required to incur material charges relating to the impairment of those assets; and
- the Combined Company will incur certain adjustments to reflect Transmode's financial condition and operating results under U.S. GAAP and U.S. dollars.

We expect to incur costs associated with the Offer, including financial advisor, legal and accounting fees. In addition, we expect to incur costs associated with realizing synergies from the Offer. These costs may be substantial and may include those related to contractual obligations triggered by the completion of the Offer as well as other costs. We face potential costs related to employee retention and deployment of physical capital and other integration costs. We have not yet determined the amount of these costs. These items will reduce cash balances for the periods in which those costs are paid. Other costs that are not directly related to the Offer, including retention and integration costs, will be recorded as incurred and will negatively impact earnings, which could have a material adverse effect on the price of our common stock.

In addition, from the date of the completion of the Offer, the Combined Company's results of operations will include Transmode's operating results, presented in accordance with U.S. GAAP. Transmode's historical consolidated financial statements for 2012, 2013 and 2014 have been prepared in accordance with IFRS, which differ in certain material respects from U.S. GAAP. For instance, U.S. GAAP will require Transmode to expense all research and development expenses. Accordingly, the U.S. GAAP presentation of Transmode's results of operations may not be comparable to its historical financial statements.

The market price of our common stock may decline due to increased selling pressure as a result of the Offer.

In connection with the Offer, we could issue approximately 13.0 million shares of our common stock to Transmode shareholders if all Transmode shareholders elect to tender their shares in the Offer. Other than the shares subject to selling restrictions pursuant to an irrevocable undertaking signed by an existing shareholder of Transmode, our common stock issued in the Offer will be freely tradable upon consummation of the Offer. The acquisition of our common stock by Transmode shareholders who may not have the ability or wish to hold shares in a U.S. company may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market for, and the market price of, our common stock.

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The exchange ratios are fixed and will not be adjusted for fluctuations in our stock price.

Each Transmode shareholder will be entitled to receive a fixed ratio of approximately 0.6376 shares of our common stock in exchange for approximately 73.8 percent of the Transmode shares tendered by such shareholder, together with a fixed amount of SEK 107.05 in cash (subject to adjustment for dividends, if any, paid by Transmode prior to the settlement of the Offer) in exchange for approximately 26.2 percent of the Transmode shares tendered by such shareholder.

Because the market price of our common stock will fluctuate, the total value of the consideration paid by us in settlement of the Offer may increase. There will be no adjustment to the Offer consideration solely based upon changes in the market price of Transmode's common stock. Accordingly, the U.S. dollar value of our common stock that we pay to Transmode shareholders upon settlement of the Offer will depend upon the market value of our common stock at the time of settlement of the Offer, which may be different from, and lower or higher than, $19.43, the closing price of our common stock on April 8, 2015, the last day of trading prior to the announcement of the Offer.

In order to mitigate its risk associated with currency rate fluctuations, we have entered into a foreign currency exchange forward contract that will result in exchange rate risk for us if the Offer is not completed.

Because any cash paid to holders of Transmode shares in connection with the Offer will be paid in Swedish kronor, we have entered into a foreign currency exchange forward contract to mitigate the impact of fluctuations in the exchange rate between the U.S. dollar and Swedish kronor. Under this agreement, we have agreed to purchase a fixed amount of Swedish kronor at a specified price (the “Fixed Price”) and a specified time. If the Offer (i) is not completed, (ii) is completed at a lower acceptance level below 100 percent of the outstanding shares in Transmode, or (iii) consideration is reduced due to a dividend or other distribution by Transmode to its shareholders, we will still be obligated to purchase Swedish kronor in the quantity, at the price and at the time set forth in such forward contract. If the market value of the Swedish krona at the time of purchase is less than the Fixed Price, we may be unable to dispose of the Swedish kronor at the price we paid and may suffer a significant financial loss, which may harm our results of operations.

