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

# FORM 10-Q

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

For the quarterly period ended March 28, 2020

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number: 001-33486

# INFINERA CORPORATION

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **77-0560433** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**140 Caspian Court**
**Sunnyvale, CA 94089**
**(Address of principal executive offices, including zip code)**

**(408) 572-5200**
**(Registrant's telephone number, including area code)**

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

| Title of each class | Trading Symbol(s) | Name of exchange on which registered |
|---|---|---|
| Common stock, par value $0.001 per share | INFN | The Nasdaq Global Select Market |

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated Filer | ☒ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of May 13, 2020, 186,897,010 shares of the registrant's Common Stock, $0.001 par value, were issued and outstanding.

**INFINERA CORPORATION**
**QUARTERLY REPORT ON FORM 10-Q**
**FOR THE FISCAL QUARTER ENDED MARCH 28, 2020**
**INDEX**

## PART I. FINANCIAL INFORMATION

**Item 1.** ***Condensed Consolidated Financial Statements (Unaudited)***

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

| | March 28, 2020 | December 28, 2019 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 261,534 | $ 109,201 |
| Short-term restricted cash | 4,126 | 4,339 |
| Accounts receivable, net of allowance for doubtful accounts of $4,014 in 2020 and $4,005 in 2019 | 272,278 | 349,645 |
| Inventory | 319,696 | 340,429 |
| Prepaid expenses and other current assets | 159,845 | 139,217 |
| Total current assets | 1,017,479 | 942,831 |
| Property, plant and equipment, net | 148,815 | 150,793 |
| Operating lease right-of-use assets | 61,914 | 68,081 |
| Intangible assets | 155,356 | 170,346 |
| Goodwill | 239,412 | 249,848 |
| Long-term restricted cash | 17,808 | 19,257 |
| Other non-current assets | 26,347 | 27,182 |
| Total assets | $ 1,667,131 | $ 1,628,338 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 203,277 | $ 273,397 |
| Accrued expenses and other current liabilities | 186,668 | 193,168 |
| Accrued compensation and related benefits | 69,135 | 92,221 |
| Short-term debt, net | 31,680 | 31,673 |
| Accrued warranty | 18,988 | 21,107 |
| Deferred revenue | 95,693 | 103,753 |
| Total current liabilities | 605,441 | 715,319 |
| Long-term debt, net | 509,564 | 323,678 |
| Long-term financing lease obligations | 2,113 | 2,394 |
| Accrued warranty, non-current | 20,474 | 22,241 |
| Deferred revenue, non-current | 34,149 | 36,067 |
| Deferred tax liability | 7,505 | 8,700 |
| Operating lease liabilities | 60,420 | 64,210 |
| Other long-term liabilities | 65,746 | 69,194 |
| Commitments and contingencies (Note 13) | | |
| Stockholders' equity: | | |
| Preferred stock, $0.001 par value<br>Authorized shares – 25,000 and no shares issued and outstanding | — | — |
| Common stock, $0.001 par value<br>Authorized shares – 500,000 as of March 28, 2020 and December 28, 2019<br>Issued and outstanding shares – 183,198 as of March 28, 2020 and 181,134 as of December 28, 2019 | 183 | 181 |
| Additional paid-in capital | 1,827,484 | 1,740,884 |
| Accumulated other comprehensive loss | (46,139) | (34,639) |
| Accumulated deficit | (1,419,809) | (1,319,891) |
| Total stockholders' equity | 361,719 | 386,535 |
| Total liabilities and stockholders' equity | $ 1,667,131 | $ 1,628,338 |

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

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

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Revenue: | | |
| Product | $ 255,192 | $ 223,007 |
| Services | 75,081 | 69,700 |
| Total revenue | 330,273 | 292,707 |
| Cost of revenue: | | |
| Cost of product | 201,792 | 157,817 |
| Cost of services | 40,695 | 36,676 |
| Amortization of intangible assets | 8,628 | 8,252 |
| Acquisition and integration costs | 1,035 | 2,064 |
| Restructuring and related | 1,157 | 21,466 |
| Total cost of revenue | 253,307 | 226,275 |
| Gross profit | 76,966 | 66,432 |
| Operating expenses: | | |
| Research and development | 68,180 | 73,660 |
| Sales and marketing | 36,689 | 40,037 |
| General and administrative | 29,620 | 33,044 |
| Amortization of intangible assets | 4,555 | 7,057 |
| Acquisition and integration costs | 9,222 | 7,134 |
| Restructuring and related | 5,580 | 17,188 |
| Total operating expenses | 153,846 | 178,120 |
| Loss from operations | (76,880) | (111,688) |
| Other income (expense), net: | | |
| Interest income | 24 | 766 |
| Interest expense | (8,794) | (7,563) |
| Other gain (loss), net | (12,682) | (2,923) |
| Total other income (expense), net | (21,452) | (9,720) |
| Loss before income taxes | (98,332) | (121,408) |
| Provision for income taxes | 936 | 193 |
| Net loss | $ (99,268) | $ (121,601) |
| Net loss per common share: | | |
| Basic | $ (0.55) | $ (0.69) |
| Diluted | $ (0.55) | $ (0.69) |
| Weighted average shares used in computing net loss per common share: | | |
| Basic | 182,024 | 176,406 |
| Diluted | 182,024 | 176,406 |

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

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

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Net loss | $ (99,268) | $ (121,601) |
| Other comprehensive income (loss), net of tax: | | |
| Change in unrealized gain on available-for-sale investments | — | 65 |
| Foreign currency translation adjustment | (11,106) | (5,557) |
| Actuarial gain (loss) on pension liabilities | (394) | 78 |
| Net change in accumulated other comprehensive loss | (11,500) | (5,414) |
| Comprehensive loss | $ (110,768) | $ (127,015) |

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

# INFINERA CORPORATION
## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
## (In thousands)
## (Unaudited)

| | Three Months Ended March 28, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
| | Shares | Amount | | | | |
| Balance at December 28, 2019 | 181,134 | $ 181 | $ 1,740,884 | $ (34,639) | $ (1,319,891) | $ 386,535 |
| ESPP shares issued | 1,839 | 2 | 7,392 | — | — | 7,394 |
| Restricted stock units released | 225 | — | — | — | — | — |
| Stock-based compensation | — | — | 11,411 | — | — | 11,411 |
| Cumulative-effect adjustment from adoption of Topic 326 | — | — | — | — | (650) | (650) |
| Conversion option related to convertible senior notes, net of allocated costs | — | — | 67,797 | — | — | 67,797 |
| Other comprehensive loss | — | — | — | (11,500) | — | (11,500) |
| Net loss | — | — | — | | (99,268) | (99,268) |
| Balance at March 28, 2020 | 183,198 | $ 183 | $ 1,827,484 | $ (46,139) | $ (1,419,809) | $ 361,719 |

| | Three Months Ended March 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity |
| | Shares | Amount | | | | |
| Balance at December 29, 2018 | 175,452 | $ 175 | $ 1,685,916 | $ (25,300) | $ (956,970) | $ 703,821 |
| ESPP shares issued | 1,825 | 2 | 7,738 | — | — | 7,740 |
| Restricted stock units released | 138 | — | — | — | — | — |
| Stock-based compensation | — | — | 9,056 | — | — | 9,056 |
| Cumulative-effect adjustment from adoption of Topic 842 | — | — | — | — | 23,697 | 23,697 |
| Other comprehensive loss | — | — | — | (5,414) | — | (5,414) |
| Net loss | — | — | — | — | (121,601) | (121,601) |
| Balance at March 30, 2019 | 177,415 | 177 | $ 1,702,710 | $ (30,714) | $ (1,054,874) | $ 617,299 |

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

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

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Cash Flows from Operating Activities: | | |
| Net loss | $ (99,268) | $ (121,601) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 25,445 | 30,939 |
| Non-cash restructuring charges and related costs | 1,760 | 16,851 |
| Amortization of debt discount and issuance costs | 5,731 | 4,614 |
| Operating lease expense | 5,204 | 14,966 |
| Stock-based compensation expense | 11,703 | 8,713 |
| Other, net | 1,153 | 1,775 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 70,238 | 49,754 |
| Inventory | 17,737 | (24,937) |
| Prepaid expenses and other assets | (18,744) | (5,236) |
| Accounts payable | (72,355) | (23,439) |
| Accrued liabilities and other expenses | (32,083) | (15,486) |
| Deferred revenue | (8,038) | 6,933 |
| Net cash used in operating activities | (91,517) | (56,154) |
| Cash Flows from Investing Activities: | | |
| Proceeds from maturities of investments | — | 10,542 |
| Acquisition of business, net of cash acquired | — | (10,000) |
| Purchase of property and equipment, net | (8,464) | (6,590) |
| Net cash used in investing activities | (8,464) | (6,048) |
| Cash Flows from Financing Activities: | | |
| Proceeds from issuance of 2027 Notes | 194,500 | — |
| Proceeds from mortgage payable | — | 8,584 |
| Proceeds from revolving line of credit | 55,000 | — |
| Repayment of revolving line of credit | — | — |
| Payment of debt issuance cost | (1,775) | |
| Repayment of mortgage payable | (99) | — |
| Proceeds from issuance of common stock | 7,395 | 7,740 |
| Net cash provided by financing activities | 255,021 | 16,324 |
| Effect of exchange rate changes on cash and restricted cash | (4,369) | (1,213) |
| Net change in cash, cash equivalents and restricted cash | 150,671 | (47,091) |
| Cash, cash equivalents and restricted cash at beginning of period | 132,797 | 242,337 |
| Cash, cash equivalents and restricted cash at end of period[1] | $ 283,468 | $ 195,246 |

| | | | | |
|---|---|---|---|---|
| **Supplemental disclosures of cash flow information:** | | | | |
| Cash paid for income taxes, net of refunds | $ | 1,072 | $ | 1,353 |
| Cash paid for interest | $ | 5,131 | $ | 4,315 |
| **Supplemental schedule of non-cash investing and financing activities:** | | | | |
| Unpaid debt issuance cost | $ | 1,793 | $ | — |
| Transfer of inventory to fixed assets | $ | 118 | $ | 1,805 |

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

| | March 28, 2020 | March 30, 2019 |
|---|---|---|
| | (In thousands) | |
| Cash and cash equivalents | $ 261,534 | $ 167,259 |
| Short-term restricted cash | 4,126 | 4,671 |
| Long-term restricted cash | 17,808 | 23,316 |
| Total cash, cash equivalents and restricted cash | $ 283,468 | $ 195,246 |

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

**INFINERA CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

## 1. Basis of Presentation and Significant Accounting Policies

***Basis of Presentation***

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 28, 2019.

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, employee benefit and pension plans, inventory valuation, accrued warranty, operating lease liabilities, business combinations, fair value measurement of investments and accounting for income taxes. Other less significant estimates, assumptions and judgments made by management include allowances for sales returns, allowances for doubtful accounts, useful life of intangible assets, and property, plant and equipment. 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. The Company expects uncertainties around its key accounting estimates to continue to evolve depending on the duration and degree of impact associated with the recent outbreak of a novel strain of the coronavirus (“COVID-19”). These estimates may change as new events occur and additional information emerges, and such changes are recognized or disclosed in the Company's condensed consolidated financial statements.

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 condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated.

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 28, 2019.

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, 2020, one customer accounted for 11% of the Company's total revenue and for the three months ended March 30, 2019, the same customer accounted for 11% of the Company's total revenue.

Certain reclassifications have been made to prior period balances in order to conform to the current period presentation of the cash flows from operating activities in the condensed consolidated statements of cash flows. The reclassifications were not material and had no impact on previously reported net cash used in operating activities and on our other condensed consolidated financial statements for the periods ended March 28, 2020 and March 30, 2019.

There have been no material changes in the Company’s significant accounting policies for the three months ended March 28, 2020 compared to those disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 28, 2019, with the exception of updates to the policy noted below as a result of the adoption of ASU 2016-13 "Financial Instruments-Credit Losses (Topic 326)" ("Topic 326") as of December 29, 2019.

***Allowance for doubtful accounts***

The Company maintains an allowance for doubtful accounts for estimated credit losses resulting from the inability of its customers to make required payments and reviews the allowance quarterly. The Company determines expected credit losses by performing credit evaluations of its customers' financial condition, establishing both a general reserve and specific reserves for customers in an adverse financial condition and adjusting for its expectations of changes in conditions that may impact the collectability of outstanding receivables. The Company considers factors such as historical experience, credit quality, age of the accounts receivable balances, and geographic or country-specific risks. Amounts are written off when receivables are determined to be uncollectible.

## 2. Recent Accounting Pronouncements

### *Accounting Pronouncements Recently Adopted*

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-13, “Financial Instruments-Credit Losses (Topic 326)” (“ASU 2016-13”), in order to improve financial reporting of expected credit losses on financial instruments and other commitments to extend credit. ASU 2016-13 requires that an entity measure and recognize expected credit losses for financial assets held at amortized cost and replaces the incurred loss impairment methodology in prior GAAP with a methodology that requires consideration of a broader range of information to estimate credit losses. The Company adopted ASU 2016-13 on a modified retrospective basis in the first quarter of 2020 through a cumulative-effect adjustment at the beginning of the first quarter of 2020 and the impact of the adoption was not material to the Company's consolidated financial statements as credit losses are not expected to be significant based on historical collection trends, the financial condition of the Company’s customers, and external market factors. The Company will continue to actively monitor the impact of the COVID-19 pandemic on expected credit losses.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”). This update eliminates, adds and modifies certain disclosure requirements for fair value measurements. ASU 2018-13 was effective for the Company in its first quarter of 2020. The Company adopted ASU 2018-13 in the first quarter of 2020 and the impact of the adoption was not material to the Company's consolidated financial statements.

### *Accounting Pronouncements Not Yet Effective*

In March 2020, the FASB issued ASU No. 2020-04 (Topic 848), "Reference Rate Reform - Facilitation of the Effects of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”), which provides temporary optional expedients and exceptions to the existing guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. The standard was effective upon issuance and may generally be applied through December 31, 2022 to any new or amended contracts, hedging relationships, and other transactions that reference LIBOR. The Company is currently evaluating the impact the adoption of ASU 2020-04 would have on its consolidated financial statements.

In December 2019, FASB issued Accounting Standards Update No. 2019-12, Simplifying the Accounting for Income Taxes (“ASU 2019-12”), as part of its simplification initiative. ASU 2019-12 removes certain exceptions from ASC 740, Income Taxes, including (i) the exception to the incremental approach for intra period tax allocation when there is a loss from continuing operations and income or a gain from other items such as discontinued operations or other comprehensive income, (ii) the exception to accounting for outside basis differences of equity method investments and foreign subsidiaries, and (iii) the exception to limit tax benefit recognized in interim period in cases when the year-to-date losses exceeds anticipated losses. ASU 2019-12 also simplifies GAAP in several other areas of ASC 740 such as (i) franchise taxes and other taxes partially based on income, (ii) step-up in tax basis goodwill considered part of a business combination in which the book goodwill was originally recognized or should be considered a separate transaction, (iii) separate financial statements of entities not subject to tax, and (iv) interim recognition of enactment of tax laws or rate changes. ASU 2019-12 is effective for the Company for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2020, with early adoption permitted. The Company elected not to early adopt ASU 2019-12 as of December 28, 2019. The Company is currently evaluating the impact the adoption of ASU 2019-12 would have on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-14, “Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans” (“ASU 2018-14”). This update eliminates, adds and modifies certain disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans. ASU 2018-14 is effective for the Company in its first quarter of 2021, with early adoption permitted. The Company is currently evaluating the impact the adoption of ASU 2018-14 would have on its consolidated financial statements.

### 3. Leases

The Company has operating leases for real estate and automobiles. During the three months ended March 28, 2020, operating lease expense was approximately $8.6 million (including $1.4 million of accelerated rent expense due to restructuring resulting in abandonment of lease facilities). Variable lease cost, short-term lease cost and sublease income were immaterial during the three months ended March 28, 2020. As of March 28, 2020, $18.1 million was included in accrued expenses and other current liabilities and $60.4 million as long-term operating lease liabilities.

The following table presents maturity of lease liabilities under the Company's non-cancelable operating leases as of March 28, 2020 (in thousands):

| | | |
|---|---|---|
| Remainder of 2020 | $ | 18,987 |
| 2021 | | 18,691 |
| 2022 | | 15,245 |
| 2023 | | 12,054 |
| 2024 | | 10,066 |
| Thereafter | | 35,855 |
| Total lease payments | | 110,898 |
| Less: interest(1) | | 32,423 |
| Present value of lease liabilities | $ | 78,475 |

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

The following table presents supplemental information for the three months ended March 28, 2020 (in thousands, except for weighted average and percentage data):

| | | |
|---|---|---|
| Weighted average remaining lease term | | 7.01 years |
| Weighted average discount rate | | 9.09% |
| Cash paid for amounts included in the measurement of lease liabilities | $ | 6,425 |
| Operating cash flow from operating leases | $ | 6,425 |
| Leased assets obtained in exchange for new operating lease liabilities | $ | 1,818 |

***Financing Lease Obligations***

During the three months ended March 28, 2020, there were no new finance lease arrangements. The lease term for the existing arrangements range from 3 - 5 years with options to purchase at the end of the term. Finance lease cost was approximately $0.2 million for the three months ended March 28, 2020 and zero for the three months ended March 30, 2019. As of March 28, 2020, $1.7 million was included in accrued expenses and other current liabilities and $2.1 million as long-term finance lease obligation related to these equipment finance lease arrangements.

As of December 28, 2019, $1.4 million was included in accrued expenses and other current liabilities and $2.4 million as a long-term finance lease obligation related to these equipment finance lease arrangements.

