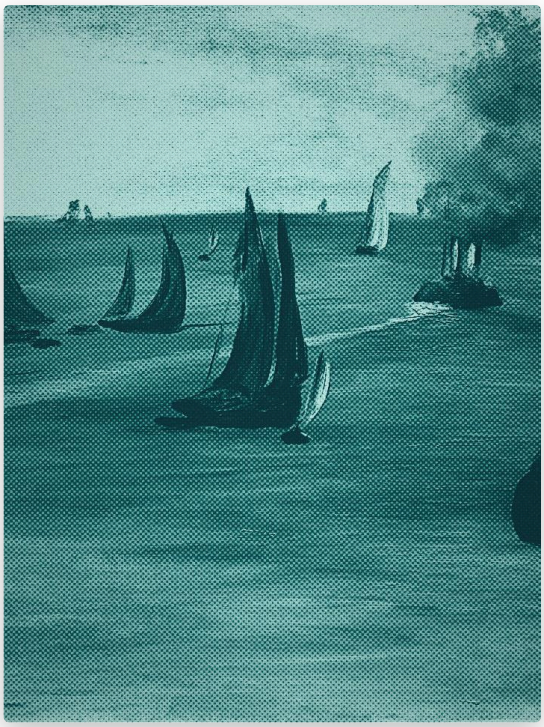
FORM S-1 · REGISTRATION STATEMENT

Infinera Corp

IPO priced 2007-06-07 · $13.00 a share · INFN



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 26, 2007

REGISTRATION NO. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

INFINERA CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	**3661**	**77-0560433**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

169 JAVA DRIVE

SUNNYVALE, CA 94089

(408) 572-5200

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

JAGDEEP SINGH

PRESIDENT AND CHIEF EXECUTIVE OFFICER

INFINERA CORPORATION

169 JAVA DRIVE

SUNNYVALE, CA 94089

(408) 572-5200

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨ If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee**
Common Stock $0.001 par value	$150,000,000	$4,605

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act.

(2) Includes offering price of shares that the underwriters have the option to purchase to cover over-allotments, if any.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated February 26, 2007.

Shares

INFINERA CORPORATION

Common Stock

This is an initial public offering of shares of common stock of Infinera Corporation. All of the shares of common stock are being sold by Infinera Corporation.

Prior to this offering, there has been no public market for our common stock. It is currently estimated that the initial public offering price per share will be between $ and $. Application has been made for the quotation of the common stock on the NASDAQ Global Market under the symbol "INFN."

See " Risk Factors" on page 7 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price		$$
Underwriting discount		$$
Proceeds, before expenses, to Infinera		$$

To the extent that the underwriters sell more than shares of common stock, the underwriters have the option to purchase up to an additional shares from Infinera Corporation at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2007.

Goldman, Sachs & Co.

CITIGROUP

JPMORGAN

LEHMAN BROTHERS

THOMAS WEISEL PARTNERS LLC

Prospectus dated , 2007.

Prospectus Summary

PROSPECTUS SUMMARY *This summary highlights information contained elsewhere in this prospectus. You should read the following summary together with the more detailed information appearing in this prospectus, including our financial statements and notes, and our risk factors beginning on page 7, before deciding whether to purchase shares of our common stock. Unless the context otherwise requires, we use the terms "Infinera," the "company," "we," "us" and "our" in this prospectus to refer to Infinera Corporation and its subsidiaries.*

Infinera Corporation

Overview

Infinera has developed an innovative solution that we believe will dramatically change the economics, operating simplicity, flexibility, reliability and scalability of optical communications networks. At the core of our Digital Optical Network architecture is the world's only commercially-deployed, large-scale photonic integrated circuit, or PIC. Our PICs transmit and receive 100 Gigabits per second, or Gbps, of optical capacity and incorporate the functionality of over 60 discrete optical components into a pair of indium phosphide chips approximately the size of a child's fingernail. We have used our PIC technology to design a new digital optical communications system called the DTN System. The DTN System is designed to enable cost-efficient optical to electrical to optical, or O-E-O, conversion of communications signals. The DTN System is architected to improve significantly communications service providers' economics and service offerings as compared to optical systems that do not use large-scale photonic integration. We refer to these optical systems as traditional systems. Our carrier-class DTN System runs our Infinera IQ Network Operating System and is integrated with our Infinera Management Suite software, which together enhance and simplify network monitoring, management and control.

We believe that photonic integrated circuits will fundamentally change optical communications networks in a fashion similar to the integrated circuit's impact on electronics beginning in the 1950's. Our DTN System is designed to serve as the key element for long-haul and metro optical transport networks of U.S. and international communications service providers. Our DTN System currently competes in the wavelength division multiplexing, or WDM, segment of the nearly $12 billion global optical communications equipment market.

Our DTN System is designed to provide significant advantages over traditional systems, including:

- *Operating simplicity and cost savings*. Our DTN System provides our customers with flexible management and control and is designed to simplify network planning, engineering and operation, consume less power, enable simplified testing and improve system reliability. In addition, our DTN System provides optical capacity in 100 Gbps increments, enabling our customers to more easily scale their optical networks;

- *Enhanced revenue generation.* Our DTN System significantly lowers the cost of O-E-O conversion, which enables our customers to access markets cost-effectively that had previously not been served due to cost constraints. Our DTN System also enables communications service providers to add customers and provision new services more rapidly than traditional systems; and

- *Capital cost savings.* Our DTN System incorporates the functionality of over 60 discrete optical components into a single PIC pair, reducing capital expenditures and the physical space required for a given amount of optical network capacity.

We began commercial shipment of our DTN System in November 2004. In the third quarter of 2005, we achieved, and have since maintained through the fourth quarter of 2006, the #1 market share of 10 Gbps long-haul ports shipped worldwide. We have sold our DTN System for deployment in the optical networks of 25 customers worldwide, including Internet2, Interoute, Level 3 Communications and Qwest Communications.

Industry Background

A number of trends in the communications industry are driving growth in demand for network capacity, including increases in total Internet users and bandwidth consumed per Internet user. We believe increasing demand for network capacity ultimately will increase demand for optical communications systems.

Most optical communications systems utilize WDM technology that transmits multiple signals, each as separate colors of light, or wavelengths, on a single fiber in a communications service provider's network. These systems have historically used discrete optical components or sub-systems that can limit the quality and reliability of the optical communications system. Traditional systems use either O-E-O conversion to process digital data or an all-optical architecture to reduce the need for expensive O-E-O conversions. With traditional systems, communications service providers must choose at multiple network access points whether to utilize a WDM system that enables high-performance digital management and processing but with high O-E-O conversion costs, or to use an all-optical architecture that reduces O-E-O conversion costs but may also limit service reach and add cost.

Most traditional systems involve significant capital expenditure, space and power consumption. Each wavelength in these systems requires its own O-E-O conversion, and discrete components are required for each O-E-O conversion, which adds significant cost and reduces reliability. Expanding optical communications networks with traditional systems is often manually intensive as communications service providers may need to redesign the network, re-allocate available wavelengths or deploy additional hardware at multiple locations each time a new circuit is added. Advanced features, such as network-wide provisioning or optical layer protection, often involve high costs because additional equipment may be required.

All-optical architectures, including Reconfigurable Optical Add/Drop Multiplexers, or ROADMs, often provide limited digital processing of data, which prevents these systems from efficiently adding and dropping communications traffic at intermediate network access points. This can result in a reduced network footprint and decreased revenue opportunities for communications service providers, particularly in smaller regions and markets. In addition, associated network planning and service provisioning can be significantly more costly and time consuming and installation costs can be high. All-optical approaches can limit overall network capacity due to wavelength blocking, or the inability to use wavelengths of light because they are already in use in another part of the network.

We believe significant demand exists for an optical communications system that is simple and easy to operate and that reduces operating and capital costs for communications service providers.

The Infinera Solution and Strategy

Our PIC technology facilitates a new network architecture that allows communications service providers to realize the benefits of both WDM and digital processing more fully and cost-effectively. Our PICs enable lower-cost O-E-O conversions at every network access point to provide communications service providers with the ability to digitally process the information being transported across their optical networks. Our software enables our customers to leverage this digital information to simplify and speed the delivery of differentiated services and to optimize the utilization of their optical networks.

Our goal is to be the preeminent provider of optical systems to communications service providers. Key aspects of our strategy are:

- *Increase our customer footprint.* We intend to increase penetration of our installed base of communications service providers while also targeting new U.S. and international communications service providers, including U.S. Regional Bell Operating Companies, or RBOCs, international postal, telephone and telegraph companies, or PTTs, cable multiple system operators, or cable MSOs and metro carriers;

- *Penetrate adjacent markets.* We intend to increase our addressable market by adding functionality to our DTN System, by developing new products, including products specifically designed for metro applications, and by creating the service and support infrastructure needed to address these markets;

- *Maintain and extend our technology lead.* We intend to incorporate the functionality of additional discrete components into our PICs and to pursue further functional integration in our DTN System in order to enhance the performance, scalability and economics of our DTN System; and

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

Corporate Information

Infinera was founded in December 2000, originally operated under the name "Zepton Networks," and is headquartered in Sunnyvale, California. Our principal executive offices are located at 169 Java Drive, Sunnyvale, CA 94089. Our telephone number is (408) 572-5200. Our website address is www.infinera.com. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website to be part of this prospectus.

“Infinera,” “Infinera DTN,” “IQ,” “iPIC,” “Infinera Digital Optical Networks” and other trademarks or service marks of Infinera Corporation appearing in this prospectus are the property of Infinera Corporation. This prospectus contains additional trade names, trademarks and service marks of other companies. We do not intend our use or display of other companies’ trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

The Offering

Common stock offered by Infinera	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	We intend to use the net proceeds from this offering for working capital and other general corporate purposes. We may also use a portion of the net proceeds to repay our credit facilities or acquire other businesses, products or technologies. We do not, however, have agreements or commitments for any specific repayments or acquisitions at this time. See the section titled “Use of Proceeds.”
Dividend policy	Currently, we do not anticipate paying cash dividends.
Risk factors	You should read the “Risk Factors” section of this prospectus for a discussion of factors that you should consider carefully before deciding whether to invest in shares of our common stock.
Proposed NASDAQ Global Market symbol	“INFN”

The number of shares of our common stock to be outstanding following this offering is based on 68,481,069 shares of our common stock outstanding as of December 31, 2006, but excludes:

- 7,872,264 shares of common stock issuable upon exercise of options outstanding as of December 31, 2006 at a weighted average exercise price of $1.77 per share;
- 1,332,682 shares of common stock issuable upon the exercise of warrants outstanding as of December 31, 2006, at a weighted average exercise price of $5.41 per share; and
- 17,482,974 shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 2,070,474 shares of common stock reserved for issuance under our 2000 Stock Plan, 13,600,000 shares of common stock reserved for issuance under our 2007 Equity Incentive Plan and 1,812,500 shares of common stock reserved for issuance under our 2007 Employee Stock Purchase Plan. The 2007 Equity Incentive Plan and the 2007 Employee Stock Purchase Plan will become effective on the date of this offering.

Unless otherwise indicated, this prospectus reflects and assumes the following:

- a 1-for-4 reverse stock split of our common stock and convertible preferred stock to be effected prior to the closing of this offering;
- the conversion of all outstanding shares of our convertible preferred stock immediately prior to the closing of this offering;
- the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws immediately prior to the closing of this offering; and
- no exercise by the underwriters of their option to purchase up to an additional shares to cover over-allotments.

Summary Consolidated Financial Data

The following tables summarize our consolidated financial data. We have derived the statements of operations data for the years ended December 31, 2004, 2005 and 2006 and balance sheet data as of December 31, 2006 from our audited consolidated financial statements appearing elsewhere in this prospectus. Our historical results are not indicative of the results that should be expected in the future. You should read this summary consolidated financial data in conjunction with the sections titled “Selected Consolidated Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes, all included elsewhere in this prospectus.

	Years Ended December 31,		
	2004	2005	2006
	(In thousands, except per share data)		
Statements of Operations Data:			
Revenue:			
Ratable product and related support and services	$—	$4,127	$53,484
Product	599	—	5,258
Total revenue	599	4,127	58,742
Cost of revenue:			

Cost of ratable product and related support and services(1)	—	27,455	69,765
Cost of product	7,240	—	1,660
Total cost of revenue	7,240	27,455	71,425
Gross loss	(6,641)	(23,328)	(12,683)
Operating expenses:			
Sales and marketing(1)	8,294	11,053	20,682
Research and development(1)	46,306	24,986	38,967
General and administrative(1)	2,888	4,328	12,650
Amortization of intangible assets	—	—	56
Total operating expenses	57,488	40,367	72,355
Loss from operations	(64,129)	(63,695)	(85,038)
Other income (expense), net	(2,351)	(2,079)	(4,009)
Loss before provision for income taxes and cumulative effect of change in accounting principle	(66,480)	(65,774)	(89,047)
Provision for income taxes	—	12	72
Loss before cumulative effect of change in accounting principle	(66,480)	(65,786)	(89,119)
Cumulative effect of change in accounting principle	—	(1,137)	—
Net loss	$(66,480)	$(64,649)	$(89,119)
Net loss per common share, basic and diluted	$(15.30)	$(13.76)	$(14.55)
Weighted average number of shares used in computing basic and diluted net loss per common share	4,345	4,698	6,127
Pro forma net loss per common share, basic and diluted (unaudited)			$(1.47)
Weighted average number of shares used in computing pro forma basic and diluted net loss per common share (unaudited)			60,480

(1) Stock-based compensation expense included in above as follows:

	Years Ended December 31,		
	2004	2005	2006
	(In thousands)		
Cost of revenue	$—	$—	$151
Sales and marketing	—	36	411
Research and development	180	99	198
General and administrative	34	7	335
Total stock-based compensation charge	$214	$142	$1,095

	As of December 31, 2006		
	Actual	Pro Forma	Pro Forma As Adjusted
	(In thousands, unaudited)		
Balance Sheet Data:			
Cash, cash equivalents and short-term investments	$29,572	$29,572	
Working capital	2,724	8,133	
Total assets	230,153	230,153	
Preferred stock warrant liability	5,409	—	
Current and long-term debt	27,582	27,582	
Convertible preferred stock	320,550	—	
Total stockholders' equity (deficit)	(305,328)	20,631	

The pro forma column in the balance sheet data table above reflects (i) the conversion of all outstanding shares of our convertible preferred stock into an aggregate of 59,427,604 shares of common stock immediately prior to the closing of the offering and (ii) the reclassification of the preferred stock warrant liability to common stock immediately prior to the closing of this offering.

The pro forma as adjusted column in the balance sheet data table above reflects (i) the conversion of all outstanding shares of convertible preferred stock into common stock immediately prior to the closing of the offering, (ii) the reclassification of the preferred stock warrant liability to common stock immediately prior to the closing of the offering, and (iii) our sale of shares of common stock in this offering, at an assumed initial public offering price of $

per share, which is the midpoint of the price range listed on the cover page of this prospectus, and after deducting the estimated underwriting discount and estimated offering expenses payable by us and the application of our net proceeds from this offering.

The pro forma as adjusted information discussed above is illustrative only and will adjust based on the actual initial public offering price and other terms of this offering determined at pricing.

Risk Factors

RISK FACTORS *Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this prospectus, including the consolidated financial statements and the related notes, before deciding whether to purchase shares of our common stock. If any of the following risks is realized, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the price of our common stock could decline and you could lose part or all of your investment.*

Risk Related to Our Business

We have a limited operating history and have only recently begun selling our DTN System, both of which make it difficult to predict our future operating results.

We were incorporated in December 2000 and shipped our first DTN System in November 2004. Our limited operating history gives you very little basis upon which to evaluate our ability to accomplish our business objectives. In making an investment decision, you should evaluate our business in light of the risks, expenses and difficulties frequently encountered by companies in early stages of development, particularly companies in the rapidly changing optical communications market. We may not be successful in addressing these risks. It is difficult to accurately forecast our future revenue and plan expenses accordingly and, therefore, predict our future operating results.

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

We have not achieved profitability. We experienced a net loss of $89.1 million for the year ended December 31, 2006. As of December 31, 2006, our accumulated deficit was $313.1 million. We expect to continue to incur substantial losses, and we may not become profitable in the foreseeable future, if ever. We expect to continue to make significant expenditures related to the development of our business, including expenditures to hire additional personnel related to the sales, marketing and development of our DTN System and to maintain and expand our manufacturing facilities and research and development operations. In addition, as a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. We will have to generate and sustain significant increased revenue and product gross margins to achieve profitability. Accordingly, we may not be able to achieve or maintain profitability and we may continue to incur significant losses in the future.

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

Our operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on past results, in particular the recent growth in our revenue, as an indicator of our future performance. Fluctuations in our revenue can lead to even greater fluctuations in our operating results. Our budgeted expense levels depend in part on our expectations of long-term future revenue. Given relatively fixed operating costs related to our personnel and facilities, any substantial adjustment to our expenses to account for lower levels of revenue will be difficult and take time. Consequently, if our revenue does not meet projected levels, our inventory levels and operating expenses would be high relative to revenue, resulting in additional operating losses.

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

- fluctuations in demand, sales cycles, product mix and prices for our DTN System and our services;
- reductions in customers' budgets for optical communications purchases and delays in their purchasing cycles;
- order cancellations or reductions or delays in delivery schedules by our customers;
- timeliness of our customers' payments for their purchases;
- the timing of recognizing revenue in any given quarter as a result of software revenue recognition requirements and any changes in U.S. generally accepted accounting principles or new interpretations of existing accounting rules;
- our ability to establish vendor specific objective evidence, or VSOE;
- readiness of customer sites for installation of our DTN System;
- the timing of product releases or upgrades by us or by our competitors;
- availability of third party suppliers to provide contract engineering and installation services for us;
- any significant changes in the competitive dynamics of our market, including any new entrants, technological advances or substantial discounting of products;

- our ability to control costs, including our operating expenses and the costs of components we purchase; and
- general economic conditions in domestic and international markets.

If we do not establish VSOE in 2008, all revenue for our bundled products will continue to be deferred and recognized ratably over the longest undelivered service period. If our revenue or operating results fall below the expectations of investors or securities analysts or below any guidance we may in the future provide to the market, the price of our common stock may decline substantially.

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

Our gross margin fluctuates from period to period and may continue to be adversely affected by a number of factors, including:

- the mix in any period of higher and lower margin products and services;
- price discounts negotiated by our customers;
- sales volume from each customer during the period;
- the period of time over which ratable recognition of revenue occurs;
- the amount of equipment we sell for a loss in a given quarter;
- charges for excess or obsolete inventory;
- changes in the price or availability of components for our DTN System;
- our ability to reduce manufacturing costs;
- introduction of new products, with initial sales at relatively small volumes with resulting higher product costs;
- increased price competition, including competition from low-cost producers in China; and
- increased warranty or repair costs.

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

Aggressive business tactics by our competitors may harm our business.

Increased competition in our markets has resulted in aggressive business tactics by our competitors, including:

- selling at a discount used equipment or inventory that a competitor had previously written down or written off;
- announcing competing products prior to market availability combined with extensive marketing efforts;
- offering to repurchase our equipment from existing customers;
- providing financing, marketing and advertising assistance to customers; and
- asserting intellectual property rights.

If we fail to compete successfully against our current and future competitors, or if our current or future competitors continue or expand aggressive business tactics, including those described above, demand for our DTN System could decline, we could experience delays or cancellations of customer orders, or we could be required to reduce our prices or increase our expenses.

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

Competition in the optical communications equipment market is intense, and we expect such competition to increase. A number of very large companies historically have dominated the optical communications network equipment industry. Our competitors include current WDM suppliers, such as Alcatel-Lucent, Ciena Corporation, or Ciena, Cisco Systems, Fujitsu Limited, Huawei Technologies Co., LM Ericsson Telephone Co., NEC Corporation, Nortel

Networks, Siemens Systems GmbH and ZTE Corporation. Competition in these markets is based on price, functionality, manufacturing capability, pre-existing installation, services, existing business and customer relationships, scalability and the ability of products and breadth and quality of services to meet our customers' immediate and future network requirements. Other companies have, or may in the future develop, products that are or could be competitive with our DTN System. In particular, if a competitor develops a photonic integrated circuit with similar functionality, our business could be harmed. On June 19, 2006, Nokia and Siemens agreed to combine their communications service provider businesses to create a new joint venture and on November 30, 2006 Alcatel and Lucent announced the completion of their merger. These transactions and any future mergers, acquisitions or combinations between or among our competitors may adversely affect our competitive position by strengthening our competitors.

Many of our competitors have substantially greater name recognition and technical, financial and marketing resources, greater manufacturing capacity and better established relationships with incumbent carriers and other potential customers than we have. Many of our competitors have more resources to develop or acquire, and more experience in developing or acquiring, new products and technologies and in creating market awareness for those products and technologies. In addition, many of our competitors have the financial resources to offer competitive products at below market pricing levels that could prevent us from competing effectively. Further, many of our competitors have built long-standing relationships with some of our prospective customers and 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 in China that can increase pricing pressure on us and a number of smaller companies that provide competition for a specific product, customer segment or geographic market. These competitors often base their products on the latest available technologies. Due to the narrower focus of their efforts, these competitors may achieve commercial availability of their products more quickly than we can and may provide attractive alternatives to our customers.

We are dependent on Level 3 Communications for a significant portion of our revenue and the loss of, or a significant reduction in orders from, Level 3 or one or more of our key customers would reduce our revenue and harm our operating results.

A relatively small number of customers account for a large percentage of our net revenue. In particular, for the year ended December 31, 2006, Level 3 Communications, or Level 3, represented approximately 60% of our revenue. We expect Level 3 to continue to represent a large percentage of our revenue for the foreseeable future. Our business will be harmed if we do not generate as much revenue as we expect from our key customers, particularly from Level 3, if we experience a loss of Level 3 or of any of our other key customers or if we suffer a substantial reduction in orders from these customers. Our ability to continue to generate revenue from our key customers will depend on our ability to introduce new products that are desirable to these customers at competitive prices, and we may not be successful doing so. Because our sales are made to these customers pursuant to standard purchase orders rather than long-term purchase commitments, orders may be cancelled or reduced readily. In the event of a cancellation or reduction of an order, we may not have enough time to reduce operating expenses to minimize the effect of the lost revenue on our business. Our operating results will continue to depend on our ability to sell our DTN System to Level 3 and other large customers.

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

Substantial changes in the optical communications industry have occurred over the last few years. Many potential customers have confronted static or declining revenue. Many of our customers have substantial debt burdens, many have experienced financial distress, some have gone out of business or have been acquired by other service providers or announced their withdrawal from segments of the business. Consolidation in the markets in which we compete has resulted in the changes in the structure of the communications networking industry, with greater concentration of purchasing power in a small number of large service providers, cable operators and government agencies. In addition, it has resulted in a substantial reduction in the number of our potential customers. For example, service providers, such as Level 3, have recently acquired a number of other communications service providers, including one of our other customers. This increased concentration among our customer base may also lead to increased negotiating power for our customers and may require us to decrease our average selling prices.

Further, many of our customers are large communications service providers that have substantial purchasing power and leverage in negotiating contractual arrangements with us. These customers have and may continue to seek advantageous pricing and other commercial terms and may require us to develop additional features in the products we sell to them. We have and may continue to be required to reduce the average selling price, or increase the average cost, of our DTN System in response to these pressures or competitive pricing pressures. To maintain acceptable operating results, we will need to develop and introduce new products and product enhancements on a timely basis and continue to reduce our costs.

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

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

If we are unable to offset any reductions in our average selling prices or increases in our average costs with increased sales volumes and reduced production costs, or if we fail to develop and introduce new products and enhancements on a timely basis, our operating results would be harmed.

We are dependent on a single product, and the lack of continued market acceptance of our DTN System would harm our business.

Our DTN System accounts for substantially all of our revenue and will continue to do so for the foreseeable future. As a result, our business could be harmed by:

- any decline in demand for our DTN System;
- the failure of our existing DTN System to achieve continued market acceptance;
- the introduction of products and technologies that serve as a replacement or substitute for, or represent an improvement over, our DTN System;
- technological innovations or new communications standards that our DTN System does not address; and
- our inability to release enhanced versions of our DTN System on a timely basis.

If we fail to expand sales of our DTN System into metro and international markets or to sell our products to new types of customers, such as RBOCs, PTTs and cable MSOs, our revenue will be harmed.

We believe that, in order to grow our revenue and business and to build a large and diverse customer base, we must successfully sell our DTN System in metro and international markets and ultimately to RBOCs, PTTs and cable MSOs. We have limited experience selling our DTN System internationally and to RBOCs, PTTs and cable MSOs. To succeed in these sales efforts, we believe we must hire additional sales personnel and develop and manage new sales channels through resellers, distributors and systems integrators. If we do not succeed in our efforts to sell to these target markets and customers, the size of our total addressable market will be limited. This, in turn, would harm our ability to grow our customer base and revenue.

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

We depend on our ability to protect our proprietary technology. We rely on 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 not be adequate to preclude misappropriation of our proprietary information or infringement of our intellectual property rights, and our ability to police such misappropriation or infringement is uncertain, particularly in countries outside of the United States. This is likely to become an increasingly important issue as we expand our operations and product development into countries that provide a lower level of intellectual property protection. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims, and even if patents are issued, they may be contested, circumvented or invalidated. Moreover, the rights granted under any issued patents may not provide us with a competitive advantage, and, as with any technology, competitors may be able to develop similar or superior technologies to our own now or in the future.

Protecting against the unauthorized use of our DTN System, 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 communications industry, including our competitors, have extensive patent portfolios with respect to optical communications technology. We expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. In addition, to the extent that we gain greater visibility and market exposure as a public company, we face a higher risk of being the subject of intellectual property infringement claims. From time to time, third parties may assert exclusive patent, copyright, trademark and other intellectual property rights to technologies and related standards that are important to our business or seek to invalidate the proprietary rights that we hold. Competitors or other third parties have, and may continue to assert claims or initiate litigation or other proceedings against us or our manufacturers, suppliers or customers alleging infringement of their proprietary rights, or seeking to invalidate our proprietary rights, with respect to our DTN System and technology. In the event that we are unsuccessful in defending against any such claims, or any resulting lawsuit or proceedings, we could incur liability for damages and/or have valuable proprietary rights invalidated.

Any claim of infringement from a third party, even those without merit, could cause us to incur substantial costs defending against such claims, and could distract our management from running our business. Furthermore, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from offering our DTN System. 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.

On May 9, 2006, we and Level 3 were sued by Cheetah Omni LLC, or Cheetah, for alleged infringement of patent No. 6,795,605, and a continuation thereof. On May 16, 2006, Cheetah filed an amended complaint, which requested an order to enjoin the sale of our DTN System and recover all damages caused by the alleged infringement. We are contractually obligated to indemnify Level 3 for damages suffered by Level 3 to the extent our product is found to infringe the rights of a third party, and we have assumed the defense of this matter. On July 12, 2006, we and Level 3 filed a response to Cheetah's amended complaint denying all infringement claims. On July 20, 2006, we and Level 3 filed an amended response. On November 28, 2006, Cheetah filed a second amended complaint and added patent No. 7,142,347 to the lawsuit. In the event that Cheetah is successful in obtaining a judgment requiring us to pay damages or obtains an injunction preventing the sale of our DTN System, our business could be harmed.

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

We are required to generate forecasts of future demands for our DTN System several months prior to the scheduled delivery to our prospective customers, which requires us to make significant investments before we know if corresponding revenue will be recognized. If we overestimate demand for our DTN System and increase our inventory in anticipation of customer orders that do not materialize, we will have excess inventory, we will face a risk of obsolescence and significant inventory write-downs and our capital infrastructure will be depreciated across fewer units raising our per unit costs. If we underestimate demand for our DTN System, we will have inadequate inventory, which could slow down or interrupt the manufacturing of our DTN System and result in delays in shipments and our ability to recognize revenue. In addition, we may be unable to meet our supply commitments to customers which could result in a breach of our customer agreements and require us to pay damages. Lead times for materials and components, including application-specific integrated circuits, or ASICs, that we need to order for the manufacturing of our DTN System vary significantly and depend on factors such as the specific supplier, contract terms and demand for each component at a given time.

Our manufacturing process is very complex and minor process deviations may reduce yields, require product write-downs or otherwise harm our business.

The manufacturing process of our DTN System is technically challenging. Minor deviations in the manufacturing process can cause substantial decreases in yields and, in some cases, cause production to be suspended. We have had production interruptions and suspensions in the past and may have additional interruptions or suspensions in the future. We expect our manufacturing yield for our next generation PICs to be lower initially and increase as we achieve full production. Poor yields from our PIC manufacturing process or defects, integration issues or other performance problems in our DTN System could cause us customer relations and business reputation problems, harming our business and operating results.

In addition, our manufacturing facilities may not have adequate capacity to meet the demand for our DTN System or we may not be able to increase our capacity to meet potential increases in demand for our DTN System. 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 customers, our business and our operating results.

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

The development and production of new products with high technology content, such as our DTN System, is complicated and often involves problems with software, components and manufacturing methods. Complex hardware and software products, such as our DTN System, can often contain undetected errors when first introduced or as new versions are released. We have experienced errors in the past in connection with our DTN System, including failures with ASICs due to the receipt of faulty components from one of our suppliers. We suspect that errors, including potentially serious errors, will be found from time to time in our DTN System. We have only been shipping our DTN System since November 2004, which provides us with limited information on which to judge its reliability. Our DTN System may suffer degradation of performance and reliability over time.

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

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

- declining interest from potential customers.

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

From time to time, we encounter interruptions or delays in the activation of our DTN System 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, confidence in our DTN System could be undermined, which could cause us to lose customers and fail to add new customers.

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 from single or limited sources. In particular, we rely on third parties as sole source suppliers for certain of our components, including: ASICs, field- programmable gate arrays, or FPGAs, processors, and other semiconductor and optical components. We purchase these items on a purchase order basis and have no long-term contracts with any of these sole source suppliers. If any of our sole or limited source suppliers suffer from capacity constraints, lower than expected yields, work stoppages or any other reduction or disruption in output, they may be unable to meet our delivery schedule. 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. If we do not receive critical components from our suppliers in a timely manner, we will be unable to deliver those components to our manufacturer in a timely manner and would, therefore, be unable to meet our prospective customers' product delivery requirements. In addition, the sourcing from new suppliers may result in a re-design of our DTN System, which could cause delays in the manufacturing and delivery of our systems. In the past, we have experienced delivery delays because of lack of availability of components or reliability issues with components that we were purchasing. This may occur in the future, which could cause us to fail to meet a customer's delivery requirements and could harm our reputation and our customer relationships and result in the breach of our customer agreements.

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

Our future success depends on factors such as the continued growth of the Internet and IP traffic and the continuing adoption of high capacity, revenue-generating services to increase the amount of data transmitted over communications networks and the growth of optical communications networks to meet the increased demand for bandwidth. If demand for such bandwidth does not continue, or slows down, the need for increased bandwidth across networks and the market for optical communications network products may not continue to grow. If this growth does not continue or slows down, our DTN System sales would be negatively impacted.

We have experienced delays in the development and introduction of our DTN System, and any future delays in releasing new products or in enhancements to our DTN System may harm our business.

Since our DTN System is based on complex technology, we may experience unanticipated delays in developing, improving, manufacturing or deploying it. Any modification to our PIC and to our DTN System entails similar development risks. At any given time, various enhancements to our DTN System are in the development phase and are not yet ready for commercial manufacturing or deployment. The maturing process from laboratory prototype to customer trials, and subsequently to general availability, involves a number of steps, including:

- completion of product 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 DTN System. New versions of our PICs, specialized ASICs and intensive software testing and validation are important to the timely introduction of enhancements to our DTN System and to our ability to enter new markets, and schedule delays are common in the final validation phase as well as in the manufacture of specialized ASICs. In addition, unexpected intellectual property disputes, failure of critical design elements, and a host of other execution risks may delay or even prevent the introduction of enhancements to our DTN System. If we do not develop and successfully introduce products in a timely manner, our competitive position may suffer.

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

The optical communications equipment market is characterized by rapid technological change, changes in customer requirements and evolving industry standards. The introduction of new communications technologies and the emergence of new industry standards or requirements could render our DTN System obsolete. Further, in developing our DTN System, 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 DTN System would be reduced or delayed and our business would be harmed.

We expect our competitors to continue to improve the performance of their existing products and to introduce new products and technologies. To be competitive, we must continue to invest significant resources in research and development, sales and marketing and customer support. We may not have sufficient resources to make these investments, we may not be able to make the technological advances necessary to be competitive and we may not be able to effectively sell our DTN System to targeted customers who have prior relationships with our competitors.

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

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

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

Our DTN System has a lengthy sales cycle, which can extend from six to twelve months and may take even longer for larger prospective customers such as RBOCs and PTTs. Our prospective customers conduct significant evaluation, testing, implementation and acceptance procedures before they purchase our DTN System. 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 frequently subject to budget constraints, multiple approvals and unplanned administrative, processing and other delays. If sales expected from customers for a particular quarter are not realized in that quarter or at all, our revenue will be negatively impacted.

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

We market, sell and service our DTN System globally. In 2005, we derived approximately 36% of our revenue from customers outside of the United States. This number decreased to 14% in 2006. We have sales and support personnel in numerous countries worldwide. In addition, we have a large group of software development personnel located in Bangalore, India. We expect that significant management attention and financial resources will be required for our international activities over the foreseeable future as we enter new international markets. In some countries, our success 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 DTN System could impact our ability to maintain or increase international market demand for our DTN System.

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

- greater difficulty in collecting accounts receivable and longer collection periods;
- difficulties of managing and staffing international offices, and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- the impact of recessions in economies outside the United States;
- tariff and trade barriers and other regulatory requirements or contractual limitations on our ability to sell or develop our DTN System in certain foreign markets;
- certification requirements;
- reduced protection for intellectual property rights in some countries;
- potentially adverse tax consequences;
- political and economic instability;
- effects of changes in currency exchange rates; and
- service provider and government spending patterns.

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

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

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

Our future success will depend on our ability to have sufficient volumes of our DTN System manufactured in a cost-effective and quality-controlled manner. We have engaged third parties to manufacture certain elements of our DTN System. There are a number of risks associated with our dependence on contract manufacturers, including:

- reduced control over delivery schedules;
- reliance on the quality assurance procedures of third parties;
- potential uncertainty regarding manufacturing yields and costs;
- potential lack of adequate capacity during periods of excess demand;
- limited warranties on components supplied to us;
- potential misappropriation of our intellectual property; and
- potential manufacturing disruptions.

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

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

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

Our management and our independent registered public accounting firm identified a material weakness in the design and operation of our internal controls as of December 31, 2005, which could result in material misstatements in our financial statements in future periods.

Our independent registered public accounting firm reported to the Board of Directors a material weakness in the design and operation of our internal controls as of December 31, 2005. A material weakness is defined by the standards issued by the American Institute of Certified Public Accountants, as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The identified material weakness related to our inventory valuation process. Specifically, certain manufacturing costs were not reflected or captured in a timely basis in the inventory records and the inventory analysis contained computational errors which resulted in adjustments to the financial statements. This material weakness impacts our ability to report financial information in conformity with GAAP, which could affect the following financial statement accounts: inventory, deferred inventory costs, research and development expenses, and cost of ratable revenue.

Our independent registered public accounting firm was not, however, engaged to audit the effectiveness of our internal control over financial reporting. If such an evaluation had been performed or when we are required to perform such an evaluation, additional material weaknesses, significant deficiencies and other control deficiencies may have been or may be identified.

We believe we have remediated the material weakness by implementing additional procedures and controls, hiring additional accounting personnel and increasing management review and oversight. If the remediated policies and procedures we have implemented are insufficient to address the material weakness, or if additional material weaknesses in our internal controls are discovered in the future, we may fail to meet our future reporting obligations, our financial statements may contain material misstatements, our results of operations may be harmed and the price of our common stock may decline. Any such failure could also adversely affect the results of the periodic management evaluations and annual independent registered public accounting firm

attestation reports regarding the effectiveness of our "internal control over financial reporting" that will be required when the rules of the Securities and Exchange Commission, or the SEC, under Section 404 of the Sarbanes-Oxley Act of 2002, as amended, or Sarbanes-Oxley Act, become applicable to us beginning with the required filing of our Annual Report on Form 10-K for the year ended December 31, 2008.

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

We are subject to export control laws that limit which products we sell and where and to whom we sell our DTN System. In addition, various countries regulate the import of certain technologies and have enacted laws that could limit our ability to distribute our DTN System or could limit our customers' ability to implement our DTN System in those countries. Changes in our DTN System or changes in export and import regulations may create delays in the introduction of our DTN System in international markets, prevent our customers with international operations from deploying our DTN System throughout their global systems or, in some cases, prevent the export or import of our DTN System to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our DTN System by, or in our decreased ability to export or sell our DTN System to, existing or potential customers with international operations. For example, we need to comply with Waste from Electrical and Electronic Equipment, or WEEE, and Restriction of Hazardous Substances, or RoHS, laws, which have been adopted by certain European Economic Area countries on a country-by-country basis. Failure to comply with these and similar laws on a timely basis, or at all, decreased use of our DTN System or any limitation on our ability to export or sell our products would adversely affect our business, financial condition and operating results.

We will incur increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives.

As a public company, we will incur legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and the NASDAQ Stock Market, impose additional requirements on public companies, including requiring changes in corporate governance practices. For example, the listing requirements of the NASDAQ Global Market require that we satisfy certain corporate governance requirements relating to independent directors, audit committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of conduct. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantial additional costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

In addition, U.S. securities laws require, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, for the year ending December 31, 2008, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management time on compliance-related issues. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to review by the NASDAQ Stock Market, the SEC, or other regulatory authorities, which would require additional financial and management resources.

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, largely driven by our vertically integrated structure. We have historically relied on significant outside financing as well as cash flow from operations to fund our operations, capital expenditures and expansion. We may require additional capital from equity or debt financings in the future to fund our operations or respond to competitive pressures or strategic opportunities in the event that we continue to incur significant losses or otherwise. We may not be able to secure timely additional financing on favorable terms, or at all. The terms of any additional financing may place limits on our financial and operating flexibility. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer dilution in their percentage ownership of our company, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock, including shares of common stock sold in this offering. If we are unable to obtain adequate financing or financing on terms satisfactory to us, if and when we require it, our ability to grow or support our business and to respond to business challenges could be limited and our business will be harmed.

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

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

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

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

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

Acquisitions also involve numerous risks, including:

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

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

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

Our headquarters and the majority of our infrastructure, including our PIC manufacturing facility, is located in Northern California, an area that is susceptible to earthquakes and other natural disasters. Further, a terrorist attack aimed at Northern California or at our nation's energy or telecommunications infrastructure could hinder or delay the development and sale of our DTN System. In the event that an earthquake, terrorist attack or other catastrophe were to destroy any part of our 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.

Risks Related to this Offering and Ownership of Our Common Stock

The trading price of our common stock is likely to be volatile, and you might not be able to sell your shares at or above the initial public offering price.

The trading prices of the securities of technology companies have been highly volatile. Further, our common stock has no prior trading history. Factors affecting the trading price of our common stock will 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 operating results or changes in recommendations by any securities analysts that elect to follow our common stock;
- market conditions in our industry, the industries of our customers and the economy as a whole; and
- adoption or modification of regulations, policies, procedures or programs applicable to our business.

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

Our securities have no prior market and our stock price may decline after the offering.

Prior to this offering, there has been no public market for shares of our common stock. Although we have applied to have our common stock quoted on the NASDAQ Global Market, an active public trading market for our common stock may not develop or, if it develops, may not be maintained after this offering. Our company and the representatives of the underwriters will negotiate to determine the initial public offering price. The initial public offering price may be higher than the trading price of our common stock following this offering. As a result, you could lose all or part of your investment.

Future sales of shares by existing stockholders could cause our stock price to decline.

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the 180-day contractual lock-up, which period may be extended in certain limited circumstances, and other legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline below the initial public offering price. Based on shares outstanding as of December 31, 2006, upon completion of this offering, we will have outstanding shares of common stock, assuming no exercise of the underwriters' over-allotment option. Of these shares, only the shares of common stock sold in this offering will be freely tradable, without restriction, in the public market. The managing underwriters may, in their sole discretion, permit our officers, directors, employees and current stockholders who are subject to the contractual lock-up to sell shares prior to the expiration of the lock-up agreements.