Risks Related to the Company

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

Our quarterly results may fluctuate due to a variety of factors, many of which are outside of our control. Over the past eight fiscal quarters, our revenue has ranged from $138.4 million to $186.9 million and our operating income (loss) has ranged from income of $15.2 million to a loss of $8.6 million. In fiscal years prior to the fiscal year ended December 27, 2014, we had significant operating losses and there is no guarantee that we will be able to sustain profitability in the future. As of March 28, 2015, our accumulated deficit was $578.5 million. As a result, comparing our operating results on a period-to-period basis may not be meaningful. Our budgeted expense levels are based, in large part, on our expectations of future revenue and the development efforts associated with these 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 and may take time. Consequently, if our revenue does not meet projected levels in the short-term, our inventory levels and operating expenses would be high relative to revenue, resulting in potential operating losses.

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

- fluctuations in demand, sales cycles and prices for products and services, including discounts given in response to competitive pricing pressures;
- fluctuations in our customer or product mix, including the impact of new customer deployments, which typically carry lower gross margins;
- changes in customers’ budgets for optical transport network equipment purchases and changes in their purchasing cycles;
- order cancellations or reductions or delays in delivery schedules by our customers;
- the payment terms offered to our customers;

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- our ability to control costs, including our operating expenses and the costs of components we purchase for our products;
- readiness of customer sites for installation of our products;
- the timing of product releases or upgrades by us or by our competitors;
- any significant changes in the competitive dynamics of our market, including any new entrants, or customer or competitor consolidation;
- 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 United States generally accepted accounting principles ("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 fall below the expectations of investors or securities analysts or below any guidance we provide to the market, the price of our common stock may decline substantially.

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 vary by customer and by product specification. Over the past eight fiscal quarters, our gross margin has ranged from 37% to 47%. 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 customer deployments, often with a higher portion of lower margin common equipment as we try to build footprint;
- 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
- increased warranty or repair costs.

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

Aggressive business tactics by our competitors may harm our business.

The markets in which we compete are extremely competitive and have resulted in aggressive business tactics by our competitors, including:

- aggressively pricing their optical transport products and other portfolio products, including offering significant one-time discounts and guaranteed future price decreases;

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- offering optical products at a substantial discount or free when bundled together with the customers' router or wireless equipment spend;
- providing financing, marketing and advertising assistance to customers;
- influencing customer requirements to emphasize different product capabilities, which better suit their products;
- offering to repurchase our equipment from existing customers; and
- asserting intellectual property rights.

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

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

Our future success depends on factors that increase the amount of data transmitted over communications networks and the growth of optical transport networks to meet the increased demand for optical capacity. These factors include the growth of mobility, video, cloud-based services, increased broadband connectivity and the continuing adoption of high-capacity, revenue-generating services. If demand for such bandwidth does not continue, or slows down, the need for increased bandwidth across networks and the market for optical communications network products may not continue to grow and our product sales would be negatively impacted. In addition, if general economic conditions weaken, our customers and potential customers may slow or delay their purchase decisions, which would have an adverse effect on our business and financial condition.

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

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

At any given time, various new product introductions and enhancements to our existing products, such as future products based on our next-generation PICs, are in the development phase and are not yet ready for commercial manufacturing or deployment. We rely on third parties, some of which are relatively early stage companies, to develop and manufacture components for our next-generation products, which can require custom development. The maturing process from laboratory prototype to customer trials, and subsequently to general availability, involves a significant number of simultaneous development efforts. These efforts often must be completed in a timely manner so that they may be introduced into the product development cycle for our systems, and include:

- completion of product development, including the completion of any associated PIC development, such as our next-generation PICs, and the completion of associated module development, including modules developed by third parties;
- the qualification and multiple sourcing of critical components;
- validation of manufacturing methods and processes;
- extensive quality assurance and reliability testing and staffing of testing infrastructure;
- validation of software; and
- establishment of systems integration and systems test validation requirements.