The following table presents maturity of lease liability under the Company's finance leases as of March 28, 2020 (in thousands):

| | | |
|---|---|---|
| Remainder of 2020 | $ | 1,557 |
| 2021 | | 1,199 |
| 2022 | | 930 |
| 2023 | | 402 |
| Thereafter | | — |
| Total lease payments | | 4,088 |
| Less: interest | | 281 |
| Present value of lease liabilities | $ | 3,807 |

The following table presents supplemental information for the three months ended March 28, 2020 (in thousands, except for weighted average and percentage data):

| | | |
|---|---|---|
| Weighted average remaining lease term | | 2.78 years |
| Weighted average discount rate | | 7.00% |
| Cash paid for amounts included in the measurement of lease liabilities | $ | — |
| Operating cash flow from operating leases | $ | — |
| Leased assets obtained in exchange for new finance lease liabilities | $ | — |

**4. Revenue Recognition**

***Capitalization of Costs to Obtain a Contract***

The ending balance of the Company’s capitalized costs to obtain a contract as of March 28, 2020 and December 28, 2019 were $0.2 million and $0.2 million, respectively. The Company's amortization expense was not material for each of the three months ended March 28, 2020 and March 30, 2019.

***Disaggregation of Revenue***

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

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Product | $ 255,192 | $ 223,007 |
| Services | 75,081 | 69,700 |
| Total revenue | $ 330,273 | $ 292,707 |

The Company sells its products directly to customers who are predominantly service providers and to channel partners that sell on its behalf. The following table presents the Company's revenue disaggregated by geography, based on the shipping address of the customer and by sales channel (in thousands):

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| United States | $ 170,526 | $ 132,522 |
| Other Americas | 19,688 | 15,132 |
| Europe, Middle East and Africa | 88,578 | 98,992 |
| Asia Pacific | 51,481 | 46,061 |
| Total revenue | $ 330,273 | $ 292,707 |

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Direct | $ 244,351 | $ 248,196 |
| Indirect | 85,922 | 44,511 |
| Total revenue | $ 330,273 | $ 292,707 |

***Contract Balances***

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

| | March 28, 2020 | December 28, 2019 |
|---|---|---|
| Accounts receivable, net | $ 272,278 | $ 349,645 |
| Contract assets | $ 34,806 | $ 22,814 |
| Deferred revenue | $ 129,842 | $ 139,820 |

Revenue recognized for the three months ended March 28, 2020 that was included in the deferred revenue balance at the beginning of the reporting period was $38.7 million. Changes in the contract asset and liability balances during the three months ended March 28, 2020 were not materially impacted by other factors.

***Transaction Price Allocated to the Remaining Performance Obligation***

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially satisfied) at the end of the reporting period (in thousands):

| | Remainder of 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Revenue expected to be recognized in the future as of March 28, 2020 | $ 453,406 | $ 37,172 | $ 11,538 | $ 6,056 | $ 1,802 | $ 449 | $ 510,423 |

**5. Fair Value Measurements**

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, 2020 | | | As of December 28, 2019 | | |
|---|---|---|---|---|---|---|
| | Fair Value Measured Using | | | Fair Value Measured Using | | |
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| **Liabilities** | | | | | | |
| Foreign currency exchange forward contracts | $ — | $ (52) | $ (52) | $ — | $ (159) | $ (159) |

During the three months ended March 28, 2020, there were no transfers of liabilities between Level 1 and Level 2 of the fair value hierarchy. As of March 28, 2020 and December 28, 2019, none of the Company’s existing liabilities were classified as Level 3.

The Company classifies certain facilities-related charges within Level 3 of the fair value hierarchy and applies fair value accounting on a nonrecurring basis when impairment indicators exist or upon the existence of observable fair values. The fair values are classified as Level 3 measurements due to the significance of unobservable inputs. This analysis requires management to make assumptions and estimates regarding industry and economic factors, future operating results and discount rates.

The Company measures goodwill and intangible assets at fair value on a nonrecurring basis when there are identifiable events or changes in circumstances that may have a significant adverse impact on the fair value of these assets. In light of the COVID-19 pandemic, the Company performed an analysis of impairment indicators of these assets and noted no adverse impact to their fair values as of March 28, 2020.

***Facilities-related Charges***

In connection with the 2018 Restructuring Plan (as defined in Note 9, “Restructuring and Related Costs” to the Notes to Consolidated Financial Statements), the Company calculated the fair value of the $3.0 million in facilities-related charges based on estimated future discounted cash flows and classified the fair value as a Level-3 measurement due to the significance of unobservable inputs, which included the amount and timing of estimated sublease rental receipts that the Company could reasonably obtain over the remaining lease term and the discount rate.

***Cash***

As of March 28, 2020, the Company had $261.5 million of cash, including $53.6 million of cash held by its foreign subsidiaries.

As of December 28, 2019, the Company had $109.2 million of cash including $68.7 million of cash held by its foreign subsidiaries. The Company's cash in foreign locations is used for operational and investing activities in those locations, and the Company does not currently have the need or the intent to repatriate those funds to the United States.

**6. Derivative Instruments**

***Foreign Currency Exchange Forward Contracts***

The Company transacts business in various foreign currencies and has international sales, cost of sales, and expenses denominated in foreign currencies, and carries foreign-currency-denominated monetary assets and liabilities, subjecting the Company to foreign currency risk. The Company’s primary foreign currency risk management objective is to protect the U.S. dollar value of future cash flows. The Company utilizes foreign currency forward contracts, primarily short term in nature.

Historically, the Company enters into foreign currency exchange forward contracts to manage its exposure to fluctuation in foreign exchange rates that arise from its euro and, British pound denominated receivables and restricted cash balances. Gains and losses on these contracts are intended to offset the impact of foreign exchange rate fluctuations on the underlying foreign currency denominated accounts receivables and restricted cash, and therefore, do not subject the Company to material balance sheet risk.

The Company also enters into foreign currency exchange contracts to reduce the volatility of cash flows primarily related to forecasted revenues and expenses denominated in euros and British pounds. The contracts are generally settled for U.S. dollars, euros and British pounds at maturity under an average rate method agreed to at inception of the contracts. The gains and losses on these foreign currency derivatives are recorded to the consolidated statement of operations line item, in the current period, to which the item that is being economically hedged is recorded.

As of March 28, 2020, and December 28, 2019, the Company posted $0.9 million and 0.9 million, respectively, of collateral on its derivative instruments to cover potential credit risk exposure. This amount is classified as other long-term restricted cash on the accompanying consolidated balance sheets.

For the three months ended March 28, 2020 and March 30, 2019, the before-tax effect of the foreign currency exchange forward contracts was a net gain of $0.1 million and a net gain of $0.7 million, respectively, included in other gain (loss), net in the consolidated statements of operations. In each of these periods, the impact of the gross gains and losses was offset by foreign exchange rate fluctuations on the underlying foreign currency denominated amounts.

As of March 28, 2020, the Company did not designate foreign currency exchange forward contracts as hedges for accounting purposes and accordingly, changes in the fair value are recorded in the accompanying condensed consolidated statements of operations. These contracts were entered into with one high-quality institution and the Company consistently monitors the creditworthiness of the counterparties.

The fair value of derivative instruments not designated as hedging instruments in the Company's condensed consolidated balance sheets was as follows (in thousands):

| | As of March 28, 2020 | | As of December 28, 2019 | |
|---|---|---|---|---|
| | Gross Notional[(1)] | Other Accrued Liabilities | Gross Notional(1) | Other Accrued Liabilities |
| Foreign currency exchange forward contracts | | | | |
| Related to euro denominated receivables | $ 8,928 | $ (52) | $ 27,566 | $ (159) |
| | $ 8,928 | $ (52) | $ 27,566 | $ (159) |

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

***Accounts Receivable Factoring***

The Company sells certain designated trade account receivables based on factoring arrangements to a large international banking institution. Pursuant to the terms of the arrangements, the Company accounts for these transactions in accordance with ASC 860. The Company's factor purchases trade accounts receivables on a non-recourse basis and without any further obligations. Trade accounts receivables balances sold are removed from the consolidated balance sheets and cash received are reflected as cash provided by operating activities in the consolidated statements of cash flow. The difference between the fair value of the Company's trade receivables and the proceeds received is recorded as interest expense in the Company's consolidated statements of operations, and for the three months ended March 28, 2020 and March 30, 2019, the Company's recognized factoring related interest expense was approximately $0.1 million and $0.2 million. The gross amount of trade accounts receivables sold during the three months ended March 28, 2020 and March 30, 2019 totaled approximately $26.5 million and $24.4 million, respectively.

## 7. Goodwill and Intangible Assets

***Goodwill***

Goodwill is recorded when the purchase price of an acquisition exceeds the fair value of the net tangible and identified intangible assets acquired.

The following table presents details of the Company's goodwill during the three months ended March 28, 2020 (in thousands):

| | |
|---|---|
| Balance as of December 28, 2019 | $ 249,848 |
| Foreign currency translation adjustments | (10,436) |
| Balance as of March 28, 2020 | $ 239,412 |

The gross carrying amount of goodwill may change due to the effects of foreign currency fluctuations as a portion of these assets are denominated in foreign currency. To date, the Company has not recognized any impairment losses on goodwill.

***Intangible Assets***

The following tables present details of the Company's intangible assets as of March 28, 2020 and December 28, 2019 (in thousands, except for weighted average data):

| | March 28, 2020 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Weighted Average Remaining Useful Life (In Years) |
| Intangible assets with finite lives: | | | | |
| Trade names | $ 1,000 | $ (1,000) | $ — | NMF* |
| Customer relationships and backlog | 153,216 | (71,159) | 82,057 | 5.6 |
| Developed technology | 174,068 | (100,769) | 73,299 | 3.5 |
| Total intangible assets with finite lives | $ 328,284 | $ (172,928) | $ 155,356 | |

**NMF = Not meaningful*

| | December 28, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | | Accumulated Amortization | | Net Carrying Amount | | Weighted Average Remaining Useful Life (In Years) |
| Intangible assets with finite lives: | | | | | | | |
| Trade names | $ | 1,000 | $ | (1,000) | $ | — | NMF* |
| Customer relationships and backlog | | 155,942 | | (68,119) | | 87,823 | 5.8 |
| Developed technology | | 179,593 | | (97,070) | | 82,523 | 3.5 |
| Total intangible assets with finite lives | $ | 336,535 | $ | (166,189) | $ | 170,346 | |

**NMF = Not meaningful*

The gross carrying amount of intangible assets and the related amortization expense of intangible assets may change due to the effects of foreign currency fluctuations as a portion of these assets are denominated in foreign currency. Amortization expense was $13.1 million for the three months ended March 28, 2020 and was $15.3 million for the three months ended March 30, 2019.

Intangible assets are carried at cost less accumulated amortization. Amortization expenses are recorded to the appropriate cost and expense categories.

The following table summarizes the Company's estimated future amortization expense of intangible assets with finite lives as of March 28, 2020 (in thousands):

| | | Fiscal Years | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Remainder of 2020 | 2021 | 2022 | 2023 | 2024 | 2025 and Thereafter |
| Total future amortization expense | $ 155,356 | $ 33,596 | $ 34,904 | $ 32,417 | $ 26,662 | $ 11,983 | $ 15,794 |

## 8. Balance Sheet Details

### *Restricted Cash*

The Company's restricted cash balance is held in deposit accounts at various banks globally. These amounts primarily collateralize the Company's issuances of standby letters of credit and bank guarantees. The following table provides details of selected balance sheet items (in thousands):

| | March 28, 2020 | December 28, 2019 |
|---|---|---|
| **Inventory** | | |
| Raw materials | $ 49,992 | $ 47,474 |
| Work in process | 52,012 | 48,842 |
| Finished goods | 217,692 | 244,113 |
| Total inventory | $ 319,696 | $ 340,429 |
| **Property, plant and equipment, net** | | |
| Computer hardware | $ 33,179 | $ 36,086 |
| Computer software[(1)] | 45,124 | 45,428 |
| Laboratory and manufacturing equipment[(2)] | 314,701 | 313,081 |
| Land and building | 12,349 | 12,349 |
| Furniture and fixtures | 3,218 | 2,845 |
| Leasehold and building improvements[(3)] | 52,568 | 52,263 |
| Construction in progress | 37,148 | 27,946 |
| Subtotal | 498,287 | 489,998 |
| Less accumulated depreciation and amortization[(4)] | (349,472) | (339,205) |
| Total property, plant and equipment, net | $ 148,815 | $ 150,793 |
| **Accrued expenses and other current liabilities** | | |
| Loss contingency related to non-cancelable purchase commitments | $ 25,860 | $ 24,812 |
| Professional and other consulting fees | 14,218 | 12,296 |
| Taxes payable | 76,589 | 65,815 |
| Accrued rebate and customer prepay liability | 711 | 4,390 |
| Short-term operating lease liability | 18,054 | 18,106 |
| Short-term financing lease obligation | 1,693 | 1,380 |
| Restructuring accrual | 24,262 | 26,076 |
| Other accrued expenses and other current liabilities | 25,281 | 40,293 |
| Total accrued expenses | $ 186,668 | $ 193,168 |

(1) Included in computer software at March 28, 2020 and December 28, 2019 were $23.5 million and $23.3 million, respectively, related to enterprise resource planning ("ERP") systems that the Company implemented. The unamortized ERP costs at March 28, 2020 and December 28, 2019 were $10.8 million and $11.3 million, respectively.

(2) Included in laboratory and manufacturing equipment at March 28, 2020 was $2 million related to an equipment finance lease entered by the Company for a term of three years with an option to purchase at the end of the three-year term. The finance lease was recorded at $2 million using a discount rate of 8.2% and was included in property, plant and equipment, net.

(3) Included in leasehold improvements at March 28, 2020 was equipment finance lease entered by the Company for a term of five-years with an option to purchase at the end of five year term. The finance lease was recorded at $2.3 million using a discount rate of 5% and was included in property, plant and equipment, net.

(4) Depreciation expense was $12.3 million, which includes depreciation of capitalized ERP cost of $0.7 million for the three months ended March 28, 2020.

### 9. Restructuring and Related Costs

In December of 2018, the Company implemented a restructuring initiative (the "2018 Restructuring Plan") as part of a comprehensive review of the Company's operations and ongoing integration activities in order to optimize resources for future growth, improve efficiencies and address redundancies following the acquisition of Telecom Holding Parent LLC ("Coriant"), a privately held global supplier of open network solutions for the largest global network operators (the "Acquisition"). As part of the 2018 Restructuring Plan, the Company has made several changes it believes will help its research and development efficiency, with consolidation of its manufacturing and development sites, including closure of its Berlin, Germany site, reduction of headcount at its Munich, Germany site, process changes to leverage the Company's engineering and product line development resources across regions and prioritization of research and development initiatives. As of March 28, 2020, the Berlin and Munich initiatives have been substantially completed, with some remaining payments to be made in 2020. Additional restructuring initiatives may continue as the Company shifts to transformation initiatives.

In connection with the Acquisition, the Company assumed restructuring liabilities associated with Coriant's previous restructuring and reorganization plans consisting of termination benefits primarily comprised of severance payments. These costs are recorded at estimated fair value.

The following table presents restructuring and other related costs included in cost of revenue and operating expenses in the accompanying consolidated statements of operations under the 2018 Restructuring Plan, Coriant's previous restructuring and reorganization plans, and the Company's earlier restructuring initiatives (in thousands):

| | Three Months Ended March 28, 2020 | |
|---|---|---|
| | Cost of Revenue | Operating Expenses |
| Severance and related expenses | $ 1,102 | $ 2,630 |
| Lease related impairment charges | 44 | 2,945 |
| Asset impairment | 12 | 5 |
| Total | $ 1,158 | $ 5,580 |

| | Three Months Ended March 30, 2019 | |
|---|---|---|
| | Cost of Revenue | Operating Expenses |
| Severance and related expenses | $ 20,698 | $ 5,850 |
| Accelerated amortization of lease assets due to cease use | — | 11,338 |
| Asset impairment | 768 | — |
| Total | $ 21,466 | $ 17,188 |

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

| | December 28, 2019 | Charges | Cash | Non-cash Settlements and Other | March 28, 2020 |
|---|---|---|---|---|---|
| Severance and related expenses | $ 28,565 | $ 3,732 | $ (6,083) | $ (181) | $ 26,033 |
| Lease related impairment charges | — | 2,989 | (1,407) | (1,582) | — |
| Asset impairment | — | 17 | (28) | 11 | — |
| Others | 838 | — | (126) | (8) | 704 |
| Total | $ 29,403 | $ 6,738 | $ (7,644) | $ (1,760) | $ 26,737 |

As of March 28, 2020, the Company's restructuring liability was comprised of $26.0 million of severance and related expenses, of which $6.3 million is related to assumed restructuring liabilities associated with Coriant's previous restructuring and reorganization plans and is expected to be paid by 2022. The remaining $19.7 million is primarily related to the 2018 Restructuring Plan and is expected to be substantially paid by the end of 2020. The Company's restructuring liability as of March 28, 2020 also comprised of $0.7 million related to service agreements that were determined to have no future use. The Company expects the payments related to the service agreements to be fully paid by the second quarter of 2021. Other and non-cash settlements primarily include foreign exchange impact on settlement of restructuring liability and impairment of right of use asset.