After the lock-up agreements pertaining to this offering expire 180 days from the date of this prospectus, which period may be extended in certain limited circumstances, up to an additional 64,441,825 shares will be eligible for sale in the public market, 29,943,715 of which are held by directors, executive officers and other affiliates and will be subject to volume limitations under Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, and various vesting agreements. In addition, as of December 31, 2006, the 1,332,682 shares subject to outstanding warrants, the 7,872,264 shares that are subject to outstanding options and the 2,070,474 shares reserved for future issuance under our 2000 Stock Plan, and the 13,600,000 shares of common stock to be reserved for issuance under our 2007 Equity Incentive Plan and 1,812,500 shares of common stock to be reserved for issuance under our 2007 Employee Stock Purchase Plan upon the effective date of this offering, will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, the lock-up agreements and Rules 144 and 701 under the Securities Act. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

Some of our existing stockholders have contractual demand or piggyback rights to require us to register with the SEC up to 62,427,604 shares of our common stock. If we register these shares of common stock, the stockholders would be able to sell those shares freely in the public market. All of these shares are subject to lock-up agreements restricting their sale for 180 days after the date of this prospectus, which period may be extended in certain limited circumstances.

After this offering, we intend to register approximately 25,355,238 shares of our common stock that we have issued or may issue under our equity plans. Once we register these shares, they can be freely sold in the public market upon issuance, subject to the lock-up agreements, if applicable, described above.

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of our company, the trading price for our stock would be negatively impacted. In the event we obtain securities or industry analyst coverage, if one or more of the analysts who covers us downgrades our stock or publishes misleading or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price or trading volume to decline.

Insiders will continue to have substantial control over us after this offering, which may limit our stockholders' ability to influence corporate matters and delay or prevent a third party from acquiring control over us.

Upon completion of this offering, our directors and executive officers and their affiliates will beneficially own, in the aggregate, approximately % of our outstanding common stock, assuming no exercise of the underwriters' over-allotment option, compared to % represented by the shares sold in this offering, assuming no exercise of the underwriters' over-allotment option. As a result, these stockholders will be able to exercise influence over all matters requiring stockholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit your ability to influence corporate matters and delay or prevent a third party from acquiring control over us. For information regarding the ownership of our outstanding stock by our executive officers and directors and their affiliates, please see the section titled "Principal Stockholders."

As a new investor, you will experience substantial dilution as a result of this offering and future equity issuances.

The assumed initial public offering price per share is substantially higher than the pro forma net tangible book value per share of our common stock outstanding prior to this offering. As a result, investors purchasing common stock in this offering will experience immediate substantial dilution of $ a share. In addition, we have issued options to acquire common stock at prices below the initial public offering price. To the extent outstanding options are ultimately exercised, there will be further dilution to investors in this offering. This dilution is due in large part to the fact that our earlier investors paid substantially less than the initial public offering price when they purchased their shares of common stock. In addition, if the underwriters exercise their over-allotment option, if outstanding warrants to purchase our common stock are exercised, or if we issue additional equity securities, you will experience additional dilution.

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. For more information, see the section titled "Description of Capital Stock—Anti-Takeover Effects of Our Charter and Bylaws and Delaware Law." 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, which will be in effect as of the closing of this offering:

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

Our management will have broad discretion over the use of the proceeds we receive in this offering and might not apply the proceeds in ways that increase the value of your investment.

Our management will have broad discretion to use the net proceeds from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. Our management might not apply the net proceeds of this offering in ways that increase the value of your investment. We expect to use the net proceeds from this offering to possibly repay our credit facilities, and for general corporate purposes, including working capital and capital expenditures, which may in the future include investments in, or acquisitions of, complementary businesses, services or technologies. We have not allocated these net proceeds for any specific purposes. Our management might not be able to yield a significant return, if any, on any investment of these net proceeds. You will not have the opportunity to influence our decisions on how the net proceeds from this offering are used.

Forward-Looking Statements

FORWARD-LOOKING STATEMENTS This prospectus includes forward-looking statements that relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. All statements contained in this prospectus other than statements of historical facts, including statements regarding our future operating results and financial position, our business strategy and plans and our objectives for future operations, are forward-looking statements. The words "anticipate," "architected," "believe," "continue," "could," "designed," "enable," "estimate," "expect," "intend," "likely," "may," "plan," "target," "will," or "would" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements made herein include, but are not limited to, statements about:

- anticipated trends and challenges in our business and the markets in which we operate;
- our ability to address market needs or develop new or enhanced products to meet those needs;
- expected adoption of our DTN System by our potential customers;
- our ability to compete in our industry;
- our ability to successfully manufacture our PICs and our DTN System;
- our ability to grow our revenue and improve our gross margins;
- our ability to protect our confidential information and intellectual property rights;
- our ability to manage our growth and anticipated expansion into new markets;
- our ability to establish VSOE in 2008;
- our need to obtain additional funding and our ability to obtain funding in the future on acceptable terms; and

- our expectations regarding the use of proceeds from this offering.

All forward-looking statements involve risks, assumptions and uncertainties. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, operating results, business strategy, short-term and long-term business operations and objectives, and financial needs. The occurrence of the events described, and the achievement of the expected results, depend on many events, some or all of which are not predictable or within our control. Actual results may differ materially from expected results. See the section titled "Risk Factors" and elsewhere in this prospectus for a more complete discussion of these risks, assumptions and uncertainties and for other risks and uncertainties. These risks, assumptions and uncertainties are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. We undertake no obligation, and specifically decline any obligation, to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Use of Proceeds

USE OF PROCEEDS We estimate that our net proceeds from the sale of the common stock that we are offering will be approximately $, assuming an initial public offering price of $ per share, which is the midpoint of the range listed on the cover page of this prospectus, and after deducting the estimated underwriting discount and estimated offering expenses payable by us. If the underwriters' over-allotment option to purchase additional shares in this offering is exercised in full we estimate that our net proceeds will be approximately $.

We intend to use the net proceeds to us from this offering for working capital and other general corporate purposes, including to finance our growth, develop new products, fund capital expenditures, or to expand our existing business through acquisitions of other businesses, products or technologies. However, we do not have agreements or commitments for any acquisitions at this time.

In addition, we may choose to repay our credit facilities, including:

- up to $5.4 million outstanding as of December 31, 2006 under our credit facility with Silicon Valley Bank and Gold Hill Ventures Lending 03, L.P. dated December 29, 2004 that has a maturity date of June 1, 2008 and had a weighted-average interest rate of 12.2% in 2006;

- up to $9.5 million outstanding as of December 31, 2006 under our credit facility with Silicon Valley Bank dated December 29, 2004 that has a maturity date of September 27, 2007 and had a weighted-average interest rate of 10.1% in 2006; and

- up to $7.8 million outstanding as of December 31, 2006 under our credit facility with United Commercial Bank dated June 21, 2005 that has a maturity date of October 31, 2009 and had an interest rate of 8.3% in 2006.

However, we do not have agreements or commitments for any specific repayments at this time.

The amount and timing of our expenditures will depend on several factors, including progress in our research and development efforts and the amount of cash used throughout our organization. Pending use of proceeds from this offering, we intend to invest the proceeds in a variety of capital preservation investments, including short- and intermediate-term interest bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

Dividend Policy

DIVIDEND POLICY We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings to support the operation of and to finance the growth and development of our business. We do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to compliance with certain covenants under our credit facilities, which restrict or limit our ability to pay dividends, and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

Capitalization

CAPITALIZATION The following table presents our cash, cash equivalents and short-term investments and capitalization as of December 31, 2006:

- on an actual basis;

- on a pro forma basis after giving effect to (i) the conversion of all outstanding shares of convertible preferred stock into common stock immediately prior to the closing of the offering and (ii) the reclassification of the preferred stock warrant liability to common stock immediately prior to the closing of this offering; and

- on a pro forma as adjusted basis reflecting (i) the conversion of all outstanding shares of convertible preferred stock into common stock immediately prior to the closing of this offering and the reclassification of the convertible preferred stock warrant liabilities to common stock and additional paid-in-capital and (ii) the receipt of the estimated net proceeds from the sale of shares of common stock offered by us at an assumed initial public offering price of $ per share, which is the midpoint of the range listed on the cover page of this prospectus, and after deducting the estimated underwriting discount and estimated offering expenses and the filing of our amended and restated certificate of incorporation immediately prior to the closing of this offering.

You should read this table in conjunction with the sections titled “Selected Consolidated Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of December 31, 2006		
	Actual	Pro Forma	Pro Forma As Adjusted
	(In thousands)		
Cash, cash equivalents and short-term investments	$29,572	$29,572	
Preferred stock warrant liability	$5,409	$—	$
Current and long-term debt	27,582	27,582	
Convertible preferred stock, $0.001 par value: 62,000 authorized and issuable in series, 58,806 shares issued and outstanding, actual; no shares authorized, no shares issued and outstanding, pro forma; no shares authorized, no shares issued and outstanding, pro forma as adjusted	320,550	—	
Stockholders’ equity (deficit):			
Convertible preferred stock, $0.001 par value: no shares authorized, issued and outstanding, actual; 25,000 shares authorized, no shares issued and outstanding, pro forma; 25,000 shares authorized, no shares issued and outstanding, pro forma as adjusted	—	—	
Common stock, $0.001 par value: 79,500 shares authorized, 9,054 shares issued and outstanding actual; 79,500 shares authorized; 68,481 shares issued and outstanding pro forma; 79,500 shares authorized, 68,481 shares issued and outstanding pro forma as adjusted	9	68	
Additional paid-in capital	7,911	333,811	
Accumulated other comprehensive loss	(153)	(153)	
Accumulated deficit	(313,095)	(313,095)	
Total stockholders’ equity (deficit)	(305,328)	20,631	
Total capitalization	$48,213	$48,213	$

All share numbers reflect a 1-for-4 reverse stock split of our common stock and convertible preferred stock to be effected prior to the closing of this offering.

This table excludes the following shares:

- 7,872,264 shares of common stock issuable upon exercise of stock options outstanding as of December 31, 2006 at a weighted average exercise price of $1.77 per share;
- 1,332,682 shares of common stock issuable upon the exercise of warrants outstanding as of December 31, 2006 at a weighted average exercise price of $5.41 per share; and
- 17,482,974 shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 2,070,474 shares of common stock reserved for issuance under our 2000 Stock Plan, 13,600,000 shares of common stock reserved for issuance under our 2007 Equity Incentive Plan and 1,812,500 shares of common stock reserved for issuance under our 2007 Employee Stock Purchase Plan. The 2007 Equity Incentive Plan and the 2007 Employee Stock Purchase Plan will become effective on the date of this offering.

This table includes the following shares:

- 1,513,043 shares of restricted common stock issued upon the early exercise of stock options at a weighted average exercise price of $1.26 per share that are classified as outstanding for financial reporting purposes, except in the calculation of earnings per share.

See the section titled “Management—Equity Benefit Plans” for a description of our equity plans.

Dilution

DILUTION

Our pro forma net tangible book value as of December 31, 2006 was $20.6 million, or approximately $0.30 per share. Net tangible book value per share represents the amount of stockholders’ equity divided by 68,481,069 shares of common stock outstanding after giving effect to the conversion of all outstanding shares of convertible preferred stock into shares of common stock upon the closing of this offering.

Net tangible book value dilution per share to new investors represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the net tangible book value per share of common stock immediately after the closing of this offering. After giving effect to our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, which is the midpoint of the range on the cover of the prospectus, and after deducting the estimated underwriting discount and estimated offering expenses, our net tangible book value as of December 31, 2006 would have been $ million, or $ per share. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution in net tangible book value of $ per share to purchasers of common stock in the offering, as illustrated in the following table:

Assumed initial public offering price per share		$
Pro forma net tangible book value per share as of December 31, 2006	$0.30	

Increase in pro forma as adjusted net tangible book value per share attributable to new investors	
Pro forma as adjusted net tangible book value per share after the offering	
Dilution per share to new investors	$

If the underwriters exercise their option to purchase additional shares of our common stock in full in this offering, the pro forma as adjusted net tangible book value per share after the offering would be $ per share, the increase in pro forma as adjusted net tangible book value per share to existing stockholders would be $ per share and the dilution to new investors purchasing shares in this offering would be $ per share.

The following table presents on a pro forma basis as of December 31, 2006, after giving effect to the conversion of all outstanding shares of convertible preferred stock into common stock immediately prior to the closing of this offering, the differences between the existing stockholders and the purchasers of shares in the offering with respect to the number of shares purchased from us, the total consideration paid and the average price paid per share:

	Shares Purchased		Total Consideration		AveragePrice Per Share
	Number	Percent	Amount	Percent	
	(in thousands, except percentages and per share data)				
Existing stockholders	68,481	%		$%	$
New stockholders					
Totals		100.0%		100.0%	

As of December 31, 2006, there were options outstanding to purchase a total of 7,872,264 shares of common stock at a weighted average exercise price of $1.77 per share. As of December 31, 2006 there were warrants outstanding to purchase 1,332,682 shares of common stock with a weighted average exercise price of $5.41 per share. To the extent outstanding options or warrants are exercised, there will be further dilution to new investors. In addition, as of December 31, 2006, there were 1,513,043 shares of restricted common stock issued upon the early exercise of stock options at a weighted average exercise price of $1.26 per share that are classified as outstanding for financial reporting purposes, except in the calculation of earnings per share. For a description of our equity plans, please see the section titled “Management—Equity Benefit Plans.”

Selected Consolidated Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA You should read the following selected consolidated historical financial data below in conjunction with the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements, related notes and other financial information included elsewhere in this prospectus. The selected financial data in this section is not intended to replace the financial statements and is qualified in its entirety by the consolidated financial statements and related notes thereto included elsewhere in this prospectus.

We derived the statements of operations data for the years ended December 31, 2004, 2005 and 2006 and the balance sheet data as of December 31, 2005 and 2006 from our audited consolidated financial statements and related notes, which are included elsewhere in this prospectus. We derived the statements of operations data for the years ended December 31, 2002 and 2003 and the balance sheet data as of December 31, 2002, 2003 and 2004 from our audited consolidated financial statements and related notes which are not included in this prospectus. Historical results for any prior period are not necessarily indicative of future results for any period.

The pro forma basic and diluted net loss per common share data in the statement of operations data for the year ended December 31, 2006 reflect the conversion of all of our outstanding shares of convertible preferred stock into 59,427,604 shares of common stock immediately prior to the closing of this offering.

	Years Ended December 31,				
	2002	2003	2004	2005	2006
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenue:					
Ratable product and related support and services	$—	$—	$—	$4,127	$53,484
Product	—	—	599	—	5,258
Total revenue	—	—	599	4,127	58,742
Cost of revenue:					
Cost of ratable product and related support and services(1)	—	—	—	27,455	69,765
Cost of product	—	—	7,240	—	1,660
Total cost of revenue	—	—	7,240	27,455	71,425
Gross loss	—	—	(6,641)	(23,328)	(12,683)
Operating expenses:					

Sales and marketing(1)	895	1,680	8,294	11,053	20,682
Research and development(1)	26,759	41,951	46,306	24,986	38,967
General and administrative(1)	4,938	4,587	2,888	4,328	12,650
Amortization of intangible assets	—	—	—	—	56
Total operating expenses	32,592	48,218	57,488	40,367	72,355
Loss from operations	(32,592)	(48,218)	(64,129)	(63,695)	(85,038)
Other income (expense), net	(1,470)	(2,013)	(2,351)	(2,079)	(4,009)
Loss before provision for income taxes and cumulative effect of change in accounting principle	(34,062)	(50,231)	(66,480)	(65,774)	(89,047)
Provision for income taxes	—	—	—	12	72
Loss before cumulative effect of change in accounting principle	(34,062)	(50,231)	(66,480)	(65,786)	(89,119)
Cumulative effect of change in accounting principle	—	—	—	(1,137)	—
Net loss	$(34,062)	$(50,231)	$(66,480)	$(64,649)	$(89,119)
Net loss per common share, basic and diluted	$(17.05)	$(16.10)	$(15.30)	$(13.76)	$(14.55)
Weighted average number of shares used in computing basic and diluted net loss per common share	1,998	3,119	4,345	4,698	6,127
Pro forma net loss per common share, basic and diluted					$(1.47)
Weighted average number of shares used in computing pro forma basic and diluted net loss per common share					60,480

(1) Stock-based compensation expense included in above as follows:

	Years Ended December 31,				
	2002	2003	2004	2005	2006
	(In thousands)				
Cost of revenue	$—	$—	$—	$—	$151
Sales and marketing	—	—	—	36	411
Research and development	180	180	180	99	198
General and administrative	35	35	34	7	335
Total stock-based compensation charge	$215	$215	$214	$142	$1,095
	As of December 31,				
	2002	2003	2004	2005	2006
	(In thousands)				
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$49,997	$54,244	$40,017	$37,112	$29,572
Working capital	40,956	43,976	37,665	29,579	2,724
Total assets	69,849	75,441	69,514	100,289	230,153
Current and long-term debt	16,638	10,256	6,359	22,973	27,582
Convertible preferred stock	91,870	151,865	207,315	247,147	320,550
Common and additional paid-in-capital	1,628	2,095	2,979	3,529	7,920
Stockholders' deficit	(41,725)	(91,200)	(156,471)	(220,533)	(305,328)
	Years Ended December 31,				
	2002	2003	2004	2005	2006
	(In thousands)				
Cash Flow Data:					
Cash used in operating activities	$(31,527)	$(43,727)	$(62,222)	$(56,449)	$(67,775)
Cash provided by (used in) investing activities	(59,001)	(4,892)	9,283	29,451	(18,069)
Cash provided by financing activities	38,611	53,573	51,608	58,059	78,780

Management's Discussion And Analysis of Financial Condition And Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements and related notes included*

elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included elsewhere in this prospectus.

Overview

We were founded in December 2000 with a vision to dramatically change the economics, operating simplicity, flexibility, reliability and scalability of optical communications networks. At the core of our Digital Optical Network architecture is the world's only commercially-deployed, large-scale PIC. Our PICs transmit and receive 100 Gbps of optical capacity and incorporate the functionality of over 60 discrete optical components into a pair of indium phosphide chips. We have used our PIC technology to design a new digital optical communications system called the DTN System, which is architected to improve significantly communications service providers' economics and service offerings as compared to traditional systems.

We began commercial shipment of our DTN System in November 2004. As of February 15, 2007, we had sold our DTN System for deployment in the optical networks of 25 customers worldwide. Our goal is to be the preeminent provider of optical communications systems to communications service providers. Our revenue growth will depend on the continued acceptance of our DTN System, growth of communications traffic and the proliferation of next-generation bandwidth-intensive services, which are expected to drive the need for increased levels of bandwidth. Our ability to increase revenue and achieve profitability will be directly affected by the level of acceptance of our products in the long-haul and metro markets and our ability to cost-effectively develop and sell innovative products that leverage our technology advantage.

Since our inception, we have incurred significant losses, and as of December 31, 2006 we had an accumulated deficit of $313.1 million. We have not achieved profitability on a quarterly or annual basis, and we expect to continue to incur substantial losses. Our ability to become profitable will be affected by any additional expenses that we incur to expand our manufacturing capacity, sales, marketing, development and general and administrative capabilities in order to grow our business. The largest component of our expenses is personnel costs. Personnel costs consist of salaries, benefits and incentive compensation for our employees, including commissions for sales personnel and stock-based compensation for all employees.

We primarily sell our products through our direct sales force, with a small proportion sold indirectly through resellers. We derived 85% and 98% of our revenue from direct sales to customers in 2005 and 2006, respectively. We expect to continue generating a significant majority of our revenue from direct sales in the future.

We are headquartered in Sunnyvale, California, with employees located throughout the United States, Europe and the Asia Pacific region. We expect to continue to add personnel in the United States, and internationally to provide additional geographic sales and technical support coverage.

Overview of Consolidated Financial Data

Revenue

We derive our revenue from sales of our products, support and services. Our revenue is comprised of two components: ratable product and related support and services revenue, or ratable revenue, and product revenue. Our DTN System is integrated with software that is more than incidental to the functionality of our equipment. We refer to the integration of our DTN System with our software and related support and services as a bundled product. Revenue related to these bundled products, which is ratable revenue, is the portion of our total revenue that we recognize pursuant to Statement of Position No. 97-2, "*Software Revenue Recognition*," as amended by SOP 98-9, "*Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions*," or SOP 97-2. Product revenue consists of sales of products that are sold without related services and, therefore, is not recognized ratably in accordance with SOP 97-2.

The following table illustrates our revenue for the specified periods:

	For The Three Months Ended 2005					For the Three Months Ended 2006				
Revenue	Mar. 31	Jun. 30	Sept. 30	Dec. 31	Year Ended December 31,2005	Mar. 31	Jun. 30	Sept. 30	Dec. 31	Year Ended December 31,2006
(In thousands)	(Unaudited)					(Unaudited)				
Ratable revenue	$421	$603	$1,126	$1,977	$4,127	$2,653	$4,054	$6,118	$40,659	$53,484
Product revenue	–	–	–	–	–	–	–	1,578	3,680	5,258
Total revenue	$421	$603	$1,126	$1,977	$4,127	$2,653	$4,054	$7,696	$44,339	$58,742

Ratable Revenue. Substantially all of our sales arrangements consist of product sales bundled with training and product support. Product support services consist of software warranty, updates and unspecified upgrades and product support. To date, we have not established vendor specific objective evidence, or VSOE, of fair value for training and software warranty or product support services. All revenue for these bundled products is deferred and recognized ratably over the longest undelivered service period. In order to establish VSOE, we must have a history of selling our training and product support services separately at a consistent price. By the end of 2008, we expect to have sufficient consistent transactional history to establish VSOE for training, software warranty and product support services.

Historically, our sales arrangements have included rights to software warranty services for a period of one to five years. This warranty obligation typically represented the longest undelivered service period and resulted in straight-line recognition of revenue over the warranty period. This average period was 3.7 years in the third quarter of 2006. In the fourth quarter of 2006, we amended several of our significant sales contracts to shorten our contractual software warranty period to between 90 days and one year, which we believe is more typical in our industry. We may amend other existing contracts to shorten the software warranty period and expect the software warranty period in future contracts generally to be within this range. This contractual change in the software warranty period resulted in the reduction in the revenue recognition period of these contracts and in each case shortened the period to one year.

These contractual changes also shortened the average recognition period for ratable revenue to 1.3 years in the fourth quarter of 2006. We expect that our average recognition period for ratable revenue will fluctuate based on the terms of existing and future customer contracts and our customer mix until we establish VSOE.

The ratable revenue that is recognized in each quarter includes a ratable portion recognized from deferred revenue of prior invoiced shipments of bundled products together with a ratable portion of each new invoiced shipment of bundled products in that quarter. Invoiced shipments of bundled products represent sales of our DTN System and services delivered and accepted by the customer for which payment will be made in accordance with normal payment terms, but for which VSOE has not been established. Invoiced shipments of bundled products are amortized and recognized as revenue over the longest undelivered service period in each customer contract.

Product Revenue. A small portion of our sales arrangements do not require significant customization and the software content is considered incidental to the product. Such product revenue is recognized upon shipment in accordance with Staff Accounting Bulletin No. 104, "*Revenue Recognition*," or SAB 104.

Deferred Revenue

Only a small amount of our invoiced shipments of bundled products within a quarter are recognized as revenue in such quarter and the majority is recorded as deferred revenue. Deferred revenue increases each quarter by the amount of invoiced shipments of bundled products in that quarter and decreases by the amount of ratable revenue recognized from invoiced shipments of bundled products.

The following table illustrates the changes in deferred revenue for the specified periods:

DeferredRevenue	For The Three Months Ended 2005				Year Ended December 31,2005	For The Three Months Ended 2006				Year Ended December 31,2006
	Mar. 31	Jun. 30	Sept. 30	Dec. 31		Mar. 31	Jun. 30	Sept. 30	Dec. 31	
(In thousands)	(Unaudited)					(Unaudited)				
Beginning balance	$—	$2,577	$4,020	$17,020	$—	$23,200	$34,349	$49,977	$84,284	$23,200
Invoiced shipments of bundled products	2,998	2,046	14,126	8,157	27,327	13,802	19,682	40,425	66,822	140,731
Ratable revenue	(421)	(603)	(1,126)	(1,977)	(4,127)	(2,653)	(4,054)	(6,118)	(40,659)	(53,484)
Ending balance	$2,577	$4,020	$17,020	$23,200	$23,200	$34,349	$49,977	$84,284	$110,447	$110,447

In 2005, we recorded $27.3 million of invoiced shipments of bundled products, recognized $4.1 million of revenue and added $23.2 million to the deferred revenue balance. In 2006, we recorded $140.7 million of invoiced shipments of bundled products, recognized $53.5 million of revenue and added $87.2 million to the deferred revenue balance.

When a contract amendment shortens the service obligation period for a customer, all invoiced shipments of bundled products that have not previously been fully recognized for such customer are amortized over this shorter period resulting in increased recognition of revenue beginning on the amendment date. Of the $53.5 million of ratable revenue recognized in 2006, $40.7 million was recognized in the fourth quarter reflecting a combination of increased invoiced shipments of bundled products and the shortening of the contractual service obligation period described above.

Cost of Revenue

Our cost of revenue is comprised of two components: cost of ratable revenue and cost of product revenue.

The following table illustrates our cost of revenue for the specified periods:

Cost of Revenue	For The Three Months Ended 2005				Year Ended December 31,2005	For The Three Months Ended 2006				Year Ended December 31,2006
	Mar. 31	Jun. 30	Sept. 30	Dec. 31		Mar. 31	Jun. 30	Sept. 30	Dec. 31	
(In thousands)	(Unaudited)					(Unaudited)				
Cost of ratable revenue	$2,380	$8,470	$8,696	$7,909	$27,455	$9,810	$8,145	$12,139	$39,671	$69,765
Cost of product revenue	—	—	—	—	—	—	—	311	1,349	1,660
Total cost of revenue	$2,380	$8,470	$8,696	$7,909	$27,455	$9,810	$8,145	$12,450	$41,020	$71,425

Cost of Ratable Revenue. Cost of ratable revenue consists primarily of the costs of manufacturing our network equipment, including personnel costs, stock-based compensation, raw materials, overhead and period costs. Period costs consist primarily of shipping fees, logistics costs, manufacturing ramp-up costs, expenses for inventory obsolescence and warranty obligations.

Certain manufacturing costs are recognized in the period in which they are incurred or can be estimated, including period costs and losses associated with products which are sold or anticipated to be sold at a loss. The initial deployment of our DTN System at a customer involves the installation of common equipment, including a chassis, optical line amplifiers and related equipment. This common equipment is typically sold at low or negative gross margins. When we sell equipment at a loss, the losses are recognized in the period in which they are incurred or reasonably estimatable. We refer to this loss as a lower of cost or market adjustment, or LCM adjustment. In the years ended December 31, 2005 and 2006, our LCM adjustment was $9.7 million and $21.6 million, respectively, and was recorded as part of cost of ratable revenue. The remainder of our cost of ratable revenue is recorded as deferred costs of invoiced shipments of bundled products and is recognized in the same period as the corresponding revenue.

Cost of Product Revenue. Cost of product revenue consists primarily of the costs of manufacturing network components, such as personnel costs, raw materials and application of overhead.

Deferred Inventory Cost Deferred inventory cost increases by the cost of invoiced shipments of bundled products in a period and decreases as cost of ratable revenue is amortized in that period.

The following table illustrates the increases in our deferred inventory cost for the specified periods:

Deferred Inventory Cost	For The Three Months Ended 2005				Year Ended December 31,	For The Three Months Ended 2006				Year Ended December 31,
	Mar. 31	Jun. 30	Sept. 30	Dec. 31	2005	Mar. 31	Jun. 30	Sept. 30	Dec. 31	2006
(In thousands)	(Unaudited)					(Unaudited)				
Beginning balance	$—	$2,090	$3,527	$11,637	$—	$16,687	$26,548	$35,038	$55,612	$16,687
Deferred cost of invoiced shipments of bundled products	2,365	1,872	8,954	6,428	19,619	11,880	11,298	24,442	38,986	86,606
Amortization to cost of ratable revenue	(275)	(435)	(844)	(1,378)	(2,932)	(2,019)	(2,808)	(3,868)	(27,345)	(36,040)
Ending balance	$2,090	$3,527	$11,637	$16,687	$16,687	$26,548	$35,038	$55,612	$67,253	$67,253

Gross Margin

Gross margins have been and will continue to be affected by a variety of factors, including the product mix, average selling prices, or ASPs, of our products, the sale of additional support and services, new product introductions and enhancements, the cost of our hardware and software products, the amount of revenue that is recognized ratably, the period over which our revenue is recognized ratably and the amount of common equipment sold at a loss causing an LCM adjustment.

Our common equipment is typically sold at low margins or at a loss. Customers generally purchase additional common equipment to expand the reach of the DTN System and can increase the capacity of existing common equipment for the DTN System by purchasing our Digital Line Modules, or DLMs, and Tributary Adapter Modules, or TAMs, that are typically sold at higher gross margins. These higher margin sales positively impact overall gross margin over the ratable revenue recognition period.

The following table illustrates our gross margin for the specified periods:

Gross Margin	For The Three Months Ended 2005				Year Ended December 31,	For The Three Months Ended 2006				Year Ended December 31,
	Mar. 31	Jun. 30	Sept. 30	Dec. 31	2005	Mar. 31	Jun. 30	Sept. 30	Dec. 31	2006
(In thousands)	(Unaudited)					(Unaudited)				
Total revenue	$421	$603	$1,126	$1,977	$4,127	$2,653	$4,054	$7,696	$44,339	$58,742
Cost of revenue	2,380	8,470	8,696	7,909	27,455	9,810	8,145	12,450	41,020	71,425
Gross profit (loss)	$(1,959)	$(7,867)	$(7,570)	$(5,932)	$(23,328)	$(7,157)	$(4,091)	$(4,754)	$3,319	$(12,683)
Gross margin	-465%	-1,305%	-672%	-300%	-565%	-270%	-101%	-62%	7%	-22%

We experienced negative gross profit of $23.3 million in 2005 and $12.7 million in 2006. These losses primarily reflect the impact of selling common equipment at low or negative margins, high ramp up manufacturing costs and excess and obsolete inventory costs. The impact on our gross margins of these costs was greater because most of the corresponding revenue was deferred and will be recognized ratably.

We expect our gross margins to continue to improve in the future as deferred revenue is recognized and as ASPs and product mix improve due to new and existing customers purchasing higher margin network components to increase the capacity of their installed DTN Systems. As of December 31, 2006, deferred revenue was $110.4 million and deferred inventory cost was $67.3 million. These deferred amounts will be recognized in future periods and are expected to have a significant positive effect on our gross margins in upcoming periods.

Operating Expenses

Operating expenses consist of sales and marketing, research and development and general and administrative expenses, and are recognized as incurred. Personnel-related costs are the most significant component of each of these expense categories. We expect personnel costs to continue to increase as we hire new employees to support our anticipated growth. We expect that each of the categories of operating expenses below will increase in absolute dollars, but will decline as a percentage of total revenue over time.

Research and development expenses are the largest component of our operating expenses and primarily include salary and related benefit costs, including stock-based compensation expense, and facilities costs. We expense research and development expenses as incurred. We are devoting substantial resources to the continued development of additional functionality for existing products and the development of new products. We intend to continue to invest significantly in our research and development efforts because we believe that they are essential to maintaining our competitive position.

Sales and marketing expenses primarily include salary and related benefit costs, including stock-based compensation expense, sales commissions, marketing and facilities costs. We expect sales and marketing expenses to increase as we hire additional personnel both in the United States and internationally to support our expected revenue growth.

General and administrative expenses consist primarily of salary and related benefit costs, including stock-based compensation expense and facilities related to our executive, finance, human resource, information technology and legal organizations, and fees for professional services. Professional services principally consist of outside legal, audit and information technology consulting costs. We expect to incur significant additional expenses as a result of operating as a public company, including costs to comply with the Sarbanes-Oxley Act and the rules and regulations applicable to companies listed on the NASDAQ Global Market.

Other Income (expense), net Other income (expense), net includes interest expense on short- and long-term debt, interest income on our cash balances, and losses or gains on conversion of foreign currency transactions into U.S. dollars. In 2005 and 2006, other income (expense), net, also included an adjustment to record our convertible preferred stock warrants at fair value as required by Staff Position 150-5, "*Issuer's Accounting under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable*," or FSP 150-5, as described below.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP in the United States. These accounting principles require us to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates and assumptions made by management include revenue recognition, inventory valuation and the determination of the fair value of stock awards issued. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. We believe that the estimates and judgments upon which we rely are reasonable based upon information available to us at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, our consolidated financial statements will be affected.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Our DTN System is generally integrated with software that is more than incidental to the functionality of such product. Accordingly, we account for revenue in accordance with SOP 97-2. We recognize product revenue when all of the following have occurred: (1) we have entered into a legally binding arrangement with a customer; (2) delivery and acceptance have occurred, which is when product title and risk of loss has transferred to the customer; (3) customer payment is deemed fixed or determinable; and (4) collectibility is reasonably assured. Revenue is recognized net of cash discounts.

Substantially all of our product sales have been sold in combination with training and product support services, which consist of software warranty and updates, and product support.

Software updates provide customers with rights to unspecified software product upgrades and to maintenance releases and patches released during the term of the support period. Product support includes internet access to technical content, telephone and internet access to technical support personnel. Training services include the right to a specified number of training classes over the term of the arrangement. Revenue for training and support services is recognized on a straight-line basis over the service contract term, which ranges from one to five years.

VSOE of fair value for training and product support services is determined by reference to the price a customer is required to pay when training and product support services are sold separately. To date, we have not established VSOE of fair value for training and product support services. Assuming all other revenue recognition criteria have been met and the only undelivered element is training or product support services, revenue is deferred and recognized ratably over the longest undelivered service period. The undelivered service periods range from one to five years. Revenue related to these arrangements is included in ratable revenue in our statements of operations.

Contracts and customer purchase orders are generally used to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery and transfer of title. Revenue is recognized only when title and risk of loss passes to customers. In instances where acceptance of the product is specified by the customer, revenue is deferred until all acceptance criteria have been met. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. Payment terms to customers generally range from net 30 to 90 days from invoice. In the event payment terms are provided that differ from our standard business practices, the fees are deemed to not be fixed or determinable and, therefore, revenue is deferred until the fees become fixed or determinable, which we believe is when they are legally due and payable. We assess the ability to collect from our customers based primarily on the creditworthiness of the customer and past payment history of the customer.

Revenue for products that does not require significant customization and with regard to which any software is considered incidental, is recognized under SAB 104. Under SAB 104, revenue is recognized provided that persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable and collectibility is reasonably assured. Revenue related to these arrangements is included in product revenue in our statements of operations.

Shipping charges billed to customers are included in product revenue and in ratable revenue. The related shipping costs are included in cost of product sales and cost of ratable revenue in our statements of operations.

Stock-Based Compensation Prior to January 1, 2006, we accounted for employee stock options using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees*," or APB No. 25, and Financial Accounting Standards Board Interpretation No. 44, "*Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB No. 25*." The intrinsic value represents the difference between the per share market price of the stock on the date of grant and the per share exercise price of the respective stock option. We generally grant stock options to employees for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant. Under APB No. 25, no compensation expense is recorded for employee stock options granted at an exercise price equal to the market price of the underlying stock on the date of grant.

During the period from January 1, 2006 through the date of filing this registration statement, we granted stock options with exercise prices as follows:

Stock Award Grant Dates	Number of OptionsGranted	Exercise Price PerShare	Most RecentValuation	SFAS 123(R) Black-Scholes Option FairValue
February 27, 2006	118,322	$1.32	$1.04	$0.80 - $0.92
April 5, 2006	128,311	1.32	1.04	0.80 - 0.92
August 8, 2006	3,229,735	2.00	2.00	1.16 - 1.36
August 29, 2006	193,750	2.00	2.00	1.16 - 1.36
September 7, 2006	999,766	2.00	2.00	1.16 - 1.36
January 3, 2007	224,999	4.04	4.04	2.29 - 2.68
January 4, 2007	683,287	4.04	4.04	2.29 - 2.68
February 7, 2007	75,000	7.68	7.68	4.35
February 12, 2007	103,075	7.68	7.68	4.35

We have increased the estimated fair value of our common stock from January 1, 2006 through the date of the filing of this registration statement based on, among other factors, contemporaneous valuations performed by our independent valuation specialists. Our valuations have taken into account a number of factors, including recognition of the continued increases in revenues and invoiced shipment levels that we have achieved and the increased likelihood of completing an initial public offering.

During 2006, we granted options to employees to purchase a total of 4,669,884 shares of common stock at exercise prices ranging from $1.32 to $2.00 per share. In 2007, we granted 1,086,361 shares of common stock at exercise prices ranging from $4.04 to $7.68.

On January 1, 2006, we adopted the provisions of the Financial Accounting Standards Board, or FASB, SFAS 123(R), "*Share-Based Payments*," or SFAS 123(R). Under SFAS 123(R), stock-based compensation costs for employees is measured at the grant date, based on the estimated fair value of the award at that date, and is recognized as expense over the employee's requisite service period, which is generally over the vesting period, on a straight-line basis. We adopted the provisions of SFAS 123(R) using the prospective transition method. Under this transition method, non-vested option awards outstanding at January 1, 2006, continue to be accounted for under the minimum value method as stipulated by SFAS 123(R). All awards granted, modified or settled after the date of adoption are accounted for using the measurement, recognition and attribution provisions of SFAS 123(R).

We make a number of estimates and assumptions related to SFAS 123(R). The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as an adjustment in the period estimates are revised. Actual results may differ substantially from these estimates. In valuing share-based awards under SFAS 123(R), significant judgment is required in determining the expected volatility of our common stock and the expected term individuals will hold their share-based awards prior to exercising. Expected volatility of the stock is based on our peer group in the industry in which we do business because we do not have sufficient historical volatility data for our own stock. The expected term of options granted represents the period of time that options granted are expected to be outstanding and was calculated based on historical information. In the future, as we gain historical data for volatility in our own stock and more data on the actual term employees hold our options, expected volatility and expected term may change which could substantially change the grant-date fair value of future awards of stock options and ultimately the expense we record.

For 2006, the total compensation cost related to stock-based awards granted under SFAS 123(R) to employees and directors but not yet amortized was approximately $5.2 million, net of estimated forfeitures of $0.4 million. These costs will be amortized on a straight-line basis over a weighted-average period of approximately 1.1 years. Amortization for 2006 was approximately $0.9 million, net of estimated forfeitures.

The fair value of each option grant is estimated on the date of grant using the following weighted-average assumptions used for grants in 2004, 2005 and 2006:

	Years Ended December 31,		
	2004	2005	2006
Dividend	—	—	—
Volatility	0%	0%	72% - 83%
Risk-free interest rate	3.00%	4.05%	4.57% - 5.08%
Weighted-average expected life	4 years	4 years	4.2 - 5.4 years
Weighted-average fair value of common stock	$0.15	$0.15	$0.81 - $1.35

We account for stock options granted to non-employees in accordance with Emerging Issues Task Force (EITF) No. 96-18, *"Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling, Goods or Services,"* or EITF No. 96-18, and related interpretations. We grant stock options to certain consultants and advisory board members for a fixed number of shares with an exercise price equal to the fair value of our common stock at the date of grant. Under EITF No. 96-18, compensation expense on non-employee stock options is calculated using the Black-Scholes option-pricing model and is recorded using the straight-line method over the vesting period, which approximates the service period.

Freestanding Preferred Stock Warrants On June 29, 2005, the FASB issued FSP 150-5. This Staff Position affirms that such warrants are subject to the requirements in Statement 150, regardless of the timing of the redemption feature or the redemption price. Therefore, under Statement 150, the freestanding warrants that are related to our convertible preferred stock and common stock are liabilities that should be recorded at fair value. We previously accounted for freestanding warrants for the purchase of our convertible preferred stock and common stock under EITF Issue No. 96-18.

Effective July 1, 2005, we adopted FSP 150-5 and reclassified the fair value of the warrants from equity to liability and recorded a cumulative effect charge of approximately $1.1 million income. In addition, we recorded additional charges of approximately $0.2 million to reflect the increase in fair value between July 1, 2005 and December 31, 2005. In 2006, we recorded approximately $2.4 million of charges reflected as other loss, to reflect the increase in fair value between January 1, 2006 and December 31, 2006. The calculation of fair value requires the input of highly subjective assumptions and a change in our assumptions could materially affect the fair value estimates.

We will continue to adjust the liabilities for changes in fair value until the earlier of the exercise of the warrants or the completion of a liquidation event, including the completion of this initial public offering, at which time the liabilities will be reclassified to stockholders equity (deficit).

We estimated the fair value of these warrants using the Black-Scholes model for change of control scenario and the Lattice model for a successful initial public offering scenario. We then used a probability weighted average of per-share values under the different scenarios to determine the fair value of these warrants at the respective balance sheet dates.

Both models require the input of highly subjective assumptions and a change in our assumptions could materially affect the fair value estimates.