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

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

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 current WDM suppliers, such as Alcatel-Lucent, Ciena, Coriant, Huawei and ZTE. These companies have historically set the competitive benchmarks for price and functionality. In the metro cloud market, our potential competitors include well established companies as well as a number of smaller public and private companies that have announced plans to develop or have developed products that would compete with us in this market. Competition in these markets is based on price, commercial terms, functionality, manufacturing capability, existing business and customer relationships, scalability and quality of services to meet our customers' immediate and future network requirements. 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. In particular, if a competitor develops a photonic integrated circuit with similar functionality to our PICs, our business could be harmed. 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 incumbent carriers and other potential customers than we have. Many of our competitors have more resources to develop or acquire, and more experience in developing or acquiring, new products and technologies and in creating market awareness for those products and technologies. In addition, many of our competitors have the financial resources to offer competitive products at aggressive pricing levels that could prevent us from competing effectively. Further, many of our competitors have built long-standing relationships with some of our prospective customers and have the ability to provide financing to customers and could, therefore, have an inherent advantage in selling products to those customers.

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

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

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

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

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

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

We are continuing to invest a significant portion of our research and development efforts in the development of our next-generation products. We expect our competitors to continue to improve the performance of their existing products and to introduce new products and technologies and to influence customers' buying criteria so as to emphasize product capabilities that we do not, or may not, possess. To be competitive, we must properly anticipate future customer requirements and we must continue to invest significant resources in research and development, sales and marketing, and customer support. If we do not anticipate these future customer requirements and invest in the technologies necessary to enable us to have and to sell the appropriate solutions, it may limit our competitive position and future sales, which would have an adverse effect on our business and financial condition. We may not have sufficient resources to make these investments and we may not be able to make the technological advances necessary to be competitive.

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

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

The loss of a source of supply, or lack of sufficient availability of key components, could require us to redesign products that use such components, which could result in lost revenue, additional product costs and deployment delays that could harm our business and customer relationships. If we do not receive critical components for our products in a timely manner, we will be unable to deliver those components to our contract manufacturer in a timely manner and would, therefore, be unable to meet our prospective customers' product delivery requirements. In addition, the sourcing from new suppliers may require us to re-design our products, which could cause delays in the manufacturing and delivery of our products. In the past, we have experienced delivery delays because of lack of availability of components or reliability issues with components that we were purchasing. In addition, some of our suppliers have gone out of business, 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 problem experiences by our suppliers or contract manufacturers, or strong demand in the industry for such components. A return to growth in the global economy is likely to continue to create pressure on us and our suppliers to accurately project overall component demand and manufacturing capacity. These supplier disruptions may continue to occur in the future, which could limit our ability to produce our products and cause us to fail to meet a customer's delivery requirements. Such events could harm our reputation and our customer relationships, either of which would harm our business and operating results.

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

We are required to generate forecasts of future 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.

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

A relatively small number of customers account for a large percentage of our revenue. For example, for the three months ended March 28, 2015, two customers accounted for 34% of 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, or substantially reduce their orders to us. In addition, our business will be harmed if we fail to maintain our competitive advantage with our key customers.

Our ability to continue to generate revenue from our key customers will depend on our ability to maintain strong relationships with these customers and introduce new products that are desirable to these customers at competitive prices, and we may not be successful at doing so. In most cases, our sales are made to these customers pursuant to standard purchase agreements rather than long-term purchase commitments, and orders may be 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.

If we fail to expand sales of our products into the metro market, our ability to increase revenue will be harmed.

We believe that, in order to grow our revenue and business, we must successfully sell our products into the metro market. This will depend on our ability to timely and in a cost-effective manner, develop new products with unique requirements focused on space, power consumption and cost. In order for us to address a portion of this market, we recently announced the introduction of the Cloud Xpress family of metro optical platforms, which we believe addresses a new opportunity in the metro cloud market. In order to succeed in our sales efforts, we believe that we must hire additional sales personnel to meet the increasing needs of these customers and develop the necessary relationships. We may also have to incur substantial unanticipated costs to market and identify the appropriate partners to increase any sales of new products. The success of new product introductions depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, our ability to manage the risks associated with new product production ramp-up issues, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and at expected costs to meet anticipated demand, and the risk that new products may have quality or other defects or deficiencies in the early stages of introduction. Accordingly, if we do not succeed in our efforts to address the metro market, the size of our total addressable market will be limited. This, in turn, would harm our ability to grow our customer base and increase revenue.