## 10. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss includes certain changes in equity that are excluded from net loss. The following table sets forth the changes in accumulated other comprehensive income (loss) by component for the three months ended March 28, 2020 (in thousands):

| | Foreign Currency Translation | Accumulated Tax Effect | Actuarial Gain (Loss) on Pension | Total |
|---|---|---|---|---|
| Balance at December 28, 2019 | $ (28,308) | $ (964) | $ (5,367) | $ (34,639) |
| Other comprehensive loss before reclassifications | (11,106) | — | (807) | (11,913) |
| Amounts reclassified from accumulated other comprehensive loss | — | — | 413 | 413 |
| Net current-period other comprehensive loss | (11,106) | — | (394) | (11,500) |
| Balance at March 28, 2020 | $ (39,414) | $ (964) | $ (5,761) | $ (46,139) |

## 11. Basic and Diluted Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed using net loss and the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the assumed exercise of outstanding stock options, assumed release of outstanding restricted stock units (“RSUs”) and performance shares (referred to herein as the “PSUs”), and assumed issuance of common stock under the Company’s 2007 Employee Stock Purchase Plan (the “ESPP”) using the treasury stock method. Potentially dilutive common shares also include the assumed conversion of $402.5 million in aggregate principal amount of its 2.125% convertible senior notes due September 1, 2024 (the “2024 Notes”) from the conversion spread (as further discussed in Note 12, “Debt” to the Notes to Condensed Consolidated Financial Statements) and $200 million in aggregate principal amount of its 2.50% convertible senior notes due March 1, 2027 (the “2027 Notes”) from the conversion spread (as further discussed in Note 12, “Debt” to the Notes to Condensed Consolidated Financial Statements). The Company would include the dilutive effects of the 2024 Notes and 2027 Notes in the calculation of diluted net income per common share if the average market price is above the conversion price. Upon conversion of the 2024 Notes and 2027 Notes, it is the Company’s intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the 2024 Notes and 2027 Notes being converted, therefore, only the conversion spread relating to the 2024 Notes and 2027 Notes would be included in the Company’s diluted earnings per share calculation unless their effect is anti-dilutive. The Company includes the common shares underlying PSUs in the calculation of diluted net income per common share only when they become contingently issuable.

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

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Net loss | $ (99,268) | $ (121,601) |
| Weighted average common shares outstanding - basic and diluted | 182,024 | 176,406 |
| Net loss per common share - basic and diluted | $ (0.55) | $ (0.69) |

The Company incurred net losses during the three months ended March 28, 2020 and March 30, 2019, and as a result, potential common shares from stock options, RSUs, PSUs and the assumed release of outstanding shares under the ESPP were not included in the diluted shares used to calculate net loss per share, as their inclusion would have been anti-dilutive. Additionally, due to the net loss position during these periods, the Company excluded the potential shares issuable upon conversion of the 2024 Notes and the 2027 Notes in the calculation of diluted earnings per share as their inclusion would have been anti-dilutive.

The following sets forth the potentially dilutive shares excluded from the computation of the diluted net loss per share because their effect was anti-dilutive (in thousands):

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Stock options outstanding | 605 | 970 |
| Restricted stock units | 17,214 | 12,473 |
| Performance stock units | 4,057 | 2,599 |
| Employee stock purchase plan shares | 525 | 1,325 |
| Total | 22,401 | 17,367 |

## 12. Debt

### *2.50% Convertible Senior Notes due March 1, 2027*

In March 2020, the Company issued the 2027 Notes due on March 1, 2027, unless earlier repurchased, redeemed or converted. The 2027 Notes are governed by an indenture dated as of March 9, 2020 (the "2027 Indenture"), between the Company and U.S. Bank National Association, as trustee. The 2027 Notes are unsecured, and the 2027 Indenture does not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of the Company's other securities by the Company.

Interest is payable semi-annually in arrears on March 1 and September 1 of each year, commencing on September 1, 2020. The net proceeds to the Company were approximately $193.3 million after deducting initial purchasers' fee and other debt issuance costs. The Company intends to use the net proceeds for general corporate purposes, including working capital to fund growth and potential strategic projects.

Upon conversion, it is the Company's intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the 2027 Notes. For any remaining conversion obligation, the Company intends to pay or deliver, as the case may be, either cash, shares of its common stock, or a combination of cash and shares of its common stock, at the Company's election. The initial conversion rate is 130.5995 shares of common stock per $1,000 principal amount of 2027 Notes, subject to anti-dilution adjustments, which is equivalent to a conversion price of approximately $7.66 per share of common stock.

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

- during any fiscal quarter commencing after the fiscal quarter ended on June 27, 2020 (and only during such fiscal quarter) if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per $1,000 principal amount of 2027 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day;
- if the Company calls any or all of the 2027 Notes for redemption, such 2027 Notes called for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date;
- upon the occurrence of specified corporate events described under the Indenture, such as a consolidation, merger or binding share exchange; or

- at any time on or after December 1, 2026 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2027 Notes at any time, regardless of the foregoing circumstances.

If the Company undergoes a fundamental change as defined in the Indenture governing the 2027 Notes, holders may require the Company to repurchase for cash all or any portion of their 2027 Notes at a repurchase price equal to 100% of the principal amount of the 2027 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, upon the occurrence of a “make-whole fundamental change” (as defined in the Indenture), the Company may, in certain circumstances, be required to increase the conversion rate by a number of additional shares for a holder that elects to convert its 2027 Notes in connection with such make-whole fundamental change.

The net carrying amounts of the debt obligation were as follows (in thousands):

| | March 28, 2020 |
|---|---|
| Principal | $ 200,000 |
| Unamortized discount [(1)] | (69,694) |
| Unamortized issuance cost [(1)] | (4,300) |
| Net carrying amount | $ 126,006 |

(1) Unamortized debt conversion discount and issuance costs will be amortized over the remaining life of the 2027 Notes, which is approximately 83 months.

As of March 28, 2020, the carrying amount of the equity component of the 2027 Notes was $67.8 million.

In accounting for the issuance of the 2027 Notes, the Company separated the 2027 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the 2027 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount (“debt discount”) is amortized to interest expense over the term of the 2027 Notes.

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

The Company recorded a deferred tax liability of $16.2 million in connection with the issuance of the 2027 Notes, and a corresponding reduction in valuation allowance. The impact of both was recorded to stockholders' equity.

The Company determined that the embedded conversion option in the 2027 Notes does not require separate accounting treatment as a derivative instrument because it is both indexed to the Company’s own stock and would be classified in stockholders’ equity if freestanding.

The following table sets forth total interest expense recognized related to the 2027 Notes (in thousands):

| | Three Months Ended March 28, 2020 |
|---|---|
| Contractual interest expense | $ 274 |
| Amortization of debt issuance costs | 27 |
| Amortization of debt discount | 440 |
| Total interest expense | $ 741 |

For the three months ended March 28, 2020, the debt discount and debt issuance costs for the 2027 Notes were amortized, using an annual effective interest rate of 9.92%, to interest expense over the term of the 2027 Notes.

As of March 28, 2020, the fair value of the 2027 Notes was $178.3 million. The fair value was determined based on the quoted bid price of the 2027 Notes in an over-the-counter market on March 27, 2020 (the last trading day of the fiscal quarter). The 2027 Notes are classified as Level 2 of the fair value hierarchy.

Based on the closing price of the Company's common stock of $5.14 per share as reported on the Nasdaq Stock Market on March 27, 2020 (the last trading day of the fiscal quarter), the if-converted value of the 2027 Notes did not exceed their principal amount.

***Asset-based revolving credit facility***

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

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

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

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

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

In connection with the Credit Facility, the Company incurred lender and other third-party costs of approximately $4.9 million for the period ended December 28, 2019, which are recorded as a deferred asset and are amortized to interest expense using a straight-line method over the term of the Credit Facility. During the three months ended March 28, 2020, the Company recorded $0.3 million as amortization of deferred debt issuance cost, $1.1 million as contractual interest expense and related charges.

As of March 28, 2020, $85.0 million was outstanding under the Credit Facility, which was included in long-term debt and $0.4 million in expired interest which was included in accrued liabilities. As of March 28, 2020, the Company had availability of $50.8 million under the Credit Facility and had letters of credit outstanding of approximately $13.8 million.

***Finance Assistance Agreement***

During March 2019, the Company signed an agreement with a third-party contract manufacturer that governs the transfer of the activities from the legacy Coriant manufacturing facility in Berlin, Germany to a third-party contract manufacturer. Subsequently in May 2019, the Company entered into a financing assistance agreement with the contract manufacturer whereby the contract manufacturer agreed to provide funding of up to $40 million to cover severance, retention and other costs associated with the transfer. The funding is secured against certain foreign assets, carries a fixed interest rate of 6% and is repayable in 12 months from the date of each draw down. As of March 28, 2020, $31.3 million was outstanding, which was included in short-term debt.

***Mortgage Payable***

In March 2019, the Company mortgaged a property it owns. The Company received proceeds of $8.7 million in connection with the loan. The loan carries a fixed interest rate of 5.25% and is repayable in 59 equal monthly installments of approximately $0.1 million each with the remaining unpaid principal balance plus accrued unpaid interest due five years from the date of the loan. As of March 28, 2020, $8.3 million remained outstanding, of which $0.4 million was included in short-term debt and $7.9 million was included in long-term debt.

***2.125% Convertible Senior Notes due September 1, 2024***

In September 2018, the Company issued the 2024 Notes due on September 1, 2024, unless earlier repurchased, redeemed or converted. The 2024 Notes are governed by a base indenture dated as of September 11, 2018 and a first supplemental indenture dated as of September 11, 2018 (together, the “Indenture”), between the Company and U.S. Bank National Association, as trustee. The 2024 Notes are unsecured, and the Indenture does not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of the Company's other securities by the Company.

Interest is payable semi-annually in arrears on March 1 and September 1 of each year, which commenced on March 1, 2019. The net proceeds to the Company were approximately $391.4 million, of which approximately $48.9 million was used to pay the cost of the capped call transactions with certain financial institutions (“Capped Calls”). The Company also used a portion of the remaining net proceeds to fund the cash portion of the purchase price of the Acquisition, including fees and expenses relating thereto, and intends to use the remaining net proceeds for general corporate purposes.

The Capped Calls have an initial strike price of $9.87 per share, subject to certain adjustments, which corresponds to the initial conversion price of the 2024 Notes. The Capped Calls have initial cap prices of $15.19 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, 40.8 million shares of common stock. The capped call transactions are expected generally to reduce or offset potential dilution to the Company's common stock upon any conversion of the 2024 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 2024 Notes, as the case may be, with such reduction and/or offset subject to a cap. The Capped Calls expire on various dates between July 5, 2024 and August 29, 2024. The Capped Calls were recorded as a reduction of the Company’s stockholders’ equity in the accompanying condensed consolidated balance sheets.

Upon conversion, it is the Company’s intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the 2024 Notes. For any remaining conversion obligation, the Company intends to pay or deliver, as the case may be, either cash, shares of its common stock, or a combination of cash and shares of its common stock, at the Company’s election. The initial conversion rate is 101.2812 shares of common stock per $1,000 principal amount of 2024 Notes, subject to anti-dilution adjustments, which is equivalent to a conversion price of approximately $9.87 per share of common stock.

Throughout the term of the 2024 Notes, the conversion rate may be adjusted upon the occurrence of certain events, including for any cash dividends. Holders of the 2024 Notes will not receive any cash payment representing accrued and unpaid interest upon conversion of a 2024 Note. Accrued but unpaid interest will be deemed to be paid in full upon conversion rather than canceled, extinguished or forfeited. Prior to June 1, 2024, holders may convert their 2024 Notes under the following circumstances:

- during any fiscal quarter commencing after the fiscal quarter ended on December 29, 2018 (and only during such fiscal quarter) if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

- during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per $1,000 principal amount of 2024 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day;
- if the Company calls the 2024 Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date;
- upon the occurrence of specified corporate events described under the Indenture, such as a consolidation, merger or binding share exchange; or
- at any time on or after June 1, 2024 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2024 Notes at any time, regardless of the foregoing circumstances.

If the Company undergoes a fundamental change as defined in the Indenture governing the 2024 Notes, holders may require the Company to repurchase for cash all or any portion of their 2024 Notes at a repurchase price equal to 100% of the principal amount of the 2024 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, upon the occurrence of a “make-whole fundamental change” (as defined in the Indenture), the Company may, in certain circumstances, be required to increase the conversion rate by a number of additional shares for a holder that elects to convert its 2024 Notes in connection with such make-whole fundamental change.

The net carrying amounts of the debt obligation were as follows (in thousands):

| | March 28, 2020 | December 28, 2019 |
|---|---|---|
| Principal | $ 402,500 | $ 402,500 |
| Unamortized discount [(1)] | (104,972) | (109,652) |
| Unamortized issuance cost [(1)] | (6,852) | (7,158) |
| Net carrying amount | $ 290,676 | $ 285,690 |

[(1)] Unamortized debt conversion discount and issuance costs will be amortized over the remaining life of the 2024 Notes, which is approximately 54 months.

As of March 28, 2020, the carrying amount of the equity component of the 2024 Notes was $128.7 million.

In accounting for the issuance of the 2024 Notes, the Company separated the 2024 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the 2024 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount (“debt discount”) is amortized to interest expense over the term of the 2024 Notes.

The Company allocated the total issuance costs incurred to the liability and equity components of the 2024 Notes based on their relative values. Issuance costs attributable to the liability component were recorded as a reduction to the liability portion of the 2024 Notes and will be amortized as interest expense over the term of the 2024 Notes. The issuance costs attributable to the equity component were netted with the equity component in stockholders’ equity.

The Company recorded a deferred tax liability of $30.9 million in connection with the issuance of the 2024 Notes, and a corresponding reduction in valuation allowance. The impact of both was recorded to stockholders' equity.

The Company determined that the embedded conversion option in the 2024 Notes does not require separate accounting treatment as a derivative instrument because it is both indexed to the Company’s own stock and would be classified in stockholders’ equity if freestanding.

The following table sets forth total interest expense recognized related to the 2024 Notes (in thousands):

| | Three Months Ended March 28, 2020 |
|---|---|
| Contractual interest expense | $ 2,138 |
| Amortization of debt issuance costs | 306 |
| Amortization of debt discount | 4,680 |
| Total interest expense | $ 7,124 |

For the three months ended March 28, 2020, the debt discount and debt issuance costs were amortized, using an annual effective interest rate of 9.92%, to interest expense over the term of the 2024 Notes.

As of March 28, 2020, the fair value of the 2024 Notes was $334.1 million. The fair value was determined based on the quoted bid price of the 2024 Notes in an over-the-counter market on March 27, 2020 (the last trading day of the fiscal quarter). The 2024 Notes are classified as Level 2 of the fair value hierarchy.

Based on the closing price of the Company's common stock of $5.14 per share as reported on the Nasdaq Stock Market on March 27, 2020 (the last trading day of the fiscal quarter), the if-converted value of the 2024 Notes did not exceed their principal amount.

## 13. Commitments and Contingencies

| | | Payments Due by Period | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Remainder of 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter |
| | | (In thousands) | | | | | |
| Operating leases[1][2] | 110,898 | 18,987 | 18,691 | 15,245 | 12,054 | 10,066 | 35,855 |
| Financing lease obligations[3] | 4,088 | 1,557 | 1,199 | 930 | 402 | — | — |
| 2027 - Convertible senior notes, including interest[4] | 234,889 | 2,389 | 5,000 | 5,000 | 5,000 | 5,000 | 212,500 |
| 2024 - Convertible senior notes, including interest[4] | 440,989 | 4,277 | 8,553 | 8,553 | 8,553 | 411,053 | — |
| Asset backed loan[4] | 86,289 | 1,289 | — | — | — | 85,000 | — |
| Financing assistance agreement, including interest[4] | 32,278 | 32,278 | — | — | — | — | — |
| Mortgage Payable, including interest[4] | 9,879 | 631 | 841 | 841 | 842 | 6,724 | — |
| Total contractual obligations | $ 919,310 | $ 61,408 | $ 34,284 | $ 30,569 | $ 26,851 | $ 517,843 | $ 248,355 |

(1) The Company leases facilities under non-cancelable operating lease agreements. These leases have varying terms that range from one to 11 years. The Company has contractual commitments to remove leasehold improvements and return certain properties to a specified condition when the leases terminate. At the inception of a lease with such conditions, the Company records an asset retirement obligation liability and a corresponding capital asset in an amount equal to the estimated fair value of the obligation. Asset retirement obligations were $4.9 million and $4.7 million as of March 28, 2020 and December 28, 2019, respectively. These obligations are classified as other long-term liabilities on the accompanying consolidated balance sheets.

(2) The Company has two finance leases for manufacturing and other equipment.

(3) See Note 3, "Leases" to the Notes to Consolidated Financial Statements for more information.

(4) See Note 12, "Debt" to the Notes to Consolidated Financial Statements for more information.

***Legal Matters***

**Oyster Optics LLC I**

On November 23, 2016, Oyster Optics, LLP ("Oyster Optics") filed a complaint against the Company in the United States District Court for the Eastern District of Texas. The complaint asserts infringement of U.S. Patent Nos. 6,469,816, 6,476,952, 6,594,055, 7,099,592, 7,620,327 (the "'327 patent"), 8,374,511 (the "'511 patent") and 8,913,898 (the "'898 patent"). Collectively, the asserted patents are referred to herein as the "Oyster Optics patents in suit.” The complaint seeks unspecified damages and a permanent injunction. The Company filed its answer to Oyster Optics’ complaint on February 3, 2017. The Company filed two petitions for Inter Partes Review (“IPR”) of the ‘898 patent with the U.S. Patent and Trademark Office (“USPTO”). Other defendants have filed IPR petitions in connection with the remaining Oyster Optics patents in suit. The USPTO instituted two IPRs of the ‘511 patent and two IPRs of the ‘898 patent but denied IPR petitions in connection with the ‘327 patent.

A first Markman decision issued on December 5, 2017 and fact discovery closed on December 22, 2017. Oyster Optics dropped the ‘511 and ‘898 patents, leaving only a few claims in the ‘327 patent at issue in the case.