The following table presents the pro forma effect of the adoption of FSP 150-5 on our results of operations for 2004 and 2005, if applied retroactively, assuming FSP 150-5 had been adopted in those years:

	December 31,	
	2004	2005
	(In thousands, except per share data)	
Net loss, as reported	$(66,480)	$(64,649)
Add: Cumulative effect of change in accounting principle included in net loss	—	1,137
Change in fair value of warrants	1,029	(229)
Pro forma net loss	$(65,451)	$(66,015)
Pro forma loss per common share, basic and diluted	$(15.06)	$(14.05)
Shares used in computing basic and diluted net loss per common share	4,345	4,698

Inventories

Inventories consist of hardware, work-in-process and related component parts and are stated at the lower of standard cost or market. Standard costs approximate the first-in, first-out method. Market value is based upon an estimated average selling price reduced by the estimated cost of disposal. The determination of market value involves numerous judgments including estimated average selling prices based upon recent sales volumes, industry trends, existing customer orders, current contract price, future demand and pricing for our products and technological obsolescence of our products.

Inventory that is obsolete or in excess of our forecasted demand or is anticipated to be sold at a loss is written down to its estimated net realizable value based on historical usage and expected demand. We recorded total inventory write-downs for LCM adjustments in 2004, 2005 and 2006 of $1.6 million, $9.7 million and $21.6 million, respectively. These adjustments related to our inventory and firm purchase commitments with suppliers and are reflected as costs of product and cost of ratable product and related support and services.

If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Results of Operations

Revenue

The following table presents our revenue by type, geography and sales channel for 2004, 2005 and 2006:

	Years ended December 31,		
	2004	2005	2006
	(In thousands)		
Total revenue	$599	$4,127	$58,742
Total revenue by type			
Ratable product and related support and services	$—	$4,127	$53,484
Product	599	—	5,258

% Revenue by type			
Ratable product and related support and services	0%	100%	91%
Product	100%	0%	9%
Total revenue by geography			
Domestic	$—	$2,660	$50,407
International	599	1,467	8,335
% Revenue by geography			
Domestic	0%	64%	86%
International	100%	36%	14%
Total revenue by sales channel			
Direct	$—	$3,488	$57,810
Indirect	599	639	932
% Revenue by sales channel			
Direct	0%	85%	98%
Indirect	100%	15%	2%

2005 Compared to 2006. Total ratable revenue increased from $4.1 million in 2005 to $53.5 million in 2006. This increase reflected an increase in invoiced shipments of bundled products from $27.3 million in 2005 to $140.7 million in 2006 and the shortening of the ratable revenue recognition period from an average period of 3.7 years in the third quarter of 2006 to 1.3 years in the fourth quarter of 2006. The increase in invoiced shipments of bundled products was due to increased purchases of our DTN System by existing customers and the addition of customers in the United States and Europe.

In 2006, we recorded $5.3 million of product revenue related to the sale of 10 Gbps cards not for use in our DTN System. We do not expect to generate significant revenues from the sale of these products in the foreseeable future.

2004 Compared to 2005. Total revenue increased from $0.6 million in 2004 to $4.1 million in 2005. This increase was primarily due to the fact that we signed a master purchase agreement with Level 3 in April 2005 and commenced shipments of our DTN System to Level 3 shortly thereafter. In addition, we signed a number of contracts with other customers in the United States and Europe. Revenue in 2004 consisted of one product sale of evaluation equipment to a customer in Asia Pacific. The product was sold without warranty or support services and revenue was recognized upon shipment.

Cost of Revenue and Gross Margin The following table presents our revenue, cost of revenue by revenue source, gross profit (loss) and gross margin for 2004, 2005 and 2006:

	Years Ended December 31,		
	2004	2005	2006
	(In thousands)		
Total revenue	$599	$4,127	$58,742
Cost of ratable product and related support and services	—	27,455	69,765
Cost of product	7,240	—	1,660
Gross loss	$(6,641)	$(23,328)	$(12,683)
Gross margin	N/M %[1]	-565%	-22%

(1) N/M = Not Meaningful.

2005 Compared to 2006. Gross margins improved from 2005 to 2006 due to increased ratable revenue, increased ASPs and improved product mix as customers purchased higher margin products to increase their network capacity. In addition, in 2006 we experienced reduced per unit manufacturing costs primarily due to improved yields and increased production volume, offset by an increase in LCM adjustments and charges for excess and obsolete inventory of $11.9 million. Gross margins in 2005 were impacted primarily by negative manufacturing variances due to low volume production. To the extent our production volume increases, we expect continued improvement in manufacturing and materials costs per unit.

2004 Compared to 2005. Cost of product revenue in 2004 is comprised of the cost of one evaluation equipment sale, excess and obsolete inventory, inventory reserves and manufacturing costs associated with the ramp up of production. Cost of ratable revenue in 2005 consisted of the amortization of deferred inventory costs and period costs including inventory reserves, LCM adjustments and increased costs related to the roll-out of our service organization.

Research and Development Expenses The following table presents our research and development expenses in absolute dollars and as a percent of total revenue for 2004, 2005 and 2006:

	Years Ended December 31,		
	2004	2005	2006
	(In thousands)		

Research and development expenses	$46,306	$24,986	$38,967
Percent of total revenue	N/M%	605%	66%

2005 Compared to 2006. Research and development expenses increased from 2005 to 2006 due primarily to increased personnel-related costs of $7.0 million. In addition, during 2006 we wrote off $4.5 million of in-process research and development expenses related to an asset acquisition we completed in 2006 because technological feasibility had not been established and no alternative future uses existed.

2004 Compared to 2005. Research and development expenses decreased from 2004 to 2005 because we commenced shipment of products in 2005 and all production related costs were allocated to cost of sales. In addition, spending on prototypes and scrap decreased by $9.0 million from 2004 to 2005.

Sales and Marketing Expenses The following table presents our sales and marketing expenses in absolute dollars and as a percent of total revenue for 2004, 2005 and 2006:

	Years Ended December 31,		
	2004	2005	2006
	(In thousands)		
Sales and marketing expenses	$8,294	$11,053	$20,682
Percent of total revenue	N/M%	268%	35%

2005 Compared to 2006. Sales and marketing expenses increased from 2005 to 2006 due primarily to an increase in commission expense of $7.5 million, reflecting significant increases in revenue and invoiced shipments and increased personnel-related costs in 2006. Other compensation expenses increased by $1.8 million in 2006 due to an increase in the number of sales and marketing employees. Our headcount growth reflected the expansion of our sales team in the United States and internationally. Increases in personnel and commission costs accounted for approximately 90% of the increase in overall sales and marketing expense.

2004 Compared to 2005. Sales and marketing expenses increased from 2004 to 2005 due primarily to increased personnel-related costs of $2.0 million. In addition, equipment expenses decreased due to fewer pre-sale evaluation units.

General and Administrative Expenses The following table presents our general and administrative expenses in absolute dollars and as a percent of total revenue for 2004, 2005 and 2006:

	Years Ended December 31,		
	2004	2005	2006
	(In thousands)		
General and administrative expenses	$2,888	$4,328	$12,650
Percent of total revenue	482%	105%	22%

2005 Compared to 2006. General and administrative expenses increased from 2005 to 2006 due primarily to increased legal and accounting fees related to our preparations to become a public company of $3.2 million, increased professional services and information technology consulting fees of $3.0 million and increased personnel-related costs of $2.1 million.

2004 Compared to 2005. General and administrative expenses increased from 2004 to 2005 due primarily to an increase in personnel-related costs of $1.0 million and professional services fees of $0.7 million.

Other Income (Expense), Net The following table presents our interest income, interest expense and other loss, net for 2004, 2005 and 2006:

	Years Ended December 31,		
	2004	2005	2006
	(In thousands)		
Interest income	$1,166	$686	$2,100
Interest expense	(1,949)	(2,591)	(4,542)
Other loss, net	(1,568)	(174)	(1,567)
Total other income (expense), net	$(2,351)	$(2,079)	$(4,009)

2005 Compared to 2006. Interest income increased from 2005 to 2006 due to higher invested balances resulting from funds raised in our Series G convertible preferred stock financing. The increase in interest expense from 2005 to 2006 was due to increased borrowings required to support our continued growth. Other loss, net increased from 2005 to 2006 primarily due to charges related to the revaluation of preferred stock warrant liabilities at fair market value of $2.1 million, offset by a $0.5 million gain from foreign currency exchange translation.

2004 Compared to 2005. Interest expense increased from 2004 to 2005 due to the utilization of new credit facilities to support our continued growth. Interest income decreased due to lower invested balances as we continued to utilize cash. In 2004, other loss, net included a $1.5 million charge related to redemption of certain of our Series D convertible preferred stock. In 2005, other loss, net primarily consisted of $0.2 million charge related to the revaluation of preferred stock warrant liabilities at fair market value.

Provision for Income Taxes Since inception, we have incurred operating losses and, accordingly, have not recorded a provision for income taxes for any of the periods presented other than foreign provisions for income tax. As of December 31, 2006, we had net operating loss carry-forwards for both federal and state income tax purposes of $397.6 million. We also had federal research and development tax credit carry-forwards of approximately $5.6 million and state research and development tax credit carry-forwards of approximately $3.7 million. Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. If not utilized, the federal and state net operating loss and tax credit carry-forwards will begin to expire in 2021 and 2013 for federal and state tax purposes, respectively. Utilization of these net operating losses and credit carry-forwards may be subject to an annual limitation due to provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, that are applicable if we have experienced an "ownership change" in the past, or if an ownership change occurs in the future, for example, as a result of this offering aggregated with certain other sales of our stock before or after this offering.

Quarterly Results of Operations

The following table sets forth our unaudited quarterly consolidated statements of operations data for each of the eight quarters ended December 31, 2006. The data has been prepared on the same basis as the audited consolidated financial statements and related notes included in this prospectus and you should read the following table in conjunction with such financial statements. The table includes all necessary adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of this data. The results of historical periods are not necessarily indicative of the results of operations for a full year or any future period.

	For the Three Months Ended (Unaudited)							
	2005				2006			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31
	(In thousands, except per share data)							
Revenue:								
Ratable product and related support and services	$421	$603	$1,126	$1,977	$2,653	$4,054	$6,118	$40,659
Product	—	—	—	—	—	—	1,578	3,680
Total revenue	421	603	1,126	1,977	2,653	4,054	7,696	44,339
Cost of revenue:								
Cost of ratable product and related support and services	2,380	8,470	8,696	7,909	9,810	8,145	12,139	39,671
Cost of product	—	—	—	—	—	—	311	1,349
Total cost of revenue	2,380	8,470	8,696	7,909	9,810	8,145	12,450	41,020
Gross loss	(1,959)	(7,867)	(7,570)	(5,932)	(7,157)	(4,091)	(4,754)	3,319
Operating expenses	10,265	9,393	9,682	11,027	10,524	13,720	22,928	25,183
Loss from operations	(12,224)	(17,260)	(17,252)	(16,959)	(17,681)	(17,811)	(27,682)	(21,864)
Other income (expense), net	141	413	521	1,004	414	290	815	2,490
Loss before provision for income taxes and cumulative effect of change in accounting principle	(12,365)	(17,673)	(17,773)	(17,963)	(18,095)	(18,101)	(28,497)	(24,354)
Provision for income taxes	—	—	—	12	15	15	23	19
Loss before cumulative effect of change in accounting principle	(12,365)	(17,673)	(17,773)	(17,975)	(18,110)	(18,116)	(28,520)	(24,373)
Cumulative effect of change in accounting principle	—	—	(1,137)	—	—	—	—	—
Net loss	$(12,365)	$(17,673)	$(16,636)	$(17,975)	$(18,110)	$(18,116)	$(28,520)	$(24,373)
Net loss per common share, basic and diluted	$(2.74)	$(3.84)	$(3.52)	$(3.63)	$(3.55)	$(3.26)	$(4.32)	$(3.36)

Our operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance.

Commencing with the first shipment of our DTN System in the fourth quarter of 2004, revenue has increased sequentially in each of the quarters presented due to increases in the number of products sold to new and existing customers and the shortening of our ratable revenue recognition period to 1.3 years in the fourth quarter of 2006. In the fourth quarter of 2006, we amended several of our significant sales contracts to shorten our contractual software warranty period, which was primarily responsible for the significant increase in our quarterly revenue and cost of revenue from the third quarter of 2006 to the fourth quarter of 2006.

Operating expenses fluctuated from quarter-to-quarter and increased significantly in the third quarter of 2006 due to increased research and development expenses related to two asset acquisitions completed in 2006. In addition, sales commission expense increased in the second half of 2006 due to significant increases in our invoiced shipments. We also invested heavily in finance, information systems and legal resources in 2006 as we prepared to become a public

company.

In the third quarter of 2005, we adopted FSP 150-5, which requires us to classify the warrants to purchase our convertible preferred stock and common stock as liabilities and to adjust the warrant instruments to fair value at each reporting period. We recorded a $1.1 million cumulative effect for adoption as of July 1, 2005, reflecting the fair value of the warrants as of that date, and $(29,000), $(0.2) million, $0.1 million, $(0.4) million, $(0.7) million and $(1.4) million of additional expense that was recorded in other income (expense), net in the quarters ended September 30, 2005, December 31, 2005, March 31, 2006, June 30, 2006, September 30, 2006 and December 31, 2006, respectively, to reflect the increase in the fair value of the warrants.

Liquidity and Capital Resources

	As of December 31,		
	2004	2005	2006
	(In thousands)		
Working capital	$37,665	$29,579	$2,724
Cash and cash equivalents	5,031	36,013	28,884
	For the Years Ended December 31,		
	2004	2005	2006
	(In thousands)		
Cash used in operating activities	$(62,222)	$(56,449)	$(67,775)
Cash provided by (used in) investing activities	9,283	29,451	(18,069)
Cash provided by financing activities	51,608	58,059	78,780

Cash and cash equivalents consist of highly liquid investments in time deposits held at major banks, commercial paper, U.S. government agency discount notes, money market mutual funds and other money market securities with original maturities of 90 days or less. Since inception, we have financed our operations primarily through private sales of equity and from borrowings under credit facilities and more recently from cash collections on the sales of our DTN System.

Operating Activities We experienced negative cash flows from operating activities of $67.8 million in 2006. We generated a net loss for the period of $89.1 million, and we had non-cash charges of $15.5 million consisting primarily of $7.0 million of depreciation, $4.5 million in-process research and development related to our acquisition of certain assets of Little Optics, Inc., $2.4 million related to revaluation of convertible preferred stock and common stock warrant liabilities and $1.1 million of stock-based compensation expense related to employees. The net loss also reflects the non-cash deferral of $87.2 million of deferred revenue and $50.6 million of deferred inventory cost to the balance sheet in the period. We funded increased working capital requirements of $26.9 million due to significant growth of the business. Our continued investment in the development of our DTN System and the expansion of our sales and marketing presence in the United States and internationally also negatively impacted our cash flow from operations.

Cash used in operating activities amounted to $56.4 million in 2005, primarily due to the generation of a net loss of $64.6 million. Results from operations in 2005 were negatively impacted by lower sales volumes, unfavorable manufacturing variances and the need to record charges for excess and obsolescent inventory. Deferred revenue increased by $22.8 million compared to an increase in deferred cost of inventory of $16.7 million. We commenced product shipments in November 2004 and inventory levels increased in 2005 by $16.5 million to support customer requirements. This increase was offset by increases in accounts payable of $7.8 million.

Cash used in operating activities in 2004 was $62.2 million, primarily due to the generation of a loss of $66.5 million in the period. We were a development stage company for most of 2004 and the majority of our cash used in operating activities in 2004, $46.3 million reflected investment in research and development to develop our DTN System.

Investing Activities Cash used in investing activities was $18.1 million in 2006, $15.3 million for the purchase of property and equipment related to the expansion of our manufacturing operations and $4.7 million related to our acquisition of certain assets of Little Optics Inc., a research and development company, partially offset by the sale of surplus assets acquired as part of a previous acquisition that generated $1.5 million.

We generated net cash from investing activities in 2005 of $29.5 million. $34.0 million was generated from the net sale of short-term investments, offset by $4.0 million from purchases of property and equipment and $0.7 million from the acquisition of certain assets from Big Bear Networks, Inc.

In 2004, net cash provided by investing activities was $9.3 million. This was comprised primarily of net proceeds of $13.0 million from the sale of short term investments, offset by the purchases of property and equipment for $3.3 million.

Financing Activities Our financing activities provided cash of $78.8 million in 2006. The primary source of these funds was the issuance of Series G convertible preferred stock. In 2006, we sold an aggregate of 14.1 million shares of our Series G convertible preferred stock for a net amount of $74.1 million to various investors. The purchase price for these shares of Series G convertible preferred stock was $5.40 per share, with the exception of a board member's purchase of 67,934 shares at $7.36 per share. We also received $4.4 million from employee stock options exercised during 2006.

Our financing activities provided cash of $58.1 million in 2005. $42.6 million was raised from the issuance of convertible preferred stock. In addition, we borrowed a net amount of $14.4 million under new and existing credit facilities.

Our financing activities provided cash of $51.6 million in 2004. $55.1 million was generated from the issuance of convertible preferred stock, proceeds from loans amounted to $7.1 million and we raised $0.7 million from the sale of common stock, offset by $11.4 million for principal payments on our outstanding loan obligations.

Credit Facilities

We entered into a borrowing arrangement in December 2004 with our primary financial institution, Silicon Valley Bank, which provides for two related facilities, an operating line of credit and a revolving line of credit. The operating line of credit allows us to borrow against our accounts receivables. The revolving line of credit allows for borrowing subject to our maintaining certain minimum cash balances. These facilities are secured by our assets, including our intellectual property. Total available credit under the arrangement is $25.0 million, and the weighted average interest rate on this facility for 2006 was 10.1%. Borrowings under these two facilities amounted to $9.5 million of debt and $3.2 million of outstanding stand-by letters of credit as of December 31, 2006.

In June 2005, we put in place a variable rate term facility with United Commercial Bank. Total borrowings under this facility may not exceed $15.0 million and are secured by certain of our equipment and other assets, including our intellectual property. The interest rate on this variable rate facility is set at the bank's prime rate. The principal balance outstanding under this facility was $7.8 million at December 31, 2006 and had a weighted average interest rate for the year of 8.3%. Amounts under this facility are paid in equal monthly installments from the date the funds are drawn to October 2009.

We also have a growth capital loan agreement with two co-lender financial institutions, Silicon Valley Bank and Gold Hill Ventures Lending 03, L.P., that we entered into in December 2004 under which we had $5.4 million outstanding as of December 31, 2006. This loan is secured by our assets, including our intellectual property, and had a weighted average interest rate of 12.2% for 2006. Amounts under this facility are due in equal monthly installments from the date the funds are drawn to June 1, 2008.

The loan agreements described above require us to maintain compliance with certain operating covenants.

	As of December 31, 2006			
	Total	Borrowings	Stand-by letters of credit	Available
	(In millions)			
Operating line of credit and revolving loan	$25.0	$9.5	$3.2	$12.3
Variable rate term facility	15.0	7.8	—	7.2
Term loan	5.4	5.4	—	—
Note issued related to acquired assets	4.5	4.5	—	—
Other	0.4	0.4	—	—
	$50.3	$27.6	$3.2	$19.5

As outlined in the table above, at December 31, 2006, we had access to an additional $19.5 million of incremental funds under our existing credit facilities. We believe that our existing cash and cash equivalents, combined with our existing credit facilities and the net proceeds from this offering will be sufficient to meet our anticipated cash needs for at least the next twelve months. However, we may require additional capital from equity or debt financings in the future to fund our operations, respond to competitive pressures or for strategic opportunities in the event that we continue to incur significant losses or otherwise. We may not be able to secure timely additional financing on favorable terms, or at all. The terms of any additional financing may place limits on our financial and operating flexibility. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer dilution in their percentage ownership of us, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock, including shares of common stock sold in this offering.

Contractual Obligations

The following is a summary of our contractual obligations as of December 31, 2006:

	Years Ended December 31,					
	Total	2007	2008	2009	2010	2011 and beyond
	(In thousands)					
Principal payments on credit facility(1)	$27,582	$20,025	$4,593	$2,649	$—	$315
Purchase obligations(2)	39,176	39,176	—	—	—	—
Interest payments on credit facility	2,411	1,809	432	131	19	20
Operating leases	14,987	3,119	2,940	2,929	2,650	3,349
Total contractual obligations	$84,156	$64,129	$7,965	$5,709	$2,669	$3,684

(1) Represents estimated interest payments on our debt using an effective rate of 8.5% at December 31, 2006.

(2) We have service agreements with our major production suppliers under which we are committed to purchase certain parts.

Off-Balance Sheet Arrangements

During 2004, 2005 and 2006, 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.

Recent Accounting Pronouncements

See Note 19 of Notes to Consolidated Financial Statements for recent accounting pronouncements that could have an effect on us.

Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Risk Certain of our sales contracts are priced in Euros and, therefore a portion of our revenue is subject to foreign currency risks. Our operating expenses and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British pound and Euro. The effect of an immediate 10% adverse change in exchange rates on foreign denominated receivables as of December 31, 2006 would result in a loss of approximately $1.3 million. To date, we have not entered into any hedging contracts although we may do so in the future. Fluctuations in currency exchange rates could harm our business in the future.

Interest Rate Sensitivity We had unrestricted cash and cash equivalents totaling $36.0 million and $28.9 million at December 31, 2005 and 2006, respectively. These amounts were invested primarily in money market funds. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. We believe that we do not have any material exposure to changes in the fair value as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. If overall interest rates fell by 10% in 2006, our interest income would have declined approximately $46,000, assuming consistent investment levels.

At December 31, 2005 and 2006, we had $23.0 million and $27.6 million, respectively, of debt outstanding. Our debt interest rate is variable and adjusts periodically based on the prime rate. If overall interest rates increased by 10% in 2006, our interest expense would have increased approximately $0.2 million.

Business

BUSINESS

Overview

Infinera has developed an innovative solution that we believe will dramatically change the economics, operating simplicity, flexibility, reliability and scalability of optical communications networks. At the core of our Digital Optical Network architecture is the world's only commercially-deployed, large-scale photonic integrated circuit, or PIC. Our PICs transmit and receive 100 Gbps of optical capacity and incorporate the functionality of over 60 discrete optical components into a pair of indium phosphide chips approximately the size of a child's fingernail. We have used our PIC technology to design a new digital optical communications system called the DTN System. The DTN System is designed to enable cost-efficient O-E-O conversion of communications signals. The DTN System is architected to improve significantly communications service providers' economics and service offerings as compared to traditional systems. Our DTN System is designed to ensure greater signal quality and network management flexibility. Our carrier-class DTN System runs our Infinera IQ Network Operating System and is integrated with our Infinera Management Suite software, which together enhance and simplify network monitoring, management and control.

Our goal is to establish our Digital Optical Network as the preeminent system for optical communications networks. We believe that photonic integrated circuits will fundamentally change optical communications networks in a fashion similar to the integrated circuit's impact on electronics beginning in the 1950's. We also believe that our DTN System can provide significant benefits to our customers in the $3.7 billion WDM segment of the global optical communications equipment market, which is estimated by Ovum-RHK, a third-party industry analyst, to be nearly $12 billion in 2006. We have sold our DTN System for deployment in the optical networks of 25 customers worldwide, including Internet2, Interoute, Level 3 Communications and Qwest Communications.

Rapid growth of communications traffic and proliferation of next-generation bandwidth-intensive services such as video are expanding the need and driving demand for optical network capacity. Our DTN System is designed to serve as the key element for long-haul and metro optical transport networks of U.S. and international communications service providers. Customer deployments of our DTN System have ranged from two to hundreds of network access points.

Our DTN System is designed to provide significant advantages over traditional systems, including:

- *Operating simplicity and cost savings*
  - *Ease of deployment and scalability*. Our DTN System provides optical capacity in 100 Gbps increments (10 channels at 10 Gbps), enabling our customers to more easily scale their optical networks with the initial installation of the DTN System and to add capacity to existing DTN Systems in less time and with fewer service calls;
  - *Management and personnel*. Our DTN System offers built-in software intelligence to route services across complex optical communications networks and is designed to simplify our customers' network planning, engineering and operations; and
  - *Efficiency and reliability*. Given the high level of photonic integration and digital processing, our DTN System is designed to consume less power, enable simplified testing and improve system reliability;
- *Enhanced revenue generation*
  - *Expand services reach*. Our DTN System significantly lowers the cost of O-E-O conversion, which enables our customers to access markets cost-effectively that had previously not been served due to cost constraints;
  - *Optimal use of network capacity*. Our DTN System enables communications service providers to combine streams of network traffic from various points throughout the network onto a single wavelength, thereby optimizing existing capacity and increasing revenue opportunities; and

- *Accelerate service provisioning.* Our DTN System's ability to deploy optical capacity in 100 Gbps increments and to process and manage data at each DTN System location remotely enables communications service providers to add customers and provision new services more rapidly than traditional systems; and

- *Capital cost savings.* Our DTN System integrates the functionality of over 60 discrete optical components into a single PIC pair, reducing capital expenditures and the physical space required for a given amount of optical network capacity.

We began commercial shipment of our DTN System in November 2004. According to data from a third party industry analyst, in the third quarter of 2005 we achieved, and have since maintained through the fourth quarter of 2006, the #1 market share of 10 Gbps long-haul ports shipped worldwide. We believe, based on data gathered by this third party analyst, we achieved over 30% of the market share for all 10 Gbps long-haul interface ports shipped worldwide in the fourth quarter of 2006. We believe this rapid customer acceptance is due to the compelling benefits our PIC-based digital optical communications system offers over traditional systems.

Industry Background

Optical communications equipment carries digital information as analog light waves over fiber optic networks. Fiber optic networks provide significantly greater data transport capacity than traditional electrical over copper transport technology. The advent of WDM systems has enabled the transmission of larger amounts of data by using multiple wavelengths over a single optical fiber. Service providers often use WDM systems to carry communications traffic between cities, referred to as long-haul networks, and within large metropolitan areas, referred to as metro networks. Most fiber optic networks carry all types of communications traffic, from conventional long-distance telephone calls to e-mails and web sessions to high-definition video streams. As traffic grows, service providers add capacity to existing networks or purchase and deploy additional systems to keep pace with bandwidth demands and service expansion. Fiber optic networks are expensive and complex, and service providers have traditionally experienced significant challenges in generating new revenue while reducing operating and capital costs.

Increased Demand for Network Capacity The global market for optical communications equipment is estimated by Ovum-RHK, a third party industry analyst, to be nearly $12 billion in 2006. Our DTN System currently competes in the WDM segments of this market, which we estimate to be $3.7 billion in 2006. We intend to address a larger portion of the optical communications equipment market opportunity with enhancements to our existing DTN System and with new product releases in the future.

Drivers of Increases in Demand for Network Capacity We believe that a number of trends in the communications industry are driving growth in demand for network capacity and ultimately will increase demand for optical communications systems, including our DTN System. These trends include:

- *Growth of Internet usage and IP traffic.* Internet protocol, or IP, network traffic continues to grow significantly as bandwidth consumed per Internet user and the total number of Internet users increases;

- *Increasing broadband penetration and high capacity services.* Communications service providers are offering broadband internet access to an increasing number of subscribers to support voice, video and high speed data offerings. In addition, rapid adoption of new consumer applications such as video and music downloads and business applications such as videoconferencing necessitates an increase in network capacity to accommodate high-quality delivery of these bandwidth-intensive services; and

- *Availability of more affordable bandwidth capacity.* Competition among cable, satellite and telecommunications service providers in providing bundled services such as the "Triple Play" (voice, video and data) has caused a decline in consumer pricing for such offerings, which is encouraging greater consumption of bandwidth.

Challenges Faced by Communications Service Providers Service providers face significant challenges in meeting increasing bandwidth demands, including:

- *Price competition pressuring network costs.* Competition between communications service providers places pressure on service pricing and thus network costs. The optical communications network is a significant source of overall network cost, and thus service providers are aggressively seeking ways to reduce their optical network operating and capital costs;

- *Operational complexity.* Optical communications network design, planning and engineering involves considerable complexity. This complexity is costly and may slow network expansion and service delivery which, in some cases, results in lost revenue;

- *Limited service reach.* Many network operators have optical facilities that pass through small- to mid-sized cities but determine that it is cost-prohibitive to deploy expensive optical systems that would allow them to offer services to potential customers in these locations;

- *Slow service provisioning.* Most optical communications networks require fixed allocation of bandwidth between customer sites. Communications service providers often must add capacity to their networks to accommodate new subscribers and services. Adding capacity generally involves complex and costly re-engineering of the existing network and a lengthy time period to implement, test and prepare the network to provide service;

- *Lack of protection and management features.* Most traditional long-haul optical communications systems do not offer protection capabilities to restore service in the event of equipment or fiber failure. As a result, communications service providers must purchase, deploy, and manage additional equipment to support protected services, which further increases cost and network complexity; and

- *Exposure to equipment failures.* Traditional optical communications systems and sub-systems contain dozens of discrete interconnected optical components. Most failures occur at these connections resulting in reduced system reliability and potential loss of service.

Limitations of Traditional Optical Approaches

Optical Components and Sub-systems Optical component technology today shares many characteristics with electronic component technology in the 1950's. At that time, all electronic devices were comprised of discrete components, each requiring a separate package to perform a given function. As in traditional systems today, individual components were largely manually-wired to their packages, resulting in higher cost and lower reliability. Due to the numerous

discrete connected parts, electronic systems were physically large, consumed significant amounts of power and were prone to failure. These problems were significantly reduced with the advent of the integrated circuit, which led to the proliferation of high-performance, mass-market, low-cost and reliable semiconductor chips suitable for a wide range of computing applications.

Several companies have developed forms of optical sub-system integration, which consist of co-packaging discrete components within a common module. Optical subsystems provide modest space and package savings and some cost reductions in final production and testing. However, we believe that the total cost savings associated with these devices is limited because each must undergo its own manufacturing, separation, testing and production process steps before final integration within a subsystem package. In addition, we believe that these optical subsystems approaches provide minimal improvement in quality or reliability compared to discrete optical components.

Optical Communications Systems Optical components and sub-systems are the key building blocks of traditional systems. Traditional systems vendors typically rely on a limited number of component and sub-system suppliers, resulting in limited product differentiation. In addition, the ability of traditional systems vendors to benefit from photonic integration is constrained by the development efforts of their optical component and sub-system suppliers.

Optical communications systems typically transport communications signals between cities as wavelengths and switch or add/drop those signals using digital electronics at network access points where services are provided. Most optical communications networks utilize WDM technology that transmits multiple signals, each as separate colors of light, or wavelengths, on a single fiber in a communications service provider's network. The principal benefit of WDM systems is that they enable the transmission of large amounts of data on multiple wavelengths over a single optical fiber. In optical communications networks, communications service providers cannot access or manage these wavelengths of light, or analog signals, and must convert the wavelengths of light to electrical or digital signals. Once this traffic has been converted into the digital domain, it can be processed by the communications service provider. This processing can include adding/dropping, monitoring or regenerating the traffic. After the digital signal is processed, it is converted back to wavelengths of light so that it can be transported to the next network destination. The process of converting the optical signal to an electrical signal for processing and then converting it back to an optical signal to enable digital processing is known as O-E-O conversion. O-E-O conversion enables access to data that allows communications service providers to differentiate their networks and to generate revenue through value-added services. O-E-O conversion utilizing traditional systems can be expensive.

With some traditional systems, communications service providers must choose at multiple network access points whether to utilize a WDM system that enables high-performance digital management and processing but with high O-E-O conversion costs, or to use an all-optical architecture that reduces O-E-O conversion costs but also may limit service reach and add cost.

Traditional WDM Systems Traditional WDM systems have several disadvantages, including:

- significant capital cost, space and power requirements;
- requirement of discrete components to execute O-E-O conversions for each wavelength, which adds significant cost and reduces reliability;
- expansion of the network is often manually intensive as communications service providers may need to redesign the network, re-allocate available wavelengths or deploy additional hardware at multiple locations each time a new circuit is added;
- limited flexibility to alter traffic flows because dedicated network capacity must be purchased and deployed in advance; and
- high costs associated with implementing advanced features, such as network-wide provisioning or optical layer protection, because additional equipment may be required.

All-Optical Communications Systems Several optical communications systems vendors have attempted to reduce the cost of transporting data on optical networks by limiting the need for O-E-O conversions. The resulting architecture, known as the all-optical network, utilizes a new generation of WDM systems to manage and switch traffic as analog light waves. ROADMs and wavelength selectable switches are examples of all-optical systems. However, we believe these all-optical approaches possess inherent weaknesses, including:

- limited ability to digitally process the data, which prevents these systems from efficiently adding and dropping traffic at intermediate network access points; this can result in a reduced network footprint and decreased revenue opportunities for communications service providers, particularly in smaller regions and markets;
- more costly and time-consuming network planning and service provisioning, because adding new services requires complex engineering calculations involving power levels, dispersion compensation and other optical non-linear effects;
- higher installation costs, because this process may require complicated components to minimize signal degradation over long distances; all-optical systems also lack the ability to effectively view network performance statistics and reconfigure traffic patterns; and
- overall network capacity can be limited by wavelength blocking, which is the inability to use wavelengths of light because they are already in use in another part of the network.

We believe significant demand exists for an optical communications system that is simple and easy to operate and that reduces operating and capital costs for communications service providers.

The Infinera Solution

Our PIC technology facilitates a new network architecture that allows communications service providers to realize the benefits of both WDM and digital processing more fully and cost-effectively. We believe that our DTN System significantly improves the economics, operating simplicity, flexibility, reliability and scalability of our customers' optical networks.

Our PICs enable lower-cost O-E-O conversions at every network access point to provide communications service providers with the ability to digitally process the information being transported across their optical networks. Our software enables our customers to leverage this digital information to simplify and speed the delivery of differentiated services and to optimize the utilization of their optical networks.

Our DTN System is designed to serve as the network architecture for long-haul and metro optical transport systems of communications service providers and to offer the following key technical benefits:

- *Photonic integration*. Our DTN System integrates the functionality of over 60 discrete optical components within a single PIC pair, reducing capital expenditure and physical space requirements for a given amount of optical network capacity. Our PIC technology also enables service providers to add 10 wavelengths of 10 Gbps capacity concurrently, as compared to one wavelength in traditional systems;

- *Digital processing*. Our DTN System processes traffic digitally, which ensures significantly greater signal quality and network management flexibility than analog, or all optical, systems. With our DTN System, communications traffic can be cost-effectively added/dropped, monitored and regenerated through digital processing of data; and

- *High value-add software content*. Our software utilizes digital data to enable network provisioning, management, testing and control that provides intelligence not available in traditional optical communications systems.

These distinctive technical features provide significant advantages to our customers, including:

- *Operating simplicity and cost savings*

  - *Ease of deployment and scalability*. Our DTN System deploys optical capacity in 100 Gbps increments, which enables our customers to rapidly deploy the initial DTN System and to add capacity to existing DTN Systems in less time and with fewer service calls than with traditional systems;

  - *Management and personnel*. Our DTN System offers built-in software intelligence to route and signal services across complex optical communications networks. In addition, our DTN System's digital protection and manageability enables carriers to offer a broad range of service qualities without requiring a separate synchronous optical network, or SONET, or its international equivalent, synchronous digital hierarchy, or SDH, or optical switching layer for protection and management. These features are designed to provide our customers with flexible management and control of their networks while significantly reducing the amount of information technology personnel and hours dedicated to planning, engineering and operating their optical communications networks; and

  - *Efficiency and reliability*. Given its high level photonic integration and digital processing, our DTN System occupies a fraction of the physical space, generally consumes less power than traditional systems for a given amount of capacity, enables simplified testing and is designed to improve system reliability. We are able to deliver both increased simplicity and reliability to our customers through our differentiated PIC technology and unique approach to optical networking architecture. By enabling frequent O-E-O conversions across their optical networks, we allow our customers to manipulate traffic in the digital domain, which we believe is simpler than architecting traffic and provisioning services with all-optical systems. Likewise, our PICs efficiently perform O-E-O conversions without a need for dozens of discrete components, which in turn require hundreds of failure-prone individual connections. As such, we believe our customers' service quality can be improved significantly due to our DTN System's simplified product design.

- *Enhanced revenue generation*

  - *Expand services reach*. Our DTN System significantly lowers O-E-O conversion cost, which enables our customers to access markets cost-effectively that had previously not been served due to cost constraints. This provides our customers with new revenue opportunities and can reduce or eliminate the cost paid to other service providers for use of their networks to complete a services connection. Our DTN System also supports a variety of communications interfaces, including SONET/SDH, Gigabit and 10 Gigabit Ethernet;

  - *Optimal use of network capacity*. Our DTN System enables communications service providers to combine streams of network traffic from various points throughout the network onto a single wavelength, thereby optimizing existing capacity and increasing revenue opportunities. In contrast, traditional systems often require that communications service providers reserve an entire wavelength for a single stream of traffic, which may consume only a fraction of the available capacity; and

  - *Accelerate service provisioning*. Our DTN System's ability to deploy optical capacity in 100 Gbps increments and to process and manage data at each DTN System location remotely enables communications service providers to add customers and provision new services more rapidly than traditional optical communications systems; and

- *Capital cost savings*. Our DTN System can require significantly less capital expenditure for a given amount of optical network capacity. We believe that photonic integration enables a faster rate of innovation than is possible using conventional discrete optical components and will result in a continued decline in costs and complexity.

The Infinera Strategy

Our goal is to be the preeminent provider of optical systems to communications service providers. Key aspects of our strategy are:

- *Increase our customer footprint*. We initially targeted North American competitive long-haul service providers. We have achieved rapid success in this customer segment and intend to increase penetration of our installed base of communications service providers while also targeting new U.S. and international communications service providers, including U.S. RBOCs, international PTTs, cable MSOs and metro carriers;

- *Penetrate adjacent markets.* We believe that our PIC technology can benefit the metro core and metro access networks in the same way it does long-haul networks. We intend to increase our addressable market by adding functionality to our DTN System, by developing new products, including products specifically designed for metro applications, and by creating the service and support infrastructure needed to address these markets;

- *Maintain and extend our technology lead.* We intend to incorporate the functionality of additional discrete components into our PICs and to pursue further functional integration in our DTN System in order to enhance the performance, scalability and economics of our DTN System; and

- *Deliver systems to scale and deliver additional functionality.* Our DTN System is the only commercially-available system which provides 100 Gbps of transport capacity on a single line card. We recognize the need to continually increase our scalability and functionality to maintain product leadership in optical transport networks as demonstrated by expanding our system transport capacity from 400 Gbps to 800 Gbps in 2006; and

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

Products

Infinera DTN System

Our DTN System utilizes our PIC technology to enable digital processing and management of data with the capability both to generate WDM wavelengths and to add, drop, switch, manage, protect and restore network traffic digitally. Our DTN System is comprised of two elements, a Digital Transport Node, or DTN, which houses our PIC and enables O-E-O conversion, and an optical line amplifier, or OLA, which extends the optical reach between DTNs. The DTN can automate the connection of circuits and provisioning of new services without costly and cumbersome manual intervention.

Our DTN System is modular in design to enable our customers with the ability to add capacity in a cost-efficient manner. The initial deployment of our DTN System at a customer involves the installation of common equipment, which includes a chassis, optical line amplifiers and related equipment. Customers can purchase additional common equipment to expand the reach of the DTN System and can increase the capacity of existing common equipment for the DTN System by purchasing our Digital Line Modules, or DLMs, and Tributary Adapter Modules, or TAMs. Each DTN System is composed of one or two half rack chassis, each of which supports up to 4 DLM cards. Each DLM card in turn supports up to 5 TAMs. Each DLM contains a pair of PICs that provide 100 Gbps of transport capacity; thus, a single DTN System supports up to 800 Gbps (8 DLMs x 100 Gbps each) of transmit/receive capacity per fiber pair. The individual TAMs serve as client-side interface modules, which support line rates from 155 Mbps to 10 Gbps. Given both the density and the modular architecture of each DTN, our DTN System enables significant flexibility and scalability for communications service providers.

Our DTN System is carrier-class, which means that it complies with applicable Telcordia and equivalent major international standards for central office-based network elements. Our DTN System supports a broad range of optical service interfaces including Ethernet (Gigabit Ethernet and 10 GbE) and SONET/SDH (OC-3/STM-1, or 155 Mbps, to OC-192/STM-64, or 10 Gbps).

Infinera Optical Line Amplifier Our OLA is a bidirectional amplifier that extends the optical reach between DTNs. Communications service providers purchase our OLAs for network access points where customer access to data is not required. Our OLA is a small form-factor device that can be managed seamlessly within the DTN System.

Infinera IQ Network Operating System and Management Suite Our DTN System utilizes proprietary embedded software, the IQ Network Operating System, or IQ NOS, to enable our customers to simplify and speed up the tasks they perform to deliver, differentiate, and manage services and to optimize the utilization of their networks. The IQ NOS software utilizes the DTN System's digital switching and IP-based technologies, including generalized multiprotocal label switching, or GMPLS, for end-to-end provisioning, protection and restoration services, and a host of performance monitoring and software-definable testing capabilities.