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If our contract manufacturers do not perform as we expect, our business may be harmed.
We rely on third party contract manufacturers to perform a significant portion of the manufacturing of our products, and our future success will depend on our ability to have sufficient volumes of our products manufactured in a cost-effective and quality-controlled manner. We have engaged third parties to manufacture certain elements of our products at multiple contract manufacturing sites located around the world but do not have long-term agreements in place with some of our manufacturers and suppliers. There are a number of risks associated with our dependence on contract manufacturers, including:

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

Any of these risks could impair our ability to fulfill orders. Our contract manufacturers may not be able to meet the delivery requirements of our customers, which could decrease customer satisfaction and harm our product sales. We do not have long-term contracts or arrangements with our contract manufacturers that will guarantee product availability, or the continuation of particular pricing or payment terms. If our contract manufacturers are unable or unwilling to continue manufacturing our products or components of our products in required volumes or our relationship with any of our contract manufacturers is discontinued for any reason, we would be required to identify and qualify alternative manufacturers, which could cause us to be unable to meet our supply requirements to our customers and result in the breach of our customer agreements. Qualifying a new contract manufacturer and commencing volume production is expensive and time-consuming and if we are required to change or qualify a new contract manufacturer, we could lose revenue and damage our customer relationships.
Our manufacturing process is very complex and the partial or complete loss of our manufacturing facility, or a reduction in yields or an inability to scale capacity to meet customer demands could harm our business.
The manufacturing process for certain components of our products, including our PICs, is technically challenging. In the event that any of 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 cause us customer relations and business reputation problems, harming our business and operating results.
Our inability to obtain sufficient manufacturing capacity to meet demand, either in our own facilities or through foundry or similar arrangements with third parties, could harm our relationships with our customers, our business and our operating results.

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

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

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

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

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In particular, many leading companies in the optical transport networking industry, including our competitors, have extensive patent portfolios with respect to optical transport networking technology. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. From time to time, third parties may assert exclusive patent, copyright, trademark and other intellectual property rights to technologies and related standards that are important to our business or seek to invalidate the proprietary rights that we hold. Competitors or other third parties have, and may continue to assert claims or initiate litigation or other proceedings against us or our manufacturers, suppliers or customers alleging infringement of their proprietary rights, or seeking to invalidate our proprietary rights, with respect to our products and technology. In 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. A judgment could also include an injunction or other court order that could prevent us from offering our products. In addition, we might be required to seek a license for the use of such intellectual property, which may not be available on commercially reasonable terms or at all. Alternatively, we may be required to develop non-infringing technology, which would require significant effort and expense and may ultimately not be successful. Any of these events could harm our business, financial condition and operating results. Competitors and other third parties have and may continue to assert infringement claims against our customers and sales partners. Any of these claims would require us to initiate or defend potentially protracted and costly litigation on their behalf, regardless of the merits of these claims, because we generally indemnify our customers and sales partners from claims of infringement of proprietary rights of third parties. If any of these claims succeed, we may be forced to pay damages on behalf of our customers or sales partners, which could have an adverse effect on our business, financial condition and operating results.

We incorporate open source software into our products. Although we monitor our use of open source software closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. In such event, we could be required to seek licenses from third parties in

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order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis, any of which could adversely affect our business, operating results and financial condition.

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

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

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

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

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

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. Continued weakness and uncertainty in the global economy could cause some of our customers to become illiquid, delay payments or adversely affect our collection of their accounts, which could result in a higher level of bad debt expense. In addition, currency fluctuations could negatively affect our international customers’ ability or desire to purchase our products.

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

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

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- 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 the Infinera DTN and Infinera DTN-X platforms, including failures due to the receipt of faulty components from our suppliers. We suspect that errors, including potentially serious errors, may be found from time to time in our products. Our products may suffer degradation of performance and reliability over time.