**Oyster Optics LLC II**

On May 15, 2018, Oyster Optics filed a second patent infringement complaint in the United States District Court for the Eastern District of Texas, naming the Company as a defendant. In its new complaint, Oyster Optics alleges infringement of the ‘327 patent, ‘898 patent and U.S. Patent No. 9,749,040. On June 8, 2018, the court granted the parties’ joint motion to sever and consolidate the first-filed lawsuit with the later filed case. The Company filed its answer to the new complaint on July 16, 2018. On October 26, 2018, the Company filed an amended answer to include a license defense based on a license agreement dated June 28, 2018 by and between Oyster Optics and several subsidiaries of Coriant (now one of the Company’s affiliated subsidiaries). The Company also filed a motion for summary judgment based on the license defense on November 29, 2018. On June 25, 2019, the court granted the Company’s motion for summary judgment and on June 28, 2019, the court entered a final judgment for the Company. On July 22, 2019, Oyster Optics filed an appeal of the court’s decision with the Court of Appeals for the Federal Circuit. Oyster filed its opening brief on November 20, 2019. The Company filed its responsive brief on January 29, 2020, and Oyster filed its reply brief on March 13, 2020. The Company believes that it does not infringe any valid and enforceable claim of the Oyster Optics patents in suit and intends to defend this action vigorously. The Company is currently unable to predict the outcome of this litigation at this time and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

**Oyster Optics LLC III**

On July 29, 2019, Oyster Optics filed a third complaint against the Company, Coriant (USA) Inc., Coriant North America, LLC and Coriant Operations, Inc. in the United States District Court for the Eastern District of Texas. The complaint asserts infringement of U.S. Patent No. 6,665,500 (the “Oyster III patent in suit”). The complaint seeks unspecified damages and a permanent injunction. On October 7, 2019, the Company filed its answer to the complaint asserting among other things, counterclaims and defenses based on non-infringement, invalidity, and a license to the Oyster III patent in suit. On October 28, 2019, Oyster filed an amended complaint. On December 3, 2019, the Company filed a motion to dismiss certain claims based on certain allegations made by Oyster in their amended complaint. On December 27, 2019, the Company filed petitions IPR petitions with the USPTO, in which the Company requested the USPTO to invalidate the asserted claims of the Oyster III patent in suit, and the Company filed on January 17, 2020, a motion to stay to the this case pending a decision of the validity of the Oyster III patent in suit by the USPTO. Oyster Optics submitted its response to the Company’s IPR petitions on April 13, 2020, and the Company filed its answer to Oyster’s amended complaint on April 14, 2020. The Company believes that it does not infringe any valid and enforceable claim of the Oyster III patent in suit and intends to defend this action vigorously. The Company is unable to predict the outcome of this litigation at this time and therefore cannot reasonably estimate the possible loss or range of loss, if any, arising from this matter.

**Civil Investigative Demand**

On June 8, 2017, a Civil Investigative Demand was issued to Coriant pursuant to a False Claims Act investigation by the U.S. government as to whether there has been any violation of 31 U.S.C. §3729. Coriant provided documents and other responses to the U.S. government, and the Company will continue to cooperate in the ongoing investigation.

**Capella Photonics, Inc.**

On March 17, 2020, Capella Photonics, Inc. ("Capella") filed a complaint in the U.S. District Court for the Eastern District of Texas against the Company, Tellabs, Inc., Coriant Operations, Inc., Coriant America Inc., and Coriant (USA) Inc.), alleging infringement of Capella U.S. Reissue Patent Nos. RE47,905 and RE47,906 (the "Capella Patents," which are reissued versions of the patents Capella previously asserted in a prior lawsuit). The complaint alleges infringement of the Capella Patents against certain legacy Coriant platforms. The complaint seeks unspecified damages and a permanent injunction. The Company believes that it does not infringe any valid and enforceable claim of the Capella Patents, and intends to defend this action vigorously. Because this action is in the early stages, the Company is unable to predict the outcome of this litigation at this time and therefore cannot reasonably estimate the possible loss or range of loss, if any, arising from this matter.

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

***Loss Contingencies***

The Company is subject to the possibility of various losses arising in the ordinary course of business. These may relate to disputes, litigation and other legal actions. In the preparation of its quarterly and annual financial statements, the Company considers the likelihood of loss or the incurrence of a liability, including whether it is probable, reasonably possible or remote that a liability has been incurred, as well as the Company's ability to reasonably estimate the amount of loss, in determining loss contingencies. In accordance with U.S. GAAP, an estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company regularly evaluates current information to determine whether any accruals should be adjusted and whether new accruals are required. As of March 28, 2020 and December 28, 2019, the Company has accrued the estimated liabilities associated with certain loss contingencies.

***Indemnification Obligations***

From time to time, the Company enters into certain types of contracts that contingently require it to indemnify parties against third-party claims. The terms of such indemnification obligations vary. These contracts may relate to: (i) certain real estate leases under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; and (ii) certain agreements with the Company's officers, directors and certain key employees, under which the Company may be required to indemnify such persons for liabilities.

In addition, the Company has agreed to indemnify certain customers for claims made against the Company's products, where such claims allege infringement of third-party intellectual property rights, including, but not limited to, patents, registered trademarks, and/or copyrights. Under the aforementioned intellectual property indemnification clauses, the Company may be obligated to defend the customer and pay for the damages awarded against the customer under an infringement claim as well as the customer's attorneys' fees and costs. These indemnification obligations generally do not expire after termination or expiration of the agreement containing the indemnification obligation. In certain cases, there are limits on and exceptions to the Company's potential liability for indemnification. The Company cannot estimate the amount of potential future payments, if any, that it might be required to make as a result of these agreements. The maximum potential amount of any future payments that the Company could be required to make under these indemnification obligations could be significant.

As permitted under Delaware law and the Company's charter and bylaws, the Company has agreements whereby it indemnifies certain of its officers and each of its directors. The term of the indemnification period is for the officer's or director's lifetime for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements could be significant; however, the Company has a director and officer insurance policy that may reduce its exposure and enable it to recover all or a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal.

## 14. Stockholders' Equity

***2007 Equity Incentive Plan, 2016 Equity Incentive Plan, 2019 Inducement Equity Incentive Plan and Employee Stock Purchase Plan***

In February 2007, the Company's board of directors adopted the 2007 Equity Incentive Plan (the "2007 Plan") and the Company's stockholders approved the 2007 Plan in May 2007. The Company reserved a total of 46.8 million shares of common stock for issuance under the 2007 Plan. Upon stockholder approval of the 2016 Equity Incentive Plan (the "2016 Plan"), the Company has ceased granting equity awards under the 2007 Plan, however the 2007 Plan will continue to govern the terms and conditions of the outstanding options and awards previously granted under the 2007 Plan. As of March 28, 2020, options to purchase 0.6 million shares of the Company's common stock were outstanding and 0.2 million RSUs were outstanding under the 2007 Plan.

In February 2016, the Company's board of directors adopted the 2016 Plan and the Company's stockholders approved the 2016 Plan in May 2016. In May 2018 and May 2019 respectively, the Company's stockholders approved an amendment to the 2016 Plan to increase the number of shares authorized for issuance under the 2016 Plan by 1.5 million shares and 7.3 million shares. As of March 28, 2020, the Company reserved a total of 22.7 million shares of common stock for the award of stock options, RSUs and PSUs to employees, non-employees, consultants and members of the Company's board of directors, pursuant to the 2016 Plan, plus any shares subject to awards granted under the 2007 Plan that, after the effective date of the 2016 Plan, expire, are forfeited or otherwise terminate without having been exercised in full to the extent such awards were exercisable, and shares issued pursuant to awards granted under the 2007 Plan that, after the effective date of the 2016 Plan, are forfeited to or repurchased by the Company due to failure to vest. The 2016 Plan has a maximum term of 10 years from the date of adoption, or it can be earlier terminated by the Company's board of directors. The 2007 Plan was canceled; however, it continues to govern outstanding grants under the 2007 Plan.

The ESPP was adopted by the board of directors in February 2007 and approved by the stockholders in May 2007. The ESPP was last amended by the stockholders in May 2019 to increase the shares authorized under the ESPP to a total of approximately 31.6 million shares of common stock. The ESPP has a 20-year term. Eligible employees may purchase the Company's common stock through payroll deductions at a price equal to 85% of the lower of the fair market values of the stock as of the beginning or the end of six-month offering periods. An employee's payroll deductions under the ESPP are limited to 15% of the employee's compensation and employees may not purchase more than 3,000 shares per purchase period and $25,000 of stock during any calendar year.

***Stock-based Compensation Plans***

The Company has stock-based compensation plans pursuant to which the Company has granted stock options, RSUs and PSUs. The Company also has an ESPP for all eligible employees.

The following tables summarize the Company's equity award activity and related information (in thousands, except per share data):

| | Number of Stock Options | Weighted Average Exercise Price Per Share | Aggregate Intrinsic Value |
|---|---|---|---|
| Outstanding at December 28, 2019 | 730 | $ 8.41 | $ — |
| Options granted | — | $ — | |
| Options exercised | — | $ — | $ — |
| Options canceled | (125) | $ 8.81 | |
| Outstanding at March 28, 2020 | 605 | $ 8.33 | $ — |
| Exercisable at March 28, 2020 | 605 | $ 8.33 | |

| | Number of Restricted Stock Units | Weighted Average Grant Date Fair Value Per Share | Aggregate Intrinsic Value |
|---|---|---|---|
| Outstanding at December 28, 2019 | 11,600 | $ 6.20 | $ 90,254 |
| RSUs granted | 5,978 | $ 5.90 | |
| RSUs released | (165) | $ 7.45 | $ 848 |
| RSUs canceled | (200) | $ 6.87 | |
| Outstanding at March 28, 2020 | 17,213 | $ 6.08 | $ 88,478 |

| | Number of Performance Stock Units | | Weighted Average Grant Date Fair Value Per Share | | Aggregate Intrinsic Value |
|---|---|---|---|---|---|
| Outstanding at December 28, 2019 | 2,505 | $ | 6.48 | $ | 19,485 |
| PSUs granted | 1,628 | $ | 5.89 | | |
| PSUs released | (60) | $ | 4.98 | $ | 308 |
| PSUs canceled | (16) | $ | 5.19 | | |
| Outstanding at March 28, 2020 | 4,057 | $ | 5.77 | $ | 20,853 |
| Expected to vest at March 28, 2020 | 3,946 | | | $ | 20,282 |

The aggregate intrinsic value of unexercised stock options is calculated as the difference between the closing price of the Company’s common stock of $5.14 at March 27, 2020 (the last trading day of the fiscal quarter) 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.

The aggregate intrinsic value of unreleased RSUs and unreleased PSUs is calculated using the closing price of the Company's common stock of $5.14 at March 27, 2020 (the last trading day of the fiscal quarter). 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, 2020. 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 data):

| | | Unrecognized Compensation Expense, Net | Weighted Average Period (in Years) |
|---|---|---|---|
| RSUs | $ | 76,045 | 2.40 |
| PSUs | $ | 15,416 | 2.69 |

***Employee Stock Options***

The Company did not grant any stock options during the three months ended March 28, 2020. Amortization of stock-based compensation related to stock options in the three months ended March 28, 2020 and the corresponding period in 2019 was insignificant.

***Employee Stock Purchase Plan***

The fair value of the ESPP shares was estimated at the date of grant using the following assumptions:

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Volatility | 42% | 72% |
| Risk-free interest rate | 1.56% | 2.48% |
| Expected life | 0.5 years | 0.5 years |
| Estimated fair value | $2.17 | $1.77 |
| Total stock-based compensation expense | $1,513 | $1,316 |

***Restricted Stock Units***

Pursuant to the 2016 Plan, the Company has granted RSUs to employees and non-employee members of the Company's board of directors to receive shares of the Company’s common stock. All RSUs awarded are subject to each individual's continued service to the Company through each applicable vesting date. The Company accounted for the fair value of the RSUs using the closing market price of the Company’s common stock on the date of grant. Amortization of stock-based compensation related to RSUs for the three months ended March 28, 2020 and for the three months ended March 30, 2019 was approximately $8.3 million and $6.0 million, respectively.

***Performance Stock Units***

Pursuant to the 2016 Plan, the Company has granted PSUs to certain of the Company's executive officers, senior management and certain employees. All PSUs awarded are subject to each individual's continued service to the Company through each applicable vesting date and if the performance metrics are not met within the time limits specified in the award agreements, the PSUs will be canceled.

PSUs granted to the Company's executive officers and senior management under the 2016 Plan during 2017 and the first half of 2018 are based on the TSR of the Company's common stock price relative to the TSR of the individual companies listed in the S&P North American Technology Multimedia Networking Index ("SPGIIPTR") over the span of one year, two years and three years. The number of shares to be issued upon vesting of these PSUs range from zero to two times the target number of PSUs granted depending on the Company's performance against the individual companies listed in the SPGIIPTR.

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

| | 2018 | 2017 |
|---|---|---|
| Index volatility | 33% | 33% - 34% |
| Infinera volatility | 58% - 59% | 55% - 56% |
| Risk-free interest rate | 2.37% - 2.40% | 1.41% - 1.63% |
| Correlation with index/index component | 0.04 - 0.48 | 0.10 - 0.49 |
| Estimated fair value | $14.99 - $19.46 | $15.23 - $17.35 |

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

In addition, in 2019, one of the Company's executive officers was awarded a PSU that will be eligible to vest if the market price condition is met. The assumptions used in calculating the estimated values of this award granted in fiscal 2019 were based upon Monte Carlo Model Assumptions and estimates as follows:

| | 2019 |
|---|---|
| Index volatility | N/A |
| Infinera volatility | 64% - 68% |
| Risk-free interest rate | 2.17% - 2.48% |
| Correlation with index/index component | N/A |
| Estimated fair value | $2.08 - $2.89 |

The following table summarizes by grant year, the Company's PSU activity for the three months ended March 28, 2020 (in thousands):

| | Total Number of Performance Stock Units | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Outstanding at December 28, 2019 | 2,505 | 199 | 270 | 2,036 | — |
| PSUs granted | 1,628 | — | — | — | 1,628 |
| PSUs released | (60) | — | — | (60) | — |
| PSUs canceled | (16) | (1) | — | (15) | — |
| Outstanding at March 28, 2020 | 4,057 | 198 | 270 | 1,961 | 1,628 |

Amortization of stock-based compensation expense related to PSUs for the three months ended March 28, 2020 and for the three months ended March 30, 2019 was approximately $1.6 million and $1.7 million, respectively.

***Stock-Based Compensation***

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

| | March 28, 2020 | December 28, 2019 |
|---|---|---|
| Stock-based compensation effects in inventory | $ 4,506 | $ 4,798 |

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Stock-based compensation effects included in net loss before income taxes | | |
| Cost of revenue | $ 624 | $ 538 |
| Research and development | 3,774 | 3,603 |
| Sales and marketing | 2,644 | 1,547 |
| General and administration | 3,183 | 2,235 |
| | 10,225 | 7,923 |
| Cost of revenue – amortization from balance sheet (1) | 1,478 | 790 |
| Total stock-based compensation expense | $ 11,703 | $ 8,713 |

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

## 15. Income Taxes

Income taxes for the three months ended March 28, 2020 represented a tax expense of $0.9 million, on pre-tax losses of $98.3 million. This compared to a tax expense of $0.2 million, on pre-tax losses of $121.4 million for the three months ended March 30, 2019. Provision for income taxes increased by approximately $0.7 million during the three months ended March 28, 2020, as a result of additional foreign tax expense.

The Company must assess the likelihood that some portion or all of its deferred tax assets will be recovered from future taxable income within the respective jurisdictions. In the past, the Company established a valuation allowance against its deferred tax assets as it determined that its ability to recover the value of these assets did not meet the “more-likely-than-not” standard. 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 on an on-going basis to determine whether it needs to maintain the valuation allowance recorded against its net deferred tax assets. The Company must consider all positive and negative evidence, including its 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 valuation allowance against its net U.S. deferred tax assets. At March 28, 2020, the Company does not believe that it is more-likely-than-not that it would be able to utilize its domestic deferred tax assets in the foreseeable future. Accordingly, the domestic net deferred tax assets continued to be fully reserved with a valuation allowance. To the extent that the Company determines that deferred tax assets are realizable on a more-likely-than-not basis, and adjustment is needed, that adjustment will be recorded in the period that the determination is made and would generally decrease the valuation allowance and record a corresponding benefit to earnings.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted and signed into law. The CARES Act includes several provisions for corporations including increasing the amount of deductible interest, allowing companies to carryback certain Net Operating Losses (“NOLs”) and increasing the amount of NOLs that corporations can use to offset income. The CARES Act did not have a material impact on the Company's provision for income taxes for the three month ended March 28, 2020.

## 16. Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Company's Chief Executive Officer ("the CEO"). The CEO reviews financial information presented on a consolidated basis, accompanied by information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. The Company has one business activity as a provider of optical transport networking equipment, software and services. Accordingly, the Company is considered to be in a single reporting segment and operating unit structure.

Revenue by geographic region is based on the shipping address of the customer. The following tables set forth long-lived assets by geographic region (in thousands):

| | March 28, 2020 | December 28, 2019 |
|---|---|---|
| United States | $ 118,694 | $ 118,656 |
| Other Americas | 2,520 | 2,798 |
| Europe, Middle East and Africa | 21,395 | 21,536 |
| Asia Pacific and Japan | 6,206 | 7,803 |
| Total property, plant and equipment, net | $ 148,815 | $ 150,793 |

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

## 17. Guarantees

***Product Warranties***

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

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Beginning balance | $ 43,348 | $ 41,021 |
| Charges to operations | 6,312 | 5,420 |
| Utilization | (8,335) | (5,803) |
| Change in estimate[1] | (1,863) | (887) |
| Balance at the end of the period | $ 39,462 | $ 39,751 |

(1) The Company records product warranty liabilities based on the latest quality and cost information available as of the date the revenue is recorded. The changes in estimate shown here are due to changes in overall actual failure rates, the mix of new versus used units related to replacement of failed units, and changes in the estimated cost of repair including product recalls. As the Company's products mature over time, failure rates and repair costs associated with such products generally decline leading to favorable changes in warranty reserves.

***Letters of Credit and Bank Guarantees***

The Company had $35.7 million of standby letters of credit and bank guarantees outstanding as of March 28, 2020 that consisted of $22.8 million related to customer performance guarantees, $0.3 million related to value added tax and customs licenses, $5.9 million related to property leases, $6.1 million related to restructuring plans, $0.5 million related to credit cards and $0.1 million related to suppliers. The Company had $27.9 million of standby letters of credit and bank guarantees outstanding as of December 28, 2019 that consisted of $14.2 million related to customer performance guarantees, $0.4 million related to a value added tax license, $5.9 million related to property leases, $6.8 million related to Coriant's pre-Acquisition restructuring plans, $0.5 million related to credit cards and $0.1 million for other liabilities.