In addition to our IQ NOS software, we offer a broad set of standards-based network and element management tools and Operations Support System, or OSS, integration interfaces. Our management suite software includes our Digital Network Administrator, a scalable, robust, feature-rich Element Management System, and our Graphical Node Manager, an easy-to-use web-based management interface.

Technology

Digital Optical Network Architecture Our founders have extensive experience in the optical communications market and, therefore, understood the inherent limitations of both traditional WDM systems and all-optical networking systems and sought to develop a product that offered the key benefits of both approaches. They founded Infinera with a vision to both increase the functionality and improve the economics of optical transport systems. To that end, our core engineering team is comprised of optical component and systems experts who have collaborated to create an innovative optical communications architecture that is designed to combine enhanced performance, system-wide simplicity and efficiency, with the ability to be manufactured in a cost-efficient manner. We have focused our efforts, time and capital on developing our innovative DTN System and PIC technology. Our technology platform, based on the world's first large-scale PIC, and our innovative, systems-based approach forms the core of our vision for our Digital Optical Network architecture.

Our Digital Optical Network architecture is based on our belief that network operators can expand service reach, expedite service provisioning, ensure reliability and more effectively manage, monitor and scale their networks by processing data digitally rather than in analog format. We further believe that the key to delivering this capability in a cost-effective manner is integrating multiple discrete devices into a single semiconductor chip. This integration allows us to eliminate separate optical packages for each discrete optical device, which we believe is the largest cost challenge facing traditional systems. This has further enabled us to provide additional functionality and intelligence to our optical communications systems.

Infinera PIC

We believe that our proprietary PICs are a key source of our value proposition and competitive advantage. We manufacture and package our PICs at our own facilities for use exclusively with our DTN System. We began the simultaneous design and manufacture of our PICs shortly after we were founded in December 2000. We employ a multi-disciplinary approach towards the development and manufacturing of our PICs, with significant interaction between

our manufacturing, system engineering and advanced technology groups. As a leader in the development of photonic integration, we have protected the intellectual property associated with our PIC manufacturing through a combination of trade secrets, patents and contractual protections. We believe that as a result of the combination of the multiple disciplines that were required to develop our PIC, together with the intellectual property protections that we have established, it will be difficult for others to duplicate the technology we have developed.

Our DTN System transmits 100 Gbps of optical capacity, utilizing a pair of PICs, one transmitter PIC and one receiver PIC. Our transmitter PIC integrates the functionality of 51 optical components onto a single chip, including lasers and modulators. In addition, our receiver PIC integrates the functionality of 11 components onto a single chip, including photodetectors and an optical de-multiplexer.

We expect our PIC technology to enable continued innovation in additional applications and systems beyond the optical transport market currently being served by the DTN System. In March 2006, we demonstrated a next generation PIC prototype that is capable of transporting 1.6 terabits of data. We believe this is 40 times the capacity of the most advanced commercial discrete photonics devices today.

Customers

Our DTN System has been sold to telecommunications carriers, cable operators and other service providers. We have sold our DTN System for deployment in the optical network of 25 customers worldwide, including:

- Citynet, LLC;
- FLAG Telecom Group Limited;
- Global Crossing International Networks Ltd.;
- Freenet Cityline GmbH;
- Integra Telecom Holdings, Inc.;
- Internet2;
- Interoute Communications Limited;
- Level 3 Communications;
- Mid-Atlantic Broadband Cooperative;
- Qwest Communications International, Inc.; and
- XO Communications Services, Inc.

Level 3 accounted for 60% of our revenue in 2006, which includes revenue generated under our agreement with Broadwing, acquired by Level 3 in 2007.

Support and Services

We offer our customers a range of support offerings, including product training, installation and deployment services, extended warranties and 24x7 multi-level technical support. These product support services consist of software warranty, updates and unspecified upgrades and product support. Our support services are provided by our employees and third-party support partners. We believe that providing ongoing support is critical to successful long-term relationships with, and follow-on sales to, our customers. We are committed to providing our customers with the highest levels of support and service.

Sales and Marketing

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

The sales process for our DTN System entails discussions with prospective customers, analyzing their existing networks and identifying how they can utilize our DTN System capabilities within their network. This process requires developing strong customer relationships, and we expect to leverage our sales force and customer support capabilities to establish relationships with both domestic and international service providers.

Over the course of the sales cycle, service providers often test our DTN System before buying. Prior to commercial deployment, the service provider will generally perform a field trial of our DTN System. Upon successful completion, the service provider generally accepts the products installed in its network and may continue with commercial deployment of additional DTNs or OLAs. We anticipate that our sales cycle, from initial contact with a service provider through the signing of a purchase agreement, may, in some cases, take several quarters.

Direct Sales Force. Our sales team sells directly to service providers worldwide. We maintain sales presences throughout the United States as well as in China, France, Germany, Japan, South Korea and the United Kingdom.

Indirect Sales Force. We have and will continue to employ business consultants, resale partners and sales agents to assist in our sales efforts to accelerate and strengthen our customer relationships. We expect to work with business partners to assist our customers in the deployment and maintenance of our systems and have entered into distribution and resale agreements to facilitate the sale of our DTN System in certain international markets.

Marketing and Product Management. Our product management team is responsible for defining the product features and roadmap required to maximize our success in the marketplace. Product management supports our sales efforts with product and application expertise. Our marketing team works to create demand for our DTN System by communicating our value proposition and differentiation in direct customer interaction, public relations, tradeshows, events and web and other marketing channels.

Research and Development

Continued investment in research and development is critical to our business. To this end, we have assembled a team of engineers with expertise in various fields, including systems, sub-systems and components. Our research and development efforts are currently focused in Sunnyvale, California, Allentown, Pennsylvania, Columbia, Maryland and Bangalore, India. We have invested significant time and financial resources into the development of our PIC technology, DTN System, IQ NOS and Management Suite software and manufacturing capabilities. We will continue to expand our product offerings and capabilities in the future and plan to dedicate significant resources to these continued research and development efforts. We are continually increasing the scalability and software features of our current DTN System, and developing additional functionality and new products, including products for metro applications. We are also working to develop new generations of PICs, and we intend to pursue further photonic integration in our DTN System through continued research and development and investments in our manufacturing capabilities.

Our research and development expenses were $46.3 million in 2004, $25.0 million in 2005 and $39.0 million in 2006.

Manufacturing

We have invested significant time and capital to develop and improve the manufacturing process that we use to produce and package our PIC. This includes significant investments in personnel and the facilities to manufacture and package our PIC in Sunnyvale, California and Allentown, Pennsylvania. We also have invested in automating our manufacturing process and in training and maintaining the quality of our manufacturing workforce. As a leader in the development of photonic integration, we have protected the intellectual property associated with our PIC manufacturing through a combination of trade secrets, patents and contractual provisions. We believe that as a result of the combination of the multiple disciplines that were required to develop our PIC, together with the intellectual property protections that we have established, it will be difficult for others to duplicate the technology we have developed. Our manufacturing process has been developed over several years and is protected by a significant number of trade secrets. We believe that the trade secrets associated with the manufacturing and packaging of our PIC provide us with a significant competitive advantage.

We outsource manufacturing of certain components of our DTN System. Our contract manufacturers manufacture our DTN System based on our specifications and bill of materials. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in product specifications or delivery schedules. To date, we have not experienced any significant delays or material unanticipated costs resulting from the use of these contract manufacturers; however, such a strategy involves certain risks, including the potential absence of adequate capacity, the unavailability of or interruptions in access to certain process technologies, and reduced control over delivery schedules, manufacturing yields, quality and costs. Despite outsourcing manufacturing operations for cost-effective scale and flexibility, we perform rigorous in-house quality control testing to ensure the reliability of our DTN Systems.

Shortages in components that we use in our DTN System are possible and our ability to predict the availability of such components may be limited. Some of these components are available only from single or limited sources of supply. Our DTN System includes some components that are proprietary in nature and only available from a single source, as well as some components that are generally available from a number of suppliers. In some cases, significant time would be required to establish relationships with alternate suppliers or providers of proprietary components. We do not have any long-term contracts with any component providers that guarantee supply of components or their manufacturing services. If we encounter difficulty continuing our relationship with a supplier, or if a supplier is unable to meet our needs, we may encounter manufacturing delays that could adversely affect our business. Our ability to timely deliver products to our customers would be materially adversely impacted if we needed to qualify replacements for any of a number of the components used in our DTN Systems.

We believe that our current manufacturing facilities can accommodate an increase in capacity for PIC production sufficient for the foreseeable future. Given the competitive advantage we believe is provided by our PIC product capabilities, we are continually investing in our manufacturing processes; however, we anticipate that increasing and enhancing production at this facility will not result in significant additional capital expenditures and personnel costs.

Competition

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

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

- services;
- scalability; and
- manufacturing capability.

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

Our competitors include current WDM suppliers, such as Alcatel-Lucent, Ciena, Cisco Systems, Fujitsu Limited, Huawei Technologies Co. Ltd., LM Ericsson Telephone Co., NEC Corporation, Nortel Networks, Siemens Systems GmbH, and ZTE Corporation. These companies have historically set the competitive benchmarks for price and functionality. There are also smaller companies, including startups, which have announced plans or developed products that would compete for long-haul and metro optical transport business.

We also face additional competition in certain market segments from companies which offer one or more products that compete directly or indirectly with our DTN System. In addition, we may compete with other companies as we expand into new markets.

Intellectual Property

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

We rely primarily on trade secret protection for our PIC and PIC manufacturing processes, including design, fabrication and testing of our PICs. However, there can be no assurances that trade secrets will be sufficient to provide us with a competitive advantage or that others have not or will not reverse engineer our designs or discover, develop or disclose the same or similar designs and manufacturing processes.

As of December 31, 2006, we held 55 U.S. patents and one international patent expiring between 2021 and 2024, and have 67 U.S. and 29 foreign pending patent applications. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims.

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

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

In addition to these protections, we generally control access to and the use of our proprietary software and other confidential information. This protection is accomplished through a combination of internal and external controls, including contractual protections with employees, contractors, customers, and partners, and through a combination of U.S. and international copyright laws. We incorporate a number of third party software programs into our DTN System pursuant to license agreements.

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

Employees

As of December 31, 2006, we had 605 employees. A total of 120 of those employees were located outside of the United States. None of our employees is represented by labor unions or covered by a collective bargaining agreement. We have not experienced any work stoppages, and we consider our employee relationships to be good.

Facilities

In Sunnyvale, California, we lease approximately 120,000 square feet of office and manufacturing space pursuant to leases that expire between 2007 and 2014. We lease approximately 38,500 square feet of office and manufacturing space in Columbia, Maryland, 35,000 square feet in Annapolis Junction, Maryland and 25,000 square feet in Allentown, Pennsylvania pursuant to leases that expire in 2008, 2012, and 2009, respectively. Internationally, we lease sales office space in Beijing, China that expires in 2007 and we have two leases in Bangalore, India for approximately 40,000 square feet used for research and development that expire in 2009 and 2011. We intend to add new facilities and to expand existing facilities as we add employees, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

Legal Proceedings

On May 9, 2006, we and Level 3 were sued by Cheetah Omni LLC, or Cheetah, for alleged infringement of patent No. 6,795,605, and a continuation thereof. On May 16, 2006, Cheetah filed an amended complaint, which requested an order to enjoin the sale of our DTN System and recover all damages caused by the alleged infringement. We are contractually obligated to indemnify Level 3 for damages suffered by Level 3 to the extent our product is found to infringe, and we have assumed the defense of this matter. On July 12, 2006, we and Level 3 filed a response to Cheetah's amended complaint denying all infringement claims. On July 20, 2006, we and Level 3 filed an amended response. On November 28, 2006, Cheetah filed a second amended complaint and added patent No. 7,142,347 to the lawsuit. We believe the suit is without merit and intend to defend ourselves vigorously, but we are unable to predict the likelihood of an unfavorable outcome.

From time to time, we may be subject to other legal proceedings and claims in the ordinary course of our business.

Management

MANAGEMENT

Executive Officers, Key Employees and Directors

Our executive officers, key employees and directors, and their ages and positions as of February 15, 2007, are set forth below:

Name	Age	Position
Jagdeep Singh	39	Chairman, President and Chief Executive Officer
Thomas J. Fallon	45	Chief Operating Officer
David F. Welch, Ph.D.	46	Chief Marketing and Strategy Officer
Duston M. Williams	48	Chief Financial Officer
Scott A. Chandler	38	Vice President, Worldwide Sales
Michael O. McCarthy III	41	Vice President and General Counsel
William R. Cumpston	45	Vice President, Systems Engineering
Frederick A. Kish, Jr., Ph.D.(1)	40	Vice President, PIC Development and Manufacturing
Drew D. Perkins(1)	43	Chief Technology Officer
Paul M. Whitney(1)	49	Vice President, Human Resources
Alexandre Balkanski, Ph.D.(3)(4)	46	Director
Kenneth A. Goldman(2)	57	Director
Reed E. Hundt(4)	58	Director
Hugh C. Martin(2)(3)	53	Director
Dan Maydan, Ph.D.(2)	71	Director
Carl Redfield(3)(4)	59	Director
Pradeep S. Sindhu, Ph.D.	54	Director

(1) Key employee

(2) Member of Audit Committee

(3) Member of Compensation Committee

(4) Member of Nominating and Corporate Governance Committee

Jagdeep Singh co-founded our company and has served as our President and Chief Executive Officer since January 2001, and as Chairman of our board of directors since March 2001. From December 1999 to December 2000, Mr. Singh served as co-founder and Chief Executive Officer of OnFiber Communications, Inc., or OnFiber, an optical telecommunications carrier. From January 1998 to March 1999, Mr. Singh served as co-founder and Chief

Executive Officer of Lightera Networks, or Lightera, an optical switching equipment company, and upon Ciena Corporation's acquisition of Lightera in March 1999, served as President of Ciena's Core Switching Division. Mr. Singh holds a B.S. in Computer Science from the University of Maryland, an M.S. in Computer Science from Stanford University and an M.B.A. from the University of California, Berkeley.

Thomas J. Fallon has served as our Chief Operating Officer since October 2006. From April 2004 to September 2006, Mr. Fallon was our Vice President of Engineering and Operations. From August 2003 to March 2004, Mr. Fallon was Vice President, Corporate Quality and Development Operations of Cisco Systems, Inc., or Cisco, a networking and telecommunications company. From May 2001 to August 2003, Mr. Fallon served as Cisco's General Manager of the Optical Transport Business Unit. Mr. Fallon holds a B.S.M.E. and M.B.A. from the University of Texas at Austin.

David F. Welch, Ph.D. co-founded our company and has served as our Chief Marketing and Strategy Officer since January 2007. From May 2004 to January 2007, Dr. Welch served as our Chief Strategy Officer. From May 2001 to May 2004, he served as our Chief Development Officer/Chief Technology Officer. From May 2001 to November 2006, Dr. Welch also served as a member of our board of directors. From February 2001 to April 2001, Dr. Welch served as Chief Technology Officer of the Transmission Division of JDS Uniphase Corporation, an optical component company. From January 1985 to February 2001, Dr. Welch served in various executive roles, including Chief Technology Officer and Vice President of Corporate Development of SDL, an optical component company. Dr. Welch holds a B.S. in Electrical Engineering from the University of Delaware and a Ph.D. in Electrical Engineering from Cornell University.

Duston M. Williams has served as our Chief Financial Officer since June 2006. From December 2004 to June 2006, Mr. Williams was Executive Vice President and Chief Financial Officer of Maxtor Corporation, an information storage solutions company. From July 2003 to November 2004, Mr. Williams served as Chief Financial Officer of Aruba Networks, Inc., a network infrastructure company. From July 2001 to February 2003, Mr. Williams served as Chief Financial Officer of Rhapsody Networks, Inc., a storage networking provider. Mr. Williams holds a B.S. in Accounting from Bentley College and an M.B.A. from the University of Southern California.

Scott A. Chandler has served as our Vice President, Worldwide Sales since November 2004. From May 2003 to November 2004, Mr. Chandler served as our Vice President, Sales for North America. From October 1999 to May 2003, Mr. Chandler held a number of senior sales positions at Sonus Networks, Inc., a voice over IP infrastructure solutions company, including Vice President of Strategic Sales. Mr. Chandler holds a B.S. in Business Administration from Plymouth State College.

Michael O. McCarthy III has served as our Vice President and General Counsel since May 2003. From May 2001 to February 2003, Mr. McCarthy served as Senior Vice President of Worldwide Sales and Support at Ciena, a communications equipment company. From July 1999 to May 2001, Mr. McCarthy served as Ciena's Senior Vice President and General Counsel. Mr. McCarthy holds a B.A. in Mathematical-Economics from Colgate University and a J.D. from Vanderbilt University's School of Law.

William R. Cumpston has served as our Vice President, Systems Engineering since June 2006. From September 2005 to June 2006, Mr. Cumpston served as the Senior Vice President of Engineering at XenSource Inc., an enterprise grade platform virtualization solution company. From March 2003 to May 2005, Mr. Cumpston served as Chief Executive Officer of CloudShield Technologies, Inc., a provider of IP services control and security. From June 2002 to August 2002, Mr. Cumpston served as a Senior Vice President of Metro Products at Ciena. From August 1998 to June 2002, Mr. Cumpston served as Vice President, Engineering and Chief Operating Officer at ONI Systems Corporation, a fiber-optic communications equipment company. Mr. Cumpston holds a B.S. in Mathematics from the University of North Carolina.

Frederick A. Kish, Jr., Ph.D. has served as our Vice President, PIC Development and Manufacturing since May 2001. From November 1999 to May 2001, Dr. Kish served as R&D and Manufacturing Development Manager for the Fiber Optics Communications Division of Agilent Technologies, Inc., a measurement and technology company for communications, electronics, life sciences and chemical analysis. Dr. Kish holds B.S., M.S. and Ph.D. degrees in electrical engineering from the University of Illinois at Urbana-Champaign.

Drew D. Perkins co-founded our company and has served as our Chief Technology Officer since May 2001, and as a member of our board of directors from May 2001 to November 2006. From December 1999 to April 2001, he served as co-founder and Chief Technology Officer of OnFiber. From February 1998 to March 1999, Mr. Perkins served as co-founder and Chief Technology Officer of Lightera, and upon Ciena's acquisition of Lightera in March 1999, served as Chief Technology Officer of Ciena's Core Switching Division. From February 1993 to March 1997, he served in various senior engineering and management roles at FORE Systems, an internet switching equipment company. Mr. Perkins holds a B.S. in Electrical Engineering, Computer Engineering and Mathematics from Carnegie Mellon University.

Paul M. Whitney has served as our Vice President of Human Resources since October 2006. From June 2004 to August 2006, Mr. Whitney was Vice President, Human Resources for Portal Software, a provider of billing and revenue management products. From December 2001 to November 2003, Mr. Whitney was International HR Director of Ascential Software, a maker of data integration tools. Mr. Whitney holds a B.S in Managerial and Administrative Science and an M.S in Human Resource Management from the University of Aston in Birmingham, United Kingdom.

Alexandre Balkanski, Ph.D. has been a member of our board of directors since October 2001. Dr. Balkanski has been a General Partner at Benchmark Capital, a venture capital firm, since April 2000. From August 1988 to April 2000, Dr. Balkanski was a co-founder and Chief Executive Officer of C-Cube Microsystems Inc., a digital video company. Dr. Balkanski holds a B.S. from Harvard College and an M.A. and a Ph.D. from Harvard University.

Kenneth A. Goldman has been a member of our board of directors since February 2005. From August 2000 until March 2006, Mr. Goldman served as Senior Vice President, Finance and Administration and Chief Financial Officer of Siebel Systems, Inc., a supplier of customer software solutions and services. From December 1999 to December 2003, Mr. Goldman served as an advisory council member of the Financial Accounting Standards Board Advisory Council. Mr. Goldman serves on the boards of directors of Juniper Networks, Inc., an IP network solutions company, and Leadis Technology Inc., a semiconductor company. Mr. Goldman holds a B.S. in Electrical Engineering from Cornell University and an M.B.A. from the Harvard Business School.

Reed E. Hundt joined our board of directors in February 2007. Since 1998, he has acted as Co-Chairman of the Forum on Communications and Society at The Aspen Institute, a public policy organization, and as an independent advisor on information industries to McKinsey & Company, Inc., a management consulting firm. Mr. Hundt served as Chairman of the Federal Communications Commission from 1993 to 1997. Mr. Hundt currently serves on the board of directors of Intel Corporation. Mr. Hundt holds a B.A. in History from Yale University and a J.D. from Yale Law School.

Hugh C. Martin has been a member of our board of directors since July 2003. Since April 2004, Mr. Martin has served as Chairman and Chief Executive Officer of Pacific Biosciences, Inc., a biotechnology company. From September 2003 to April 2004, Mr. Martin acted as a consultant to Kleiner, Perkins, Caufield & Byers, a venture capital firm. From May 2002 to May 2003, Mr. Martin was a consultant to Ciena. From January 1998 to May 2002, Mr. Martin was the Chairman, President and Chief Executive Officer of ONI Systems Corporation, a fiber-optic communications equipment company. Mr. Martin holds a B.S.E.E. from Rutgers University.

Dan Maydan, Ph.D. has been a member of our board of directors since September 2001. From April 2003 to September 2005, Dr. Maydan served as the President Emeritus of Applied Materials, Inc., a company that manufactures semiconductor equipment, and was a member of its board of directors from June 1992 until March 2006. From December 1993 to April 2003, Dr. Maydan served as President of Applied Materials. Dr. Maydan serves on the boards of directors of Electronics for Imaging, Inc., a digital imaging and print management solutions company, and LaserCard Corporation, a secure ID solutions company. Dr. Maydan holds a B.S. and M.S. in Electrical Engineering from the Israel Institute of Technology and a Ph.D. in Physics from Edinburgh University of Scotland.

Carl Redfield has been a member of our board of directors since August 2006. Since September 2004, Mr. Redfield has served as Senior Vice President, New England executive sponsor, of Cisco. From February 1997 through September 2004, Mr. Redfield served as Cisco's Senior Vice President, Manufacturing and Logistics. From September 1993 until February 1997, Mr. Redfield served as Vice President of Manufacturing of Cisco. Mr. Redfield is a member of the board of directors of VA Software Corporation, an online media, software and e-commerce company. Mr. Redfield holds a B.S. in Materials Engineering from Rensselaer Polytechnic Institute and has completed post-graduate studies at the Harvard Business School.

Pradeep S. Sindhu, Ph.D. has been a member of our board of directors since September 2001. In February 1996, Dr. Sindhu co-founded Juniper Networks, Inc., an IP network solutions company, and served as its Chief Executive Officer and Chairman of its board of directors until September 1996. Since September 1996, Dr. Sindhu has served as Chief Technical Officer and Vice Chairman of the board of directors of Juniper Networks. Dr. Sindhu holds a B.S.E.E. from the Indian Institute of Technology in Kanpur, an M.S.E.E. from the University of Hawaii and a Masters in Computer Science and Ph.D. in Computer Science from Carnegie-Mellon University.

Board Composition

Independent Directors

Our board of directors is currently composed of 8 members. Messrs. Goldman, Hundt, Martin and Redfield and Drs. Balkanski, Maydan and Sindhu qualify as independent directors in accordance with the listing requirements of NASDAQ. The NASDAQ definition of independence includes a series of objective tests, such as that the director is not, and has not been for at least three years, one of our employees and that neither the director, nor any of his family members, has engaged in various types of business dealings with us. In addition, as further required by the NASDAQ rules, our board of directors has made a subjective determination as to each independent director that no relationships exist that, in the opinion of our board of directors, would interfere with his exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, our directors reviewed and discussed information provided by the directors and us with regard to each director's business and personal activities as they may relate to us and our management.

Selection Arrangements

Two of our current directors were elected pursuant to a voting agreement that we entered into with certain holders of our common and convertible preferred stock. The provisions of this voting agreement will terminate upon the closing of this offering, and there will be no further contractual obligations regarding the election of our directors. Our directors hold office until their successors have been elected and qualified or their earlier death, resignation or removal.

Classified Board

Our amended and restated certificate of incorporation that will become effective as of the closing of this offering provides for a classified board of directors consisting of three classes of directors, each serving a staggered three-year term. Commencing in 2008, a portion of our board of directors will be elected each year for three-year terms. Upon the closing of this offering:

- Drs. Balkanski and Sindhu will be designated Class I directors whose term will expire at the 2008 annual meeting of stockholders;
- Messrs. Martin and Singh and Dr. Maydan will be designated Class II directors whose term will expire at the 2009 annual meeting of stockholders; and
- Messrs. Goldman, Hundt and Redfield will be designated Class III directors whose term expires at the 2010 annual meeting of stockholders.

Our amended and restated certificate of incorporation and amended and restated bylaws that will become effective as of the closing of this offering provide that the number of authorized directors shall be determined from time to time by resolution of the board of directors. Any additional directorships resulting from an increase in the number of authorized directors will be distributed among the three classes so that, as nearly as reasonably possible, each class will consist of one-third of the directors. The classification of the board of directors may have the effect of delaying or preventing changes in control of our company. Under Delaware law, our directors may be removed for cause by the affirmative vote of the holders of a majority of our voting stock.

Board Committees

Our board of directors has established an audit committee, a compensation committee and a nominating and governance committee. Our board of directors and its committees set schedules to meet throughout the year and also can hold special meetings and act by written consent from time to time, as appropriate. The independent members of our board of directors also will hold separate executive session meetings regularly at which only independent directors are present, generally at the regularly scheduled meetings of the board of directors. Our board of directors has delegated various responsibilities and authority to its committees as generally described below. The committees will report, as appropriate, their activities and actions to the full board of directors. Each member of each committee of our board of directors qualifies as an independent director in accordance with the NASDAQ standards described above. Each committee of our board of directors has a written charter approved by our board of directors. Upon the effectiveness of the registration statement of which this prospectus forms a part, copies of each charter will be posted on our web site at http://www.infinera.com. The inclusion of our web site address in this prospectus does not include or incorporate by reference the information on our web site into this prospectus.

Audit Committee

The current members of the audit committee of our board of directors are Messrs. Goldman and Martin and Dr. Maydan, each of whom is independent under the rules and regulations of the SEC and the listing standards of NASDAQ. Mr. Goldman chairs our audit committee. In addition to qualifying as independent under the NASDAQ rules, each member of our audit committee can read and understand fundamental financial statements in accordance with NASDAQ Audit Committee requirements.

The audit committee of our board of directors reviews and monitors our corporate financial statements and reporting and our external audits, including, among other things, our internal controls and audit functions, the results and scope of the annual audit and other services provided by our independent registered public accounting firm and our compliance with legal matters that have a significant impact on our financial statements. Our audit committee also consults with our management and our independent registered public accounting firm prior to the presentation of financial statements to stockholders and, as appropriate, initiates inquiries into aspects of our financial affairs. Our audit committee is responsible for establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. In addition, our audit committee is directly responsible for the appointment, retention, compensation and oversight of the work of our independent registered public accounting firm, including approving services and fee arrangements. All related party transactions are subject to approval by our audit committee.

Our board of directors has determined that Mr. Goldman is an “audit committee financial expert” as defined under SEC regulations and the NASDAQ listing standards. The designation does not impose on Mr. Goldman any duties, obligations or liability greater than that generally imposed on him as a member of our audit committee and our board of directors. Both our independent registered public accounting firm and management periodically meet privately with our audit committee.

Compensation Committee

The current members of the compensation committee of our board of directors are Messrs. Martin and Redfield and Dr. Balkanski. Dr. Balkanski chairs the compensation committee. The compensation committee reviews, makes recommendations to the board of directors on and approves our compensation policies and all forms of compensation to be provided to our executive officers and directors, including, among other things, annual salaries, bonuses, equity, severance arrangements, change-of-control protections and any other compensatory arrangements (including, without limitation, perquisites and any other form of compensation). In addition, our compensation committee will administer our stock option plans, having the ability to grant stock options and other equity-based awards to individuals eligible for such grants (including our executive officers, but excluding the non-employee members of our board of directors). The compensation committee will also oversee the administration of other material employee benefit plans, including our 401(k) plan, and review and approve various other compensation policies and matters. Among the committee’s responsibilities are the preparation of the Compensation Discussion and Analysis and Compensation Committee Report required by the rules of the SEC. Each member of our compensation committee is a non-employee director, as defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act, an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code and satisfies the NASDAQ independence requirements.

Nominating and Governance Committee

The members of the nominating and governance committee of our board of directors are Messrs. Hundt and Redfield and Dr. Balkanski. Mr. Redfield chairs the nominating and governance committee. The nominating and governance committee will review and report to our board of directors on a periodic basis with regard to matters of corporate governance, and will review, assess and make recommendations on the effectiveness of our corporate governance policies. In addition, our nominating and governance committee will review and make recommendations to our board of directors regarding the size and composition of our board of directors and the appropriate qualities and skills required of our directors in the context of the then-current make-up of our board of directors. This will include an assessment of each candidate’s independence, personal and professional integrity, financial literacy or other professional or business experience relevant to an understanding of our business, ability to think and act independently and with sound judgment, and ability to serve our stockholders’ long-term interests. These factors, and others as considered useful by our nominating and governance committee, will be reviewed in the context of an assessment of the perceived needs of our board of directors at a particular point in time. As a result, the priorities and emphasis of our nominating and governance committee and of our board of directors may change from time to time to take into account changes in business and other trends, as well as the portfolio of skills and experience of current and prospective directors.

Our nominating and governance committee will lead the search for, select and recommend candidates for election to our board of directors. Consideration of new director candidates typically will involve a series of committee discussions, review of information concerning candidates and interviews with selected candidates. Candidates for nomination to our board of directors typically have been suggested by other members of our board of directors or by our executive officers. From time to time, our nominating and governance committee may engage the services of a third-party search firm to identify director candidates. Our nominating and governance committee will consider candidates proposed in writing by stockholders, provided such proposal meets the

eligibility requirements for submitting stockholder proposals for inclusion in our next proxy statement and is accompanied by the required information about the candidate specified in our amended and restated bylaws. Candidates proposed by stockholders will be evaluated by our nominating and governance committee using the same criteria as for all other candidates.

Code of Business Conduct and Ethics

Our board of directors has adopted a code of business conduct and ethics. The code applies to all of our employees, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions), agents and representatives, including directors and consultants. Upon the effectiveness of the registration statement of which this prospectus forms a part, the full text of our code of business conduct and ethics will be posted on our web site at http://www.infinera.com. We intend to disclose future amendments to certain provisions of our code of business conduct and ethics, or waivers of such provisions, applicable to any principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions or our directors on our web site identified above. The inclusion of our web site address in this prospectus does not include or incorporate by reference the information on our web site into this prospectus.

Compensation Committee Interlocks and Insider Participation

The compensation committee of the board of directors currently consists of Messrs. Martin and Redfield and Dr. Balkanski. None of our executive officers has ever served as a member of the board of directors or compensation committee of any other entity that has or has had one or more executive officers serving as a member of our board of directors or our compensation committee.

Limitation of Liability and Indemnification

Our amended and restated certificate of incorporation contains provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not apply to liabilities arising under federal securities laws and do not affect the availability of equitable remedies such as injunctive relief or rescission.

Our amended and restated certificate of incorporation and amended and restated bylaws, which will each become effective upon the closing of this offering, provide that we are required to indemnify our directors and officers, in each case to the fullest extent permitted by Delaware law. Any repeal of or modification to our amended and restated certificate of incorporation or amended and restated bylaws may not adversely affect any right or protection of a director or officer for or with respect to any acts or omissions of that director or officer occurring prior to that amendment or repeal. Our amended and restated bylaws also provide that we will advance expenses incurred by a director or officer in advance of the final disposition of any action or proceeding, and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity regardless of whether we would otherwise be permitted to indemnify him or her under the provisions of Delaware law. We have obtained such a directors' and officers' liability insurance policy. We have entered and expect to continue to enter into agreements to indemnify our directors and executive officers. With certain exceptions, these agreements provide for indemnification for related expenses including, among other things, attorneys' fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and executive officers. We also maintain directors' and officers' liability insurance.

The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation and amended and restated bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duties. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions. At present, there is no pending litigation or proceeding involving any of our directors or executive officers for which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, executive officers or persons controlling us, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Director and Executive Compensation

Director Compensation

Our directors do not currently receive any cash compensation for their services as members of our board of directors or any committee of our board of directors nor do we have a policy of reimbursing directors for travel, lodging and other expenses incurred in connection with their attendance at board or committee meetings. During 2006, each of our non-employee directors who was not a significant stockholder or affiliated with a significant stockholder of

ours received an initial stock option award to purchase 75,000 shares of our common stock upon such director becoming a member of our board of directors, plus an additional annual stock option award of 18,750 shares. Furthermore, such directors received an option award of 12,500 shares if they served on our audit committee or compensation committee and an additional 6,250 shares if they served as chairman of our audit committee.

Beginning on , 2007, each non-employee member of our board of directors will be entitled to receive an annual retainer of $. In addition, each non-employee director serving on our audit committee, compensation committee and nominating and governance committee will be entitled to an additional annual retainer of $, $ and $, respectively, and the chair of each such committee will be entitled to an additional annual retainer of $, $ and $, respectively. The retainer fees will be paid in four quarterly payments on the first day of each calendar quarter.

Non-employee directors will be entitled to an initial stock option award to purchase shares of our common stock upon such director becoming a member of our board of directors, plus an additional shares if serving on our audit committee and an additional shares if serving as chairman of our audit committee. Each initial option will become exercisable for the shares in 48 equal monthly installments. Each year thereafter, each non-employee director will receive an annual stock option award to purchase shares of our common stock on the date of our annual stockholders meeting, plus an additional shares if serving on our audit committee and an additional shares if serving as chairman of our audit committee, each of which will vest in 12 equal monthly installments. All such options will be granted at the fair market value on the date of the award.

The following table sets forth the annual director compensation paid or accrued by us to individuals who were directors during any part of 2006. The table excludes Mr. Singh and Dr. Welch who are named executive officers and who did not receive any compensation from us in their roles as directors in 2006. Dr. Welch's term as a director ended on November 2, 2006.

Director Compensation

For Year Ended December 31, 2006

Name	Option Awards(1) ($)	Options Held (#)	Grant Date Fair Valueof OptionAwards($)
Alexandre Balkanski, Ph.D.	$—	—	—
Gregory Galanos(2)	—	—	—
Kenneth A. Goldman	5,241	37,500	43,650
Vinod Khosla(2)	—	—	—
Hugh C. Martin	8,828	43,750	50,925
Dan Maydan, Ph.D.	2,746	18,750	21,825
Drew D. Perkins(3)	—	—	—
Carl Redfield	7,219	75,000	87,300
Thurman J. Rodgers, Ph.D.(4)	—	—	—
Pradeep S. Sindhu, Ph.D.	5,440	18,750	21,825

(1) The value reported above in the "Option Awards" column is the amount we expensed during 2006 for each director's option award calculated in accordance with SFAS No. 123(R). All awards were granted under our 2000 Stock Plan.

(2) The terms of Messrs. Galanos and Khosla as directors ended on November 20, 2006.

(3) Mr. Perkins did not receive any options for his role as a director, and his term as a director ended on November 21, 2006.

(4) Dr. Rodgers' term as a director ended on August 16, 2006.

Executive Compensation

Compensation Discussion and Analysis

For Named Executive Officers

Overview—Compensation Objectives

Our compensation and benefits programs seek to attract and retain our senior executives and to motivate them to pursue our corporate objectives. Through our annual goal setting process, individual objectives are aligned with organizational objectives. We evaluate and reward our executive officers based on their willingness to take a leadership position in improving our internal structures and processes and their ability to identify and exploit opportunities to grow our business. In addition, at the beginning of each year, our compensation committee establishes specific goals and objectives for compensating our employees, including our named executive officers.

Specifically, we have created a compensation program that has a mix of short- and long-term components, cash and equity elements and fixed and contingent payments in the proportions we believe will provide the proper incentives, reward our senior management team and help us achieve the following goals:

- foster a goal oriented, highly-motivated management team whose participants have a clear understanding of business objectives and shared corporate values;
- allocate company resources most effectively in the development of market-leading technology and products;
- control costs in each facet of our business to maximize our efficiency;
- enable us to attract, retain and motivate a world class leadership team; and
- achieve internal equity across our organization.

Our executive compensation program has been targeted at below median cash compensation and equity compensation at or above the median. With the relatively large equity weighting, this approach seeks to reward our executive officers when we achieve our goals and objectives and generate stockholder returns. At the same time, if our corporate goals are not achieved, a significant portion of the compensation for our key managers is at risk. In this way, our executive compensation is aligned with the interests of our stockholders.

Role of Our Compensation Committee

Our compensation committee approves, administers and interprets our executive compensation and benefit policies. Our compensation committee was appointed by our board of directors, and consists entirely of directors who are "outside directors" for purposes of Section 162(m) of the Internal Revenue Code and "non-employee directors" for purposes of Rule 16b-3 under the Exchange Act. Our compensation committee is comprised of Messrs. Martin and Redfield and Dr. Balkanski, and is chaired by Dr. Balkanski.

Our compensation committee has taken the following steps, in consultation with Compensia, a compensation consulting firm that our compensation committee retained, to ensure that our executive compensation and benefit programs are consistent with both our compensation philosophy and our corporate governance guidelines:

- evaluated our compensation practices and assisted in developing and implementing the executive compensation program and philosophy;
- with input from our management team, developed a competitive peer group composed of public networking equipment companies and performed analyses of competitive performance and compensation levels for us and each of our competitive companies;
- developed recommendations with regard to executive compensation structures based on targeting a competitive level of pay as measured against the peer group of companies that were reviewed and approved by our compensation committee and board of directors;
- established a practice, in accordance with the rules of NASDAQ, of prospectively reviewing the performance and determining the compensation earned, paid or awarded to our chief executive officer independent of input from him;
- established a policy, in accordance with the rules of NASDAQ, to review on an annual basis the performance of our other executive officers with assistance from our chief executive officer and determining what we believe to be appropriate total compensation based on competitive levels as measured against our peer group; and
- established a policy to specify grant dates for both new hire and annual retention equity awards as a public company.

Competitive Market Review

The market for experienced management is highly competitive in our industry. We aim to attract and retain the most highly qualified executives to manage each of our business functions. In doing so, we aim to draw upon a pool of talent that is highly sought after by both large and established networking equipment and transport companies in our geographic area and by other competitive companies in development or early stage phases. Established organizations in our industry seek to recruit top talent from emerging companies in the sector just as smaller organizations look to attract and retain the best talent from the industry as a whole. The competition for technical and commercial skills is fierce across the sector and we expect it to remain high for the foreseeable future.

We must match market cash compensation levels and satisfy the day-to-day financial requirements of our candidates through competitive base salaries and cash bonuses. We also compete for key personnel on the basis of our vision of future success; our culture and company values; the cohesiveness and productivity of our teams; and the excellence of our technical and management personnel. In all of these areas, we compete with other emerging networking equipment/optical transport companies. In order to succeed in attracting and retaining top executive talent, we continuously draw upon surveys presented by Compensia, as well as other nationally recognized surveys. Our management and compensation committee review data that analyzes various cross-sections of our industry, as well as relevant geographical areas.

Market Benchmarks: How We Define Our Market and How We Use Market Compensation Data In 2006, Compensia conducted an executive total compensation review that compares our executive's total compensation levels to those of other executives at our peer companies. Compensia works directly with the compensation committee and management to interpret the results, make certain specific and general recommendations and assist in setting compensation levels for our executive officers.

Defining the Market. For 2006, we used two market references to compare our total compensation practices for our executives and levels to those in the market:

- *Select Peer Group.* 18 companies, including a mix of publicly-traded U.S. networking and optical transport companies; and

- *Radford High Technology Industry Report by Aon Consulting*. A national survey of executive compensation levels and practices that covers approximately 80 positions in 700 organizations.

Determining Market Levels and Specific Comparisons. We compare our practices and levels by each compensation component, by target annual cash compensation, which includes base salary and target annual incentive opportunity, and by total direct compensation, including base salary, target annual incentive opportunity and annual equity compensation components. The competitive comparisons made in this process are used to determine our approximate position relative to the appropriate market benchmark by compensation component and in the aggregate.

Executive Compensation Program

Components of our Compensation Program Our performance-driven compensation program consists of five components:

- base salary;
- annual cash bonuses;
- equity-based incentives;
- benefits; and
- severance/termination protection.

We chose to build our executive compensation program around each of the above elements because each individual component is useful in achieving one or more of the objectives of the program and we believe that, together, they have been and will continue to be effective in achieving our overall objectives. We utilize short-term compensation, including base salary and cash bonuses, to motivate and reward our key executives in accordance with our "pay for performance" philosophy. We are in the process of implementing and systematizing our review process, with the objective of measuring and providing feedback on individual performance as it relates to the goals we wish to achieve for the company as a whole and the employee individually.