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

- delays in our ability to recognize revenue;
- costs associated with fixing software or hardware defects or replacing products;
- high service and warranty expenses;
- delays in shipments;
- high inventory excess and obsolescence expense;
- high levels of product returns;
- diversion of our engineering personnel from our product development efforts;
- delays in collecting accounts receivable;
- payment of liquidated damages, performance guarantees or similar penalties;
- reduced orders from existing customers; and
- declining interest from potential customers.

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

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

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

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

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

In May 2013, we issued $150.0 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.

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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. We have a history of significant operating losses, including a net loss of $32.1 million for 2013. 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 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.

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

We market, sell and service our products globally. During the first quarter of 2015 and in the fiscal years 2014 and 2013, we derived approximately 32%, 29% and 36%, 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 developing 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 India, China and Canada and expect to continue to increase hiring of personnel for these facilities. There is no assurance that our reliance upon development resources in India, China or Canada will enable us to achieve meaningful cost reductions or greater resource efficiency.

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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;
- certification requirements;
- 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 anticipate and effectively manage these and other risks associated with our international operations. Our failure to manage any of these risks could harm our international operations and reduce our international sales.

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

A portion of our sales are to countries outside of the United States, and are in currencies other than U.S. dollars, and therefore subject to foreign currency fluctuation. Accordingly, fluctuations in foreign currency rates could have a material impact on our revenue in future periods. We also have exposure to currency exchange rates as a result of the growth in our non-U.S. dollar denominated operating expense in Europe, Asia and Canada. We currently enter into foreign currency exchange forward contracts to reduce the impact of foreign currency fluctuations on accounts receivable denominated in euro and the British pound. These hedging programs reduce the impact of currency exchange rate movements on certain transactions, but do not cover all foreign-denominated transactions and therefore do not entirely eliminate the impact of fluctuations in exchange rates that could negatively affect our results of operations and financial condition.

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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, in addition to the acquisition contemplated by the Offer, could disrupt our business and harm our financial condition and operations.
We have made strategic acquisitions of businesses, technologies and other assets in the past. The expansion of our business through acquisitions allows us to complement our technological capabilities. 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 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;
- assumption of unknown liabilities;
- adverse effects on existing business relationships with suppliers and customers;
- increased accounting compliance risk;
- risks associated with entering new markets; and
- potential loss of key employees.

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 and Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment regulations adopted by the European Union. If we experience a problem with these substances, it could cause an interruption or delay in our manufacturing operations or could cause us to incur liabilities for any costs related to health, safety or environmental remediation. We could also be subject to liability if we do not handle these substances in compliance with safety standards for storage and transportation and applicable laws. If we experience a problem or fail to comply with such safety standards, our business, financial condition and operating results may be harmed.
We are subject to governmental 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. U.S. export control laws also limit our ability to conduct product development activities in certain countries. In addition, various countries regulate the import of certain technologies and have enacted laws that could limit our ability to distribute our products or could limit our customers’ ability to implement our products in those countries. Changes in our products or changes in import and export regulations may create delays in the

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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 any future regulation on net neutrality, affecting communications services, our products or our customers' businesses could negatively affect our business. In addition, international regulatory standards could impair our ability to develop products for international customers in the future. Moreover, many jurisdictions are evaluating or implementing regulations relating to cyber security, privacy and data protection, which can affect the market and requirements for networking and communications equipment. Delays caused by our compliance with regulatory requirements could result in postponements or cancellations of product orders. Further, we may not be successful in obtaining or maintaining any regulatory approvals that may, in the future, be required to operate our business. Any failure to obtain such approvals could harm our business and operating results.

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

Our headquarters and the majority of our infrastructure, including our PIC fabrication manufacturing facility, are located in Northern California, an area that is susceptible to earthquakes, 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.

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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.

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Item 6. Exhibits

Exhibit No.	Description
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 and 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

The certification attached as Exhibit 32.1 that accompanies this Quarterly Report on Form 10-Q is not deemed filed with the SEC and is not to be incorporated by reference into any of our filings 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 this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

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SIGNATURES

Pursuant to the requirements 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.

Infinera Corporation

By:	/s/ BRAD FELLER Brad Feller Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)
Date:	May 1, 2015