As of March 28, 2020 and December 28, 2019, the Company had a Credit Facility, which included a $50 million letter of credit sub-facility, pursuant to which letters of credit in the amount of $13.8 million and $4.1 million had been issued and outstanding for both periods, respectively. Approximately $185.4 million and $180.9 million of assets of certain Company subsidiaries have been pledged to secure this Credit Facility and other obligations as of March 28, 2020 and December 28, 2019, respectively.

## 18. Pension and Post-Retirement Benefit Plans

As a result of the Acquisition, the Company acquired a number of post-employment plans in Germany, as well as a number of smaller post-employment plans in other countries, including both defined contribution and defined benefit plans. The defined benefit plans expose the Company to actuarial risks such as, investment risk, interest rate risk, life expectancy risk and salary risk. The characteristics of the defined benefit plans and the risks associated with them vary depending on legal, fiscal and economic requirements.

***Components of Net Periodic Benefit Cost***

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

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| Service cost | $ 352 | $ 356 |
| Interest cost | 365 | 371 |
| Expected return on plan assets | (669) | (604) |
| Amortization of actuarial loss | 413 | 418 |
| Total net periodic benefit cost | $ 461 | $ 541 |

The components of net periodic benefit costs other than the service cost component are included in Interest and other, net, in the Company's condensed consolidated statements of operations.

Actuarial gains and losses are amortized using a corridor approach. The gain/loss corridor is equal to 10% of the greater of the pension benefit obligation and the market-related value of assets. Gains and losses in excess of the corridor are generally amortized over the average future working lifetime of the pension plan participants. All components of net periodic benefit cost are recorded in operating expense of the Company's condensed consolidated statements of operations.

## Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

### Note Regarding Forward-Looking Statements

*This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve risks, estimates and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include, but are not limited to, our expectations regarding revenue, gross margin, operating expenses, cash flows and other financial items; the severity, magnitude, duration and effects of the novel coronavirus ("COVID-19") pandemic; the extent to which the COVID-19 pandemic and related impacts will materially and adversely affect our business operations, financial performance, results of operations, financial position or achievement of strategic objectives, including in the second quarter of 2020; any statements of the plans, strategies and objectives of management for future operations and personnel; statements regarding the acquisition of Telecom Holding Parent LLC ("Coriant"), a privately held global supplier of open network solutions for the largest global network operators (the "Acquisition"); the impact of new customer network footprint on our gross margin; statements regarding our enterprise resource planning ("ERP") systems; the effects of seasonal patterns in our business; factors that may affect our operating results; our ability to leverage our vertically-integrated manufacturing infrastructure; anticipated customer acceptance of our solutions; statements concerning new products or services, including new product features; statements related to capital expenditures; statements related to working capital and liquidity; statements related to future economic conditions, performance, market growth or our sales cycle; our ability to identify, attract and retain highly skilled personnel; statements related to our convertible senior notes and credit facility; statements related to the impact of tax regulations; statements related to the effects of litigation on our financial position, results of operations or cash flows; statements related to factors beyond our control such as natural disasters, acts of war or terrorism, epidemics and pandemics, statements related to new accounting standards; statements as to industry trends and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. These statements are often identified using of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "possible," "predict" or "will," and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in Part II, Item 1A. of this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the fiscal year ended December 28, 2019 filed on March 4, 2020. 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. You should review these risk factors for a more complete understanding of the risks associated with an investment in our securities. 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 are a global supplier of networking solutions comprised of networking equipment, software and services. Our portfolio of solutions includes optical transport platforms, converged packet-optical transport platforms, optical line systems, disaggregated router platforms, and a suite of networking and automation software offerings, and support and professional services.

Our customers include telecommunications service providers, internet content providers ("ICPs"), cable providers, wholesale carriers, research and education institutions, large enterprises and government entities. Our networking solutions enable our customers to deliver business and consumer communications services. Our comprehensive portfolio of networking solutions also enables our customers to scale their transport networks as end-user services and applications continue to drive growth in demand for network bandwidth. These end-user services and applications include, but are not limited to, high-speed internet access, business Ethernet services, 4G/5G mobile broadband, cloud-based services, high-definition video streaming services, virtual and augmented reality and the Internet of Things.

Our systems are highly scalable, flexible and designed with open networking principles for ease of deployment. We build our systems using a combination of internally manufactured and third-party components. Our portfolio includes systems that leverage our innovative optical engine technology, comprised of largescale photonic integrated circuits ("PICs") and digital signal processors ("DSPs"). We optimize the manufacturing process by using indium phosphide to build our PICs, which enables the integration of hundreds of optical functions onto a set of semiconductor chips. This large-scale integration of our PICs and advanced DSPs allows us to deliver high-performance transport networking platforms with features that customers care about the most, including low cost per bit, low power consumption and space savings. In addition, we design our optical engines to increase the capacity and reach performance of our products by leveraging coherent optical transmission. We believe our vertical integration strategy becomes increasingly more valuable as our customers transition to 800 gigabits per second ("Gb/s") per wavelength transmission speeds and beyond, as the combination of our optical integration, DSP, and tightly integrated packaging enables a leading optical performance at higher optical speeds. Over time, we plan to integrate our optical engine technology into a broader set of transport platforms in order to enhance customer value and lower production costs.

Over the past several years, we expanded our portfolio of solutions, evolving from our initial focus on the long-haul and subsea optical transport markets to offering a more complete suite of packet-optical networking solutions that address multiple markets within the end-to-end transport infrastructure. These markets include metro access, metro aggregation and switching, and data center interconnect ("DCI"), and long-haul and subsea transport.

We have grown our portfolio through internal development as well as acquisitions. In 2014, we introduced the Infinera Cloud Xpress to address the emerging DCI market opportunity. In 2015, we entered the metro market with the acquisition of Transmode AB. In October 2018, we expanded our product portfolio and customer base by acquiring Coriant, which has helped position us as one of the largest providers of vertically integrated transport networking solutions in the world and enhanced our ability to serve a global customer base and accelerate the delivery of the innovative solutions our customers demand. Acquiring Coriant has also enabled us to expand the breadth of customer applications we can address, including metro aggregation and switching, disaggregated routing, and software-enabled multi-layer network management and control.

Our high-speed optical transport platforms are differentiated by the Infinite Capacity Engine ("ICE"), our optical engine technology. ICE enables different subsystems that can be customized for a variety of network applications in different transport markets, including metro, DCI, long-haul and subsea. Our latest generation of available optical engine technology delivers multi-terabit opto-electronic subsystems powered by our fourth-generation PIC and latest generation FlexCoherent DSP (the combination of which we market as "ICE4").

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

Our products are designed to be managed by a suite of software solutions that enable end-to-end common network management, multi-layer service orchestration, and automated operations. We also provide software-enabled programmability that offers differentiated capabilities such as Instant Bandwidth. Combined with our differentiated hardware solutions, Instant Bandwidth enables our customers to purchase and activate bandwidth as needed through our unique software licensing feature set. This, in turn, allows our customers to accomplish two key objectives: (1) limit their initial network startup costs and investments; and (2) instantly activate new bandwidth as their customers' and their own network needs evolve.

We believe our end-to-end portfolio of solutions benefits our customers by providing a unique combination of highly scalable capacity and features that address various applications and ultimately simplify and automate packet-optical network operations.

To date, a few of our customers have accounted for a significant portion of our revenue. For the three months ended March 28, 2020, one customer accounted for 11% of our total revenue and for the corresponding period in 2019, the same customer accounted for 11% of our total revenue.

We are headquartered in Sunnyvale, California, with employees located throughout (i) the United States and Canada ("North America"); (ii) Latin America and South America; (iii) Europe, Middle East and Africa ("EMEA");

and (iv) Asia Pacific and Japan (“APAC”), including China. We sell our products both through our direct sales force and indirectly through channel partners.

**COVID-19**

We have taken a number of precautionary steps to safeguard our business and our employees from the effects of the outbreak of COVID-19, including temporarily closing or substantially limiting the presence of personnel in our offices in several impacted locations, implementing travel restrictions and withdrawing from various industry events. In addition, we have instituted a work-from-home policy that requires most of our employees to work from home and implemented certain business continuity plans in order to minimize any potential business disruption, protect our employees and protect our supply chain and operations. As a result of the spread of COVID-19, we have also experienced some disruption and delays in our supply chain, customer demand, and logistics challenges, including certain limitations on our ability to access customer fulfillment and service sites. We expect these existing conditions to have a minimal adverse impact on our revenue and results of operations for the second quarter of fiscal 2020 and, possibly, an additional adverse impact in future quarters during the current fiscal year. We are monitoring the situation and actively assessing further possible implications to our business, supply chain and customer demand.

**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.

An accounting policy is deemed to be critical if it requires a significant 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 three months ended March 28, 2020 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 28, 2019.

Due to the COVID-19 pandemic, there has been uncertainty and disruption in the global economy and financial markets. We are not aware of any specific event or circumstance that would require updates to our estimates or judgments or require us to revise the carrying value of our assets or liabilities as of the date we filed this Quarterly Report on Form 10-Q. These estimates may change as new events occur and additional information is obtained. Actual results could differ from these estimates under different assumptions or conditions.

**Results of Operations**

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

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | March 28, 2020 | | March 30, 2019 | | | |
| | Amount | % of total revenue | Amount | % of total revenue | Change | % Change |
| Revenue: | | | | | | |
| Product | $ 255,192 | 77% | $ 223,007 | 76% | $ 32,185 | 14 % |
| Services | 75,081 | 23% | 69,700 | 24% | 5,381 | 8 % |
| Total revenue | $ 330,273 | 100% | $ 292,707 | 100% | $ 37,566 | 13 % |
| Cost of revenue: | | | | | | |
| Product | $ 201,792 | 61% | $ 157,817 | 54% | $ 43,975 | 28 % |
| Services | 40,695 | 12% | 36,676 | 12% | 4,019 | 11 % |
| Amortization of intangible assets | 8,628 | 3% | 8,252 | 3% | 376 | 5 % |
| Acquisition and integration costs | 1,035 | —% | 2,064 | 1% | (1,029) | (50)% |
| Restructuring and related | 1,157 | —% | 21,466 | 7% | (20,309) | (95)% |
| Total cost of revenue | $ 253,307 | 76% | $ 226,275 | 77% | $ 27,032 | 12 % |
| Gross profit | $ 76,966 | 23.3% | $ 66,432 | 22.7% | $ 10,534 | 16 % |

*Revenue*

Total product revenue increased by $32.2 million, or 14%, during the three months ended March 28, 2020 compared to the corresponding period in 2019. The increase was primarily driven by growth from large ICP customers and growth in our Tier 1 service provider business, driven by large subsea deployments in APAC. This increase was partially offset by a revenue decline from our Cable vertical.

Total services revenue increased by $5.4 million, or 8%, during the three months ended March 28, 2020 compared to the corresponding period in 2019. This increase was predominantly due to strong services renewal bookings at the end of fiscal 2019, and partially offset by lower professional services revenue from our Cable vertical.

We expect our total revenue will be stable to slightly lower in the second quarter of 2020 as compared to the first quarter of 2020. In the second quarter of 2020, our expectation is that revenue from Tier 1 and other service provider customers should be slightly up sequentially and revenue from ICPs should slightly decline.

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

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | March 28, 2020 | | March 30, 2019 | | | |
| | Amount | % of total revenue | Amount | % of total revenue | Change | % Change |
| Total revenue by geography: | | | | | | |
| Domestic | $ 170,526 | 52% | $ 132,522 | 45% | $ 38,004 | 29 % |
| International | 159,747 | 48% | 160,185 | 55% | (438) | — % |
| | $ 330,273 | 100% | $ 292,707 | 100% | $ 37,566 | 13 % |
| Total revenue by sales channel: | | | | | | |
| Direct | $ 244,351 | 74% | $ 248,196 | 85% | $ (3,845) | (2)% |
| Indirect | 85,922 | 26% | 44,511 | 15% | 41,411 | 93 % |
| | $ 330,273 | 100% | $ 292,707 | 100% | $ 37,566 | 13 % |

Domestic revenue increased by $38.0 million, or 29%, during the three months ended March 28, 2020 compared to the corresponding period in 2019. This increase was primarily attributable to strong growth from US-based ICPs and partially offset by slower spend from our historically largest Cable customer.

International revenue decreased by $0.4 million during the three months ended March 28, 2020 compared to the corresponding period in 2019. This decrease was attributable to seasonally weaker results from our largest cable customer and a large Tier 1 customer in the EMEA region and nearly offset by growth from a large subsea deployment in APAC.

*Cost of Revenue and Gross Margin*

Gross profit was $77.0 million during the three months ended March 28, 2020, with gross margin increasing to 23.3% versus 22.7% in the corresponding period in 2019. A significant reduction in restructuring-related costs was partially offset by higher product and services costs stemming from a less favorable customer mix. A meaningful portion of revenue in the quarter represented initially lower margin footprint revenue from customers where we expect margins will improve over time as additional capacity is added to deployed networks and from implementation of new technologies that are more cost-effective for us.

We currently expect that gross margin in the second quarter of 2020 will improve as compared to the first quarter of 2020. We believe this improvement will be driven primarily by improved customer mix and from expected benefits from a continued focus on lowering our overall cost structure. Over time, we anticipate gross margin will improve and we remain committed to driving cost synergies while expanding vertical integration of our optical chips across a broad mix of our products.

*Amortization of Intangible Assets*

Amortization of intangible assets increased by an immaterial amount of $0.4 million during the three months ended March 28, 2020 compared to the corresponding period in 2019 due to capitalization of in-process technology to developed technology in the fourth quarter of 2019.

*Acquisition and Integration Costs*

Integration costs, within cost of revenue, decreased by $1.0 million during the three months ended March 28, 2020 compared to the corresponding period in 2019 primarily due to reduction in vendor-related integration costs.

*Restructuring and Related*

During the three months ended March 28, 2020, within cost of revenue, we incurred $1.2 million in restructuring and related costs, including $1.1 million of severance and related costs. These charges were primarily associated with the reduction of headcount at our Munich, Germany site. See Note 9, “Restructuring and Related Costs” to the Notes to Condensed Consolidated Financial Statements for more information.

*Operating Expenses*

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

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | March 28, 2020 | | March 30, 2019 | | | |
| | Amount | % of total revenue | Amount | % of total revenue | Change | % Change |
| Operating expenses: | | | | | | |
| Research and development | $ 68,180 | 21% | $ 73,660 | 25% | $ (5,480) | (7)% |
| Sales and marketing | 36,689 | 11% | 40,037 | 14% | (3,348) | (8) % |
| General and administrative | 29,620 | 9% | 33,044 | 12% | (3,424) | (10) % |
| Amortization of intangible assets | 4,555 | 1% | 7,057 | 2% | (2,502) | (35) % |
| Acquisition and integration costs | 9,222 | 3% | 7,134 | 2% | 2,088 | 29 % |
| Restructuring and related | 5,580 | 2% | 17,188 | 6% | (11,608) | (68)% |
| Total operating expenses | $ 153,846 | 47% | $ 178,120 | 61% | $ (24,274) | (14) % |

*Research and Development Expenses*

Research and development expenses declined by $5.5 million, or 7%, during the three months ended March 28, 2020 compared to the corresponding period in 2019. This decrease was primarily due to lower employee-related costs, partially offset by increased prototype spend. Despite the decline in employee-related costs, we continue to make targeted innovation investments in research and development to support our highest potential initiatives and to support our strategy of expanding our vertically integrated product portfolio.

*Sales and Marketing Expenses*

Sales and marketing expenses declined by $3.3 million, or 8%, during the three months ended March 28, 2020 compared to the corresponding period in 2019. This decrease was primarily attributable to lower employee-related spend and lower travel expenses, primarily driven by the impact of the COVID-19 pandemic. This decrease was partially offset by higher commission expenses attributable to higher revenue in the period.

*General and Administrative Expenses*

General and administrative expenses declined $3.4 million, or 10%, during the three months ended March 28, 2020 compared to the corresponding period in 2019. This decrease was attributable to lower employee-related expenses and broadly lower other expenses, including lower equipment and software expenses and lower professional expenses primarily stemming from efficiencies following the Acquisition.

*Amortization of Intangible Assets*

Amortization of intangible assets decreased by $2.5 million, or 35%, during the three months ended March 28, 2020 compared to the corresponding period in 2019, primarily due to higher amortization of backlog by $2.0 million for the three months ended March 30, 2019.

*Acquisition and Integration Costs*

Integration costs during the three months ended March 28, 2020 were $9.2 million as a result of the Acquisition. Costs during the three months ended March 28, 2020 were predominantly related to IT and research and development efforts focused on integration-specific activities.

*Restructuring and Related Costs*

During the three months ended March 28, 2020, within operating expenses, we incurred $5.6 million in restructuring and related costs, including $2.6 million of severance and related costs and $2.9 million of impaired facilities charges. These charges were primarily associated with the reduction of headcount at our Munich, Germany site and impairment of a few facilities worldwide. See Note 9, “Restructuring and Related Costs” to the Notes to Condensed Consolidated Financial Statements for more information.

*Other Income (Expense), Net*

| | Three Months Ended | | | |
|---|---|---|---|---|
| | **March 28, 2020** | **March 30, 2019** | **Change** | **% Change** |
| | | **(In thousands)** | | |
| Interest income | $ 24 | $ 766 | $ (742) | (97)% |
| Interest expense | (8,794) | (7,563) | (1,231) | 16 % |
| Other gain (loss), net | (12,682) | (2,923) | (9,759) | 334 % |
| Total other expense, net | $ (21,452) | $ (9,720) | $ (11,732) | 121 % |

Interest income during the three months ended March 28, 2020 decreased by $0.7 million compared to the corresponding period in 2019, primarily due to the liquidation of investments in 2019. Interest expense during the three months ended March 28, 2020 compared to the corresponding period in 2019 increased by $1.2 million, primarily due to amortization of debt discount and debt issuance costs of $0.7 million on the new convertible debt issued in March 2020, $0.4 million of interest on a financing assistance arrangement obtained in May 2019, $1.4 million of interest and other related charges related to the Credit Facility (as described and defined below) in August 2019, and as amended, and $0.1 million of other interest charges. The increase was offset by a $1.4 million of interest credit from a supplier.