Basis for our Compensation Program We have an annual goal setting process that is open and collaborative in nature. Executive team members establish their functional objectives taking into account overall corporate goals and incorporating the feedback and commentary of their senior management colleagues and the board of directors. Towards the end of each calendar year, we engage in our annual goal setting process driven by our chief operating officer. In line with established financial objectives, each functional vice president who reports directly to our chief executive officer, submits departmental goals in support of that plan which are then consolidated by our chief operating officer. A meeting is convened and these same vice presidents attend and present their goals to their colleagues for comment and approval. Ultimately, our chief executive officer has final authority with respect to the goals that are established through this process.

To more successfully promote a team-oriented approach to company performance, each executive's annual incentive compensation is based on achievement against the same company performance objectives. We establish one set of company performance-oriented goals against which the entire management team is measured for purposes of determining annual incentive compensation. Annual incentive compensation is paid based on the average of percentage achievement against each of the corporate goals. We see this approach to our annual incentive compensation as an integral part of our culture of collaborative, team-oriented management. Individual performance and achievement against individual goals and objectives is only taken into account in setting base salaries and annual equity awards. The value of equity awards made to our senior executives will vary in value based on our stock price performance. Our senior executives' total compensation may vary significantly from year-to-year based on company and individual performance.

Weighting of Elements in our Compensation Program The use and weight of each compensation element is based on a subjective determination by the compensation committee of the importance of each element in meeting our overall objectives. In general, we seek to put a significant amount of each executive's total potential compensation "at risk" based on corporate and individual performance. As a result, compensation paid in the form of base salary and benefits represented less than half of each continuing executive's potential total compensation at target performance levels for 2007. We believe that, as is common in the technology sector, stock option and other equity-based awards are the primary compensation-related motivator in attracting and retaining employees and that salary and bonus levels are secondary considerations to many employees.

Base Salary. Base salary will typically be used to recognize the experience, skills, knowledge and responsibilities required of each executive officer, as well as competitive market conditions. In establishing the 2007 base salaries of our named executive officers, our compensation committee took into account a number of factors, including the executive's seniority, position and functional role and level of responsibility. For executives hired in 2006, we considered the base salary of the individual at his or her prior employment and any unique personal circumstances that motivated the executive to leave that prior position and join our company. In addition, in both cases we considered the competitive market for corresponding positions within comparable geographic areas and industries. For 2006 and 2007, base salaries for our senior executives were and are generally positioned below the median of our peer companies, consistent with our philosophy of linking total reward with performance objectives of the company.

The base salary of our named executive group will be reviewed on an annual basis and adjustments will be made to reflect performance-based factors, as well as competitive conditions. We will not apply specific formulas to determine increases. Generally, executive salaries will be adjusted effective January 1 of each year.

Bonuses. Annual performance bonuses for our executive officers are based on the achievement of company annual goals and objectives and are paid in cash. These objectives may change from year-to-year as the company continues to evolve and different priorities are established, but are subject to the review and approval of the compensation committee. Awards under our bonus programs are based on a thorough quantitative and qualitative review of all the facts and

circumstances related to company performance when determining each individual's annual bonus. The compensation committee approves the annual incentive award for the chief executive officer. For all other executive officers, the compensation committee approves the annual incentive award with input from the chief executive officer.

During 2006, we introduced for the first time a management bonus plan which was applicable only to the second half of that year. Bonus targets were tied to revenue and gross margin targets. There were two levels of bonus dependant upon job title. The chief executive officer and all non-sales vice presidents could achieve 15% of base salary as a bonus for 100% achievement of goals for the second half of 2006 only. For all non-sales employees with a job title at Director level, the target bonus was 7.5% of 2006 base salary. For 2006, there was no maximum on these bonus amounts. Further details of the actual bonus payouts can be reviewed in the table titled "Summary Compensation Table."

Under our 2007 Executive Bonus Plan, the corporate objectives for bonuses are a combination of financial related measures. The payouts under the bonus plan will be capped at 200% of targeted bonuses. Failure to achieve threshold performance against operating profit as adjusted for certain items, regardless of the achievement against other measures, will result in no bonus being paid. For 2007, the following target bonus percentages, as a percentage of base salary, will apply: Mr. Singh—100%, Mr. Williams—50%, Mr. Fallon—60%, Mr. McCarthy—40% and Dr. Welch—40%. In the future, cash bonuses are expected to be paid in a single installment during the month of February of the year following the measurement year.

Equity-based incentives. We believe that strong long-term corporate performance is achieved with a corporate culture that encourages long-term performance by our executive officers through the use of stock-based awards. Our equity incentive plans have been established to provide certain of our employees, including our executive officers, with incentives to help align those employees' interests with the interests of our stockholders. We have not adopted stock ownership guidelines, and, other than for our co-founders, our equity incentive plans have provided the principal method for our executive officers to acquire equity or equity-linked interests in our company. Prior to this offering, we granted equity awards under our 2000 Stock Plan. In connection with our initial public offering, our board of directors has adopted a 2007 Equity Incentive Plan, which permits the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, performance shares and other stock-based awards. Our equity awards are designed to align management's performance objectives with the interests of our stockholders. Our compensation committee grants equity awards to key executives in order to enable them to participate in the long-term appreciation of our stockholder value, while reducing or eliminating the economic benefit of such awards in the event we do not perform well. Additionally, to the extent that stock options and other equity awards are given in the form of option grants these provide an important retention tool for key executives, as they are in almost all cases subject to vesting over an extended period of time.

In general, stock options for executive officers are granted annually in connection with our annual performance review in May of each year and are subject to vesting based on the executive's continued service. Most new hire option grants vest over a four year period with 25% vesting after the first twelve months of service and the remainder vesting ratably each month thereafter over the next three years. Annual option grants also vest over a four year period and vest ratably each month subject to continued service through each vesting date. All options are granted at the fair market value on the date of grant. Our compensation committee will consider alternative forms of equity, such as performance shares, restricted stock units or restricted stock awards, and alternative vesting strategies based on the achievement of milestones when we become a public reporting company.

The size and terms of the initial option grant made to each executive officer upon joining the company are primarily based on competitive conditions applicable to the executive officer's specific position. In addition, the compensation committee considers the number of options owned by other executives in comparable positions within our company using a blended model that considers options awarded as a percentage of shares outstanding and the aggregate value for each option grant. For 2006, the compensation committee recommended to the board of directors the annual equity-based incentive award for our chief executive officer. For all other executive officers in 2006, the compensation committee's recommendations were made with input from the chief executive officer. The compensation committee has established stock option targets for specified categories of executive officers.

We use a number of methodologies to make external comparisons when we set the number of options to be granted to each executive officer. On an individual basis, we compare the fair value of the grant to those to executives made at peer companies using a Black-Scholes valuation for equity awards that is consistent with SFAS 123(R), and the number of option shares granted by position as a percentage of total common shares outstanding. We believe these comparisons provide important additional context for comparing the competitiveness of our equity-based compensation practices versus the market.

The annual performance equity awards we make to our executive officers will be driven by our sustained performance over time, our executive officers' ability to impact our results that drive stockholder value, their organization level, their potential to take on roles of increasing responsibility, and competitive equity award levels for similar positions and organization levels in comparable companies. Equity forms a key part of the overall compensation for each executive officer and will be considered each year as part of the annual performance review process and incentive payout calculation.

During 2006, our board of directors granted stock options to our executive officers based upon the recommendations of our compensation committee in connection with our annual performance stock option grant process. All of these grants were made during meetings of our board of directors. The exercise price of options was determined by our board or directors after taking into account a wide variety of factors, including external valuation reports received from our independent valuation firms; the pricing of our most recently completed convertible preferred stock financing; the quality and growth of our management team; and market comparables within our industry. Subsequent to our initial public offering, our compensation committee intends to grant options for new hires on a monthly basis on the first business day of the month. All equity awards to our employees, including executive officers, and to our directors have been granted and reflected in our consolidated financial statements, based upon the applicable accounting guidance, with the exercise price equal to the fair market value on the grant date based on the valuation determined by our board of directors with the assistance of our independent valuation firms.

Benefits. We provide the following benefits to our named executive officers, generally on the same basis provided to all of our employees:

- health, dental insurance and vision;
- life insurance;

- employee stock purchase plan;
- employee assistance plan;
- medical and dependant care flexible spending account;
- short-and long-term disability, accidental death and dismemberment; and
- a 401(k) plan.

We believe these benefits are consistent with companies with which we compete for employees.

Severance Compensation & Termination Protection. We intend to enter into change of control agreements with each of our vice president level officers and above. Our chief executive officer, chief financial officer and chief operating officer will receive the following benefits if we undergo a change of control transaction and such officer is terminated without cause or is constructively terminated within 12 months following the change of control, subject to the individual's prior execution of a general release in our favor:

- 50% of the shares subject to the new hire option grant or stock award made to such officer will vest;
- 100% of the unvested shares of each subsequent option or stock award will vest; and
- the officer will be paid a lump sum equal to 12 months of base salary and will be provided with up to 12 months of COBRA.

Our other vice president level officers and above will receive the following benefits if we undergo a change of control transaction and such officer is terminated without cause or is constructively terminated within 12 months following the change of control, subject to the individual's prior execution of a general release in our favor:

- 50% of the shares subject to the new hire option grant or stock award made to such officer will vest;
- 50% of the unvested shares of each subsequent option or stock award will vest; and
- the officer will be paid a lump sum equal to six months of base salary plus up to six months of COBRA.

Accounting and Tax Considerations

Internal Revenue Code Section 162(m) limits the amount that we may deduct for compensation paid to our chief executive officer and to each of our four most highly compensated officers to $1,000,000 per person, unless certain exemption requirements are met. Exemptions to this deductibility limit may be made for various forms of "performance-based" compensation. In the past, annual cash compensation to our executive officers has not exceeded $1,000,000 per person, so the compensation has been deductible. In addition to salary and bonus compensation, upon the exercise of stock options that are not treated as incentive stock options, the excess of the current market price over the option price, or option spread, is treated as compensation and accordingly, in any year, such exercise may cause an officer's total compensation to exceed $1,000,000. Under certain regulations, option spread compensation from options that meet certain requirements will not be subject to the $1,000,000 cap on deductibility, and in the past we have granted options that met those requirements. While the compensation committee cannot predict how the deductibility limit may impact our compensation program in future years, the compensation committee intends to maintain an approach to executive compensation that strongly links pay to performance.

Summary Compensation Table

The following table provides information regarding the compensation of our principal executive officer, principal financial officer, former principal financial officer and each of the next three most highly compensated executive officers during our year ended December 31, 2006. We refer to these executive officers as our "named executive officers."

Name and Principal Position	Salary($)	Option Grants($)(1)	Non-Equity Incentive PlanCompensation($)(2)	All Other Compensation($)	Total ($)
Jagdeep Singh President and Chief Executive Officer	$200,000	$43,560	$32,526	$—	$276,086
Duston M. Williams(4) Chief Financial Officer	129,808	43,780	40,657	—	214,245
William R. Zerella(5) former Chief Financial Officer	142,109	—	—	125,000 (3)	267,109
Scott A. Chandler Vice President, Worldwide Sales	225,000	7,260	984,946 (6)	—	1,217,206
Michael O. McCarthy III Vice President and General Counsel	230,000	11,610	37,405	—	279,015
David F. Welch, Ph.D. Chief Marketing and Strategy Officer	200,000	21,780	32,526	—	254,306

(1) Amounts reflect the grant date fair value of stock options granted in 2006, calculated in accordance with SFAS No. 123(R). See Note 1 of Notes to Consolidated Financial Statements for a discussion of assumptions made in determining the grant date fair value and compensation expense of our stock options.

(2) The amounts in this column represent total performance-based bonuses earned for services rendered during 2006 under our 2006 Executive Bonus Plan, in which all executives who do not receive sales commissions participate. During 2006, we introduced the bonus plan which was applicable only to the second half of that year. Bonus targets were set related to revenue and margin, which were the key metrics in support of the business plan in effect at that time. 50% of the bonus was based on our performance relative to our revenue plan and the other 50% of the bonus was based on our performance relative to our gross margin plan. Payment of any bonus was contingent on our having achieved both (i) at least 80% of our revenue plan and (ii) at least 80% of our gross margin plan. Target bonus for each named executive officer was 15% of base salary. Bonuses earned in 2006 are anticipated to be paid in April 2007.

(3) This amount represents the amount paid to Mr. Zerella as severance in connection with his termination of employment. See the section titled "Separation Agreement" for a discussion of Mr. Zerella's severance arrangement.

(4) Mr. Williams became our chief financial officer in June 2006.

(5) Mr. Zerella left Infinera in July 2006.

(6) Mr. Chandler earned this amount during 2006 solely through sales commissions related to certain individual performance targets. $158,633 of Mr. Chandler's non-equity incentive plan compensation was based on individual performance targets set in 2006 for which payment was contingent on shipments made in January 2007 and was paid in February 2007.

Grants of Plan-Based Awards

The following table provides information regarding grants of plan-based awards to each of our named executive officers during the year ended December 31, 2006.

Grants of Plan-Based Awards

For Year Ended December 31, 2006

	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Option Awards: Number of Securities	Exercise or Base Price of Option	
Name	Threshold($) (1)	Target($) (2)	Grant Date	Underlying Options(#)	Awards($/Sh)	Grant Date Fair Value of Option Awards(3)
Jagdeep Singh						
President and Chief Executive Officer	$24,000	$30,000	8/8/2006 8/8/2006	50,000 325,000	$2.00 2.00	$58,200 378,300
Duston M. Williams						
Chief Financial Officer	30,000	37,500	8/8/2006 8/8/2006	50,000 325,000	2.00 2.00	58,200 378,300
William R. Zerella						
former Chief Financial Officer	–	–	–	–	–	–
Scott A. Chandler						
Vice President, Worldwide Sales	–	–	8/8/2006 8/8/2006	50,000 12,500	2.00 2.00	58,200 14,550
Michael O. McCarthy III Vice President and General Counsel	27,600	34,500	8/8/2006 8/8/2006	50,000 50,000	2.00 2.00	58,200 58,200
David F. Welch, Ph.D.						
Chief Marketing and Strategy Officer	24,000	30,000	8/8/2006 8/8/2006	137,500 50,000	2.00 2.00	160,050 58,200

(1) The threshold payments under our 2006 Executive Bonus Plan were set at 12% of each named executive officer's base salary. Please see the Summary Compensation Table above for the amounts our named executive officers earned under the 2006 Executive Bonus Plan.

(2) The target payments under our 2006 Executive Bonus Plan were set at 15% of each named executive officer's base salary. Please see the Summary Compensation Table above for the amounts our named executive officers earned under the 2006 Executive Bonus Plan.

(3) Amounts reflect the total fair value of stock options granted in 2006, calculated in accordance with SFAS No. 123(R).

Outstanding Equity Awards at December 31, 2006

The following table presents certain information concerning outstanding equity awards held by each of our named executive officers at December 31, 2006.

	Option Awards

Name	Number of SecuritiesUnderlyingUnexercisedOptionsExercisable(#)		Number of SecuritiesUnderlyingExercisedOptionsThat Have NotVested(#)		Option ExercisePrice($)	Option ExpirationDa
Jagdeep Singh President and Chief Executive Officer	 75,757 199,24250,000325,000	(1) (2) (3) (4)	 60,307 111,568	 (5) (5)	 $1.32 1.322.002.00	 11/27/2015 11/27/20158/
Duston M. Williams Chief Financial Officer	 50,000 325,000	 (6) (7)			 2.00 2.00	 8/7/2016 8/7/2016
William R. Zerella former Chief Financial Officer	 –		 –		 –	 –
Scott A. Chandler Vice President, Worldwide Sales	 33,750 15,00017,50066,25050,00012,500	(8) (9) (10) (11) (12) (13)			 1.84 2.240.761.322.002.00	 5/15/2013 7/5/20142/1/
Michael O. McCarthy III Vice President and General Counsel	 5,937 3,75026,51535,98550,00050,000	(14) (15) (16) (17) (18) (19)	 35,156	 (20)	 1.84 2.241.321.322.002.00	 5/15/2013 7/5/201411/2
David F. Welch, Ph.D. Chief Marketing and Strategy Officer	 137,500 50,000	 (21) (22)	 60,307 42,81848,92720,500	(23) (23) (24) (24)	 2.00 2.00	 8/7/2016 8/7/2016

(1) The option is subject to an early exercise provision and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 26,830 shares were fully vested and 48,927 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.

(2) The option is subject to an early exercise provision and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 70,565 shares were fully vested and 128,677 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.

(3) The option is subject to an early exercise provision and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 6,250 shares were fully vested and 43,750 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.

(4) The option is subject to an early exercise provision and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 40,625 shares were fully vested and 284,375 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.

(5) Shares of common stock acquired pursuant to the early exercise of options, but which are unvested and, therefore, subject to our right to repurchase as of December 31, 2006. Our right to repurchase is at a price per share of $0.76.

(6) The option is subject to an early exercise provision and is immediately exercisable. The option vests as to 1/4th of the shares of the underlying common stock on the first anniversary of the vesting commencement date and 1/48th of the shares of underlying common stock monthly thereafter. As of December 31, 2006, no shares were fully vested and 50,000 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.

(7) The option is subject to an early exercise provision and is immediately exercisable. The option vests as to 1/4th of the shares of the underlying common stock on the first anniversary of the vesting commencement date and 1/48th of the shares of underlying common stock monthly thereafter. As of December 31, 2006, no shares were fully vested and 325,000 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.

(8) The option is subject to an early exercise provision and is immediately exercisable. The option vests as to 1/4th of the shares of the underlying common stock on the first anniversary of the vesting commencement date and 1/48th of the shares of underlying common stock monthly thereafter. As of December 31, 2006, 30,234 shares were fully vested and 3,516 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.

(9)	The option is subject to an early exercise provision and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 9,687 shares were fully vested and 5,313 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.
(10)	The option is subject to an early exercise provision and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 9,114 shares were fully vested and 8,386 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.
(11)	The option is subject to an early exercise provision and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 23,463 shares were fully vested and 42,787 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.
(12)	The option is subject to early exercise provisions and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 6,250 shares were fully vested and 43,750 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.
(13)	The option is subject to early exercise provisions and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 1,562 shares were fully vested and 10,938 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.
(14)	The option is subject to an early exercise provision and is immediately exercisable. The option vests as to 1/4th of the shares of the underlying common stock on the first anniversary of the vesting commencement date and 1/48th of the shares of underlying common stock monthly thereafter. As of December 31, 2006, 2,969 shares were fully vested and 2,969 will vest ratably over the remainder of the vesting period, subject to continued service to us.
(15)	The option is subject to an early exercise provision and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 2,500 shares were fully vested and 1,250 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.
(16)	The option is subject to an early exercise provision and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 1,657 shares were fully vested and 24,858 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.
(17)	The option is subject to an early exercise provision and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 6,155 shares were fully vested and 29,830 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.
(18)	The option is subject to an early exercise provision and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 7,292 shares were fully vested and 42,709 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.
(19)	The option is subject to an early exercise provision and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 7,292 shares were fully vested and 42,709 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.
(20)	Shares of common stock acquired pursuant to the early exercise of options, but which are unvested and, therefore, subject to our right of repurchase as of December 31, 2006. Our right to repurchase is at a price per share of $0.76.
(21)	The option is subject to early exercise provisions and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 17,187 shares were fully vested and 120,313 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.
(22)	The option is subject to early exercise provisions and is immediately exercisable. The option vests monthly as to 1/48th of the shares of the underlying common stock. As of December 31, 2006, 6,250 shares were fully vested and 43,750 shares will vest ratably over the remainder of the vesting period, subject to continued service to us.
(23)	Shares of common stock acquired pursuant to the early exercise of options, but which are unvested and, therefore, subject to our right to repurchase as of December 31, 2006. Our right to repurchase is at a price per share of $0.76.
(24)	Shares of common stock acquired pursuant to the early exercise of options, but which are unvested and, therefore, subject to our right to repurchase as of December 31, 2006. Our right to repurchase is at a price per share of $1.32.

Option Exercises and Restricted Stock Vesting During 2006

The following table presents certain information on an aggregated basis concerning the exercise of options by, and vesting of restricted stock held by, each of our named executive officers during 2006.

	Option Awards	
Name	**Number of SharesAcquired onExercise(#)**	**Value Realized onExercise($)(1)**
Jagdeep Singh President and Chief Executive Officer	—	$—

Duston M. Williams Chief Financial Officer	–		–
William R. Zerella former Chief Financial Officer	107,811		
Scott A. Chandler Vice President, Worldwide Sales	–		–
Michael O. McCarthy III Vice President and General Counsel	129,061	(2)	
David F. Welch, Ph.D. Chief Marketing and Strategy Officer	107,499	(3)	

(1) The aggregate dollar amount realized upon the exercise of an option represents the difference between the aggregate market price of the shares of our common stock underlying that option on the date of exercise, which we have assumed to be $, the midpoint of the price range set forth on the cover page of this prospectus, and the aggregate exercise price of the option.

(2) As of December 31, 2006, 37,760 of the 129,061 shares with a value of $, based on the midpoint of the price range set forth on the cover page of this prospectus, are unvested and subject to repurchase by us at a price per share of $0.76.

(3) As of December 31, 2006, 89,583 of the 107,499 shares with a value of $, based on the midpoint of the price range set forth on the cover page of this prospectus, are unvested and subject to repurchase by us at a price per share of $1.32.

Offer Letters

We are party to the following agreements contained in employment offer letters with our named executive officers.

Duston M. Williams

On May 1, 2006, Mr. Williams executed our written offer of employment to serve as our Vice President and Chief Financial Officer. The written offer of employment specifies that Mr. Williams' employment with us is "at will." The offer letter provides for an annual base salary of $250,000 and on August 8, 2006 we granted Mr. Williams an option to purchase an aggregate of 375,000 shares of our common stock. The option vests 1/4th on the one year anniversary of the June 19, 2006 vesting commencement date and then 1/48th per month thereafter. The letter also provides Mr. Williams with certain severance and change of control benefits. See the section titled "Potential Payments Upon Termination or Change in Control" below.

Scott A. Chandler

On February 26, 2003, Mr. Chandler executed our written offer of employment to serve as our Vice President, Sales for North America. In November 2004, Mr. Chandler was promoted to the position of Vice President, Worldwide Sales. The written offer of employment specifies that Mr. Chandler's employment with us is "at will." The offer letter provides for an annual base salary of $200,000, a signing bonus of $10,000, a performance bonus of $10,000 per year, and a grant of an option to purchase 33,750 shares of our common stock. The option vests 1/4th on the one year anniversary of the May 15, 2003 vesting commencement date and then 1/48th per month thereafter.

Michael O. McCarthy III

On January 5, 2003, Mr. McCarthy executed our written offer of employment to serve as our Vice President and General Counsel. The written offer of employment specifies that Mr. McCarthy's employment with us is "at will." The offer letter provides for an annual base salary of $230,000 and a grant of options to purchase 47,500 shares of our common stock. The option vests 1/4th on the one year anniversary of the May 5, 2003 vesting commencement date and then 1/48th per month thereafter. See the section titled "Potential Payments Upon Termination or Change in Control" below.

Separation Agreement

William R. Zerella

Mr. Zerella's employment terminated as our chief financial officer on July 1, 2006. On June 29, 2006, we entered into a separation agreement and general release with Mr. Zerella pursuant to which we agreed to make a lump sum cash payment to Mr. Zerella of $125,000. Also as part of this agreement, we agreed to accelerate the vesting of approximately one-third of Mr. Zerella's unvested stock options, 28,125 of his then 84,978 unvested and outstanding options, and to extend Mr. Zerella's ability to exercise his stock options until December 31, 2006. In 2006, Mr. Zerella exercised all of the 107,811 vested shares pursuant to his options. We also agreed to continue to pay for Mr. Zerella's health benefits until the earlier of (i) the date of his full-time employment with another entity; and (ii) December 31, 2006. Receipt of these benefits was made contingent upon Mr. Zerella's execution of a general release of claims against us, which we obtained. Such payments and benefits had a value of:

Termination of Employment

Compensation and Benefits	Separation Agreement($)
Cash	$125,000
Equity Acceleration(1)	

Health Care Benefits(2)	—

(1) 28,125 shares of common stock subject to Mr. Zerella's options were accelerated under the terms of his separation agreement. The amount indicated in the table is calculated as the spread value of the options subject to accelerated vesting on December 31, 2006 but assuming a price per share of $, which is the midpoint of the price range listed on the cover page of this prospectus, or 28,125 multiplied by $.

(2) We did not pay any COBRA health benefits for Mr. Zerella.

Potential Payments Upon Termination or Change in Control

We intend to enter into change of control agreements and/or maintain employee benefits plans that require specific payments and/or benefits to be provided to the following named executive officers in the event of termination of employment. The following tables describe the payments and/or benefits which are owed by us to each of our named executive officers upon termination of employment in the following situations and for the following reasons described below. The terms "Cause," "Constructively Terminated" and "Change of Control" have the meanings set forth in the relevant agreements.

Jagdeep Singh

On October 28, 2004, we granted Mr. Singh options to purchase an aggregate of 374,999 shares of common stock. The options vest 1/48th per month over a four year period. Under the terms of the related option agreements and our planned change of control agreement with Mr. Singh, if, within a one-year period after a Change of Control, Mr. Singh is terminated without Cause or Constructively Terminated, then Mr. Singh would be entitled to acceleration of 100% of the unvested shares underlying these option grants.

On November 28, 2005, we granted Mr. Singh options to purchase an aggregate of 274,999 shares of common stock. The options vest 1/48th per month over a four-year period from the July 26, 2005 vesting commencement date. Under the terms of our planned change of control agreement with Mr. Singh, if, within a one-year period after a Change of Control, Mr. Singh is terminated without Cause or Constructively Terminated, then Mr. Singh would be entitled to acceleration of 100% of the unvested shares underlying these option grants.

On August 8, 2006, we granted Mr. Singh options to purchase an aggregate of 375,000 shares of common stock. The options vest 1/48th per month from the June 29, 2006 vesting commencement date. Under the terms of the planned change of control agreement, if Mr. Singh is terminated without Cause or Constructively Terminated within a one-year period after a Change of Control, Mr. Singh would be entitled to acceleration of 100% of the unvested shares underlying these option grants.

In addition, the change of control agreement that we intend to enter into with Mr. Singh will require us to pay him a lump sum equal to twelve months of base salary plus twelve months of COBRA if he is terminated without Cause or Constructively Terminated within a one-year period after a Change of Control.

Assuming Mr. Singh's employment terminated on December 31, 2006, by virtue of the agreements described above, he would be entitled to benefits with the value set forth in the table below:

Termination of Employment

Compensation and Benefits	Termination Without Cause or Constructively Terminated After Change of Control ($)
Equity Acceleration(1)	$
Salary	200,000
Health Care Benefits	

(1) 171,875 shares of common stock subject to Mr. Singh's options would accelerate if he were terminated without Cause or Constructively Terminated in connection with a Change of Control on December 31, 2006. The amount indicated in the table is calculated as the spread value of the options subject to accelerated vesting on December 31, 2006 but assuming a price per share of $, which is the midpoint of the price range listed on the cover page of this prospectus, or 171,875 multiplied by $.

Duston M. Williams

On August 8, 2006, we granted Mr. Williams options to purchase an aggregate of 375,000 shares of common stock. The options vest 1/4th on the one year anniversary of the June 19, 2006 vesting commencement date and then 1/48th per month thereafter. Under the terms of the related option agreements, his offer letter and our planned change of control agreement with Mr. Williams, if, within a one-year period after a Change of Control Mr. Williams is terminated without Cause or Constructively Terminated, then Mr. Williams will be entitled to acceleration of 100% of the unvested shares underlying these option grants. Mr. Williams would also be entitled to such acceleration if he is terminated without Cause after the appointment of a new chief executive officer.

In addition, the change of control agreement that we intend to enter into with Mr. Williams will require us to pay him a lump sum equal to twelve months of base salary plus twelve months of COBRA if he is terminated without Cause or Constructively Terminated within a one-year period after a Change of Control.

Assuming Mr. Williams' employment terminated on December 31, 2006, by virtue of the agreements described above, he would be entitled to benefits with the value set forth in the table below:

Termination of Employment

Compensation and Benefits	Termination Without Cause InConnection withAppointment of aNew CEO($)	Termination WithoutCause orConstructivelyTerminated After Change of Control($)
Equity Acceleration(1)		$$
Salary	—	250,000
Health Care Benefits	—	

(1) 187,500 shares of common stock subject to Mr. Williams' options would accelerate if he were terminated without Cause or Constructively Terminated in connection with a Change of Control, or if he is terminated without Cause in connection with the appointment of a new chief executive officer, on December 31, 2006. The amount indicated in the table is calculated as the spread value of the options subject to accelerated vesting on December 31, 2006 but assuming a price per share of $, which is the midpoint of the price range listed on the cover page of this prospectus, or 187,500 multiplied by $.

Scott A. Chandler

On May 16, 2003, we granted Mr. Chandler options to purchase 33,750 shares of common stock. The options vest 1/4th after one year from the May 15, 2003 vesting commencement date and then 1/48th per month thereafter. Under the terms of our planned change of control agreement with Mr. Chandler, if within a one-year period after a Change of Control, Mr. Chandler is terminated without Cause or Constructively Terminated, then Mr. Chandler will be entitled to acceleration of 100% of the unvested shares underlying these option grants.

On July 6, 2004, we granted Mr. Chandler options to purchase 15,000 shares of common stock. The options vest 1/48th per month over a four-year period. Under the terms of our planned change of control agreement with Mr. Chandler, if within a one-year period after a Change of Control, Mr. Chandler is terminated without Cause or Constructively Terminated, then Mr. Chandler will be entitled to acceleration of 50% of the unvested shares underlying these option grants.

On February 2, 2005, we granted Mr. Chandler options to purchase 17,500 shares of common stock. The options vest 1/48th per month over a four-year period. Under the terms of our planned change of control agreement with Mr. Chandler, if within a one-year period after a Change of Control, Mr. Chandler is terminated without Cause or Constructively Terminated, then Mr. Chandler will be entitled to acceleration of 50% of the unvested shares underlying these option grants.

On November 28, 2005, we granted Mr. Chandler options to purchase 66,250 shares of common stock. The options vest 1/48th per month over a four-year period. Under the terms of our planned change of control agreement with Mr. Chandler, if within a one-year period after a Change of Control, Mr. Chandler is terminated without Cause or Constructively Terminated, then Mr. Chandler will be entitled to acceleration of 50% of the unvested shares underlying these option grants.

On August 8, 2006, we granted Mr. Chandler options to purchase an aggregate of 62,500 shares of common stock. The options vest 1/48th per month from June 28, 2006. Under the terms of the related option agreements and the planned change of control agreement with Mr. Chandler, if, within a one-year period after a Change of Control, Mr. Chandler is terminated without Cause or Constructively Terminated, then Mr. Chandler will be entitled to acceleration of 50% of the shares underlying these option grants (or the remainder if more than 50% are then vested).

In addition, the change of control agreement that we intend to enter into with Mr. Chandler requires us to pay him a lump sum equal to six months of base salary plus six months of COBRA if he is terminated without Cause or Constructively Terminated within a one-year period after a Change of Control.

Assuming Mr. Chandler's employment terminated on December 31, 2006, by virtue of the agreements described above, he would be entitled to benefits with the value set forth in the table below:

Termination of Employment

Compensation and Benefits	Termination Without Cause orConstructivelyTerminated AfterChange of Control ($)
Equity Acceleration(1)	$
Salary	112,500
Health Care Benefits	

(1) 31,250 shares of common stock subject to Mr. Chandler's options would accelerate if he were terminated without Cause or Constructively Terminated in connection with a Change of Control on December 31, 2006. The amount indicated in the table is calculated as the spread value of the options subject to accelerated vesting on December 31, 2006 but assuming a price per share of $, which is the midpoint of the price range listed on the cover page of this prospectus, or 31,250 multiplied by $.

Michael O. McCarthy III

On May 16, 2003, we granted Mr. McCarthy options to purchase 47,500 shares of common stock. The options vest 1/4th one year from the May 5, 2003 vesting commencement date and then 1/48th per month thereafter. Under the terms of our planned change of control agreement with Mr. McCarthy, if within a one-year period after a Change of Control, Mr. McCarthy is terminated without Cause or Constructively Terminated, then Mr. McCarthy will be

entitled to acceleration of 100% of the unvested shares underlying these option grants.

On July 6, 2004, we granted Mr. McCarthy options to purchase 3,750 shares of common stock. The options vest 1/48th per month over a four-year period. Under the terms of our planned change of control agreement with Mr. McCarthy, if within a one-year period after a Change of Control, Mr. McCarthy is terminated without Cause or Constructively Terminated, then Mr. McCarthy will be entitled to acceleration of the 50% of the unvested shares underlying these option grants.

On May 11, 2005, we granted Mr. McCarthy options to purchase 62,500 shares of common stock. The options vest 1/48th per month over a four-year period. Under the terms of our planned change of control agreement with Mr. McCarthy, if within a one-year period after a Change of Control, Mr. McCarthy is terminated without Cause or Constructively Terminated, then Mr. McCarthy will be entitled to acceleration of 50% of the unvested shares underlying these option grants.

On November 28, 2005, we granted Mr. McCarthy options to purchase an aggregate of 87,500 shares of common stock. The options vest 1/48th per month over a four-year period. Under the terms of our planned change of control agreement with Mr. McCarthy, if within a one-year period after a Change of Control, Mr. McCarthy is terminated without Cause or Constructively Terminated, then Mr. McCarthy will be entitled to acceleration of 50% of the unvested shares underlying these option grants.

On August 8, 2006, we granted Mr. McCarthy options to purchase an aggregate of 100,000 shares of common stock. The options vest 1/48th per month from June 29, 2006. Under the terms of the related option agreements and the planned change of control agreement with Mr. McCarthy, if, within a one-year period after a Change of Control, Mr. McCarthy is terminated without Cause or Constructively Terminated, then Mr. McCarthy will be entitled to acceleration of 50% of the shares underlying these option grants (or the remainder if more than 50% are then vested).

In addition, the change of control agreement that we intend to enter into with Mr. McCarthy will require us to pay him a lump sum equal to six months of base salary plus six months of COBRA if he is terminated without Cause or Constructively Terminated within a one-year period after a Change of Control.

Assuming Mr. McCarthy's employment terminated on December 31, 2006, by virtue of the agreements described above, he would be entitled to benefits with the value set forth in the table below:

Termination of Employment

Compensation and Benefits	Termination Without Cause or ConstructivelyTerminated AfterChange of Control($)
Equity Acceleration(1)	$
Salary	115,000
Health Care Benefits	

(1) 73,646 shares of common stock subject to Mr. McCarthy's options would accelerate if he were terminated without Cause or Constructively Terminated in connection with a Change of Control on December 31, 2006. The amount indicated in the table is calculated as the spread value of the options subject to accelerated vesting on December 31, 2006 but assuming a price per share of $, which is the midpoint of the price range listed on the cover page of this prospectus, or 73,646 multiplied by $.

David F. Welch

On October 28, 2004, we granted Dr. Welch options to purchase an aggregate of 224,999 shares of common stock. The options vest 1/48th per month from the October 28, 2004 vesting commencement date. Under the terms of the related option agreements and the planned change of control agreement with Dr. Welch, if, within a one-year period after a Change of Control, Dr. Welch is terminated without Cause or Constructively Terminated, then Dr. Welch will be entitled to acceleration of 100% of the unvested shares underlying these option grants.

On November 28, 2005, we granted Dr. Welch options to purchase an aggregate of 107,499 shares of common stock. The options vest 1/48th per month over a four-year period from the July 26, 2005 vesting commencement date. Under the terms of our planned change of control agreement with Dr. Welch, if, within a one-year period after a Change of Control, Dr. Welch is terminated without Cause or Constructively Terminated, then Dr. Welch will be entitled to acceleration of 50% of the unvested shares underlying these option grants.

On August 8, 2006, we granted Dr. Welch options to purchase an aggregate of 187,500 shares of common stock. The options vest 1/48th per month over a four year period from June 29, 2006. Under the terms of the related option agreements and the planned change of control agreement with Dr. Welch, if, within a one-year period after a Change of Control, Dr. Welch is terminated without Cause or Constructively Terminated, then Dr. Welch will be entitled to acceleration of 50% of the shares underlying these option grants (or the remainder if more than 50% are then vested).

In addition, the change of control agreement that we intend to enter into with Dr. Welch will require us to pay him a lump sum equal to six months of base salary plus six months of COBRA if he is terminated without Cause or Constructively Terminated within a one-year period after a Change of Control.

Assuming Dr. Welch's employment terminated on December 31, 2006, by virtue of the agreements described above, he would be entitled to benefits with the value set forth in the table below:

Termination of Employment

Compensation and Benefits	Termination Without Cause or Constructively Terminated After Change of Control($)
Equity Acceleration(1)	$
Salary	100,000
Health Care Benefits	

(1) 103,125 shares of common stock subject to Dr. Welch's options would accelerate if he were terminated without Cause or Constructively Terminated in connection with a Change of Control on December 31, 2006. The amount indicated in the table is calculated as the spread value of the options subject to accelerated vesting on December 31, 2006 but assuming a price per share of $, which is the midpoint of the price range listed on the cover page of this prospectus, or 103,125 multiplied by $.

Equity Benefit Plans

2000 Stock Plan

Our board of directors adopted our 2000 Stock Plan on December 6, 2000 and stockholders approved it on December 6, 2000. Certain amendments were made to the plan as of March 16, 2001; September 25, 2001; April 12, 2002; December 5, 2002; March 12, 2003; April 29, 2003; March 25, 2004; November 18, 2004; September 23, 2005; June 29, 2006 and December 12, 2006. Our 2000 Stock Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, to our employees and any parent and subsidiary corporations' employees. The plan also provides for the grant of nonstatutory stock options, and stock purchase rights that permit us to grant awards of restricted stock, to our employees, directors and consultants and our parent and subsidiary corporations' employees and consultants.

Share Reserve

We have reserved an aggregate of 15,762,128 shares of our common stock for issuance pursuant to the 2000 Stock Plan. As of December 31, 2006, options to purchase 7,872,264 shares of our common stock were outstanding, and 2,070,474 shares were available for future grant under this plan. Our board of directors has decided not to grant any additional options or other awards under the plan following the completion of this offering. However, the plan will continue to govern the terms and conditions of the outstanding awards previously granted under the plan.

Administration

Our board of directors or a committee of our board, or a combination thereof, administers our 2000 Stock Plan. Our plan may be administered by different administrative bodies with respect to different classes of participants and, if permitted by the applicable laws, our board may authorize one or more officers to make awards under the plan. The board may increase or reduce the size of any committee to the extent permitted by the applicable laws and as permitted by Rule 16b-3 or Section 162(m) of the Internal Revenue Code. The administrator has the power to determine the terms of the awards, including the exercise price, the number of shares subject to each such award, the exercisability of the awards and the form of consideration payable upon exercise. The administrator also has the authority to institute an option exchange program whereby outstanding options are exchanged for options with a lower exercise price or are amended to decrease the exercise price as a result of a decline in the fair market value of the common stock.

Transferability

Under our 2000 Stock Plan incentive stock options and stock purchase rights may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution. Prior to the date our common stock becomes a listed security, the administrator may provide that nonstatutory stock options may be transferred by instrument to an inter vivos or testamentary trust in which the options are to be passed to beneficiaries upon the death of the trustor (settlor) or by gift to immediate family, on such terms and conditions as the administrator deems appropriate. After our common stock becomes a listed security, the administrator may provide that nonstatutory stock options will be transferable on such terms and conditions as the administrator deems appropriate.

Change in Control Transaction Our 2000 Stock Plan provides that subject to any required action by our stockholders, the number of shares covered by each outstanding option or stock purchase right, and the number of shares that have been authorized for issuance under the plan but as to which no options or stock purchase rights have yet been granted or that have been returned to the plan upon cancellation or expiration of an option or stock purchase right, as well as the price per share covered by each such outstanding option or stock purchase right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of common stock resulting from a stock split, reverse stock split, stock dividend, combination, recapitalization or reclassification of our common stock, or any other increase or decrease in the number of issued shares of common stock effected without receipt of consideration by us; provided, however, that conversion of any convertible securities of the company shall not be deemed to have been effected without receipt of consideration.

In the event of a corporate transaction, each outstanding option or stock purchase right shall be assumed or an equivalent option or right shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the successor corporation does not agree to assume the award or to substitute an equivalent option or right, in which case the option or stock purchase right will terminate upon the consummation of the transaction.

Plan Amendment and Termination Our 2000 Stock Plan will automatically terminate in 2010, unless we terminate it sooner. In addition, our board of directors has the authority to amend, suspend or terminate the 2000 Stock Plan provided such action does not impair the rights of any participant without his or her consent.