The change in other gain (loss), net, during the three months ended March 28, 2020 compared to the corresponding period in 2019 was primarily due to a $9.8 million increase in foreign exchange losses, primarily driven by the devaluation of currencies in Latin American countries in which we have a presence.

*Income Tax Benefit/Expense*

Income taxes during the three months ended March 28, 2020 represented a tax expense of $0.9 million, on a pre-tax loss of $98.3 million. This compares to a tax expense of $0.2 million, on a pre-tax loss of $121.4 million, during the three months ended March 30, 2019. Provision for income taxes increased by approximately $0.7 million during the three months ended March 28, 2020 as a result of higher tax expense in foreign jurisdictions.

**Liquidity and Capital Resources**

| | Three Months Ended | |
|---|---|---|
| | March 28, 2020 | March 30, 2019 |
| | (In thousands) | |
| Net cash flow provided by (used in): | | |
| Operating activities | $ (91,517) | $ (56,154) |
| Investing activities | $ (8,464) | $ (6,048) |
| Financing activities | $ 255,021 | $ 16,324 |

| | March 28, 2020 | December 28, 2019 |
|---|---|---|
| | (In thousands) | |
| Cash | $ 261,534 | $ 109,201 |
| Restricted cash | 21,934 | 23,596 |
| | $ 283,468 | $ 132,797 |

Our restricted cash balance amounts are primarily pledged as collateral for certain standby letters of credit related to customer performance guarantees, value added tax licenses and property leases.

*Operating Activities*

Net cash used in operating activities during the three months ended March 28, 2020 was $91.5 million compared to $56.2 million for the corresponding period in 2019.

Net loss during the three months ended March 28, 2020 was $99.3 million, which included non-cash charges of $51.0 million such as depreciation, stock-based compensation, amortization of intangibles, operating lease expense, restructuring charges and related costs, and amortization of debt discount and debt issuance cost on the $402.5 million of 2.125% convertible senior notes due September 1, 2024 (the “2024 Notes”) and the $200 million of 2.50% convertible senior notes due March 1, 2027 (the “2027 Notes” and together with the 2024 Notes, the “Notes”), compared to a net loss during the three months ended March 30, 2019 of $121.6 million, which included non-cash charges of $77.9 million. Net cash used in working capital was $43.2 million during the three months ended March 28, 2020. Accounts receivable decreased by $70.2 million due to lower revenue and due to cash collections. Inventory levels decreased by $17.7 million due to lower buffer inventory since we completed our manufacturing integration. Prepaid and other assets increased by $18.7 million primarily due to timing of tax payments and increase in customer contract assets. Accounts payable decreased by $72.4 million primarily due to timing of payment to suppliers and lower purchases. Accrued liabilities and other expenses decreased by $32.1 million primarily due to purchases of shares of our common stock under our 2007 Employee Stock Purchase Plan (the “ESPP”) in February 2020. Deferred revenue decreased by $8.0 million due to the amortization of maintenance renewals and lower renewals during the quarter, which are typically contracted on an annual or multi-year basis.

Net cash used to fund working capital was $12.4 million during the three months ended March 30, 2019. Accounts receivable decreased by $49.8 million commensurate with lower revenue and due to collecting cash from longer payment term deals inherited from the Coriant business. Inventory increased by $24.9 million as we built buffer inventory to reduce risk related to revenue plan execution and in preparation for the transition of our Berlin, Germany manufacturing facility to a third-party manufacturer. Accounts payable decreased by $23.4 million primarily due to the significant decrease in cost of goods associated with lower revenue. Accrued liabilities and other expenses decreased by $15.5 million primarily due to purchases of shares of our common stock under the ESPP in February 2019 and lower overall spend resulting from our cost reduction strategy. Deferred revenue increased by $6.9 million compared to the corresponding period in 2018 due to maintenance renewals on our installed base, which are typically contracted on an annual or multi-year basis.

*Investing Activities*

Net cash used in investing activities during the three months ended March 28, 2020 was $8.5 million entirely consisting of capital expenditures.

Net cash used in investing activities during the three months ended March 30, 2019 was $6.0 million. Investing activities during the three months ended March 30, 2019 included proceeds of $10.5 million associated with maturities of investments and capital expenditures of $6.6 million. Additionally, $10.0 million held in escrow related to the Acquisition was released during the three months ended March 30, 2019 due to the lack of underlying claims.

*Financing Activities*

Net cash provided by financing activities during the three months ended March 28, 2020 was $255.0 million compared to net cash provided by financing activities of $16.3 million in the corresponding period of 2019. Financing activities during the three months ended March 28, 2020 included proceeds of $194.5 million from issuance of the 2027 Notes and $55.0 million from the Credit Facility (as described and defined below). The period also included net proceeds from the issuance of shares of our common stock under the ESPP.

Net cash provided by financing activities during the three months ended March 30, 2019 was $16.3. Financing activities during the three months ended March 30, 2019 included proceeds of $8.6 million from issuance of debt associated with mortgaging one of our facilities, which we own. The period also included net proceeds from the issuance of shares of our common stock under the ESPP.

*Liquidity*

We believe that our current cash, along with the Credit Facility (as defined and described below) will be sufficient to meet our anticipated cash needs for working capital and capital expenditures, payments under the financing assistance arrangement with third-party contract manufacturer, and the interest payments on the Notes and the Credit Facility for at least 12 months. If these sources of cash are insufficient to satisfy our liquidity requirements, we may require additional capital from equity or debt financings to fund our operations, to respond to competitive pressures or strategic opportunities, or otherwise. In addition, we are continuously evaluating alternatives for efficiently funding our capital expenditures and ongoing operations. We may, from time to time engage in a variety of financing transactions for such purposes. We may not be able to secure timely additional financing on favorable terms, or at all. The terms of any additional financings may place limits on our financial and operating flexibility. If we raise additional funds through further issuances of equity or equity-linked securities, our existing stockholders could suffer dilution in their percentage ownership of us, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

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

Upon conversion, it is our intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the 2027 Notes. For any remaining conversion obligation, we intend to pay or deliver, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. As of March 28, 2020, long-term debt, net, included $126.0 million outstanding for 2027 Notes which represents the liability component of the $200.0 million principal balance, net of $74.0 million of unamortized debt discount and debt issuance costs. The debt discount and debt issuance costs are currently being amortized over the remaining term until maturity of the 2027 Notes on March 1, 2027. To the extent that the holders of the 2027 Notes request conversion during an early conversion window, we may require funds for repayment of such 2027 Notes prior to their maturity date.

As of March 28, 2020, contractual obligations related to the 2027 Notes are payments of $2.4 million due for the remainder of 2020 and $5.0 million due each year from 2021 through 2026 and $202.5 million due in 2027.

These amounts represent principal and interest cash payments over the term of the 2027 Notes. Any future redemption or conversion of the Notes could impact the amount or timing of our cash payments. For more information regarding the 2027 Notes, see Note 12, “Debt” to the Notes to Consolidated Financial Statements.

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

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

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

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

As of March 28, 2020, we have outstanding borrowings of $85.0 million due in March 2024 and related interest due monthly. For more information regarding the Credit Facility, see Note 12, “Debt” to the Notes to Consolidated Financial Statements.

In September 2018, we issued the 2024 Notes, which will mature on September 1, 2024, unless earlier repurchased, redeemed or converted. Interest is payable semi-annually in arrears on March 1 and September 1 of each year, which commenced on March 1, 2019. The net proceeds from the 2024 Notes issuance were approximately $391.4 million, of which approximately $48.9 million was used to pay the cost of the capped call transactions. We also used a portion of the remaining net proceeds to fund the cash portion of the purchase price of the Acquisition, including fees and expenses relating thereto, and intend to use the remaining net proceeds for general corporate purposes.

Upon conversion, it is our intention to pay cash equal to the lesser of the aggregate principal amount or the conversion value of the 2024 Notes. For any remaining conversion obligation, we intend to pay or deliver, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. As of March 28, 2020, long-term debt, net, included $290.7 million for 2024 Notes which represents the liability component of the $402.5 million principal balance, net of $111.8 million of unamortized debt discount and debt issuance costs. The debt discount and debt issuance costs are currently being amortized over the remaining term until maturity of the 2024 Notes on September 1, 2024. To the extent that the holders of the 2024 Notes request conversion during an early conversion window, we may require funds for repayment of such 2024 Notes prior to their maturity date.

As of March 28, 2020, contractual obligations related to the 2024 Notes are payments of $4.3 million due for the remainder of 2020 and $8.5 million due each year from 2021 through 2023 and $411.1 million due in 2024. These amounts represent principal and interest cash payments over the term of the 2024 Notes. Any future redemption or conversion of the Notes could impact the amount or timing of our cash payments. For more information regarding the 2024 Notes, see Note 12, “Debt” to the Notes to Consolidated Financial Statements.

As of March 28, 2020, we had $261.5 million of cash including $53.6 million of cash held by our foreign subsidiaries. Our policy with respect to undistributed foreign subsidiaries' earnings is to consider those earnings to be indefinitely reinvested. As a result of the enactment in the United States of the Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”), if and when funds are actually distributed in the form of dividends or otherwise, we expect minimal tax consequences, except for foreign withholding taxes, which would be applicable in some jurisdictions.

**Off-Balance Sheet Arrangements**

As of March 28, 2020, 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*

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates. We assess these risks on a regular basis and have established policies that are designed to protect against the adverse effects of these and other potential exposures.

**Foreign Currency Exchange Rate Risk**

There have been no material changes to the foreign currency exchange rate risk previously disclosed in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the fiscal year ended December 28, 2019.

**Interest Rate Risk**

There have been no material changes to the interest rate risk previously disclosed in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the fiscal year ended December 28, 2019.

**Market Risk and Market Interest Risk**

In March 2020, we issued the 2027 Notes. The 2027 Notes have a fixed annual interest rate of 2.50%, and, therefore, we do not have economic interest rate exposure on the 2027 Notes. However, the fair values of the 2027 Notes is subject to interest rate risk, market risk and other factors due to the convertible feature. The fair value of the 2027 Notes will generally increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of the 2027 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 2027 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 2027 Notes at fair value. We present the fair value of the 2027 Notes for required disclosure purposes only.

For a discussion of our exposure to market risk and market interest risk related to the 2024 Notes, see “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 28, 2019. There have been no other material changes to our market risk during the three months ended March 28, 2020.

## Item 4. *Controls and Procedures*

### Evaluation of Disclosure Controls and Procedures

An evaluation was performed by our management, with the participation of our CEO and our CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d -15(e) under the Exchange Act). Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our CEO and CFO concluded that, as of March 28, 2020, our disclosure controls and procedures are effective.

### Inherent Limitations on Effectiveness of Controls

Our management, including the CEO and CFO, does not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in business conditions or deterioration in the degree of compliance with policies or procedures.

### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting occurred during the three months ended March 28, 2020, which were identified in connection with management’s evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We are continually monitoring the COVID-19 situation to minimize the impact, if any, on the design and operating effectiveness on our internal controls.

# PART II. OTHER INFORMATION

## Item 1. *Legal Proceedings*

### Oyster Optics LLC I

On November 23, 2016, Oyster Optics, LLP ("Oyster Optics") filed a complaint against us in the United States District Court for the Eastern District of Texas. The complaint asserts infringement of U.S. Patent Nos. 6,469,816, 6,476,952, 6,594,055, 7,099,592, 7,620,327 (the "'327 patent"), 8,374,511 (the "'511 patent") and 8,913,898 (the "'898 patent"). Collectively, the asserted patents are referred to herein as the "Oyster Optics patents in suit." The complaint seeks unspecified damages and a permanent injunction. We filed our answer to Oyster Optics' complaint on February 3, 2017. We filed two petitions for Inter Partes Review ("IPR") of the '898 patent with the U.S. Patent and Trademark Office ("USPTO"). Other defendants have filed IPR petitions in connection with the remaining Oyster Optics patents in suit. The USPTO instituted two IPRs of the '511 patent and two IPRs of the '898 patent but denied IPR petitions in connection with the '327 patent.

A first Markman decision issued on December 5, 2017 and fact discovery closed on December 22, 2017. Oyster Optics dropped the '511 and '898 patents, leaving only a few claims in the '327 patent at issue in the case.

### Oyster Optics LLC II

On May 15, 2018, Oyster Optics filed a second patent infringement complaint in the United States District Court for the Eastern District of Texas, naming us as a defendant. In its new complaint, Oyster Optics alleges infringement of the '327 patent, '898 patent and U.S. Patent No. 9,749,040. On June 8, 2018, the court granted the parties' joint motion to sever and consolidate the first-filed lawsuit with the later filed case. We filed our answer to the new complaint on July 16, 2018. On October 26, 2018, we filed an amended answer to include a license defense based on a license agreement dated June 28, 2018 by and between Oyster Optics and several subsidiaries of Coriant (now one of our affiliated subsidiaries). We also filed a motion for summary judgment based on the license defense on November 29, 2018. On June 25, 2019, the court granted our motion for summary judgment and on June 28, 2019, the court entered a final judgment for us. On July 22, 2019, Oyster Optics filed an appeal of the court's decision with the Court of Appeals for the Federal Circuit. Oyster filed its opening brief on November 20, 2019. We filed our responsive brief on January 29, 2020, and Oyster filed its reply brief on March 13, 2020. We believe that we do not infringe any valid and enforceable claim of the Oyster Optics patents in suit and intend to defend this action vigorously. We are currently unable to predict the outcome of this litigation at this time and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

### Oyster Optics LLC III

On July 29, 2019, Oyster Optics filed a third complaint against us, Coriant (USA) Inc., Coriant North America, LLC and Coriant Operations, Inc. in the United States District Court for the Eastern District of Texas. The complaint asserts infringement of U.S. Patent No. 6,665,500 (the "Oyster III patent in suit"). The complaint seeks unspecified damages and a permanent injunction. On October 7, 2019, we filed our answer to the complaint asserting among other things, counterclaims and defenses based on non-infringement, invalidity, and a license to the Oyster III patent in suit. On October 28, 2019, Oyster filed an amended complaint. On December 3, 2019, we filed a motion to dismiss certain claims based on certain allegations made by Oyster in their amended complaint. On December 27, 2019, we filed IPR petitions with the USPTO, in which we requested the USPTO to invalidate the asserted claims of the Oyster III patent in suit, and we filed on January 17, 2020, a motion to stay to the this case pending a decision of the validity of the Oyster III patent in suit by the USPTO. Oyster Optics submitted its response to our IPR petitions on April 13, 2020, and we filed our answer to Oyster Optics' amended complaint on April 14, 2020. We believe that we do not infringe any valid and enforceable claim of the Oyster III patent in suit and intend to defend this action vigorously. We are unable to predict the outcome of this litigation at this time and therefore cannot reasonably estimate the possible loss or range of loss, if any, arising from this matter.

### Civil Investigative Demand

On June 8, 2017, a Civil Investigative Demand was issued to Coriant pursuant to a False Claims Act investigation by the U.S. government as to whether there has been any violation of 31 U.S.C. §3729. Coriant provided documents and other responses to the U.S. government, and we will continue to cooperate in the ongoing investigation.

**Capella Photonics, Inc.**

On March 17, 2020, Capella Photonics, Inc. ("Capella") filed a complaint in the U.S. District Court for the Eastern District of Texas against us, Tellabs, Inc., Coriant Operations, Inc., Coriant America Inc., and Coriant (USA) Inc.), alleging infringement of Capella U.S. Reissue Patent Nos. RE47,905 and RE47,906 (the "Capella Patents," which are reissued versions of the patents Capella previously asserted in a prior lawsuit). The complaint alleges infringement of the Capella Patents against certain legacy Coriant platforms. The complaint seeks unspecified damages and a permanent injunction. We believe that we do not infringe any valid and enforceable claim of the Capella Patents and intend to defend this action vigorously. Because this action is in the early stages, we are unable to predict the outcome of this litigation at this time and therefore cannot reasonably estimate the possible loss or range of loss, if any, arising from this matter.

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

## Item 1A. *Risk Factors*

*Investing in our securities involves a high degree of risk and 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 28, 2019. 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 28, 2019 and in our other public filings. Because of the following factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report and in our other public filings, which could cause the market price of our common stock to decline, perhaps significantly.*

### Risks Related to Our Business and Our Common Stock

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

Our quarterly results and, in particular, our revenue, gross margins, operating expenses, operating margins and net income (loss), have historically varied significantly from period to period and may continue to do so in the future. As a result, comparing our operating results on a period-to-period basis may not be meaningful. Our budgeted expense levels are based, in large part, on our expectations of future revenue and the development efforts associated with that future revenue. Consequently, if our revenue does not meet projected levels in the short-term, our inventory levels, cost of goods sold and operating expenses would be high relative to revenue, resulting in potential operating losses. For example, we continue to have operating losses, primarily the result of higher operating expenses related to the Acquisition and lower gross margins.

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

- fluctuations in demand, sales cycles and prices for products and services, including discounts given in response to competitive pricing pressures, as well as the timing of purchases by our key customers;
- changes in customers' budgets for optical transport network purchases and changes or variability in their purchasing cycles;
- fluctuations in our customer, product or geographic mix, including the impact of new customer deployments, which typically carry lower gross margins, and customer consolidation, which may affect our ability to grow revenue;
- the timing and acceptance of our new product releases and our competitors' new product releases;
- how quickly, or whether at all, the markets in which we operate adopt our solutions;
- our ability to increase volumes and yields on products manufactured in our internal manufacturing facilities;
- delays in operations we may continue to experience during the course of utilizing our new enterprise resource planning ("ERP") system, which we implemented in August 2019, including unintended disruptions in our ability to deliver and bill for customer shipments, project our inventory requirements, and manage our supply chain, including our hardware servicing operations;
- our ability to successfully restructure our operations within our anticipated time frame and realize our anticipated savings;
- the quality and timing of delivery of key components from suppliers, including any delays in the supply of components that may result from the effects of the COVID-19 pandemic;
- order cancellations, reductions or delays in delivery schedules by our customers;

- any delay in collecting or failure to collect accounts receivable;
- our ability to control costs, including our operating expenses and the costs and availability of components we purchase for our products;
- any significant changes in the competitive dynamics of the markets we serve, including any new entrants, new technologies, or customer or competitor consolidation;
- readiness of customer sites for installation of our products as well as the availability of third-party service partners to provide contract engineering and installation services for us;
- the timing of revenue recognition and revenue deferrals;
- any future changes in U.S. GAAP or new interpretations of existing accounting rules;
- the impact of a significant natural disaster, 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 and political conditions in domestic and international markets, including those related to the upcoming presidential election in the United States.

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

**The outbreak of COVID-19 could have a material adverse effect on our business and results of operations.**

On January 30, 2020, the World Health Organization ("WHO") declared a global emergency due to the COVID-19 pandemic, and on February 28, 2020, the WHO raised its assessment of the threat from high to very high at a global level. The outbreak has resulted in significant governmental measures being implemented to control the spread of COVID-19, including, among others, restrictions on travel, business operations and the movement of people in many regions of the world in which we operate, and the imposition of shelter-in-place or similarly restrictive work-from-home orders impacting many of our offices and employees, including those located in the United States.

As a result, we have temporarily closed or substantially limited the presence of personnel in our offices in several impacted locations, implemented travel restrictions and withdrawn from various industry events. The impact of our work-from-home policy that was implemented to protect our global workforce has contributed to delays in certain operational processes, including our routine quarterly financial statement close process for the first quarter of fiscal 2020. We have also experienced some disruption and delays in our supply chain, customer demand, and logistics challenges, including certain limitations on our ability to access customer fulfillment and service sites. We expect these existing conditions to have a minimal adverse impact on our revenue and results of operations for the second quarter of fiscal 2020 and, possibly, an additional adverse impact in future quarters during the current fiscal year.

The COVID-19 pandemic and its potential effects on our business in our second quarter of fiscal 2020 and thereafter remains dynamic, and the broader implications for our business and results of operations remain uncertain. These implications could include further disruptions or restrictions on our ability to source, manufacture or distribute our products, including disruptions to our fabrication and manufacturing facilities in California and Pennsylvania and to the facilities of our suppliers and our contract manufacturers in China, Malaysia, Mexico, Hungary and Thailand, or the facilities of its suppliers and their contract manufacturers globally. Additionally, multiple countries have imposed and may further impose restrictions on business operations and movement of people and products to limit the spread of COVID-19. Delays in production or delivery of components or raw materials that are part of our global supply chain due to restrictions imposed to limit the spread of the COVID-19 could delay or inhibit our ability to obtain supply of components and finished goods. If COVID-19 becomes more prevalent in the locations where we, our customers or suppliers conduct business, or we experience more pronounced disruptions in our operations or ability to service our customers, we may experience constrained supply or curtailed demand that may materially adversely impact our business and results of operations. In addition, any other widespread health crisis that could adversely affect global and regional economies, financial markets and overall demand environment for our products could have a material adverse effect on our business, cash flows or results of operations.

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

Our products are based on complex technologies, including, in many cases, the development of next-generation PICs, DSPs and specialized application-specific integrated circuits (“ASICs”), each of which are key components of our optical engines. In addition, we may also depend on technologies from outside suppliers, all of which may cause us to experience unanticipated delays in developing, improving, manufacturing or deploying our products. The development process for our optical engines is lengthy, and any modifications entail significant development cost and risks.

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

- completion of product development, including the development and completion of our next-generation optical engines, and the completion of associated module development;
- the qualification and multiple sourcing of critical components;
- validation of manufacturing methods and processes;
- extensive quality assurance and reliability testing and staffing of testing infrastructure;
- validation of software; and
- establishment of systems integration and systems test validation requirements.

Each of these steps, in turn, presents risks of failure, rework or delay, any one of which could decrease the speed and scope of product introduction and marketplace acceptance of our products. New generations of our optical engines as well as intensive software testing are important to the timely introduction of new products and enhancements to our existing products, and are subject to these development risks. In addition, unexpected intellectual property disputes, failure of critical design elements, limited or constrained engineering resources, and a host of other development execution risks may delay, or even prevent, the introduction of new products or enhancements to our existing products. If we do not develop and successfully introduce or enhance products in a timely manner, including the successful development of our next generation optical engine, our competitive position will suffer.

As we transition customers to new products, we face significant risk that our new products may not be accepted by our current or new customers. To the extent that we fail to introduce new and innovative products that are adopted by customers, we could fail to obtain an adequate return on these investments and could lose market share to our competitors, which could be difficult or impossible to regain. Similarly, we may face decreased revenue, gross margins and profitability due to a rapid decline in sales of current products as customers hold spending to focus purchases on new product platforms. We could incur significant costs in completing the transition, including costs of inventory write-downs of the current product as customers transition to new product platforms. In addition, products or technologies developed by others may render our products noncompetitive or obsolete and result in significant reduction in orders from our customers and the loss of existing and prospective customers.

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

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

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

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

We may not be able to generate sufficient cash flow from operations to make anticipated capital expenditures, to enable us to service our debt or to grow our business. For example, in each of the fiscal quarters since the completion of the Acquisition, we have had a net loss and negative cash flows and we may continue to incur losses and negative cash flows in future quarters. Our ability to pay our expenses, service our debt and fund planned capital expenditures will depend on our future performance, which will be affected by general economic, competitive, legislative, political, regulatory, public health issues and other factors beyond our control, and our ability to continue to realize synergies and anticipated cost savings. If we are unable to generate sufficient cash flow from operations or to borrow sufficient funds in the future to service our debt or to make anticipated capital expenditures, we may be required to sell assets, reduce capital expenditures or evaluate alternatives for efficiently funding our capital expenditures and ongoing operations, including the issuance of equity, equity-linked and debt securities. For example, in August 2019 and as supplemented in December 2019, we entered into the Credit Facility with Wells Fargo Bank and BMO Harris Bank N.A. to provide additional working capital flexibility to manage our business. Further, in March 2020, we issued the 2027 Notes. For additional risks related to the Notes, please see “Risk Related to our Notes” below.

**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 sole or limited sources. In particular, we rely on our own production of certain components of our products, such as PICs, and on third parties, including sole source and limited source suppliers, for certain of the components of our products, including ASICs, field-programmable gate arrays, processors, and other semiconductor and optical components. We have increased our reliance on third parties to develop and manufacture components for certain products, some of which require custom development. We purchase most of these components on a purchase order basis and generally only have long-term contracts with these sole source or limited source suppliers. If any of our sole source or limited source suppliers suffer from capacity constraints, lower than expected yields, deployment delays, work stoppages or any other reduction or disruption in output, they may be unable to meet our delivery schedule which could result in lost revenue, additional product costs and deployment delays that could harm our business and customer relationships. In addition, these same suppliers may decide to no longer manufacture or support specific components necessary for some of our legacy products, which could lead to our inability to fulfill demand without increased engineering and material costs necessary to replace such components. Further, our suppliers could enter into exclusive arrangements with our competitors, refuse to sell their products or components to us at commercially reasonable prices or at all, go out of business or discontinue their relationships with us. We may be unable to develop alternative sources for these components within a suitable time frame to be able to operate our business, or at all.

The loss of a source of supply, or lack of sufficient availability of key components, could require us to redesign products that use such components, which could result in lost revenue, additional product costs and deployment delays that could harm our business and customer relationships. For example, the recent outbreak of the COVID-19 pandemic in China, which has spread to countries throughout the world, may cause a disruption of the global supply chain for certain components necessary for our products and it is unknown the magnitude of or how long any such impact may continue. Due to cross dependencies, any supply chain disruptions could negatively impact the demand for our products in the short term. In addition, if our contract manufacturers do not receive critical components in a timely manner to build our products, then we would not be able to ship certain products in a timely manner and would, therefore, be unable to meet our prospective customers' product delivery requirements. In the past, we have experienced delivery delays because of lack of availability of components or reliability issues with components that we were purchasing. In addition, some of our suppliers have gone out of business, merged with another supplier, or limited their supply of components to us, which may cause us to experience longer than normal lead times, supply delays and increased prices. We may in the future experience a shortage of certain components as a result of our own manufacturing issues, manufacturing issues at our suppliers or contract manufacturers, capacity problems experienced by our suppliers or contract manufacturers, strong demand in the industry for such components, or other disruptions in our supply chain. In addition, disruptions to global macroeconomic conditions may create pressure on us and our suppliers to accurately project overall component demand and manufacturing capacity. These supplier disruptions may continue to occur in the future, which could limit our ability to produce our products and cause us to fail to meet a customer's delivery requirements. Any failure to meet our customers' product delivery requirements could harm our reputation and our customer relationships, either of which would harm our business and operating results.

**Our gross margin may fluctuate from period to period and may be adversely affected by a number of factors, some of which are beyond our control.**

Our gross margin fluctuates from period to period and varies by customer and by product. Over the past eight fiscal quarters, our gross margin has ranged from 20.7% to 40.5%. Our gross margin is likely to continue to fluctuate and will be affected by a number of factors, including:

- the mix of the types of customers purchasing our products as well as the product mix;
- the initial products released powered by our next-generation technologies generate lower margin initially, as per unit production costs for initial units tend to be higher and experience more variability in production yields;
- the pace at which we deploy solutions powered by our next generation technologies, which could lead to higher excess or obsolete inventory;
- the mix of products sold to customers that benefit from vertical integration as compared to products that include a higher percentage of third-party components;
- significant new deployments to existing and new customers, often with a higher portion of lower margin common equipment as we deploy network footprint;
- aggressive pricing tactics by our competitors;
- changes in the price or availability of components for our products, including as a result of COVID-19 pandemic-related supply shortages and due to new or increased tariffs on the prices of raw materials used in such components;
- increased costs of shipping, logistics and freight related to the COVID-19 pandemic;
- changes in our manufacturing costs, including fluctuations in yields and production volumes;
- pricing and commercial terms designed to secure long-term customer relationships, as well as commercial deals to transition certain customers to our new products;
- consolidation amongst our suppliers, which may increase prices of components for our products;
- the volume of Instant Bandwidth-enabled solutions sold, and capacity licenses activated;
- price discounts negotiated by our customers;
- charges for excess or obsolete inventory; and
- changes in warranty related costs.

It is likely that the average unit prices of our products will decrease over time in response to competitive pricing pressures. In addition, some of our customer contracts contain clauses that require us to annually decrease the sales price of our products to these customers. In response, we will need to reduce the cost of our products through manufacturing efficiencies, design improvements and cost reductions from our supply partners. If these efforts are not successful or if we are unable to reduce our costs by more than the reduction in the price of our products, our 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.

**Actions that we are taking to restructure our business to cut costs in order to align our operating structure with current opportunities may not be as effective as anticipated.**

In December 2018, we implemented a restructuring initiative (the “2018 Restructuring Plan”) as part of a comprehensive review of our operations and ongoing integration synergies in order to optimize resources for future growth, improve efficiencies and address redundancies following the Acquisition. As part of the 2018 Restructuring Plan, we sought to reduce expenses, streamline the organization, and reallocate resources to align more closely with our needs going forward. While we expect to realize efficiencies from these actions, these activities might not produce the full efficiency and cost reduction benefits we expect. For example, in the third quarter of 2019, we completed the transfer of our manufacturing operations in Berlin, Germany to a contract manufacturer. We may not fully realize all the projected cost savings from the closure of this site or other sites, which would harm our business. In addition, any disruptions in the smooth transition to a third-party manufacturer could damage customer relations and harm our ability to achieve our financial plans.

Further, any anticipated benefits from the 2018 Restructuring Plan may be realized later than expected or not at all, and the ongoing costs of implementing these measures may be greater than anticipated. While we believe significant synergies have been achieved, our ability to continue to drive further synergies in the amounts and time frames expected are subject to a number of risks, which may or may not be realized, as well as the incurrence of other costs in our operations that may offset all or a portion of such synergies and other factors outside our control. As a consequence, we may not be able to realize all of these synergies within the time frame expected or at all, or the amounts of such synergies could be significantly reduced, and we may incur additional and/or unexpected costs to realize these additional synergies. In addition, as a result of the restructuring, our ability to execute on product development, address key market opportunities and/or meet customer demand, could be materially and adversely affected.

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

While our revenue and customer base have become more diversified over the past few years, today a relatively small number of customers account for a large percentage of our revenue from period to period. For example, for the quarter ended March 28, 2020, our top ten customers accounted for approximately 53% of our total revenue. For fiscal 2019, our top ten customers accounted for approximately 46% of our total revenue. For fiscal 2018, our top ten customers accounted for approximately 54% of our total revenue. Our business will likely be harmed if any of our key customers are acquired, do not generate as much revenue as we forecast, stop purchasing from us, delay anticipated product purchases, or substantially reduce their orders to us. In addition, our business will be harmed if we fail to maintain our competitive advantage with our key customers or do not add new larger customers over time. We continue to expect a relatively small number of customers to continue to account for a large percentage of revenue from period to period. However, customer consolidation could reduce the number of key customers that generate a significant percentage of our revenue and may increase the risks relating to dependence on a small number of customers.

Our ability to continue to generate revenue from our key customers will depend on our ability to maintain strong relationships with these customers and introduce competitive new products at competitive prices. In most cases, our sales are made to these customers pursuant to standard purchase agreements, which may be canceled or reduced readily, rather than long-term purchase commitments that would require these customers to purchase any minimum or guaranteed volumes orders. In the event of a cancellation or reduction of an order, we may not have enough time to reduce operating expenses to minimize the effect of the lost revenue on our business. Our operating results will continue to depend on our ability to sell our products to our key customers. In addition, we must regularly compete for and win business with existing and new customers across all of our customer segments.

**Aggressive business tactics by our competitors may harm our business.**

The markets in which we compete are extremely competitive and this often results in aggressive business tactics by our competitors, including:

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

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

**Increased consolidation among our customers and suppliers in the communications networking industry has had, and could continue to have, an adverse effect on our business and results of operations.**

We have seen increased consolidation in the communications networking industry over the past few years, which has adversely affected our business and results of operations. For example, several of our customers have consolidated in the past. During 2016, Charter Communications completed its acquisition of Time Warner Cable, Inc. and Altice completed its acquisition of Cablevision. During 2017, Verizon completed its acquisition of XO Communications and CenturyLink completed its acquisition of Level 3 Communications. Customer consolidation has led to changes in buying patterns, slowdowns in spending, redeployment of existing equipment and re-architecture of parts of existing networks or future networks, as the combined companies evaluate the needs of the combined business. Moreover, the significant purchasing power of these large companies can increase pricing and competitive pressures for us, including the potential for decreases in our average selling prices. If one of our customers is acquired by another company that does not rely on us to provide it with products or relies on another provider of similar products, we may lose that customer's business. Such consolidation may further reduce the number of customers that generate a significant percentage of our revenue and may exacerbate the risks relating to dependence on a small number of customers. Any of the foregoing results will adversely affect our business, financial condition and results of operations.

In addition, our suppliers in the communications networking industry have recently continued to consolidate. For example, in the fourth quarter of 2018, Lumentum completed its acquisition of Oclaro and, in the third quarter of 2019, II-VI completed its acquisition of Finisar. Supplier consolidation may lead to increased prices of components for our products, deployment delays and/or a disruption in output. In addition, such consolidation may exacerbate the risks relating to our dependence on a small number of suppliers for certain components and materials that are required to manufacture our products.

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

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

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

The development and production of products with high technology content is complicated and often involves problems with hardware, software, components and manufacturing methods. Complex hardware and software systems, such as our products, can often contain undetected errors or bugs when first introduced or as new versions are released. In addition, errors associated with components we purchase from third parties, including customized components, may be difficult to resolve. We have experienced issues in the past in connection with our products, including failures due to the receipt of faulty components from our suppliers and performance issues related to software updates. From time to time we have had to replace certain components, provide software remedies or other remediation in response to errors or bugs, and we may have to do so again in the future. In addition, performance issues can be heightened during periods where we are developing and introducing multiple new products to the market, as any performance issues we encounter in one technology or product could impact the performance or timing of delivery of other products. Our products may suffer degradation of performance and reliability over time.

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

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

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

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, fail to add new customers, and consequently harm our financial results.

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

Competition in the packet-optical equipment market is intense. Our main competitors include WDM system suppliers, such as ADVA Optical Networking, Ciena Corporation, Cisco Systems, ECI, Huawei Technologies Co., Ltd., Nokia and ZTE. In addition, there are several other companies that offer one or more products that partially compete with our offerings.

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

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

In addition to our current competitors, other companies have, or may in the future develop, products that are or could be competitive with our products. We also could encounter competitor consolidation in the markets in which we compete, which could lead to a changing competitive landscape, capabilities and market share, and could impact our results of operations. For example, in the third quarter of fiscal 2019, Cisco Systems announced its intention to acquire optical communications supplier Acacia Communications.

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

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

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

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

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

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

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

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

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

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

The manufacturing process for our optical engine, including the PICs, DSPs and specialized ASICs, and the assembly of our finished products, is very complex. In the event that any of our manufacturing facilities utilized to build these components and assemble our finished products were fully or partially destroyed, or shut down, as a result of a natural disaster, work stoppage or otherwise, it could severely limit our ability to sell our products. Because of the complex nature of our manufacturing facilities, such loss would take a considerable amount of time to repair or replace. The partial or complete loss of any of our manufacturing facilities, or an event causing the interruption in our use of any such facilities, whether as a result of a natural disaster, work stoppage or otherwise, 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. Lower than expected yields from our PIC manufacturing process or defects, integration issues or other performance problems in our products could limit our ability to satisfy customer demand requirements, and could damage customer relations and cause business reputation problems, harming our business and operating results.