2007 Equity Incentive Plan

Our board of directors adopted our 2007 Equity Incentive Plan in February 2007 and we expect our stockholders will approve the plan prior to the completion of this offering. Our 2007 Equity Incentive Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, to our employees and any parent and subsidiary corporations' employees, and for the grant of nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to our employees, directors and consultants and our parent and subsidiary corporations' employees and consultants.

Share Reserve

We have reserved a total of 13,600,000 shares of our common stock for issuance pursuant to the 2007 Equity Incentive Plan. In addition, our 2007 Equity Incentive Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each fiscal year, beginning with our 2008 fiscal year, equal to the least of:

- 5% of the outstanding shares of our common stock on the last day of the immediately preceding fiscal year;
- 9,000,000 shares; or
- such other amount as our board of directors or a committee of our board may determine.

Administration

Our board of directors or a committee of our board administers our 2007 Equity Incentive Plan. Different committees with respect to different groups of service providers may administer our 2007 Equity Incentive Plan. In the case of options intended to qualify as "performance based compensation" within the meaning of Section 162(m) of the Internal Revenue Code, the committee will consist of two or more "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code. The administrator has the power to determine the terms of the awards, including the exercise price, the number of shares subject to each such award, the exercisability of the awards and the form of consideration payable upon exercise. The administrator also has the authority to institute an exchange program whereby the exercise prices of outstanding awards may be reduced, outstanding awards may be surrendered in exchange for awards with a lower exercise price, or outstanding awards may be transferred to a third party.

Stock Options

The exercise price of options granted under our 2007 Equity Incentive Plan must at least be equal to the fair market value of our common stock on the date of grant. The term of an incentive stock option may not exceed ten years, except that with respect to any participant who owns 10% of the voting power of all classes of our outstanding stock as of the grant date, the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date. The administrator determines the term of all other options.

After termination of an employee, director or consultant, he or she may exercise his or her option for the period of time stated in the option agreement. Generally, if termination is due to death or disability, the option will remain exercisable for twelve months. In all other cases, the option will generally remain exercisable for three months. However, an option generally may not be exercised later than the expiration of its term.

Stock Appreciation Rights Stock appreciation rights may be granted under our 2007 Equity Incentive Plan. Stock appreciation rights allow the recipient to receive the appreciation in the fair market value of our common stock between the exercise date and the date of grant. The administrator determines the terms of stock appreciation rights, including when such rights become exercisable and whether to pay the increased appreciation in cash or with shares of our common stock, or a combination thereof. Stock appreciation rights expire under the same rules that apply to stock options.

Restricted Stock

Restricted stock may be granted under our 2007 Equity Incentive Plan. Restricted stock awards are shares of our common stock that vest in accordance with terms and conditions established by the administrator. The administrator will determine the number of shares of restricted stock granted to any employee, director or consultant. The administrator may impose whatever conditions to vesting it determines to be appropriate. For example, the administrator may set restrictions based on the achievement of specific performance goals. Shares of restricted stock that do not vest are subject to our right of repurchase or forfeiture.

Restricted Stock Units Restricted stock units may be granted under our 2007 Equity Incentive Plan. Restricted stock units are awards of restricted stock, performance shares or performance units that are paid out in installments or on a deferred basis. The administrator determines the terms and conditions of restricted stock units including the vesting criteria and the form and timing of payment.

Performance Units and Performance Shares Performance units and performance shares may be granted under our 2007 Equity Incentive Plan. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. The administrator will establish organizational or individual performance goals in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. Performance units will have an initial dollar value established by the administrator on or prior to the grant date. Performance shares will have an initial value equal to the fair market value of our common stock on the grant date. Payment for performance units and performance shares may be made in cash or in shares of our common stock with equivalent value, or in some combination, as determined by the administrator.

Transferability

Unless the administrator provides otherwise, our 2007 Equity Incentive Plan does not allow for the transfer of awards and only the recipient of an award may exercise an award during his or her lifetime.

Change in Control Transaction Our 2007 Equity Incentive Plan provides that in the event of our change in control, as defined in the 2007 Equity Incentive Plan, each outstanding award will be treated as the administrator determines. The administrator is not required to treat all awards similarly. If there is no assumption or substitution of outstanding awards, all options and stock appreciation rights will fully vest and become fully exercisable, all restrictions on restricted stock will lapse, and all performance goals or other vesting requirements for performance shares and units will be deemed achieved at 100% of target levels, and all other terms and conditions met. The administrator will provide notice to the recipient that he or she has the right to exercise the option and stock appreciation right as to all of the shares subject to the award, and the option or stock appreciation right will terminate upon the expiration of the period of time the administrator provides in the notice.

Plan Amendment and Termination Our 2007 Equity Incentive Plan will automatically terminate in 2017, unless we terminate it sooner. In addition, our board of directors has the authority to amend, suspend or terminate the 2007 Equity Incentive Plan provided such action does not impair the rights of any participant.

2007 Employee Stock Purchase Plan

Concurrently with this offering, we intend to establish the 2007 Employee Stock Purchase Plan. Our board of directors adopted the 2007 Employee Stock Purchase Plan in February 2007, and we expect our stockholders will approve the plan prior to the completion of this offering.

Share Reserve

A total of 1,812,500 shares of our common stock will be made available for sale. In addition, our 2007 Employee Stock Purchase Plan provides for annual increases in the number of shares available for issuance under the 2007 Employee Stock Purchase Plan on the first day of each fiscal year, beginning with our 2007 fiscal year, equal to the least of:

- 1% of the outstanding shares of our common stock on the first day of the fiscal year;
- 1,875,000 shares; or
- such other amount as our board of directors or a committee of our board may determine.

Administration

Our board of directors or a committee of our board administers the 2007 Employee Stock Purchase Plan. Our board of directors or its committee has full and exclusive authority to interpret the terms of the 2007 Employee Stock Purchase Plan and determine eligibility.

Eligibility

All of our employees are eligible to participate if they are customarily employed by us or any participating subsidiary for at least twenty hours per week and more than five months in any calendar year. However, an employee may not be granted rights to purchase stock if:

- such employee immediately after the grant would own stock or options possessing 5% or more of the total combined voting power or value of all classes of our capital stock; or
- such employee's rights to purchase stock under all of our employee stock purchase plans would accrue at a rate that exceeds $25,000 worth of our stock for each calendar year in which such rights are outstanding.

Offering Periods

Our 2007 Employee Stock Purchase Plan is intended to qualify under Section 423 of the Internal Revenue Code, and provides for consecutive six-month offering periods. The offering periods generally start on the first trading day on or after February 15 and August 15 of each year, except for the first such offering period which will commence on the first trading day on or after the effective date of this offering and will end on the first trading day on or after February 15, 2008.

Limitations

Our 2007 Employee Stock Purchase Plan permits participants to purchase common stock through payroll deductions of up to 15% of their eligible compensation which includes a participant's straight time gross earnings, commissions, overtime and shift premium, exclusive of payments for incentive compensation, bonuses and other compensation. A participant may purchase a maximum of 3,000 shares of common stock during an offering period.

Purchase of Shares

Amounts deducted and accumulated by the participant are used to purchase shares of our common stock at the end of each offering period. The purchase price is 85% of the fair market value of our common stock on the first day of the offering date or on the exercise date (i.e., the last day of the offering period), whichever is lower. Participants may end their participation at any time during an offering period, and will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with us.

Transferability

A participant may not transfer rights granted under the 2007 Employee Stock Purchase Plan other than by will, the laws of descent and distribution or as otherwise provided under the 2007 Employee Stock Purchase Plan.

Change in Control Transaction In the event of our merger or change in control, as defined under the 2007 Employee Stock Purchase Plan, a successor corporation may assume or substitute each outstanding purchase right. If the successor corporation refuses to assume or substitute for the outstanding purchase rights, the offering period then in progress will be shortened, and a new exercise date will be set.

Plan Amendment and Termination Our 2007 Employee Stock Purchase Plan will automatically terminate in 2027, unless we terminate it sooner. In addition, our board of directors has the authority to amend, suspend or terminate our 2007 Employee Stock Purchase Plan, except that, subject to certain exceptions described in the 2007 Employee Stock Purchase Plan, no such action may adversely affect any outstanding rights to purchase stock under our 2007 Employee Stock Purchase Plan.

401(k) Plan

We maintain a retirement plan, the 401(k) Plan, which is intended to be a tax-qualified retirement plan. The 401(k) Plan covers substantially all of our employees. Participants may elect to defer a percentage of their eligible pretax earnings each year up to the maximum contribution permitted by the Internal Revenue Code. All participants' interests in his or her deferrals are 100% vested when contributed. The 401(k) Plan is intended to qualify under Sections 401(a) and 501(a) of the Internal Revenue Code. As such, contributions to the 401(k) Plan and earnings on those contributions are not taxable to participants until distributed from the 401(k) Plan, and all contributions are deductible by us when made.

Certain Relationships and Related Party Transactions

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS Since January 1, 2004, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeded or exceeds $120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest, other than compensation arrangements with directors and executive officers, which are described where required under the "Management" section of this prospectus, and the transactions described below.

Private Placement Financings

The following table summarizes purchases of our convertible preferred stock since January 1, 2004 by our directors, executive officers and holders of more than 5% of our capital stock and their affiliated entities. Immediately prior to the closing of this offering, all of our convertible preferred stock will convert to common stock.

	Shares of Convertible Preferred Stock		
Purchasers	Series E(#)	Series G(#)	Aggregate Purchase Price($)
Executive Officers and Directors(1):			
Jagdeep Singh	989,316	46,296	$2,624,360
Thomas F. Fallon	125,000	—	300,000
Michael O. McCarthy III	—	18,518	100,001
David F. Welch	981,977	46,296	2,606,747
Kenneth A. Goldman	—	18,518	100,000
Hugh C. Martin	—	46,296	250,000
Carl Redfield(2)	—	67,934	500,000
Thurman J. Rodgers(3)	296,228	—	710,950
5% Stockholders(4):			
Advanced Equities, Inc.	—	5,859,936	31,643,673
KPCB Holdings, Inc., as Nominee	3,132,196	925,925	12,517,271
Mobius VI, LLC	3,132,194	—	7,517,265
RWI Ventures, L.P.	555,016	2,504,628	14,857,037
Benchmark Capital Partners IV, L.P.(5)	1,534,980	—	3,683,955
Worldview Technology Partners	1,106,687	—	2,656,053
Dates	September 2004 to November 2004	October 2005 to June 2006	
Sale Price	$ 2.40	$ 5.40	(2)

(1) Includes immediate family members and affiliated entities of our executive officers and directors.

(2) The 67,934 shares of Series G convertible preferred stock sold to Carl Redfield in October 2006 were at a purchase price of $7.36 per share.

(3) Dr. Rodgers resigned as a member of our board of directors on August 16, 2006. Includes shares purchased by Cypress Semiconductor. Dr. Rodgers is the President and Chief Executive Officer of Cypress Semiconductor.

(4) Includes current 5% or greater holders as well as individuals or entities that were 5% or greater holders at the time of a related party transaction since January 1, 2004.

(5) Dr. Balkanski, one of our directors, is a managing member of Benchmark Capital Management Co. IV, L.L.C., the general partner of Benchmark Capital Partners IV, L.P.

Investors' Rights Agreement

In connection with the private placements referenced above, we have entered into an amended and restated Investors' Rights Agreement with certain of our founders and stockholders. Pursuant to this agreement, we granted such parties certain registration rights with respect to shares of our common stock and common stock issuable upon conversion of the shares of the convertible preferred stock held by them. For more information regarding this agreement, see the section titled "Description of Capital Stock—Registration Rights." In addition to the registration rights, the amended and restated Investors' Rights Agreement provides for certain information rights and rights of first refusal. The provisions of the amended and restated investors' rights agreement, other than those relating to registration rights, will terminate upon the closing of this offering.

Voting Agreement

We have entered into an amended and restated voting agreement with certain of our founders and stockholders. This agreement concerns the composition of our board of directors, and requires parties to it to vote in favor of certain designees of our stockholders. Upon the closing of this offering, the voting agreement will terminate in its entirety and none of our stockholders will have any special rights regarding the election or designation of members of our board of directors.

Indemnification Agreements

We have entered into indemnification agreements with each of our directors and executive officers. These agreements, among other things, require us to indemnify each director and executive officer to the fullest extent permitted by Delaware law, including indemnification of expenses such as attorneys' fees, judgments, fines and settlement amounts incurred by the director or executive officer in any action or proceeding, including any action or proceeding by or in right of us, arising out of the person's services as a director or executive officer.

Employment Arrangements

Certain of our executive officers have signed offer letters describing certain terms of their employment. See the section titled "Management—Offer Letters" for additional information.

Change of Control Arrangements

We intend to enter into certain severance and change of control agreements with each of our executive officers. For information regarding these arrangements, see the section titled "Management—Executive Compensation Program and Potential Payments Upon Termination or Change in Control."

Separation Arrangements

We entered into a separation agreement with William R. Zerella, our former chief financial officer on June 29, 2006. For information regarding this agreement, see the section titled "Management—Separation Agreement."

Stock Options Granted to Executive Officers and Directors

We have granted stock options to our executive officers and directors. For more information regarding these stock options, see the section titled "Management—Compensation Discussion and Analysis."

Other Transactions with our Significant Stockholders

On April 11, 2005, we entered into a long-term supply agreement with BTE Equipment, LLC, an affiliate of Level 3, for the supply of our DTN System and support services. On May 19, 2005, August 20, 2005 and November 15, 2006, we amended the terms of our supply agreement with Level 3. Certain of these amendments were entered into when Level 3 owned more than 5% of our outstanding shares. Pursuant to the agreement, we recognized $1.0 million of revenue in 2005 and $35.2 million of revenue in 2006.

On June 22, 2005, we entered into a Finder Agreement with Advanced Equities, Inc., or AEI, a holder of more than 5% of our capital stock, pursuant to which we engaged AEI as our non-exclusive agent in connection with the proposed sale by private placement of our Series G convertible preferred stock. Under the terms of the agreement, as amended, we agreed to pay AEI a placement fee equal to 5% of the aggregate purchase price of the Series G convertible preferred stock sold to certain qualified investors by AEI, or the Placement Amount, and to issue a warrant to purchase shares of Series G convertible preferred stock equal to the quotient of (i) 5% multiplied by the Placement Amount divided by (ii) the price per share of the Series G convertible preferred stock, with the Placement Amount being capped at $24 million for closings of Series G convertible preferred stock taking place after March 31, 2006. We paid AEI $3.9 million pursuant to this agreement and issued AEI warrants to purchase 600,784 shares of our Series G convertible preferred stock. We also agreed to reimburse AEI for up to $20,000 worth of printing fees.

Policies and Procedures for Related Party Transactions

We have adopted a formal policy that our executive officers, directors, and principal stockholders, including their immediate family members and affiliates, are not permitted to enter into a related party transaction with us without the prior consent of our audit committee, or other independent members of our board of directors in the case it is inappropriate for our audit committee to review such transaction due to a conflict of interest. Any request for us to enter

into a transaction with an executive officer, director, principal stockholder, or any of such persons' immediate family members or affiliates, in which the amount involved exceeds $120,000 must first be presented to our audit committee for review, consideration and approval. All of our directors, executive officers and employees are required to report to our audit committee any such related party transaction. In approving or rejecting the proposed agreement, our audit committee shall consider the relevant facts and circumstances available and deemed relevant to the audit committee, including, but not limited to the risks, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products, and, if applicable, the impact on a director's independence. Our audit committee shall approve only those agreements that, in light of known circumstances, are in, or are not inconsistent with, our best interests, as our audit committee determines in the good faith exercise of its discretion. All of the transactions described above were entered into prior to the adoption of this policy.

Principal Stockholders

PRINCIPAL STOCKHOLDERS The following table provides information concerning beneficial ownership of our capital stock as of December 31, 2006, and as adjusted to reflect our sale of the common stock being sold in this offering, by:

- Ÿ each stockholder, or group of affiliated stockholders, known to us to be the beneficial owner of more than 5% of our common stock;
- Ÿ each of our named executive officers;
- Ÿ each of our directors; and
- Ÿ all of our directors and executive officers as a group.

The following table lists the number of shares and percentage of shares beneficially owned based on 68,481,069 shares of common stock outstanding as of December 31, 2006. The table also lists the applicable percentage beneficial ownership based on shares of common stock outstanding upon completion of this offering, assuming no exercise by the underwriters' of their option to purchase up to an aggregate of shares of our common stock to cover over-allotments.

Beneficial ownership is determined in accordance with the rules of the SEC, and generally includes voting power and/or investment power with respect to the securities held. Shares of common stock subject to options currently exercisable or exercisable within 60 days of December 31, 2006, are deemed outstanding and beneficially owned by the person holding such options for purposes of computing the number of shares and percentage beneficially owned by such person, but are not deemed outstanding for purposes of computing the percentage beneficially owned by any other person. Except as indicated in the footnotes to this table, and subject to applicable community property laws, the persons or entities named have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them.

Unless otherwise indicated, the principal address of each of the stockholders below is c/o Infinera Corporation, 169 Java Drive, Sunnyvale, CA 94089.

	Shares Beneficially Owned		
		Percent	
	Number	Before Offering	After Offering
5% Stockholders			
Entities affiliated with Advanced Equities Investments(1)	6,460,720	9.3%	
Entities affiliated with Kleiner Perkins Caufield & Byers(2)	6,422,311	9.3	
Entities affiliated with Mobius Venture Capital(3)	5,364,334	7.8	
Entities affiliated with RWI Ventures(4)	3,450,269	5.0	
Directors and Named Executive Officers			
Alexandre Balkanski, Ph.D.(5)	2,657,763	3.9	
Kenneth A. Goldman(6)	106,018	*	
Reed E. Hundt(7)	—	*	
Dan Maydan, Ph.D.(8)	68,750	*	
Hugh C. Martin(9)	140,046	*	
Carl Redfield(10)	142,934	*	
Pradeep S. Sindhu, Ph.D.(11)	50,000	*	
Jagdeep Singh(12)	3,174,347	4.5	
Duston M. Williams(13)	375,000	*	
William R. Zerella	107,811	*	

Scott A. Chandler(14)	195,000	*
Michael O. McCarthy III(15)	319,768	*
David F. Welch, Ph.D.(16)	2,801,887	4.0
All current directors and executive officers as a group (15 persons)(17)	11,001,506	15.5

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

(1) Consists of (i) 2,443,494 shares held of record by Advanced Equities Investments XXVII, LLC; (ii) 272,237 shares held of record by Advanced Equities Investments XXVIII, LLC; (iii) 1,107,169 shares held of record by Advanced Equities Investments XXXI, LLC; (iv) 1,851,851 shares held of record by AEI 2006 Venture Investments I, LLC; (v) 185,185 shares held of record by AEI Trilogy Fund I, LLC; and (vi) 600,784 shares issuable upon the exercise of warrants held by Advanced Equities, Inc. that are immediately exercisable at an exercise price of $5.40 per share. The address for these entities is 311 S. Wacker Drive, Suite 1650, Chicago, Illinois 60606.

(2) Includes (i) 4,394,857 shares held by Kleiner Perkins Caufield & Byers X-A, L.P., (ii) 123,952 shares held by Kleiner Perkins Caufield & Byers X-B, L.P. and (iii) 1,903,502 shares held by individuals affiliated with Kleiner Perkins Caufield & Byers. The general partner of both Kleiner Perkins Caufield & Byers X-A, L.P. and Kleiner Perkins Caufield & Byers X-B, L.P. is Kleiner Perkins Caufield & Byers X Associates, LLC. Shares are held for convenience in the name of "KPCB Holdings, Inc. as nominee" for the account of entities affiliated with Kleiner Perkins Caufield & Byers and others. KPCB Holdings, Inc. has no voting, dispositive or pecuniary interest in any such shares. The address for all entities and individuals affiliated with Kleiner Perkins Caufield & Byers is 2750 Sand Hill Road, Menlo Park, California 94025.

(3) Consists of (i) 2,492,271 shares held of record by Mobius Technology Ventures VI L.P.; (ii) 101,921 shares held of record by Mobius Technology Ventures Side Fund VI L.P.; (iii) 97,093 shares held of record by Mobius Technology Ventures Advisors Fund VI L.P.; and (iv) 2,673,049 shares held of record by SOFTBANK U.S. Ventures Fund VI L.P. The address for these entities is 100 Superior Plaza Way, Suite 200, Superior, Colorado 80027.

(4) Consists of (i) 1,954,899 shares held of record by RWI Ventures I, L.P. and (ii) 1,495,370 shares held of record by RWI Ventures II, L.P. The general partner of RWI Ventures I, L.P. is RWI Ventures I, LLC; the general partner of RWI Ventures II, L.P. is RWI Ventures Management II, LLC. The address of these entities is 2440 Sand Hill Road, Suite 100, Menlo Park, California 94025.

(5) Consists of 2,657,763 shares held of record by Benchmark Capital Partners IV, L.P., as nominee for Benchmark Capital Partners IV, L.P., Benchmark Founders' Fund IV, L.P., Benchmark Founders' Fund IV-A, L.P., Benchmark Founders' Fund IV-B, L.P., Benchmark Founders' Fund IV-X, L.P. and related individuals. Dr. Balkanski is a managing member of Benchmark Capital Management Co. IV, L.L.C., which is the general partner of Benchmark Capital Partners IV, L.P. Dr. Balkanski disclaims beneficial ownership of the shares held by this fund except to the extent of his pecuniary interest therein. The address of Dr. Balkanski and this fund is c/o Benchmark Capital Partners, 2480 Sand Hill Road, Suite 200, Menlo Park, California 94025.

(6) Consists of (i) 50,000 shares held of record by Kenneth A. Goldman, 25,651 of which are subject to a repurchase option we hold as of December 31, 2006; (ii) 18,518 shares held of record by the Goldman-Valeriote Family Trust u/a/d 11/15/95; and (iii) options to purchase 37,500 shares exercisable within 60 days of December 31, 2006, of which 6,250 are fully vested. Mr. Goldman is a limited partner in certain Kleiner Perkins Caufield & Byers funds, RWI Ventures funds and Benchmark Capital Partners funds that hold 6,422,311, 3,450,269 and 2,657,763 shares of our common stock, respectively, as disclosed in footnotes 2, 4 and 5 to this table. Mr. Goldman disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

(7) Mr. Hundt is a limited partner in certain Benchmark Capital Partners funds that hold an aggregate of 2,657,763 shares of our common stock, as disclosed in footnote 5 to this table. Mr. Hundt disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

(8) Consists of (i) 50,000 shares held of record by Dan Maydan, 18,229 of which are subject to a repurchase option we hold as of December 31, 2006; and (ii) options to purchase 18,750 shares exercisable within 60 days of December 31, 2006, of which 3,125 are fully vested.

(9) Consists of (i) 50,000 shares held of record by Hugh Martin, 20,693 of which are subject to a repurchase option we hold as of December 31, 2006; (ii) 46,296 shares held of record by Hugh Martin and Moira Cullen Martin, Trustees of the HMCM Trust U/T/A October 14, 1992; and (iii) options to purchase 43,750 shares exercisable within 60 days of December 31, 2006, of which 7,291 are fully vested.

(10) Consists of (i) 75,000 shares held of record by Carl Redfield, all of which are subject to a repurchase option we hold as of December 31, 2006; and (ii) 67,934 shares held of record by Carl Redfield, Trustee of Carl Redfield Annuity Trust III dated November 6, 2006.

(11) Consists of options to purchase 50,000 shares exercisable within 60 days of December 31, 2006, of which 17,448 are fully vested.

(12) Consists of (i) 125,000 shares held of record by Jagdeep Singh Trustee of the Roshni Singh Annuity Trust dated 6/21/05; (ii) 1,802,874 shares held of record by Jagdeep Singh and Roshni Singh Trustees of the Singh Family Trust UDT dated 10/3/96; (iii) 125,000 shares held of record by Jagdeep Singh Trustee of the Jagdeep Singh Annuity Trust dated 6/21/06; (iv) 471,519 shares held of record by Jagdeep Singh, 171,875 of which are subject to a repurchase option we hold as of December 31, 2006; and (v) options to purchase 649,954 shares exercisable within 60 days of December 31, 2006, of which 171,335 are fully vested. As of December 31, 2006, Mr. Singh also holds proxies to vote an aggregate of 168,750 shares; by their terms, these proxies expire as of the consummation of an initial public offering and, as such, have been excluded from the numbers provided above. Mr. Singh is a limited partner in certain Kleiner Perkins Caufield & Byers funds and Benchmark Capital Partners that hold 6,422,311 and 2,657,763 shares of our common stock, respectively, as disclosed in footnotes 2 and 5 to this table. Mr. Singh is also a limited partner in certain Accel Partners funds that hold 1,419,023 shares of our common stock. Mr. Singh disclaims beneficial ownership of the shares held by Kleiner Perkins Caufield & Byers, Benchmark Capital Partners and Accel Partners, except to the extent of his pecuniary interest therein.

(13) Consists of options to purchase 375,000 shares exercisable within 60 days of December 31, 2006, none of which are vested as of such date.

(14) Consists of options to purchase 195,000 shares exercisable within 60 days of December 31, 2006, 88,437 of which are vested as of such date.

(15) Consists of 18,518 shares of Series G preferred stock, 129,061 shares of common stock, of which 37,760 shares are subject to a repurchase option as of December 31, 2006 and options to purchase 172,187 shares exercisable within 60 days of December 31, 2006, 31,846 of which are fully vested.

(16) Consists of (i) 553,750 shares held of record by SEI Private Trust Company, Trustee of Welch Family Heritage Trust I u/l dated 9/24/01; (ii) 329,998 shares held of record by David Welch, 172,551 of which are subject to a repurchase option we hold as of December 31, 2006; (iii) 500,000 shares held of record by Welch Group, L.P., a limited partnership of which Dr. Welch is the general partner; (iv) 1,214,284 shares held of record by LRFA, LLC, a limited liability company of which Dr. Welch is the sole managing member; (v) 16,355 shares held of record by Welch Family Trust dated 4/3/96; and (vi) options to purchase 187,500 shares exercisable within 60 days of December 31, 2006, of which 31,249 are fully vested. As of December 31, 2006, Dr. Welch also holds proxies to vote an aggregate of 23,750 shares; by their terms, these proxies expire as of the consummation of an initial public offering and, as such, have been excluded from the numbers provided above.

(17) Consists of (i) 8,846,865 shares held of record by the current directors and executive officers, 715,664 of which are subject to repurchase rights we hold as of December 31, 2006; and (ii) options to purchase 2,154,641 shares exercisable within 60 days of December 31, 2006, of which 373,647 are fully vested.

Description of Capital Stock

DESCRIPTION OF CAPITAL STOCK

General

The following is a summary of our capital stock and certain provisions of our amended and restated certificate of incorporation and amended and restated bylaws, as they will be in effect upon the closing of this offering. This summary does not purport to be complete and is qualified in its entirety by the provisions of our amended and restated certificate of incorporation and amended and restated bylaws, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part.

Following the closing of this offering, our authorized capital stock will consist of 500,000,000 shares of common stock, par value $0.001 per share, and 25,000,000 shares of convertible preferred stock, par value $0.001 per share.

As of December 31, 2006, assuming the conversion of all outstanding shares of our convertible preferred stock into common stock, we had outstanding 68,481,069 shares of common stock, held of record by 554 stockholders.

Common Stock

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. The holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of funds legally available, subject to preferences that may be applicable to convertible preferred stock, if any, then outstanding. See the section titled "Dividend Policy." In the event of a liquidation, dissolution or winding up of our company, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of convertible preferred stock, if any, then outstanding. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and non-assessable, and the shares of common stock to be issued upon completion of this offering will be fully paid and non-assessable.

Convertible Preferred Stock

Upon the closing of this offering,

- the 3,690,629 shares of our Series A convertible preferred stock will be converted into 3,812,409 shares of common stock;
- the 2,112,529 shares of our Series B convertible preferred stock will be converted into 2,367,932 shares of common stock;
- the 1,334,776 shares of our Series C convertible preferred stock will be converted into 1,580,241 shares of common stock;
- the 6,919,590 shares of our Series D convertible preferred stock will be converted into 6,919,590 shares of common stock;
- the 21,590,036 shares of our Series E convertible preferred stock will be converted into 21,590,036 shares of common stock;
- the 2,722,563 shares of our Series F convertible preferred stock will be converted into 2,722,563 shares of common stock; and
- the 20,434,833 shares of our Series G convertible preferred stock will be converted into 20,434,833 shares of common stock.

Our board of directors is authorized to issue convertible preferred stock in one or more series, to establish the number of shares to be included in each such series and to fix the designation, powers, preferences and rights of such shares and any qualifications, limitations or restrictions thereof. The issuance of convertible preferred stock may have the effect of delaying, deferring or preventing a change in control of our company without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock. The issuance of convertible preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock, including the loss of voting control to others. At present, we have no plans to issue any of the convertible preferred stock.

Warrants

As of December 31, 2006, we had outstanding warrants to purchase:

- 36,299 shares of our common stock at an exercise price of $8.96 per share, which after this offering will remain outstanding and will become exercisable for a like number of shares of our common stock;
- 135,000 shares of our Series A convertible preferred stock at an exercise price of $10.00 per share, which after this offering will remain outstanding and will become exercisable for 139,455 shares of our common stock;
- 15,884 shares of our Series B convertible preferred stock at an exercise price of $13.944 per share, which after this offering will remain outstanding and will become exercisable for 17,803 shares of our common stock;

- 291,666 shares of our Series E convertible preferred stock at an exercise price of $2.40 per share, which after this offering will remain outstanding and will become exercisable for a like number of shares of our common stock;
- 19,824 shares of our Series F convertible preferred stock at an exercise price of $3.7832 per share, which after this offering will remain outstanding and will become exercisable for a like number of shares of our common stock; and
- 827,635 shares of our Series G convertible preferred stock at an exercise price of $5.40 per share, which after this offering will remain outstanding and will become exercisable for a like number of shares of our common stock.

Registration Rights

The holders of an aggregate of 59,427,604 shares of our common stock, including shares of common stock issuable upon the conversion of our convertible preferred stock, are entitled to the "Demand," "Piggyback" and "Form S-3" registration rights set forth below with respect to registration of the resale of such shares under the Securities Act pursuant to an investors' rights agreement by and among us and certain of our stockholders. In addition, the holders of an additional 407,172 shares of registrable securities issued or issuable upon exercise of warrants are also entitled to certain registration rights. Finally, the holders of an aggregate of 3,000,000 shares of our common stock, specifically founders shares purchased by Jagdeep Singh, Drew D. Perkins and David F. Welch, are entitled to the "Piggyback" registration rights set forth below. As applicable, we refer to these shares collectively as registrable securities.

Registration of shares of common stock in response to exercise of the following rights would result in the holders being able to trade these shares without restriction under the Securities Act when the applicable registration statement is declared effective. We generally must pay all expenses, other than underwriting discounts, taxes and commissions, related to any registration effected pursuant to the exercise of these registration rights.

The registration rights terminate upon the earlier of five years after completion of this offering, or with respect to the registration rights of an individual holder, when the holder of one percent or less of our outstanding common stock can sell all of such holder's registrable securities in any three-month period without registration, in compliance with Rule 144 of the Securities Act or another similar exception.

Demand Registration Rights If, at any time after the earlier to occur of six months after completion of this offering or June 10, 2010, the holders of at least 40% of the registrable securities request in writing that an amount of securities covering at least 40% of the registrable securities outstanding be registered, we may be required to register their shares. We are only obligated to effect one registration in response to these demand registration rights for the holders of registrable securities. Depending on certain conditions, however, we may defer such registration for up to 120 days. The underwriters of any underwritten offering have the right to limit the number of shares registered by these holders for marketing reasons.

Piggyback Registration Rights If at any time we propose to register any shares of our common stock under the Securities Act after this offering, subject to certain exceptions, the holders of registrable securities will be entitled to notice of the registration and to include their share of registrable securities in the registration. The underwriters of any underwritten offering have the right to limit the number of shares registered by these holders for marketing reasons, subject to certain limitations.

Form S-3 Registration Rights The holders of at least 20% of the registrable securities may request in writing that we effect a registration on Form S-3 under the Securities Act, when registration of our shares under Form S-3 becomes possible, and when the proposed aggregate offering price of the shares to be registered by the holders requesting registration is at least $5,000,000, subject to certain exceptions.

Anti-Takeover Effects of Our Charter and Bylaws and Delaware Law

Some provisions of Delaware law and our amended and restated certificate of incorporation and amended and restated bylaws could make the following transactions more difficult:

- acquisition of our company by means of a tender offer, a proxy contest or otherwise; and
- removal of our incumbent officers and directors.

These provisions, summarized below, are expected to discourage and prevent coercive takeover practices and inadequate takeover bids. These provisions are designed to encourage persons seeking to acquire control of our company to first negotiate with our board of directors. They are also intended to provide our management with the flexibility to enhance the likelihood of continuity and stability if our board of directors determines that a takeover is not in our best interests or the best interests of our stockholders. These provisions, however, could have the effect of discouraging attempts to acquire us, which could deprive our stockholders of opportunities to sell their shares of common stock at prices higher than prevailing market prices. We believe that the benefits of these provisions, including increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure our company, outweigh the disadvantages of discouraging takeover proposals, because negotiation of takeover proposals could result in an improvement of their terms.

Classified Board. Our amended and restated certificate of incorporation that will become effective as of the closing of this offering provides for a classified board of directors consisting of three classes of directors, each serving a staggered three-year term. Commencing in 2008 a portion of our board of directors will be elected each year for three-year terms. Upon the closing of this offering:

- Drs. Balkanski and Sindhu will be designated Class I directors whose term will expire at the 2008 annual meeting of stockholders;
- Messrs. Martin and Singh and Dr. Maydan will be designated Class II directors whose term will expire at the 2009 annual meeting of stockholders; and
- Messrs. Goldman, Hundt and Redfield will be designated Class III directors whose term expires at the 2010 annual meeting of stockholders.

Election and Removal of Directors. Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that establish specific procedures for appointing and removing members of the board of directors. Under our amended and restated certificate of incorporation and amended and restated bylaws, vacancies and newly created directorships on the board of directors may be filled only by a majority of the directors then serving on the board. Under our amended and restated certificate of incorporation and amended and restated bylaws, directors may be removed by the stockholders only for cause.

Special Stockholder Meetings. Under our amended and restated bylaws, only the chairperson of our board of directors, our chief executive officer, our president (in the absence of our chief executive officer) or a majority of the authorized number of our directors may call special meetings of stockholders.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Our amended and restated bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors.

Delaware Anti-Takeover Law. We are subject to Section 203 of the Delaware General Corporation Law, which is an anti-takeover law. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years following the date that the person became an interested stockholder, unless the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a business combination includes a merger, asset or stock sale, or another transaction resulting in a financial benefit to the interested stockholder. Generally, an interested stockholder is a person who, together with affiliates and associates, owns, or within three years prior to the date of determination of interested stockholder status did own, 15% or more of the corporation's voting stock. The existence of this provision may have an anti-takeover effect with respect to transactions that are not approved in advance by our board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Elimination of Stockholder Action by Written Consent. Our amended and restated certificate of incorporation and amended and restated bylaws eliminate the right of stockholders to act by written consent without a meeting.

No Cumulative Voting. Our amended and restated certificate of incorporation and amended and restated bylaws do not provide for cumulative voting in the election of directors. Cumulative voting allows a minority stockholder to vote a portion or all of its shares for one or more candidates for seats on the board of directors. Without cumulative voting, a minority stockholder will not be able to gain as many seats on our board of directors based on the number of shares of our stock the stockholder holds as the stockholder would be able to gain if cumulative voting were permitted. The absence of cumulative voting makes it more difficult for a minority stockholder to gain a seat on our board of directors to influence our board of director's decision regarding a takeover.

Undesignated Preferred Stock. The authorization of undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of our company.

These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock will be . Its telephone number is .

NASDAQ Global Market Listing

We have applied to list our common stock on the NASDAQ Global Market under the symbol "INFN."

Shares Eligible for Future Sale

SHARES ELIGIBLE FOR FUTURE SALE Prior to this offering, there has been no public market for our common stock, and we cannot assure you that a significant public market for our common stock will develop or be sustained after this offering. As described below, no shares currently outstanding will be available for sale immediately after this offering due to certain contractual and securities law restrictions on resale. Sales of substantial amounts of our common stock in the public market after the restrictions lapse could cause the prevailing market price to decline and limit our ability to raise equity capital in the future.

Upon completion of this offering, we will have outstanding an aggregate of shares of common stock, assuming no exercise of the underwriters' option to purchase additional shares and no exercise of options or warrants to purchase common stock that were outstanding as of December 31, 2006. The shares of common stock being sold in this offering will be freely tradable without restriction or further registration under the Securities Act unless purchased by our affiliates.

The remaining 68,481,069 shares of common stock held by existing stockholders are restricted securities as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Section 4(1) or Rules 144, 144(k) or 701 promulgated under the Securities Act. We describe these rules in greater detail below.

The following table shows approximately when the 68,481,069 shares of our common stock that are not being sold in this offering, but which will be outstanding when this offering is complete, will be eligible for sale in the public market:

Eligibility of Restricted Shares for Sale in the Public Market

Days After Date of this Prospectus	Shares Eligible for Sale	Comment
Upon effectiveness		Shares sold in the offering
180 days, subject to reduction or extension	64,441,825	Lock-up released, subject to modification or extension; shares saleable under Rules 144, 144(k) and 701

Thereafter	4,039,244	Restricted securities held for one year or less

Resale of of the restricted shares that will become available for sale in the public market starting 180 days after the effective date will be limited by volume and other resale restrictions under Rule 144 because the holders are our affiliates.

Lock-up Agreements

Our officers, directors and substantially all of our stockholders have agreed not to transfer or dispose of, directly or indirectly, any shares of our common stock, or any securities convertible into or exercisable or exchangeable for shares of our common stock, for a period of 180 days after the date of this prospectus, without the prior written consent of Goldman, Sachs & Co., which period of restriction may be extended for up to an additional 34 days under certain limited circumstances. Goldman, Sachs & Co. currently does not anticipate shortening or waiving any of the lock-up agreements and does not have any pre-established conditions for such modifications or waivers. Goldman, Sachs & Co. may, however, in its sole discretion at any time and without notice, release for sale in the public market all or any portion of the shares subject to the lock-up agreement.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned restricted shares for at least one year, including the holding period of any prior owner except an affiliate, would be entitled to sell within any three month period a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding that will equal approximately shares immediately after this offering; or
- the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a Form 144 with respect to such sale.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for a least two years, including the holding period of any prior owner except an affiliate, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Rule 701

Rule 701, as currently in effect, permits resales of shares in reliance upon Rule 144 but without compliance with certain restrictions, including the holding period requirement, of Rule 144. Any employee, officer or director of or consultant to us who purchased shares under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell such shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144. All holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling such shares. All Rule 701 shares are, however, subject to lock-up agreements and will only become eligible for sale upon the expiration of the 180-day lock up agreements. Goldman, Sachs & Co. may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to lock up agreements.

Registration Rights

Upon the closing of this offering, the holders of 62,427,604 shares of our common stock and the holders of warrants to purchase 407,172 shares of our common stock have the right to have their shares registered under the Securities Act. See the section titled “Description of Capital Stock–Registration Rights.” All such shares are covered by lock-up agreements. Following the expiration of the lock-up period, registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration, except for shares purchased by our affiliates.

We have agreed not to file any registration statements during the 180-day period after the date of this prospectus with respect to the registration of any shares of common stock or any securities convertible into or exercisable or exchangeable into common stock, other than one or more registration statements on Form S-8 covering securities issuable under our stock plans, without the prior written consent of Goldman, Sachs & Co.

Form S-8 Registration Statement

Following the effective date of this offering, we will file a Registration Statement on Form S-8 registering 25,355,238 shares of common stock subject to outstanding options or reserved for future issuance under our stock plans. As of December 31, 2006, options to purchase a total of 7,872,264 shares were outstanding and 2,070,474 shares were reserved for future issuance under our 2000 Stock Plan. Effective on the date of this offering, we will have 13,600,000 shares reserved for issuance under our 2007 Equity Incentive Plan and 1,812,500 shares of common stock reserved for issuance under our 2007 Employee Stock Purchase Plan. See the section titled “Management–Equity Benefit Plans.” Subject to the lock-up agreements described above and any applicable vesting restrictions, shares registered under these registration statements will be available for resale in the public market immediately upon the effectiveness of these registration statements, except with respect to Rule 144 volume limitations that apply to our affiliates.

Underwriting

UNDERWRITING The company and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs &

Co., Citigroup Global Markets Inc., J.P. Morgan Securities Inc., Lehman Brothers Inc. and Thomas Weisel Partners LLC are the representatives of the underwriters.