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

**If we fail to accurately forecast our manufacturing requirements or customer demand, we could incur additional costs, including inventory write-downs or equipment write-offs, which would adversely affect our business and results of operations.**

We generate forecasts of future demand for our products several months prior to the scheduled delivery to our prospective customers. This requires us to make significant investments before we know if corresponding revenue will be recognized. Lead times 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 lengthened 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. In addition, we must manage our inventory to ensure we continue to meet our commitments as we introduce new products or make enhancements to our existing products.

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

**If our contract manufacturers do not perform as we expect, our business may be harmed.**

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

- reduced control over delivery schedules, particularly for international contract manufacturing sites;
- reliance on the quality assurance procedures of third parties;
- potential uncertainty regarding manufacturing yields and costs;
- potential lack of adequate capacity during periods of high demand;
- limited warranties on components;
- potential misappropriation of our intellectual property; and

- potential manufacturing disruptions (including disruptions caused by geopolitical events, military actions, work stoppages, natural disasters or international health emergencies such as the COVID-19 pandemic).

Any of these risks could impair our ability to fulfill orders. Any delays by our contract manufacturers may cause us to be unable to meet the delivery requirements of our customers, which could decrease customer satisfaction and harm our product sales. In addition, if our contract manufacturers are unable or unwilling to continue manufacturing our products or components of our products in required volumes or our relationship with any of our contract manufacturers is discontinued for any reason, we would be required to identify and qualify alternative manufacturers, which could cause us to be unable to meet our supply requirements to our customers and result in the breach of our customer agreements. Qualifying a new contract manufacturer and commencing volume production is expensive and time-consuming and if we are required to change or qualify a new contract manufacturer, we could lose revenue and damage our customer relationships.

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

Many of our customers are large service providers and ICPs that have substantial purchasing power and leverage in negotiating contractual arrangements with us. In addition, customer consolidation in the past few years has created combined companies that are even larger and have greater negotiating leverage. Our customers have sought and may continue to seek advantageous pricing, payment and other commercial terms. We have agreed and may continue to agree to unfavorable commercial terms with these customers, including the potential of reducing the average selling price of our products, increasing cost of sales or agreeing to extended payment terms in response to these commercial requirements or competitive pricing pressures. 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, which could affect our results of operations.

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

**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. For example, in August 2019 and as supplemented in December 2019, we entered into the Credit Facility with Wells Fargo Bank and BMO Harris Bank N.A. to provide additional working capital flexibility to manage our business. In addition, we issued the 2027 Notes in March 2020 to raise additional funds for general corporate purposes, including working capital to fund growth and potential strategic projects. 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 equity-linked financing, debt financing or other financings in the future to fund our operations, respond to competitive pressures or strategic opportunities or to refinance our existing debt obligations. In the event that we require additional capital, we may not be able to secure timely additional financing on favorable terms, or at all. 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.

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

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

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

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

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In particular, many leading companies in the optical transport networking industry, including our competitors, have extensive patent portfolios with respect to optical transport networking technology. In addition, non-practicing patent holding companies seek to monetize patents they have purchased or otherwise obtained. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps in technology implementation occur. From time to time, third parties may assert exclusive patent, copyright, trademark and other intellectual property rights to technologies and related standards that are important to our business or seek to invalidate the proprietary rights that we hold. Competitors or other third parties have asserted, and may continue to assert claims or initiate litigation or other proceedings against us or our manufacturers, suppliers or customers alleging infringement of their proprietary rights, or seeking to invalidate our proprietary rights, with respect to our products and technology. In addition, in the past we have had certain patent licenses with third parties that have not been renewed, and if we cannot successfully renew these licenses, we could face claims of infringement. In the event that we are unsuccessful in defending against any such claims, or any resulting lawsuits or proceedings, we could incur liability for damages and/or have valuable proprietary rights invalidated. For additional information regarding certain of the legal proceedings in which we are involved, see Part II, Item 1, "Legal Proceedings."

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

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

We incorporate free and open source licensed software into our products. Although we monitor our use of such open source software closely, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. In addition, non-compliance with open source software license terms and conditions could subject us to potential liability, including intellectual property infringement and/or contract claims. In such events, we may be required to seek licenses from third parties in order to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished in a timely manner, any of which could adversely affect our business, operating results and financial condition.

**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 or business expectations by any securities analysts that elect to follow our common stock;
- mergers and acquisitions by us, by our competitors or by our customers;
- market conditions in our industry, the industries of our customers and the economy as a whole, including global trade tariffs; and
- adoption or modification of regulations, policies, procedures or programs applicable to our business.

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

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

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

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

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

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.

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

Sales of our products into international markets continue to be an important part of our business. During the fiscal 2019, fiscal 2018 and fiscal 2017, we derived approximately 52%, 49% and 42%, respectively, of our revenue from customers outside of the United States. We expect that significant management attention and financial resources will be required for our international activities over the foreseeable future as we continue to operate in international markets. In some countries, our success in selling our products and growing revenue will depend in part on our ability to form relationships with local partners. Our inability to identify appropriate partners or reach mutually satisfactory arrangements for international sales of our products could impact our ability to maintain or increase international market demand for our products. In addition, many of the companies we compete against internationally have greater name recognition and a more substantial sales and marketing presence.

We have sales and support personnel in numerous countries worldwide. In addition, we have established development centers in Canada, China, Finland, Germany, India, Portugal and Sweden. There is no assurance that our reliance upon development resources in international locations will enable us to achieve meaningful cost reductions or greater resource efficiency. As a result of the Acquisition, we now have sales and support personnel in a greater number of geographical locations throughout APAC (including China) and EMEA (with offices in the Middle East).

As a result of having global operations, the sudden disruption of the supply chain and/or the manufacture of our customer's components caused by events outside of our control could impact our results of operations by impairing our ability to timely and efficiently deliver our products or provide installation and maintenance services to our customers. For example, the global COVID-19 pandemic may cause a disruption of the global supply chain for certain components necessary for our products and could threaten the health and safety of our employees.

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

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

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

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

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

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

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

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

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

- changes in the valuation of our deferred tax assets and liabilities, and in deferred tax valuation allowances;
- changes in the relative proportions of revenue and income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
- changing tax laws, regulations, rates and interpretations in multiple jurisdictions in which we operate;
- changes to the financial accounting rules for income taxes;
- the tax effects of acquisitions, including the effects of integrating intellectual property; and
- the resolution of issues arising from tax audits.

The U.S. enacted the 2017 Tax Act, which was a significant tax reform. The U.S. Department of Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law, which could affect our results of operations in the period issued. Many countries and organizations such as the Organization for Economic Cooperation and Development are actively considering changes to existing tax laws or have proposed or enacted new laws that could increase our tax obligations in countries where we do business or cause us to change the way we operate our business. Any changes in federal, state or international tax laws or tax rulings could adversely affect our effective tax rate and our results of operations.

**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. In addition, if we are unable to implement key operation controls around pricing, spending and other financial processes, we may not be able to improve our financial performance or sufficiently scale to support the growth of our business. Prior to the Acquisition, we maintained separate internal controls over financial reporting with different financial reporting processes and different ERP systems, and Coriant, as a private company, was not required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. In August 2019, we migrated to an integrated ERP system. As a result of the integration, we may encounter difficulties and unanticipated issues due to the complexity of the business processes and technical challenges faced by moving to a single ERP system. If we are unable to successfully manage our integrated ERP system, and maintain effective internal control over financial reporting of the combined company, we may fail to prevent or detect material misstatements in our financial statements, in which case investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our securities may decline. Additionally, integration of our ERP system may cause time delays and impact our ability to undertake financial reporting in a timely manner. For example, we required additional time to complete our quarter-end closing procedures for the three months ended September 28, 2019 due to issues encountered as part of the integration of three separate global instances into a single ERP system.

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

We have made strategic acquisitions of businesses, technologies and other assets in the past, including most recently the Acquisition. In order to make acquisitions, we may use cash, issue equity that could dilute our current stockholders, or incur debt or assume indebtedness. If we are unable to achieve the anticipated strategic benefits of such acquisitions, it could adversely affect our business, financial condition and results of operations. In addition, the market price of our common stock could be adversely affected if the integration or the anticipated financial and strategic benefits of such acquisitions are not realized as rapidly as, or to the extent anticipated by investors and securities analysts.

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

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

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

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

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

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

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

We are subject to governmental regulations that could adversely affect our business. This includes U.S. and foreign trade control laws that may limit where and to whom we sell our products as well as the impact of new or revised environmental rules and regulations or other social initiatives on how we manufacture our products. Trade control laws may also limit our ability to conduct product development activities in certain countries and restrict the handling of our U.S. export-controlled technology. In addition, various countries regulate the import of certain technologies and have enacted laws that could limit our ability to distribute our products and certain product features or could limit our customers’ ability to implement our products in those countries. Changes in our products or changes in U.S. and foreign import and export regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the import and export of our products to certain countries altogether. Any change in import and export regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies impacted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Failure to comply with these and similar laws on a timely basis, or at all, or any limitation on our ability to develop, export or sell our products would adversely affect our business, financial condition and operating results.

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. In December 2017, the FCC voted to roll back its 2015 order regulating broadband internet service providers as telecommunications service carriers under Title II of the Telecommunications Act. This decision repeals net neutrality regulations that prohibit blocking, degrading or prioritizing certain types of internet traffic and restores the light touch regulatory treatment of broadband service in place prior to 2015. Changes in regulatory requirements or uncertainty associated with the regulatory environment could delay or impede investment in network infrastructures. Similarly, changes in regulatory tariff requirements or other regulations relating to pricing or terms of carriage on communications networks could slow the development or expansion of network infrastructures and adversely affect our business, operating results, and financial condition. For example, in 2018 and 2019, the United States imposed tariffs on a large variety of products originating from China, including some on components that are supplied to us from China. Depending upon the duration and implementation of these and future tariffs, as well as our ability to mitigate their impact, these tariffs could materially affect our business, including in the form of increased cost of goods sold, increased pricing for customers, and reduced sales. At this time, it remains unclear what additional actions, if any, will be taken by the governments of the United States or China with respect to such trade and tariff matters.

In addition, international regulatory standards could impair our ability to develop products for international customers in the future. Moreover, many jurisdictions, including the United States, the EU and other regions, are evaluating or have implemented regulations relating to cybersecurity, privacy and data protection, which can affect the market and requirements for networking and communications equipment. For example, in May 2018, the General Data Protection Regulation (the "GDPR") came into effect, superseding then-current EU data protection regulations. The GDPR imposes stringent data handling requirements on companies that receive or process personal data of residents of the EU, and non-compliance with the GDPR could result in significant penalties, including data protection audits and heavy fines. Any failure to obtain the required approvals or comply with such laws and regulations 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, and includes certain personal information and other data relating to our employees and others. 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. During the pendency of the COVID-19 pandemic, while so many of our own employees are primarily working from home and accessing our corporate network via remote devices, the potential for such events to occur is even greater. While the secure maintenance of this information is critical to our business and reputation, our network and storage applications, and those systems and other business applications maintained by our third-party providers, may be subject to unauthorized access by hackers or breached 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 any other unauthorized access or disclosure of our information or other information that we or our third-party vendors maintain, could compromise our intellectual property and reveal proprietary or confidential business information. While we continually work to safeguard our internal network systems and validate the security of our third-party providers to mitigate these potential risks, including through information security policies and employee awareness and training, there is no assurance that such actions will be sufficient to prevent cyber-attacks or security breaches. We have been subjected in the past to a range of incidents including phishing, emails purporting to come from an executive or vendor seeking payment requests, malware and communications from look-alike corporate domains. While these have not had a material effect on our business or our network security to date, security incidents involving access or improper use of our systems, networks or products could compromise confidential or otherwise protected information, destroy or corrupt data, or otherwise disrupt our operations. These security incidents could cause us to incur significant costs and expenses to remediate and otherwise respond to the incident, subject us to regulatory actions and investigations, disrupt key business operations, open us up to liability, and divert attention of management and key information technology resources, any of which could cause significant harm to our business and reputation. Even the perception of inadequate security may damage our reputation and negatively impact our business. Further, we could be required to expend significant capital and other resources to address any data security incident or breach and in an effort to prevent future security incidents and breaches.

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

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

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

**Risks Related to our Notes**

**Our debt obligations may adversely affect our ability to raise additional capital and will be a burden on our future cash resources, particularly if we elect to settle these obligations in cash upon conversion or upon maturity or required repurchase.**

As of March 28, 2020, we had $402.5 million outstanding aggregate principal amount of 2024 Notes and $200 million outstanding aggregate principal amount of 2027 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; and
- a substantial portion of our future cash balance may be dedicated to the payment of the principal of our indebtedness as we have stated the intention to pay the principal amount of each series Notes in cash upon conversion or when otherwise due, such that we would not have those funds available for use in our business.

Our ability to meet our payment obligations under our debt instruments, including the Notes, depends on our future cash flow performance. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors, as well as other factors that may be beyond our control. There can be no assurance that our business will generate positive cash flow from operations, or that additional capital will be available to us, in an amount sufficient to enable us to meet our debt payment obligations and to fund other liquidity needs. For example, in each of the fiscal quarters after the Acquisition, the combined company had a significant net loss and negative cash flows. If we are unable to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may be unable to meet our debt payment obligations. As a result, we may be more vulnerable to economic downturns, less able to withstand competitive pressures and less flexible in responding to changing business and economic conditions.

**We may issue additional shares of our common stock in connection with conversions of the 2024 Notes, and thereby dilute our existing stockholders and potentially adversely affect the market price of our common stock.**

In the event that some or all of each series of Notes are converted and we elect to deliver shares of common stock, the ownership interests of existing stockholders will be diluted, and any sales in the public market of any shares of our common stock issuable upon such conversion could adversely affect the prevailing market price of our common stock. In addition, the anticipated conversion of any series of Notes could depress the market price of our common stock.

**The fundamental change provisions of the 2024 Notes and the 2027 Notes may delay or prevent an otherwise beneficial takeover attempt of us.**

If a fundamental change, such as an acquisition of our company, occurs prior to the maturity of the 2024 Notes or 2027 Notes, holders of the applicable series of Notes will have the right, at their option, to require us to repurchase all or a portion of their Notes of such series. In addition, if such fundamental change also constitutes a make-whole fundamental change, the conversion rate for the applicable series of Notes may be increased upon conversion of the such series of Notes in connection with such make-whole fundamental change. Any increase in the conversion rate will be determined based on the date on which the make-whole fundamental change occurs or becomes effective and the price paid (or deemed paid) per share of our common stock in such transaction. Any such increase will be dilutive to our existing stockholders. Our obligation to repurchase any series of Notes or increase the conversion rate upon the occurrence of a make-whole fundamental change may, in certain circumstances, delay or prevent a takeover of us that might otherwise be beneficial to our stockholders.

**The capped call transactions may affect the value of the 2024 Notes and our common stock.**

In connection with the issuance of the 2024 Notes, we entered into capped call transactions with the “option counterparties.” The capped call transactions are expected generally to reduce or offset the potential dilution upon conversion of the 2024 Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted 2024 Notes, as the case may be, with such reduction and/or offset subject to a cap.

From time to time, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the 2024 Notes. This activity could also cause or avoid an increase or a decrease in the market price of our common stock.

**We are subject to counterparty risk with respect to the capped call transactions.**

The option counterparties to the capped call transactions are financial institutions, and we will be subject to the risk that any or all of them might default under the capped call transactions. Our exposure to the credit risk of the counterparties will not be secured by any collateral. Past global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under the capped call transactions with such option counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in the market price and in the volatility of our common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurance as to the financial stability or viability of the option counterparties.

Table of Contents

**Item 6.** ***Exhibits***

| Exhibit No. | Description |
|---|---|
| 4.1 | Indenture, dated March 9, 2020, by and between Infinera Corporation and U.S. Bank National Association, incorporated herein by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on March 9, 2020 |
| 4.2 | Form of 2.50% Convertible Senior Note due 2027 (included in Exhibit 4.1 incorporated by reference hereto) |
| 10.1* | Offer Letter between Infinera Corporation and Nicholas Walden dated January 3, 2020, incorporated herein by reference to Exhibit 10.27 of the Registrant's Annual Report on Form 10-K (No. 001-33486), filed with the SEC on March 4, 2020 |
| 10.2 | Second Amendment to Credit Agreement, dated as of March 4, 2020, among Infinera Corporation, the lenders party thereto, and Wells Fargo Bank, National Association, as Administrative Agent, incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on March 4, 2020 |
| 10.3 | Purchase Agreement, dated March 4, 2020, by and between Infinera Corporation and Goldman Sachs & Co. LLC, incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (No. 001-33486), filed with the SEC on March 9, 2020 |
| 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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101) |

* Management contract or compensatory plan, contract or arrangement.

** 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 Exchange Act, 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.

## 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/ NANCY ERBA

**Nancy Erba**
**Chief Financial Officer**
**(Duly Authorized Officer and**
**Principal Financial Officer)**

Date: May 15, 2020

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas J. Fallon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Infinera Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 15, 2020

By: /s/ THOMAS J. FALLON

**Thomas J. Fallon**
**Chief Executive Officer**
**(Principal Executive Officer)**

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Nancy Erba, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Infinera Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 15, 2020

By: /s/ NANCY ERBA

**Nancy Erba**
**Chief Financial Officer**
**(Principal Financial Officer)**

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas J. Fallon, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Infinera Corporation for the quarterly period ended March 28, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Infinera Corporation.

Date: May 15, 2020

/s/ THOMAS J. FALLON

**Thomas J. Fallon**
**Chief Executive Officer**
**(Principal Executive Officer)**

I, Nancy Erba, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Infinera Corporation for the quarterly period ended March 28, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Infinera Corporation.

Date: May 15, 2020

/s/ NANCY ERBA

**Nancy Erba**
**Chief Financial Officer**
**(Principal Financial Officer)**

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Infinera Corporation and will be retained by Infinera Corporation and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

This certification “accompanies” the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the U.S. Securities and Exchange Commission and is not to be incorporated by reference into any filing of Infinera Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.