Underwriters	Number of Shares
Goldman, Sachs & Co.	
Citigroup Global Markets Inc.	
J.P. Morgan Securities Inc.	
Lehman Brothers Inc.	
Thomas Weisel Partners LLC	
Total	

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional shares from the company to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by the company. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

Paid by Infinera	No Exercise	Full Exercise
Per Share		$$
Total		$$

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

The company and its officers, directors, and holders of substantially all of the company's common stock have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus except with the prior written consent of the representatives. This agreement does not apply to any existing employee benefit plans. See "Shares Eligible for Future Sale" for a discussion of certain transfer restrictions.

The 180-day restricted period described in the preceding paragraph will be automatically extended if: (1) during the last 17 days of the 180-day restricted period the company issues an earnings release or announces material news or a material event; or (2) prior to the expiration of the 180-day restricted period, the company announces that it will release earnings results during the 15-day period following the last day of the 180-day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release of the announcement of the material news or material event.

Prior to the offering, there has been no public market for the shares. The initial public offering price will be negotiated among the company and the representatives. Among the factors to be considered in determining the initial public offering price of the shares, in addition to prevailing market conditions, will be the company's historical performance, estimates of the business potential and earnings prospects of the company, an assessment of the company's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

An application has been made to quote the common stock on the NASDAQ Global Market under the symbol "INFN."

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from the company in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of the company's stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on NASDAQ Global Market, in the over-the-counter market or otherwise.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

(a)	to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
(b)	to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
(c)	to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or
(d)	in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of shares to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each underwriter has represented and agreed that:

1.1	it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of the shares in circumstances in which Section 21(1) of the FSMA would not, if the issuer was not an authorised person, apply to the issuer; and
1.2	it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

The securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

The company estimates that its share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $ million.

The company has agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the company, for which they received or will receive customary fees and expenses.

Industry and Market Data

INDUSTRY AND MARKET DATA We obtained the industry, market and competitive position data throughout this prospectus from our own internal estimates and research as well as from industry and general publications and research, surveys and studies conducted by third parties. Industry publications, studies and surveys generally state that they have been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe that each of these studies and publications is reliable, we have not independently verified market and industry data from third-party sources. While we believe our internal company research is reliable and the market definitions are appropriate, neither such research nor these definitions have been verified by any independent source.

Legal Matters

LEGAL MATTERS The validity of the common stock being offered will be passed upon for the company by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California. The underwriters are being represented by Cooley Godward Kronish LLP, Palo Alto, California. As of the date of this prospectus, an attorney employed by Wilson Sonsini Goodrich & Rosati, Professional Corporation beneficially owns 20,000 shares of our common stock.

Experts

EXPERTS

Ernst & Young, LLP, an independent registered public accounting firm, has audited our consolidated financial statements at December 31, 2005 and 2006 for each of the three years in the period ended December 31, 2006, as set forth in their report. We have included our financial statements in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young, LLP's report, given on their authority as experts in accounting and auditing.

Where You Can Find More Information

WHERE YOU CAN FIND MORE INFORMATION We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock we are offering. This prospectus contains all information about us and our common stock that may be material to an investor in this offering. The registration statement includes exhibits to which you should refer for additional information about us.

You may inspect a copy of the registration statement and the exhibits and schedules to the registration statement without charge at the offices of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain copies of all or any part of the registration statement from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549 upon the payment of the prescribed fees. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site at www.sec.gov that contains reports, proxy and information statements and other information regarding registrants like us that file electronically with the SEC. You can also inspect our registration statement on this web site.

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

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED

Public Accounting Firm

The Board of Directors and Stockholders Infinera Corporation We have audited the accompanying consolidated balance sheets of Infinera Corporation as of December 31, 2005 and 2006, and the related consolidated statements of operations, convertible preferred stock and stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Infinera Corporation at December 31, 2005 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 2 to the consolidated financial statements, on January 1, 2006, the Company adopted FASB No. 123 (revised 2004), *"Share-Based Payment"* and on July 1, 2005, the Company adopted FASB Staff Position 150-5 (FSP 150-5) *"Issuer's Accounting under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable."*

ERNST & YOUNG LLP

San Jose, California February 12, 2007, except as to Note 20, as to which the date is June , 2007 The foregoing report is in the form that will be signed upon the completion of the reverse stock split described in Note 20 to the financial statements.

/s/ ERNST & YOUNG LLP San Jose, California February 20, 2007

Consolidated Balance Sheets as of December 31, 2005 and 2006

INFINERA CORPORATION

Consolidated Balance Sheets

(In thousands, except per share data)

	December 31,		Pro FormaStockholders'Equity (Deficit) asof December 31,2006
	2005	2006	(see Note 1)
			(Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$36,013	$28,884	
Short-term investments	1,099	688	
Accounts receivable	3,410	42,148	
Receivables from disposition of acquired assets	1,450	—	
Inventory	24,653	58,269	
Deferred inventory costs	5,084	62,936	
Prepaid expenses and other current assets	790	3,115	
Total current assets	72,499	196,040	
Property, plant and equipment, net	14,534	26,665	
Intangible assets	788	1,806	
Deferred inventory costs, non-current	11,603	4,317	
Other non-current assets	865	1,325	

Total assets	$100,289	$230,153
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$14,518	$41,767
Accrued expenses	6,039	16,574
Accrued compensation and related benefits	2,507	7,628
Accrued warranty	798	1,339
Deferred revenue	6,636	100,574
Preferred stock warrant liability	—	5,409
Current portion of debt obligation	12,422	20,025
Total current liabilities	42,920	193,316
Long-term portion of debt obligation	10,551	7,557
Accrued warranty, non-current	894	1,378
Deferred revenue, non-current	16,564	9,873
Preferred stock warrant liability	1,941	—
Long-term exercised unvested options	359	996
Other long-term liabilities	446	1,811

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

Infinera Corporation

CONSOLIDATED BALANCE SHEETS—(Continued)

(In thousands, except per share data)

	December 31,		Pro FormaStockholders'Equity (Deficit) asof December 31,2006
	2005	**2006**	(see Note 1)
			(Unaudited)
Commitments and contingencies (Note 9)			
Convertible preferred stock (total aggregate liquidation preference of $325,227):			
Series A convertible preferred stock, $0.001 par value: Authorized shares—3,919 in 2005 and 2006Issued and outstanding shares—3,691 in 2005 and 2006; and no shares outstanding pro forma (unaudited)(aggregate liquidation preference of $36,906)	36,789	36,789	—
Series B convertible preferred stock, $0.001 par value: Authorized shares—2,128 in 2005 and 2006Issued and outstanding shares—2,112 in 2005 and 2006; and no shares outstanding pro forma (unaudited)(aggregate liquidation preference of $29,457)	29,350	29,350	—
Series C convertible preferred stock, $0.001 par value: Authorized shares—1,335 in 2005 and 2006Issued and outstanding shares—1,335 in 2005 and 2006; and no shares outstanding pro forma (unaudited)(aggregate liquidation preference of $24,400)	24,301	24,301	—
Series D convertible preferred stock, $0.001 par value: Authorized shares—7,143 in 2005 and 2006Issued and outstanding shares—6,920 in 2005 and 2006; and no shares outstanding pro forma (unaudited)(aggregate liquidation preference of $62,000)	61,749	61,749	—
Series E convertible preferred stock, $0.001 par value: Authorized shares—22,975 in 2005 and 2006Issued and outstanding shares—21,590 in 2005 and 2006; and no shares outstanding pro forma (unaudited)(aggregate liquidation preference of $51,816)	53,167	53,167	—
Series F convertible preferred stock, $0.001 par value: Authorized shares—3,000 in 2005 and 2006Issued and outstanding shares—2,723 in 2005 and 2006; and no shares outstanding pro forma (unaudited)(aggregate liquidation preference of $10,300)	10,252	10,252	—
Series G convertible preferred stock, $0.001 par value: Authorized shares—9,500 in 2005 and 21,500 in 2006; issued and outstanding shares—6,304 in 2005 and 20,435 in 2006; and no shares outstanding pro forma (unaudited) (aggregate liquidation preference of $110,348)	31,539	104,942	—

Total convertible preferred stock:	247,147	320,550	—
Stockholders' equity (deficit):			
Common stock, $0.001 par value			
Authorized shares—67,500, and 79,500 in 2005 and 2006, respectively			
Issued and outstanding shares—6,000 and 9,054 in 2005 and 2006, respectively, and 68,481 shares outstanding pro forma (unaudited)	6	9	68
Additional paid-in capital	3,523	7,911	333,811
Accumulated other comprehensive loss	(86)	(153)	(153)
Accumulated deficit	(223,976)	(313,095)	(313,095)
Total stockholders' equity (deficit)	(220,533)	(305,328)	$20,631
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	$100,289	$230,153	

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

Consolidated Statements of Operations for the Years Ended December 31, 2004, 2005 and 2006

INFINERA CORPORATION

Consolidated Statements of Operations

(In thousands, except per share data)

	Years Ended December 31,		
	2004	**2005**	**2006**
Revenue:			
Ratable product and related support and services	$—	$4,127	$53,484
Product	599	—	5,258
Total revenue	599	4,127	58,742
Cost of revenue:			
Cost of ratable product and related support and services(1)	—	27,455	69,765
Cost of product	7,240	—	1,660
Total cost of revenue	7,240	27,455	71,425
Gross loss	(6,641)	(23,328)	(12,683)
Operating expenses:			
Sales and marketing(1)	8,294	11,053	20,682
Research and development(1)	46,306	24,986	38,967
General and administrative(1)	2,888	4,328	12,650
Amortization of intangible assets	—	—	56
Total operating expenses	57,488	40,367	72,355
Loss from operations	(64,129)	(63,695)	(85,038)
Other income (expense), net:			
Interest income	1,166	686	2,100
Interest expense	(1,949)	(2,591)	(4,542)
Other loss, net	(1,568)	(174)	(1,567)
Total income (expense), net	(2,351)	(2,079)	(4,009)
Loss before provision of income taxes and cumulative effect of change in accounting principle	(66,480)	(65,774)	(89,047)
Provision for income taxes	—	12	72
Loss before cumulative effect of change in accounting principle	(66,480)	(65,786)	(89,119)
Cumulative effect of change in accounting principle	—	(1,137)	—

Net loss	$(66,480)	$(64,649)	$(89,119)
Net loss per common share, basic and diluted	$(15.30)	$(13.76)	$(14.55)
Weighted average shares used in computing basic and diluted net loss per common share	4,345	4,698	6,127
Pro forma net loss per common share, basic and diluted net loss per common share (unaudited)			$(1.47)
Weighted average shares used in computing pro forma basic and diluted net loss per common share (unaudited)			60,480

	Years Ended December 31,		
	2004	2005	2006
(1) Stock-based compensation expense included in above as follows:			
Cost of revenue	$—	$—	$151
Sales and marketing	—	36	411
Research and development	180	99	198
General and administrative	34	7	335
Total stock-based compensation charge	$214	$142	$1,095

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

Infinera Corporation

Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)

For the Years Ended December 31, 2004, 2005 and 2006

(In thousands, except per share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Deferred Stock-Based Compensation	Accumulated OtherComprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2003	13,835	$151,865	4,275	$4	$2,091	$(225)	$(223)	$(92,847)	$(91,200)
Exercise of stock options	—	—	559	1	730	—	—	—	731
Reclassification of options exercised but not vested	—	—	—	—	90	—	—	—	90
Issuance of Series D convertible preferred stock for cash at $8.96 per share, net of issuance costs of $58	446	3,942	—	—	—	—	—	—	—
Transfer of Series D convertible preferred stock at $8.96 per share to Series E convertible preferred stock at $2.40 per share	(223)	(2,000)	—	—	—	—	—	—	—
Issuance of Series E convertible preferred stock at $2.40 per share, net of issuance costs of $111	21,590	51,705	—	—	—	—	—	—	—
Issuance of Series E convertible preferred stock in exchange for Series D convertible preferred stock	—	1,464	—	—	—	—	—	—	—
Amortization of deferred stock-based compensation related to change in employment status	—	—	—	—	—	180	—	—	180
Issuance of warrants to purchase Series E convertible preferred stock at $2.40 per share in connection with debt	—	339	—	—	—	—	—	—	—
Issuance of warrants to purchase common stock at $8.96 per share in connection with debt	—	—	—	—	29	—	—	—	29

Stock options issued to non-employees	—	—	—	—	34	—	—	—	34
Comprehensive loss:									
Unrealized gain on available-for-sale investments	—	—	—	—	—	—	133	—	133
Foreign currency translation adjustment	—	—	—	—	—	—	12	—	12
Net loss	—	—	—	—	—	—	—	(66,480)	(66,480)
Total comprehensive loss									(66,335)
Balance at December 31, 2004	35,648	$207,315	4,834	$5	$2,974	$(45)	$(78)	$(159,327)	$(156,471)

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

Infinera Corporation

Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)

For the Years Ended December 31, 2004, 2005 and 2006—(Continued)

(In thousands, except per share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Deferred Stock-Based Compensation	Accumulated OtherComprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2004 (brought forward)	35,648	$207,315	4,834	$5	$2,974	$(45)	$(78)	$(159,327)	$(156,471)
Issuance of common stock	—	—	1,162	1	994	—	—	—	995
Issuance of Series F convertible preferred stock at $3.78 per share, net of issuance costs of $53	2,723	10,247	—	—	—	—	—	—	—
Issuance of Series G convertible preferred stock at $5.40 per share, net of issuance costs of $2,451 and receivable of $50	6,304	31,717	—	—	—	—	—	—	—
Issuance of restricted stock at $1.84 per share in exchange for services	—	—	8	—	14	—	—	—	14
Repurchase of common stock at $1.84 per share	—	—	(4)	—	(7)	—	—	—	(7)
Reclassification of options exercised but not vested	—	—	—	—	(520)	—	—	—	(520)
Reclassification of warrants to liabilities	—	(2,132)	—	—	(29)	—	—	—	(29)
Stock options issued to non-employees	—	—	—	—	7	—	—	—	7
Amortization of deferred stock-based compensation related to change in employment status	—	—	—	—	—	45	—	—	45
Compensation charge related to non-recourse notes	—	—	—	—	90	—	—	—	90
Comprehensive loss:									
Unrealized gain on available-for-sale investments	—	—	—	—	—	—	71	—	71
Foreign currency translation adjustment	—	—	—	—	—	—	(79)	—	(79)
Net loss	—	—	—	—	—	—	—	(64,649)	(64,649)

Total comprehensive loss									(64,657)
Balance at December 31, 2005	44,675	$247,147	6,000	$6	$3,523	$–	$(86)	$(223,976)	$(220,533)

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

Infinera Corporation

Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)

For the Years Ended December 31, 2004, 2005 and 2006—(Continued)

(In thousands, except per share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated OtherComprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2005 (brought forward)	44,675	$247,147	6,000	$6	$3,523	$(86)	$(223,976)	$(220,533)
Stock options exercised	–	–	3,066	3	4,374	–	–	4,377
Stock options repurchased	–	–	(12)	–	(7)	–	–	(7)
Issuance of Series G convertible preferred stock at $5.40 and $7.36 per share, net of issuance costs of $3,089	14,131	73,403	–	–	–	–	–	–
Proceeds from non-recourse notes	–	–	–	–	261	–	–	261
Stock options issued to non-employees	–	–	–	–	22	–	–	22
Reclassification of options exercised but not vested	–	–	–	–	(1,335)	–	–	(1,335)
Stock-based compensation	–	–	–	–	876	–	–	876
Stock-based compensation expense related to non-recourse notes	–	–	–	–	197	–	–	197
Comprehensive loss:								
Unrealized gain on available-for-sale investments	–	–	–	–	–	(2)	–	(2)
Foreign currency translation adjustment	–	–	–	–	–	(65)	–	(65)
Net loss	–	–	–	–	–	–	(89,119)	(89,119)
Total comprehensive loss								(89,186)
Balance at December 31, 2006	58,806	$320,550	9,054	$9	$7,911	$(153)	$(313,095)	$(305,328)

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

Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2005 and 2006

INFINERA CORPORATION

Consolidated Statements of Cash Flows

(In thousands)

	Years Ended December 31,		
	2004	2005	2006
Cash Flows from Operating Activities:			
Net loss	$(66,480)	$(64,649)	$(89,119)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	5,561	6,197	7,148

In-process research and development	—	—	4,474
Amortization of debt discount	345	219	218
Issuance of warrants	—	—	189
Revaluation of warrant liabilities	—	(883)	2,376
Stock-based compensation to employees	—	—	876
Amortization of deferred stock-based compensation	180	45	—
Stock-based compensation expense related to non-recourse notes	—	90	197
Stock-based compensation to non-employees	34	7	22
Changes in assets and liabilities:			
Accounts receivable	(2,947)	(463)	(38,738)
Inventory	(8,030)	(16,466)	(33,616)
Prepaid expenses and other current assets	(172)	93	(2,325)
Deferred inventory costs	—	(16,686)	(50,566)
Other non-current assets	1,406	92	(555)
Accounts payable	4,379	7,793	27,249
Accrued liabilities and other expenses	3,061	3,711	16,123
Deferred revenue	441	22,759	87,247
Accrued warranty	—	1,692	1,025
Net cash used in operating activities	(62,222)	(56,449)	(67,775)
Cash Flows from Investing Activities:			
Purchase of short-term investments	(88,234)	(2,715)	(6,501)
Proceeds from sale or maturity of short-term investments	101,275	36,672	6,912
Proceeds from disposition of acquired assets	—	200	1,450
Purchase of property and equipment	(3,279)	(4,006)	(15,255)
Change in prepaid deposit for equipment	(479)	—	—
Acquisition of certain assets, net	—	(700)	(4,675)
Net cash provided by (used in) investing activities	9,283	29,451	(18,069)
Cash Flows from Financing Activities:			
Principal payments on loan obligation	(11,362)	(12,629)	(21,520)
Cash payments for debt issuance costs	—	(185)	(14)
Proceeds from loans	7,127	27,244	21,628
Proceeds from issuance of common stock	731	1,009	4,377
Proceeds from issuance of convertible preferred stock, net of issuance costs	55,112	42,627	74,055
Proceeds from non-recourse notes	—	—	261
Repurchase of common stock	—	(7)	(7)
Net cash provided by financing activities	51,608	58,059	78,780

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

Infinera Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

(In thousands)

	Years Ended December 31,		
	2004	**2005**	**2006**
Effect of exchange rate changes	$12	$(79)	$(65)
Net change in cash and cash equivalents	(1,319)	30,982	(7,129)

Cash and cash equivalents at beginning of period	6,350	5,031	36,013
Cash and cash equivalents at end of period	$5,031	$36,013	$28,884
Supplemental disclosures of cash flow information:			
Cash paid for interest	$1,944	$1,629	$3,585
Cash paid for income taxes	$ —	$5	$28

Supplemental schedules of non-cash investing and financing activities

Issuance of warrants in connection with debt arrangements	$368	$179	$—
Debt assumed in connection with acquisition of certain assets of Big Bear Networks, Inc.	$—	$2,000	$—
Debt assumed in connection with acquisition of certain assets of Little Optics, Inc.	$—	$—	$4,500
Issuance of convertible preferred stock warrants in connection with Series G financing and the acquisition of certain assets of Little Optics, Inc.	$—	$660	$902
Issuance of common stock for notes receivables	$ 183	$—	$—

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

Notes to Consolidated Financial Statements

INFINERA CORPORATION

Notes to Consolidated Financial Statements

1. Organization and Significant Accounting Policies

Organization

Infinera Corporation (the Company) was founded in December 2000 and has developed a digital optical communications system called the Infinera DTN System. The Company began commercial shipment of its DTN System in November 2004.

Significant Accounting Policies

Basis of Financial Statements

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

Unaudited Pro Forma Stockholders' Equity

The Company has filed a registration statement with the U.S. Securities and Exchange Commission to sell shares of its common stock to the public. If the initial public offering is completed under the terms presently anticipated, all of the Series A, B, C, D, E, F and G convertible preferred stock outstanding at December 31, 2006 will be converted into 59,427,604 shares of common stock. Unaudited pro forma stockholders' deficit, as adjusted for the assumed conversion of all Series A, B, C, D, E, F and G convertible preferred stock, is set forth in the accompanying consolidated balance sheets. In addition, the convertible preferred and common stock warrant liability of $5.4 million at December 31, 2006 will be reclassified to common stock and additional paid-in-capital. Pro forma stockholders' equity, as adjusted for the assumed conversion of the convertible preferred stock and convertible preferred stock warrants, is set forth on the consolidated balance sheet.

Use of Estimates

The consolidated financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in the United States. These accounting principles require the Company to make certain estimates, assumptions and judgments that can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates, assumptions and judgments made by management include revenue recognition, inventory valuation and the determination of the fair value of stock awards and warrants issued. Management believes that the estimates and judgments upon which they rely are reasonable based upon information available to them at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, the Company's consolidated financial statements will be affected.

Revenue Recognition

The Company's networking products are generally integrated with software that is more than incidental to the functionality of the equipment. Accordingly, the Company accounts for revenue in accordance with Statement of Position No. 97-2, "*Software Revenue Recognition*," as amended by SOP 98-9, "*Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions*." The Company recognizes product revenue when all of the following have occurred: (1) it has entered into a legally binding arrangement with a customer; (2) delivery has occurred, which is when product title and risk of loss have transferred to the customer; (3) customer payment is deemed fixed or determinable; and (4) collectibility is reasonably assured. Revenue is recognized net of cash discounts.

Substantially all of the Company's product sales have been sold in combination with training and product support services, which consist of software warranty, updates and product support.

Software updates provide customers with rights to unspecified software product upgrades and to maintenance releases and patches released during the term of the support period. Product support includes internet access to technical content, telephone and internet access to technical support personnel. Training services include the right to a specified number of training classes over the term of the arrangement. Revenue for training and support services is recognized on a straight-line basis over the service contract term, which ranges from one to five years.

Vendor specific objective evidence (VSOE) of fair value for training and product support services is determined by reference to the price the customer will be required to pay when training and product support services are sold separately. To date, the Company has not established VSOE of fair value for training and product support services. Assuming all other revenue recognition criteria have been met and the only undelivered element is training or product support services, revenue is deferred and recognized ratably over the longest undelivered service period. The undelivered service periods range from one to five years. Revenue related to these arrangements is included in ratable product and related support and services revenue in the accompanying consolidated statements of operations.

Contracts and customer purchase orders are generally used to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery and transfer of title. Revenue is recognized only when title and risk of loss pass to customers. In instances where acceptance of the product is specified by the customer, revenue is deferred until all acceptance criteria have been met. The Company assesses whether the fee is fixed or determinable based on the payment terms associated with the transaction. Payment terms to customers generally range from net 30 to 90 days from product acceptance. In the event payment terms are provided that differ from the Company's standard business practices, the fees are deemed to not be fixed or determinable and, therefore, revenue is deferred until the fees become fixed or determinable which the Company believes is when they are legally due and payable. The Company assesses the ability to collect from its customers based primarily on the creditworthiness of the customer and past payment history of the customer.

Revenue for products that does not require significant customization, and with respect to which any software is considered incidental, is recognized under Staff Accounting Bulletin No. 104, "*Revenue Recognition*" (SAB 104). Under SAB 104, revenue is recognized only when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable and collectibility is reasonably assured. Revenue related to these arrangements is included in product revenue in the accompanying consolidated statements of operations.

Shipping charges billed to customers are included in product revenue and in ratable product and related support and services revenue. The related shipping costs are included in cost of product sales and cost of ratable product and related support and services in the accompanying consolidated statements of operations.

Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for employee stock options using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "*Accounting for Stock*

Infinera Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Issued to Employees," (APB No. 25) and Financial Accounting Standards Board (FASB) Interpretation No. 44, "*Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB No. 25*." The intrinsic value represents the difference between the per share market price of the stock on the date of grant and the per share exercise price of the related stock option. The Company grants stock options to employees for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant. Under APB Opinion No. 25, no compensation expense is recorded for employee stock options granted at an exercise price equal to the market price of the underlying stock on the date of grant. The Company recognizes compensation expense for any stock options granted with an exercise price that is less than the fair value of the underlying stock on the date of grant on a straight-line basis over the vesting period.

On January 1, 2006, the Company adopted the provisions of the Statement of Accounting Standards (SFAS) No. 123(R) "*Share-Based Payments*" (SFAS 123(R)). Under SFAS 123(R), stock-based compensation costs for employees is measured at the grant date, based on the estimated fair value of the award at that date, and is recognized as expense over the employee's requisite service period, which is generally over the vesting period, on a straight-line basis. The Company adopted the provisions of SFAS 123(R) using the prospective transition method. Under this transition method, non-vested option awards outstanding at January 1, 2006 continue to be accounted for under the minimum value method under SFAS No. 123, "*Accounting for Stock-Based Compensation*." All awards granted, modified or settled after the date of adoption are accounted for using the measurement, recognition and attribution provisions of SFAS 123(R).

During 2006, the Company granted options to employees to purchase a total of 4.7 million shares of common stock at exercise prices ranging from $1.32 to $2.00 per share at a weighted average price of $1.96. These options have exercise prices equal to the deemed market value of the Company's common stock on the dates these options were granted.

The Company makes a number of estimates and assumptions related to SFAS 123(R). The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from the Company's estimates, such amounts will be recorded as an adjustment in the period estimates are revised. Actual results may differ substantially from these estimates. In valuing share-based awards under SFAS 123(R), significant judgment is required in determining the expected volatility of common stock and the expected term individuals will hold their share-based awards prior to exercising. Expected volatility of the stock is based on the Company's peer group in the industry in which the Company does business because the Company does not have sufficient historical volatility data for its own stock. The expected term of options granted represents the period of time that options granted are expected to be outstanding and was calculated based on historical information. In the future, as the Company gains historical data for volatility in its own stock and more data on the actual term employees hold their options, the expected volatility and expected term may change, which could substantially change the grant-date fair value of future awards of stock options and ultimately the expense the Company records.

For 2006, the total compensation cost related to stock-based awards granted under SFAS 123(R) to employees and directors but not yet amortized was approximately $5.2 million, net of estimated forfeitures of $0.4 million. These costs will be amortized on a straight-line basis over a weighted average period of approximately 1.1 years. Amortization of stock-based compensation in 2006 was approximately $0.9 million. Basic and diluted loss per share for 2006 were $0.15 higher than if the Company had continued to account for stock-based compensation under APB No. 25.

The fair value of each option grant is estimated on the date of grant using the following weighted-average assumptions used for grants in 2004, 2005 and 2006:

	Years Ended December 31,		
	2004	2005	2006
Dividend	—	—	—
Volatility	0%	0%	72% - 83%
Risk-free interest rate	3.00%	4.05%	4.57% - 5.08%
Weighted-average expected life	4 years	4 years	4.2 -5.4 years
Weighted-average fair value of common stock	$0.15	$0.15	$0.81 - $1.35

The Company accounts for stock options granted to non-employees in accordance with Emerging Issues Task Force (EITF) No. 96-18, "*Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling, Goods or Services*" (EITF No. 96-18) and related interpretations. The Company grants stock options to certain consultants and non-employee advisory board members for a fixed number of shares with an exercise price equal to the fair value of the Company's common stock at the date of grant. Under EITF No. 96-18, compensation expense on non-employee stock options is calculated using the Black Scholes option-pricing model and is recorded using the straight-line method over the vesting period, which approximates the service period. Total compensation expense related to options granted to consultants was not material for 2004, 2005 and 2006, respectively.

Inventory Valuation

Inventories consist of raw materials, work-in-process and finished goods and are stated at the lower of standard cost or market. Standard costs approximate the first-in, first-out method. Market value is based upon an estimated average selling price reduced by the estimated cost of disposal. The determination of market value involves numerous judgments including estimated average selling prices based upon recent sales volumes, industry trends, existing customer orders, current contract price, future demand and pricing for our products and technological obsolescence of the Company's products.

Inventory that is obsolete or in excess of the Company's forecasted demand or is anticipated to be sold at a loss is written down to its estimated net realizable value based on historical usage and expected demand.

The Company recorded total inventory write-downs for lower of cost or market (LCM) adjustments in 2004, 2005 and 2006 of $1.6 million, $9.7 million and $21.6 million, respectively. These adjustments related to the Company's inventory and firm purchase commitments with suppliers and are reflected as costs of product and cost of ratable product and related support and services.

If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Allowances for Doubtful Accounts

Management makes judgments as to its ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. At both December 31, 2005 and

2006, management has not reserved any of the Company's accounts receivable as they were deemed fully collectible.

Warranty Reserve

Upon delivery of the Company's products, it provides for the estimated cost to repair or replace products or the related components that maybe returned under warranty. In general, the Company's hardware warranty periods range from 2 to 5 years. Hardware product warranties provide the customer with protection in the event that the product does not perform to product specifications. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Warranty reserves amounted to $1.7 million and $2.7 million at December 31, 2005 and 2006, respectively. There was no warranty activity in 2004.

Cash Equivalents and Short-term Investments

The Company considers all liquid instruments with an original maturity at the date of purchase of 90 days or less to be cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

The Company considers all instruments with remaining time to maturity of one year or less to be short-term investments. At December 31, 2005 and 2006, cash equivalents and short-term investments consisted primarily of money market funds, commercial paper and municipal bonds. The Company's cash equivalents and short-term investments are classified as available-for-sale in accordance with the provisions of SFAS No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*."

All cash equivalents and short-term investments are stated at fair market value based on quoted market prices with unrealized gains and losses reported in accumulated comprehensive loss as a separate component of stockholders' equity (deficit). The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, both of which are included in interest income. Realized gains and losses, and declines in value judged to be other-than-temporary, which were insignificant, are recorded as a component of interest income using the specific-identification method.

Fair Values of Financial Instruments

The carrying value of cash and cash equivalents approximates fair value due to the short of time to maturity. Fair values of short-term investments are based on quoted market prices. The fair values of the Company's obligations under lines of credit and term loans are based on current rates offered to the Company for similar debt instruments of the same remaining maturities. The carrying value of the Company's lines of credit and term loans approximated fair value at December 31, 2005 and 2006. The fair value of the convertible preferred stock warrant liabilities was estimated using a combination of both the Black-Scholes and Lattice models.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of

the asset. An assumption of lease renewal where a renewal option exists is used only when the renewal has been determined to be reasonably assured. Repair and maintenance costs are expensed as incurred. The estimated useful life for each asset category is as follows:

	Estimated Useful lives
Laboratory and manufacturing equipment	1.5 to 10 years
Furniture and fixtures	5 years
Computer hardware and software	1.5 to 3 years
Leasehold improvements	1 to 7 years

The Company regularly reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable or that the useful life is shorter than originally estimated. If impairment indicators are present and the projected future undiscounted cash flows are less than the carrying value of the assets, the carrying values are reduced to the estimated fair value. If assets are determined to be recoverable, but the useful lives are shorter than originally estimated, the carrying value of the assets is depreciated over the newly determined remaining useful lives. No impairment losses have been recognized through December 31, 2006.

Valuation of Intangibles

The Company tests for asset impairment of amortizing intangible assets using the guidance of SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets,"* where recoverability of these assets is assessed only when events have occurred that may give rise to impairment. When events or circumstances indicate that a potential impairment may have occurred, future undiscounted net cash flows associated with the related asset or group of assets over their remaining lives are compared to the current carrying amounts of such assets. When projected cash flows are less than the carrying amounts of the intangibles, an impairment loss would be recognized by comparing the discounted present value of future cash flows to carrying amounts and writing down the excess of the carrying amounts to their respective fair values. No impairment losses have been recognized through December 31, 2006.

Deferred Inventory Costs

When the Company's products have been delivered, but the product revenue associated with the arrangement has been deferred as a result of not meeting the revenue recognition criteria in SOP 97-2, the Company also defers the related inventory costs for the delivered items in accordance with Accounting Research Bulletin 43, "*Restatement and Revision of Accounting Research Bulletins*."

Accounting for Income Taxes

As part of the process of preparing the Company's consolidated financial statements, the Company is required to estimate its taxes in each of the jurisdictions in which it operates. The Company estimates actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as accruals and allowances not currently deductible for tax purposes. These differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheets. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in the Company's consolidated statements of operations become deductible expenses under applicable income tax laws or loss or

credit carry-forwards are utilized. Accordingly, realization of the Company's deferred tax assets is dependent on future taxable income against which these deductions, losses and credits can be utilized.

The Company must assess the likelihood that the Company's deferred tax assets will be recovered from future taxable income, and to the extent the Company believes that recovery is not likely the Company must establish a valuation allowance. Management judgment is required in determining the Company's provision for income taxes, the Company's deferred tax assets and liabilities and any valuation allowance recorded against the Company's net deferred tax assets. The Company recorded a full valuation allowance as of December 31, 2006 because, based on the available evidence, the Company believed at that time it was more likely than not that it would not be able to utilize all of its deferred tax assets in the future. The Company intends to maintain the full valuation allowances until sufficient evidence exists to support the reversal of the valuation allowances. The Company makes estimates and judgments about its future taxable income that are based on assumptions that are consistent with its plans and estimates. Should the actual amounts differ from the Company's estimates, the amount of the Company's valuation allowance could be materially impacted.

Concentration of Credit Risk

Financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash, cash equivalents, short-term investments and trade receivables. Investment policies have been implemented that limit investments to investment grade securities. Credit risk with respect to trade receivables is mitigated by credit evaluations the Company performs on its customers and by the financial strength of the Company's customer base. Collateral is not required for trade receivables. In 2004, the Company had one customer that represented 100% of revenues. In 2005, the Company had five customers that each represented over 10% of the Company's revenue. In 2006, the Company had one customer that represented 60% of revenue and no other customer that represented more than 10% of revenue.

The Company depends on a single or limited number of suppliers for components and raw materials. The Company generally purchases these single or limited source components and materials through standard purchase orders and has no long-term guarantee supply agreements with its suppliers. While the Company seeks to maintain sufficient reserve stock of such products, the Company's business and results of operations could be adversely affected by a stoppage or delay in receiving such components and materials, the receipt of defective parts, an increase in price of such components and materials or the Company's inability to obtain reduced pricing from its suppliers in response to competitive pressures.

Foreign Currency Translation and Transactions

The Company considers the functional currencies of its foreign subsidiaries to be the local currency. Assets and liabilities recorded in foreign currencies are translated at the exchange rate as of the balance sheet date, and costs and expenses are translated at average exchange rates in effect during the year. Equity transactions are translated using historical exchange rates. The effects of foreign currency translation adjustments are recorded as a separate component of stockholders' equity (deficit) in the accompanying consolidated balance sheet. Foreign denominated monetary accounts have been remeasured to the U.S. dollar. Aggregate foreign currency transaction gains (losses) recorded were $0, $(31,881) and $10,661 in 2004, 2005 and 2006, respectively.

Other Accumulated Comprehensive Loss

Comprehensive loss consists of other comprehensive loss and net loss. Other comprehensive loss includes certain changes in equity that are excluded from net loss. Specifically, cumulative foreign currency translation adjustments are included in other accumulated comprehensive loss. Comprehensive loss has been reflected in the consolidated statements of convertible preferred stock and stockholders' equity (deficit).

The components of other accumulated comprehensive loss are as follows (in thousands):

	December 31,	
	2005	2006
Accumulated net unrealized loss on foreign currency translation adjustment	$(87,395)	$(152,780)

Net unrealized holding gain (loss) on available-for-sale investments	1,176	(161)
Other accumulated comprehensive loss	$(86,219)	$(152,941)

Advertising

All advertising costs are expensed as incurred. Advertising expenses were approximately $63,000, $56,000, and $0.2 million in 2004, 2005 and 2006, respectively.

Research and Development

All costs to develop the Company's hardware products are expensed as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. Generally, the Company's products are released soon after technological feasibility has been established. As a result, costs subsequent to achieving technological feasibility have not been significant and all software development costs have been expensed as incurred.

Freestanding Convertible Preferred Stock Warrants

Freestanding warrants and other similar instruments related to shares that are redeemable are accounted for in accordance with FASB Staff Position (FSP) No. 150, "*Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*" (FSP 150-5). Under FSP 150-5, the freestanding warrants that are related to the Company's convertible preferred stock and common stock are classified as liabilities on the consolidated balance sheet. The warrants will be subject to re-measurement at each balance sheet date and any change in fair value will be recognized as a component of other income (expense), net. The Company will continue to adjust the liability for changes in fair value until the earlier of the exercise of the warrants or the completion of a liquidation event, including the completion of an initial public offering, at which time the liability will be reclassified as common stock and additional paid-in-capital.

2. Cumulative Effect of Change in Accounting Principle

On June 29, 2005, the FASB issued FSP 150-5. This Staff Position affirms that such warrants are subject to the requirements in FSP 150-1, regardless of the timing of the redemption feature or the redemption price. Therefore, under FSP 150-5, the freestanding warrants that are related to the Company's convertible preferred stock and common stock are liabilities that should be recorded at fair

value. The Company previously accounted for freestanding warrants for the purchase of the Company's convertible preferred stock under EITF No. 96-18.

Effective July 1, 2005, the Company adopted FSP 150-5 and reclassified the fair value of the warrants from equity to liability and recorded a cumulative effect of $1.1 million. In addition, the Company recorded charges of $0.2 million to reflect the increase in fair value between July 1, 2005 and December 31, 2005. In 2006, the Company recorded $2.4 million of charges reflected as other loss, net to reflect the increase in fair value between January 1, 2006 and December 31, 2006. The calculation of fair value requires the input of highly subjective assumptions and changes in those assumptions could materially affect the fair value estimates.

The Company will continue to adjust the liabilities for changes in fair value until the earlier of the exercise of the warrants or the completion of a liquidation event, including the completion of an initial public offering, at which time the liabilities will be reclassified to stockholders equity (deficit).

The Company estimated the fair value of these warrants using the Black-Scholes model for change of control scenario and the Lattice model for a successful initial public offering scenario. The Company then used a probability weighted average of per-share values under the different scenarios to determine the fair value of these warrants at the respective balance sheet dates.

Both models require the Company to make highly subjective assumptions, and a change in the Company's assumptions could materially affect the fair value estimates.

The impact of the cumulative effect of change in accounting principle on net loss per common share was as follows:

	December 31,		
	2004	2005	2006
	(In thousands, except per share data)		
Net loss per common share, basic and diluted:			
Loss before cumulative effect of change in accounting principle	$(15.30)	$(14.00)	$(14.55)
Cumulative effect of change in accounting principle	—	0.24	—
Net loss	$(15.30)	$(13.76)	$(14.55)
Shares used in computing basic and diluted net loss per common share	4,345	4,698	6,127

The following table presents the pro forma effect of the adoption of FSP 150-5 on results of operations for 2004 and 2005, if applied retroactively, assuming FSP 150-5 had been adopted in those years.

	December 31,	
	2004	2005
	(In thousands, except per share data)	
Net loss, as reported	$(66,480)	$(64,649)
Add: Cumulative effect of change in accounting principle included in net loss	—	(1,137)
Change in fair value of warrants	1,029	(229)
Pro forma net loss	$(65,451)	$(66,015)
Pro forma loss per common share, basic and diluted	$(15.06)	$(14.05)
Shares used in computing basic and diluted net loss per common share	4,345	4,698

3. Balance Sheet Components

	December 31,	
	2005	2006
	(In thousands)	
Property, plant and equipment		
Computer hardware	$1,404	$2,148
Computer software	1,846	2,892
Laboratory and manufacturing equipment	23,156	36,262
Furniture and fixtures	434	559
Leasehold improvements	6,832	10,918
	$33,672	$52,779
Less accumulated depreciation and amortization	(19,138)	(26,114)
Property, plant and equipment, net(1)	$14,534	$26,665
Inventory:		
Raw materials	3,617	7,198
Work in process	16,715	37,786
Finished goods(2)	4,321	13,285
	$24,653	$58,269
Accrued expenses:		
Loss contingency related to purchase commitments	1,299	3,518
Customer prepay liability	—	2,855
Professional and other consulting fees	435	2,063
Other accrued expenses	4,305	8,138
	$6,039	$16,574

(1) Property, plant and equipment, net includes approximately $0.4 million and $0.8 million in asset retirement obligations recorded as of December 31, 2005 and 2006, respectively. These asset retirement obligations are related to various office leases in California and Maryland.

(2) Included in finished goods inventory at December 31, 2005 and 2006, were $3.6 million and $6.8 million, respectively, of inventory at customer locations where the sales transaction did not meet the Company's revenue recognition criteria.

Infinera Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. Acquired Assets

On November 9, 2005, the Company purchased certain assets of Big Bear Networks, Inc. (BBN) for a net consideration of $1.1 million. The purchase price consisted of $2.0 million in an assumed note payable, $0.6 million in cash and $0.1 in transaction fees. An additional $25,000 was retained in an escrow account, which is payable to BBN's former shareholders and subject to any indemnification claims at the end of the applicable escrow period. This was offset

by net proceeds of $1.7 million from the sale of certain non-strategic assets acquired from BBN to a third party purchaser and a $50,000 write-off of an accounts payable balance due to BBN. The purchase of these assets was accounted for under the guidance of SFAS No. 142, *"Goodwill and Other Intangible Assets"* (SFAS 142), for intangible assets acquired with a group of other assets not part of a business combination.

Based on the assessment of fair value of the acquired assets performed by an independent third party valuation firm, the Company allocated $60,000 to tangible equipment, $0.2 million to inventory and the remaining $0.8 million to intangible assets. The intangible assets represent purchased technologies and will be amortized on a straight-line basis over an estimated useful life of seven years. The amortization is recorded in cost of ratable product and related support and services. The accumulated amortization for intangible assets as of December 31, 2005 and 2006 was $19,230 and $0.1 million, respectively. The carrying value of these intangibles at December 31, 2005 and 2006 was $0.8 million and $0.7 million, respectively. Based on identified intangible assets recorded at December 31, 2006, the annual amortization expense for each period is expected to be $0.1 million for each year beginning 2007 through 2012, at which time the intangible assets will be fully amortized.

On July 13, 2006, the Company entered into a supply and services agreement with Broadwing Corporation (Broadwing) whereby the Company agreed to provide manufacturing and support for certain of Broadwing's product divisions. The manufacturing is based on Broadwing's specifications using its technology, former manufacturing facility and equipment, and intellectual property underlying the manufacture of such products and owned or licensed by Broadwing. In connection with the agreement, the Company issued 92,592 warrants to Broadwing to purchase Series G convertible preferred stock at a price of $5.40 per share. The fair value of the warrants of $189,000 was recorded as a reduction to product revenue. In addition, the Company hired certain Broadwing employees.

On August 16, 2006, the Company purchased certain assets of Little Optics, Inc. for net consideration of $9.5 million. The purchase price consisted of $4.7 million in cash, $4.5 million in an assumed note payable, $251,000 in fair value of a warrant to purchase 0.1 million shares of Series G convertible preferred stock, and $90,000 in net liabilities assumed. The purchase of these assets was accounted for under the guidance of SFAS 142 for intangible assets acquired with a group of assets not part of a business combination.

Based on the assessment of fair value of the acquired assets performed by an independent third party valuation firm, the Company allocated $4.5 million to in-process research and development, $3.8 million to tangible equipment and the remaining $1.2 million to intangible assets. The in-process research and development was written off on the acquisition date because technological feasibility had not been established and no alternative future uses existed. The intangible assets represent patents, assembled workforce and customer contracts. The fair values of the intangibles on the date of acquisition will be amortized on a straight-line basis over their estimated useful lives ranging from three to fifteen years. The amortization is recorded in amortization of intangible assets on the statement of operations. The accumulated amortization for these intangible assets as of December 31, 2006 was $56,000. The carrying value of these intangibles at December 31, 2006 was $1.1 million. Based on

identified intangible assets recorded at December 31, 2006, the annual amortization expense for each period is expected to be $0.1 million for each year beginning 2007 through 2011, $55,000 in 2012 through 2020 and $34,000 in 2021, at which time the intangible assets will be fully amortized. The in-process research and development charge of $4.5 million was recorded in research and development expense in 2006.

5. Intangible Assets

Purchased other intangible assets are carried at cost less accumulated amortization. Amortization expenses are recorded to the appropriate cost and expense categories. The Company expects amortization expense on purchased intangible assets to be $0.3 million from 2007 through 2009, $0.2 million from 2010 through 2012, $55,000 from 2013 through 2020, and $34,000 in 2021, at which time purchased intangible assets will be fully amortized. The weighted average amortization period as of December 31, 2006 was 10 years.

	December 31, 2005			December 31, 2006		
	Gross CarryingAmount	Accumulated Amortization	Net	Gross CarryingAmount	Accumulated Amortization	Net
		(In thousands)			(In thousands)	
Patents & developed technology	$808	$(19)	$789	$1,628	$(155)	$1,473
Assembled workforce and other	—	—	—	370	(36)	334
Total intangible assets	$808	$(19)	$789	$1,998	$(191)	$1,807

6. Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of vested common shares outstanding during the period. Diluted net loss per common share is computed by giving effect to all potential dilutive common shares, including options, restricted common stock, common stock subject to repurchase, warrants to purchase common and convertible preferred stock and convertible preferred stock.

Pro forma basic and diluted net loss per common share have been computed to give effect to the conversion of the Company's convertible preferred stock (using the if-converted method) into common stock as though the conversion had occurred on the original dates of issuance.

The following table sets forth the computation of net loss per share:

	Year Ended December 31,		
	2004	2005	2006
	(In thousands, except per share data)		
Net loss	$(66,480)	$(64,649)	$(89,119)
Weighted average common shares outstanding net of weighted-average common shares subject to repurchase	4,345	4,698	6,127
Basic and diluted net loss per common share	$(15.30)	$(13.76)	$(14.55)
Basic and diluted weighted-average shares used above	4,345	4,698	6,127
Pro forma adjustments to reflect assumed conversion of convertible preferred stock			54,353
Shares used in computing pro forma net loss per common share			60,480
Pro forma net loss per common share, basic and diluted			$(1.47)

The following outstanding options, restricted common stock, common stock subject to repurchase, warrants to purchase common and convertible preferred stock were excluded from the computation of diluted net loss per common share for the periods presented because including them would have had an antidilutive effect:

	Year Ended December 31,		
	2004	2005	2006
	(In thousands)		
Restricted common stock	21	—	—
Options to purchase common stock	5,190	6,696	7,872
Common stock subject to repurchase	186	739	1,513
Options outstanding related to non-recourse notes	331	331	114
Convertible preferred stock (as converted basis)	36,270	45,297	59,428
Convertible preferred stock and common stock warrants (as converted basis)	444	867	1,333

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. Cash, Cash Equivalents and Short-term Investments

The following is a summary of cash and cash equivalents and short-term investments as of December 31, 2005 and 2006 (in thousands):

	December 31, 2005				December 31, 2006			
	Amortized Cost	Gross UnrealizedGains	Gross UnrealizedLosses	Estimated Fair Value	Amortized Cost	Gross UnrealizedGains	Gross UnrealizedLosses	Estimated Fair Value
Cash in banks	$11,310	$—	$—	$11,310	$13,791	$ —	$ —	$13,791
Money market	19,813	—	—	19,813	16	—	—	16
Commercial paper	5,988	1	—	5,989	15,075	2	—	15,077
Corporate bonds	—	—	—	—	690	—	(2)	688
Total cash, cash equivalents and short-term investments	$37,111	$1	$—	$37,112	$29,572	$2	$(2)	$29,572
Classified as cash and cash equivalents				$36,013				$28,884
Classified as short term investments				1,099				688
Total cash, cash equivalents and short-term investments				$37,112				$29,572

Under a loan arrangement with a financial institution, the Company maintains on deposit with the financial institution an unrestricted compensating balance of $4.0 million. Commercial paper and corporate bond investments have a contractual maturity term of less than one year. Realized gains (losses) on short-term investments were not material for 2004, 2005 and 2006.

8. Deferred Revenue and Deferred Inventory Costs

Deferred revenue and deferred inventory costs consist of the following:

	December 31,	
	2005	2006
	(In thousands)	
Deferred ratable product and related support and services, current	$6,636	$100,574
Deferred ratable product and related support and services, non-current	16,564	9,873
Total deferred revenue	$23,200	$110,447
Deferred inventory costs, current	$5,084	$62,936
Deferred inventory costs, non-current	11,603	4,317
Total deferred inventory costs	$16,687	$67,253

Deferred ratable product and related support and services revenue consists of revenue on transactions where VSOE of fair value of support and other services has not been established and the entire arrangement is being recognized ratably over the longest bundled support or service period. In the fourth quarter of 2006, the Company amended several of its significant sales contracts to shorten the contractual software warranty periods to between 90 days and one year, which management believes is more typical in the industry. This contractual change in the software warranty period resulted in the reduction of the average recognition period for ratable revenue from 3.7 years in the third quarter 2006 to 1.3 years in the fourth quarter of 2006.

9. Commitment and Contingencies

Leases

The Company leases facilities under non-cancelable operating lease agreements. The Company had four primary lease agreements at December 31, 2006 covering its headquarters, research and development (R&D) and manufacturing facility in Sunnyvale, California, its R&D and manufacturing facility in Allentown, Pennsylvania, and its software development facility in Bangalore, India. Terms of the leases are from one to seven years. The Sunnyvale, California lease on the R&D and manufacturing facility was terminated ten months early on December 31, 2005 due to the sale of the property. A new seven year lease on the same facility expiring on December 31, 2012 was entered into with the new landlord. The Company recognizes lease payments on its facilities on a straight-line basis. Both leases at the Sunnyvale facility have annual rent escalation clauses, which resulted in a deferred rent balance of $45,999 and $0.8 million at December 31, 2005 and 2006, respectively. The unamortized deferred rent balance of $0.1 million that was related to the terminated lease with the predecessor landlord was charged to expense upon termination of the lease in 2005.

On August 31, 2005, the Company entered into a 15-month lease for office space adjacent to its manufacturing facility in Sunnyvale, California, expiring on December 31, 2006. On July 24, 2006, this lease was extended for an additional year and expires on December 31, 2007.

On July 17, 2006, the Company entered into a five year lease expiring on August 31, 2011 for additional office space adjacent to its existing Sunnyvale, California facility. This new space serves as the Company's administrative headquarters. On November 2, 2006, this lease was amended to include warehouse space.

Rent expense for all leases was $1.6 million, $1.4 million and $1.7 million for 2004, 2005 and 2006, respectively.

On July 13, 2006, the Company entered into a supply and services agreement with Broadwing, whereby the Company agreed to manufacture, sell and support for certain of its division products. In connection with the agreement, the Company assumed a sublease for a manufacturing facility in Maryland, where the manufacture of the products would continue. The sublease expires on October 31, 2007. Total expense for this lease was $0.3 million for 2006.

Purchase Commitments

The Company has service agreements with its major production suppliers, where the Company is committed to purchase certain parts. As of December 31, 2006, these purchase commitments were $39.2 million.

The following is a summary of the Company's contractual obligations as of December 31, 2006:

	Years Ended December 31,

	Total	2007	2008	2009	2010	2011 and beyond
	(In thousands)					
Contractual obligations:						
Purchase obligations	$39,176	$39,176	$—	$—	$—	$—
Operating leases	14,987	3,119	2,940	2,929	2,650	3,349
Total contractual obligations	$54,163	$42,295	$2,940	$2,929	$2,650	$3,349

Indemnification Obligations

From time to time, the Company enters into certain types of contracts that contingently require it to indemnify parties against third-party claims. These contracts primarily relate to: (i) certain real estate leases under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; (ii) certain agreements with the Company's officers and directors, under which the Company may be required to indemnify such persons for liabilities; and (iii) certain provisions in the Company's customer agreements that may require the Company to indemnify their customers and their affiliated parties against liabilities if the Company's products infringe a third party's intellectual property rights.

The terms of such obligations vary. Because the maximum obligated amounts under these agreements generally are not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated.

To date, the Company has not incurred any material costs as a result of the indemnification obligations and have not accrued any liabilities related to such obligations in the Company's consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

10. Debt Obligations

Debt consisted of the following:

	December 31,	
	2005	2006
	(In thousands)	
Bank loans due 2007-2009	$20,652	$22,681
Promissory note due 2007	2,000	4,500
Other debt due 2007-2013	321	401
Total debt	22,973	27,582
Less current maturities	12,422	20,025
Long-term debt	$10,551	$7,557

On July 31, 2003, the Company entered into a loan agreement with a financial institution that allows for borrowings of up to $0.1 million. The agreement was amended on March 18, 2004 to allow for an additional borrowing amount of $30,000. In August 2004, the agreement was amended and an additional $0.2 million was made available and subsequently, an additional $0.2 million was borrowed under the same arrangement. The weighted average interest rate under this credit facility as of December 31, 2005 and 2006 was 5.7% and 8.1%, respectively. Under the agreements, warrants to purchase 5,049 shares of common stock at $8.96 per share were issued. The fair value of these warrants on the date of grant was estimated to be $5,854. For the years ended December 31, 2004, 2005 and 2006, the amounts recorded as interest expense were not material. The principal balance outstanding and classified as non-current was $0.3 million at December 31, 2005 and 2006.

On December 29, 2004, the Company entered into a growth capital loan agreement with two co-lender financial institutions. The agreement allowed for borrowings of up to $10.0 million. The loan is secured by, among other things, a lien on the Company's intellectual property. The terms of the loan were interest only through June 30, 2005, and then the higher of 11% or prime plus 6.25% thereafter over three years. In January 2005, the Company borrowed $3.0 million under this line. Under this agreement, warrants to purchase 0.1 million shares of Series E convertible preferred stock at $2.40 per share were issued. The fair value of these warrants at the date of grant was estimated to be $0.2 million. In March 2005, the Company issued additional warrants to purchase 0.1 million shares of Series E convertible preferred stock at $2.40 per share when we borrowed the remaining $7.0 million under this line. The fair value of these warrants on the date of grant was estimated to be $0.1 million. The weighted average interest rate under this credit facility as of December 31, 2005 and 2006 was 11.6% and 12.2%, respectively. The amounts recorded as interest expense for both warrant issuances were not material for 2004 and $99,875 and $111,634, for 2005 and 2006, respectively. The principal balance outstanding was $5.4 million, of which $3.5 million and $1.9 million were classified as current and non-current, respectively, at December 31, 2006.

On December 29, 2004, the Company entered into a borrowing arrangement with a financial institution. This arrangement provided for two facilities, an operating line of credit and a revolving line of credit. The operating line of credit allowed for borrowings secured by approved accounts receivable and purchase orders. The revolving line allowed for borrowing subject to the Company maintaining certain minimum cash balances. Total borrowings under the

arrangement could not exceed $20.0 million and bore interest at various rates of interest depending on the facility. The total available credit under the agreement was reduced by, among other things, any stand-by letters of credit outstanding. Under this agreement, warrants to purchase 62,500 shares of Series E convertible preferred stock at $2.40 per

share and 9,259 shares of Series G convertible preferred stock at $5.40 per share were issued. The fair value of these warrants on the date of grant was estimated to be $0.1 million. For the years ended December 31, 2004, 2005 and 2006, the amounts recorded as interest expense were not material for 2004 and $74,460 and $36,507, for 2005 and 2006, respectively. The arrangement was scheduled to expire on June 28, 2006 but was amended a number of times in 2006 by mutual consent to, among other things, extend the maturity date, extend the deadline for providing audited financial statements and waive the deadline for certain other management reports. On October 6, 2006, the arrangement was amended to allow the Company to borrow against its accounts receivable, to increase the facility amount to $25.0 million, to reduce the interest rate on the revolving line to the greater of prime or 6.25% and to extend the maturity date to September 27, 2007. The weighted average interest rate under all sub-facilities as of December 31, 2005 and 2006 was 7.7% and 10.1%, respectively. As of December 31, 2006, there were no outstanding balances on the operating line of credit. The principal balance outstanding under the revolving loan was $9.5 million, which is classified as current.

On June 21, 2005, the Company entered into a loan arrangement with a financial institution. This arrangement provides for two separate sub-facilities, a term loan and a revolving facility. Under the arrangement, the maximum term advance shall not exceed $5.5 million and the maximum revolving advance shall not exceed $6.0 million; provided, however, that at no time may the total outstanding loan obligations under the arrangement exceed $10.0 million. Under the arrangement, the Company maintains on deposit with the bank an unrestricted compensating balance of $4.0 million. The arrangement is secured by, among other things, the Company's equipment and certain intellectual property. The term facility is repayable over a three-year period and the revolving facility is repayable over a period of twelve months. The interest rate for the arrangement is at a variable rate of 0.50% above the prime interest rate. In connection with the loan arrangement, the Company granted warrants to purchase 19,824 shares of Series F convertible preferred stock at an exercise price of $3.78 per share. The fair value of these warrants on the date of grant was estimated at $35,599. For 2004, 2005 and 2006, the amounts recorded as interest expense were not material. During 2006, the loan arrangement was amended at various times by mutual consent to extend the maturity date, amend certain definitions in the agreement, permit the acquisition of the assets of Little Optics, Inc. and waive specified management reports. On October 31, 2006, the arrangement was amended and restated to terminate the term loan and revolving facility, replace them with a new three-year variable rate term facility and the amount borrowed previously under the term loan and revolving facility was repaid from the proceeds of this new facility. Total borrowings under this new facility may not exceed $15.0 million. The interest rate on this new facility is set at the bank's prime rate and the Company is required to comply with certain information reporting requirements. The weighted average borrowing rate under this facility was 9.0% and 8.3% at December 31, 2005 and 2006, respectively. The principal balance outstanding under this facility was $7.8 million, of which $2.5 million and $5.3 million were classified as current and non-current, respectively, at December 31, 2006.

On June 26, 2006, the Company entered into a premium financing agreement with a financial institution for $0.2 million. The loan is repayable over ten months and bears interest at a rate of 6.0% per annum. The principal balance outstanding under this loan was $86,000 at December 31, 2006, which is classified as current.

The above agreements require the Company to maintain compliance with certain covenants and prohibit the Company from paying dividends. As of December 31, 2006, the Company had satisfied all the requirements set forth by the Company's financial institutions and had access to an additional $19.5 million of incremental funds under the existing credit facilities described above.

At December 31, 2006, the Company's payments under debt arrangements are due as follows (in thousands):

Year	
2007	$21,834
2008	5,025
2009	2,780
2010	19
2011	163
Thereafter	172
Total minimum payments	29,993
Less amount representing interest	(2,411)
Present value of future minimum payments	27,582
Less current portion of debt obligation	(20,025)

Long-term portion of debt obligation	$7,557

11. Founder's Stock, Restricted Stock, Convertible Preferred Stock and Stockholders' Equity (Deficit)

Founders' Stock

In December 2000, the Company issued 1.4 million shares of common stock at $0.004 per share to a founder of the Company for cash proceeds of $5,500. In March 2001, the Company repurchased 0.4 million of these shares at the original issuance price of $0.004 per share for a total of $1,500. In March 2001, the Company issued 2.0 million shares, at $0.10 per share, to the other founders of the Company for cash proceeds of $0.2 million. The founders' shares are subject to adjustment for certain events, including mergers, stock dividends, stock splits, and other events. The founders' shares vested over four years: 20% immediately, and 1.667% per month for 48 months thereafter. At December 31, 2006, all of the shares of the founders' common stock were fully vested.

One of the founders who received a grant of 1.0 million shares of common stock in March 2001 was an advisor to the Company from March 2001 to May 2001. Accordingly, the Company recorded a compensation charge of $9,000, which was calculated using the Black-Scholes option-pricing model. This founder became an employee of the Company in May 2001, whereupon his stock grant was remeasured due to a change in employment status. The intrinsic value of the unvested shares of common stock as of the change of employment status was $0.7 million. This amount was recognized over the remaining vesting period. For 2004 and 2005, the Company recorded a compensation charge of $0.2 million and $45,000, respectively. At December 31, 2006, the common stock was fully vested.

Restricted Stock

In March 2001, the Company issued 0.2 million and 0.1 million shares of restricted common stock at $0.10 per share to a member of the Board of Directors and an employee of the Company, respectively, for total cash proceeds of $30,000. The 0.1 million shares of restricted common stock issued to the employee are under the Company's 2000 Stock Option Plan. In November 2001, the Company issued 42,500 shares of restricted common stock at $1.40 per share to another member of the Board of Directors of the Company for cash proceeds totaling $59,500. These restricted shares are

subject to adjustment for certain events, including mergers, stock dividends, stock splits and other events. These restricted shares vest over four years. In connection with a software license agreement in June 2004, the Company issued 7,500 shares of restricted common stock at $1.84 per share for cash proceeds of $13,800. These restricted shares vested over one year. At December 31, 2006, 0.3 million shares of restricted common stock were fully vested.

Convertible Preferred Stock

The following is a schedule of authorized, issued and outstanding shares of each series of convertible preferred stock (in thousands):

	Authorized Shares	Shares Issued and Outstanding December 31,	
		2005	2006
Series A	3,919	3,691	3,691
Series B	2,128	2,112	2,112
Series C	1,335	1,335	1,335
Series D	7,143	6,920	6,920
Series E	22,975	21,590	21,590
Series F	3,000	2,723	2,723
Series G	21,500	6,304	20,435
Total convertible preferred stock	62,000	44,675	58,806

On July 30, 2004, the Company issued 0.5 million shares of Series D convertible preferred stock to two investors who are also customers. As part of a settlement, on September 29, 2004, the Company repurchased 0.2 million shares at the Series D convertible preferred stock price of $8.96 and then issued 0.8 million shares of the Series E convertible preferred stock to the same customers at a price of $2.40 per share. The difference of $1.5 million between the repurchase price and the fair market value of the repurchased shares was charged to other loss, net in 2004.

On June 10, 2005, the Company issued 2.7 million shares of Series F convertible preferred stock at $3.78 per share for $10.3 million, net of issuance costs, of which 2.6 million shares were issued to a customer of the Company and 0.1 million shares were issued to an employee. During the fourth quarter of 2005, the Company issued 6.3 million shares of Series G convertible preferred stock at $5.40 per share for $31.1 million, net of issuance costs, to various investors.

In January, March, May, July and October of 2006, the Company issued a total of 14.1 million shares of Series G convertible preferred stock for $73.4 million, net of issuance costs. The purchase price for these issuances was $5.40 per share, with the exception of a board member's purchase of 67,934 shares at $7.36 per share in October 2006. These issuances completed the sale of Series G convertible preferred stock which began in October of 2005. Total Series G convertible preferred stock issued was 20.4 million shares for $105.1 million, net of issuance costs.

The significant rights and obligations of the Company's convertible preferred stock are as follows:

Voting Rights—Each holder of Series A, B, C, D, E, F and G convertible preferred stock is entitled to the number of votes equal to the number of shares of common stock into which such preferred stock are convertible.

Dividends—Series A, B, C, D, E, F and G convertible preferred stockholders are entitled to receive non-cumulative dividends at the rate of $0.70, $0.98, $1.28, $0.63, $0.17, $0.26, and $0.38 per annum, respectively, for each share of Series A, B, C, D, E, F, and G convertible preferred stock outstanding, when, as and if declared by the Board of Directors. These dividends are payable in preference to common stock dividends. To date, the Company has not declared or paid any dividends.

Liquidation—In the event of any liquidation, dissolution or winding up of the Company, the holders of Series G convertible preferred stock shall be entitled to receive, prior and in preference to the other stockholders, $2.70 per share for each share of Series G convertible preferred stock then held by them, plus declared but unpaid dividends. In the event that the available funds and assets are insufficient for full payment to the holders of Series G convertible preferred stock on a per-share basis as outlined above, the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of Series G convertible preferred stock in proportion to the liquidation preference amount each such holder is otherwise entitled to receive.

The holders of Series A through G convertible preferred stock shall then be entitled to receive, prior and in preference to any payment or distribution of available funds and assets to shares of common stock, $10.00 for each share of Series A convertible preferred stock, $13.94 for each share of Series B convertible preferred stock, $18.28 for each share of Series C convertible preferred stock, $8.96 for each share of Series D convertible preferred stock, $2.40 for each share of Series E convertible preferred stock, $3.78 for each share of Series F convertible preferred stock, and $5.40 for each share of Series G convertible preferred stock, including the Series G liquidation amount of $2.70 for each share described above, held by them, plus all declared but unpaid dividends on the preferred shares. In the event that the available funds and assets are insufficient for full payment to the convertible preferred stockholders on a per-share basis as outlined above, the entire assets and funds of the Company legally available for distribution shall be distributed ratably among holders of Series A, B, C, D, E, F and G convertible preferred stock in proportion to the liquidation preference amount each such holder is otherwise entitled to receive.

After all payments have been made to the holders of Series A, B, C, D, E, F and G convertible preferred stock, the remaining assets of the Company available for distribution to stockholders shall be distributed among the holders of Series A, B, C, D, E, F and G convertible preferred stock and common stock pro rata based on the number of shares of common stock held by each (assuming conversion of all Series A, B, C, D, E, F and G convertible preferred stock) until the holders of Series A, B, C, D, E, F and G convertible preferred stock shall have received up to an additional 20% of the Series A, B, C, D, E, F and G convertible preferred stock purchase price for each year the Series A, B, C, D, E, F and G convertible preferred stock is outstanding, respectively; provided, however, that no holder of Series A, B, C, D, E, F or G convertible preferred stock shall receive an aggregate amount greater than the Series A, B, C, D, E, F or G convertible preferred stock original purchase price per share, as applicable; provided further, that the Series E and Series F convertible preferred stock shall be deemed for these purposes to have been outstanding for two years prior to their issuance dates.

Upon completion of the above distributions, the remaining assets available for distribution to stockholders shall be distributed to the holders of common stock pro rata based on the number of shares of common stock held by each.

Upon liquidation or winding up of the Company, a transfer of greater than 50% of the Company's voting power or a sale of substantially all of the Company's assets would constitute a redemption event. As the redemption event of the convertible preferred stock is outside of the Company's control,

all shares of convertible preferred stock have been presented outside of permanent equity. The carrying value will remain the same, as EITF Topic D-98: *"Classification and Measurement of Redeemable Securities"* states that the initial carrying amount should be the price paid on the issuance date until the redemption is considered probable.

Conversion—Each share of convertible preferred stock is convertible at the option of the holder into fully paid and non-assessable shares of common stock. In connection with the issuance of Series D convertible preferred stock, an anti-dilution adjustment was triggered for Series A convertible preferred stock, Series B convertible preferred stock and Series C convertible preferred stock. Under the terms of Article IV, Section 4(d)(i) of the Company's restated certificate of incorporation, the new conversion prices of the Series A Convertible preferred stock, Series B convertible preferred stock and Series C convertible preferred stock, respectively, were modified as follows:

Conversion price of Series A convertible preferred stock changed from $2.5 to $2.42;

Conversion price of Series B convertible preferred stock changed from $3.486 to $3.11; and Conversion price of Series C convertible preferred stock changed from $4.57 to $3.86.

Each share of Series A, B, C, D, E, F and G convertible preferred stock is convertible into the number of shares of common stock that result from dividing the original issue price ($2.50, $3.486, $4.57, $2.24, $0.60, $0.9458, $1.35 and $1.84, respectively) by the conversion price of the Series A, B, C, D, E, F and G convertible preferred stock ($2.42, $3.11, $3.86, $2.24, $0.60, $0.9458, $1.35 and $1.84, respectively) at December 31, 2006. Accordingly, the conversion

ratios for the Series A, B, C, D, E, F and G convertible preferred stock to common stock are (1:1.0330, 1:1.1209, 1:1.1839, 1:1, 1:1, 1:1, and 1:1, respectively).

Conversion of each series of convertible preferred stock into common stock is automatic upon the earlier of: (i) the closing of an initial public offering, registered under the Securities Act of 1933, which results in aggregate proceeds equal to or exceeding $30.0 million, net of underwriting discounts, to the Company or (ii) at any time upon the affirmative election of the holders of at least a majority of the then-outstanding shares of Series A, B, C, D, E, F and G convertible preferred stock voting together as a single class.

Special Mandatory Conversion—If the Company's Board of Directors approves a subsequent financing and determines that the holders of the Company's convertible preferred stock are entitled to participate on a pro rata basis in such qualified financing (Qualified Financing), then each holder of the Company's convertible preferred stock shall have the right to participate in such Qualified Financing on a pro rata basis. If any holder of convertible preferred stock does not participate in such Qualified Financing up to its full pro rata share, then all or a portion of such holder's preferred stock shall be converted into fully paid and non-assessable shares of the Company's common stock upon the closing of such Qualified Financing, based upon the percentage of such holder's pro rata share that was not purchased by such holder in the Qualified Financing.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Convertible Preferred and Common Stock Warrant Liabilities

The Company had the following unexercised convertible preferred and common stock warrants (in thousands, except per share data):

Stock	Expiration Date(1)	Exercise Price perShare	Shares as of December 31, 2005	Shares as of December 31, 2006	Fair Value as of December 31, 2005	Fair Value as of December 31, 2006
Series A convertible preferred	Apr 2006 to Jul 2008	$10.00	197	135	$444	$445
Series B convertible preferred	Mar 2009	13.96	16	16	58	59
Series E convertible preferred	Dec 2011	2.40	292	292	654	1,568
Series F convertible preferred	Jun 2012	3.80	20	20	43	93
Series G convertible preferred	Nov 2010 to Aug 2011	5.40	298	828	739	3,212
Common stock	July 2013 to May 2016	8.96	35	36	3	32
Total			858	1,327	$1,941	$5,409

(1) All convertible preferred stock warrants will convert into warrants to purchase shares of common stock at the applicable conversion rate for the related convertible preferred stock immediately prior to the closing of this offering. In 2006, warrants to purchase 62,500 shares of Series A convertible preferred stock expired unexercised.

The fair value of these warrants was estimated at the date of grant using a probability weighted average of per-share values using the Black-Scholes and Lattice models.

Non-recourse Notes Receivable from Employee Stockholders

The Company had issued non-recourse notes receivables to non-executive officers to finance the purchase of 0.3 million shares of common stock of the Company. Principal and interest were due four years from the original issuance date or upon the occurrence of certain events. Because these employee notes were deemed to be non-recourse, the equity awards are subject to variable accounting. Accordingly, stock compensation expense of $0.0 million, $0.1 million and $0.2 million, calculated based on the change of intrinsic value, was recorded in 2004, 2005 and 2006, respectively.

12. 2000 Stock Option Plan

On December 6, 2000, the Company adopted the 2000 Stock Option Plan (2000 Plan), which allows the Company to grant incentive stock options or non-statutory stock options. Under the terms of the 2000 Plan, the exercise price of incentive stock options may not be less than 100% of the fair market value of the shares on the date of grant, and the exercise price of non-statutory stock options may not be less than 85% of the fair market value of the shares on the date of grant. The exercise price of incentive stock options and non-statutory stock options granted to an employee or a service provider who, at the time of grant, owns stock representing more than 10% of the total combined voting power of all classes of the stock of the Company may be no less than 110% of the fair market value of the common stock on the date of grant. The exercise price of non-statutory stock options granted to an executive officer of the Company may be no less than 100% of the fair market value of the common stock on the date of grant if such option is intended to qualify as performance-based compensation. Options granted to date generally vest over a four year period.

The maximum aggregate number of shares reserved for future issuance under the 2000 Plan is 9.9 million shares of common stock as of December 31, 2006. The shares may be authorized but unissued or reacquired common stock. The term of each option shall be the term stated in the option

agreement, provided that the term shall be no more than ten years from the date of grant. Any option granted is exercisable at the rate of at least 20% per year over five years from the date the option is granted.

Terms of the 2000 Plan permit option holders to exercise stock options before they are vested, subject to certain limitations. Common stock issued in connection with such exercises is subject to repurchase at the exercise price if vesting does not occur. Of the total common shares outstanding at December 31, 2005 and 2006, 0.8 million and 1.5 million shares, respectively, are subject to repurchase by the Company at the original exercise price. During 2005 and 2006, the Company repurchased and retired 3,750 and 12,156 unvested shares granted under the 2000 Plan, respectively.

A summary of activity under the 2000 Plan is as follows:

	Shares Available forGrant	Options Outstanding	Weighted-Average ExercisePrice Per Share	Aggregate IntrinsicValue
	(In thousands, except per share amounts)			
Balance at December 31, 2003	646	3,234	$1.65	
Additional options authorized	2,599	—	—	
Granted	(2,737)	2,737	$1.31	
Exercised	—	(559)	$1.62	
Canceled	222	(222)	$1.76	
Balance at December 31, 2004	730	5,190	$1.47	
Additional options authorized	2,500	—	—	
Granted	(2,767)	2,767	$1.16	
Exercised	—	(1,162)	$0.86	
Canceled	99	(99)	$1.82	
Balance at December 31, 2005	562	6,696	$1.44	
Additional options authorized	5,750	—	—	
Granted	(4,670)	4,670	$1.96	
Exercised	—	(3,066)	$1.43	$759
Canceled	428	(428)	$1.21	
Balance at December 31, 2006	2,070	7,872	$1.77	$1,927

Options outstanding that have vested and are expected to vest as of December 31, 2006 are as follows:

	Number ofshares	Weighted averageprice	Weighted averageremainingcontractual term	Aggregate intrinsic value(1)
	(In thousands)		(In years)	(In thousands)
Vested	2,466	$1.69	7.17	$842
Expected to vest	5,028	1.81	9.30	1,009
Total	7,494	$1.77	8.63	$1,851

(1) These amounts represent the difference between the exercise price and the fair market value of common stock for all in-the-money options outstanding on December 31, 2006.

Options outstanding that are expected to vest are net of estimated future option forfeitures in accordance with the provisions of SFAS No. 123(R).

Infinera Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information about options outstanding at December 31, 2006:

Options Outstanding				Exercisable Options(1)		

Exercise Price	Number of Shares	Weighted-AverageRemainingContractual Life	Weighted-Average ExercisePrice	Number of Shares	Weighted-AverageExercise Price
	(In thousands)	(In Years)		(In thousands)	
$0.76	570	8.12	$0.76	228	$0.76
$1.00	81	4.50	$1.00	81	$1.00
$1.32	1,345	8.94	$1.32	395	$1.32
$1.40	65	5.08	$1.40	52	$1.4
$1.84	1,159	5.99	$1.84	1,114	$1.84
$2.00	4,125	9.62	$2.00	274	$2.0
$2.24	527	7.55	$2.24	322	$2.24
	7,872	8.63	$1.77	2,466	$1.69

(1) All options under the 2000 Plan may be exercised prior to vesting but are subject to repurchase at the original issuance price in the event the optionees' employment is terminated.

13. Shares Reserved for Future Issuances

At December 31, 2006, common stock reserved for future issuance was as follows (in thousands):

2000 Plan:	
Outstanding stock options	7,872
Reserved for future option grants	2,070
Total common stock reserved for stock options	9,942
Warrants to purchase convertible preferred stock	1,297
Warrants to purchase common stock	36
Convertible preferred stock:	
Series A	3,812
Series B	2,368
Series C	1,580
Series D	6,920
Series E	21,590
Series F	2,723
Series G	20,435
Total convertible preferred stock	59,428
Total common stock reserved for future issuances	70,703

14. Income Taxes

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

	December 31,		
	2004	2005	2006
Domestic	$—	$7	$5
Foreign	—	5	67
Total	$—	$12	$72

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows (in thousands):

	December 31,	
	2005	2006

Deferred tax assets:		
Net operating losses	$61,683	$82,226
Research credits	7,901	8,070
Nondeductible	4,205	8,319
Capitalized software	565	1,979
Intangibles	19,771	27,635
Total deferred tax assets	94,125	128,229
Valuation allowance	(94,125)	(128,229)
Net deferred tax assets	$—	$—

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by $29.1 million, $23.5 million and $34.1 million for 2004, 2005 and 2006, respectively.

Since inception, the Company has incurred operating losses and, accordingly, have not recorded a provision for income taxes for any periods presented. As of December 31, 2006, the Company had net operating loss carry-forwards for federal income tax purposes of $204.8 million, which expire beginning in the year 2021 if not utilized. The Company also has state net operating loss carry-forwards of $192.8 million, which expire beginning in the year 2013. The Company has federal and California research and development credits of approximately $5.6 million and $3.7 million, respectively. The federal research credits will begin to expire in the year 2021, and the California research credits have no expiration date. $0.1 million of federal net operating losses relate to stock option deductions, for which a full valuation allowance has been recorded.

Utilization of the Company's net operating losses and credit carry-forwards may be subject to a substantial annual limitation due to the ownership change limitations under the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating losses and credit carry-forwards before the Company can utilize them.

15. Segment Information

SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information*," establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Company's chief executive officer. The Company's chief executive officer 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, and there are no segment managers who are held accountable for

operations, operating results and plans for levels or components below the consolidated unit level. 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 table sets forth revenue and long-lived assets by geographic region:

Revenue

	As of December 31,		
	2004	2005	2006
	(In thousands)		
United States	$—	$2,660	$50,407
Europe, Middle East and Africa	—	776	7,565
Asia Pacific and Japan	599	691	770
Total revenue	$599	$4,127	$58,742

In 2004, the Company had one customer that represented 100% of revenues. In 2005, the Company had five customers that each represented over 10% of the Company's revenue. In 2006, the Company had one customer that represented 60% of revenue and no other customer that represented more than 10% of revenue.

Property, plant and equipment, net

	As of December 31,		
	2004	2005	2006
	(In thousands)		

United States	$16,356	$14,155	$26,030
Europe, Middle East and Africa	—	—	3
Asia Pacific and Japan	290	379	632
Total property, plant and equipment, net	$16,646	$14,534	$26,665

16. Employee Benefit Plan

In July 2001, the Company's Board of Directors approved the adoption of a savings plan under Section 401(k) of the Internal Revenue Code. Expenses related to the Company's 401(k) plan were immaterial for 2004, 2005 and 2006.

17. Legal Matters

On May 9, 2006, the Company and Level 3 were sued by Cheetah Omni LLC, or Cheetah, for alleged infringement of patent No. 6,795,605, and a continuation thereof. On May 16, 2006, Cheetah filed an amended complaint, which requested an order to enjoin the sale of the Company's DTN System and recover all damages caused by the alleged infringement. The Company is contractually obligated to indemnify Level 3 for damages suffered by Level 3 to the extent its product is found to infringe, and it has assumed the defense of this matter. On July 12, 2006, the Company and Level 3

filed a response to Cheetah's amended complaint denying all infringement claims. On July 20, 2006, the Company and Level 3 filed an amended response. On November 28, 2006, Cheetah filed a second amended complaint and added patent No. 7,142,347 to the lawsuit. The Company believes the suit is without merit and intend to defend itself vigorously, but it is unable to predict the likelihood of an unfavorable outcome.

From time to time, the Company may be subject to other legal proceedings and claims in the ordinary course of its business.

18. Guarantees

Product Warranties

Upon delivery of products, the Company provides for the estimated cost to repair or replace products or the related components that may be returned under the hardware warranty. In general, hardware warranty periods range from two to five years. Hardware product warranties provide the purchaser with protection in the event that the product does not perform to product specifications. During the warranty period, the purchaser's sole and exclusive remedy in the event of such defect or failure to perform is expressly limited to the correction of the defect or failure by repair, refurbishment or replacement, at the Company's sole option and expense. The Company estimates the fair value of the Company's hardware warranty obligations based on the Company's historical experience of known product failure rates, use of materials to repair or replace defective products, and service delivery costs incurred in correcting product failures. In addition, from time to time, specific hardware warranty accruals may be made if unforeseen technical problems arise with specific products. Management periodically assesses the adequacy of the Company's recorded warranty liabilities and adjusts the amounts as necessary. Changes in product warranty liability in 2005 and 2006 are summarized below.

	For the Years Ended December 31,	
	2005	2006
	(In thousands)	
Balance at the beginning of the period	$—	$1,692
Charges to operations	2,079	4,166
Utilization	(407)	(2,090)
Change in estimate(1)	20	(1,051)
Balance at the end of the period	$1,692	$2,717

(1) Change in estimate represents overall improvement in average return rates and lower than expected cost of repair.

The Company's agreements with customers, as well as its reseller agreements, generally include certain provisions for indemnifying customers and resellers and their affiliated parties against liabilities if the Company's products infringe a third party's intellectual property rights. To date, the Company has not incurred any material costs as a result of such indemnification obligations and have not accrued any liabilities related to such obligations in the Company's consolidated financial statements.

Letters of Credit

The Company had $3.2 million of stand-by letters of credit outstanding as of December 31, 2006, of which $1.0 million related to property leases, $1.2 million related to a vendor credit line and $1.0 million related to a valued added tax license for Europe.

19. New Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" (FIN 48), an interpretation of SFAS 109, "*Accounting for Income Taxes,*" which clarifies the recognition and measurement of tax positions taken or expected to taken in a tax return. FIN 48 specifies that the evaluation of the tax position is a two-step process: (i) determining whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation process, and (ii) a tax position that meets the more-likely-than-not recognition threshold is measured to determine that amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefits that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority. FIN 48 is effective the first fiscal year that begins after December 15, 2006. The Company is currently assessing the impact of this interpretation on its consolidated results of operations and financial position.

20. Subsequent Events

On February 16, 2007, the Board of Directors approved a 1-for-4 reverse stock split of the Company's outstanding shares of common stock and convertible preferred stock, to be effected prior to the closing of the Company's initial public offering. All issued and outstanding common stock, convertible preferred stock and per share amounts contained in the financial statements have been retroactively adjusted to reflect this reverse stock split.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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Through and including , 2007 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

Shares

Infinera Corporation

Common Stock

Goldman, Sachs & Co.

Citigroup

JPMorgan

Lehman Brothers

Thomas Weisel Partners LLC

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution

The following table presents the costs and expenses, other than underwriting discounts and commissions, payable by us in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee and the NASD filing fees.

SEC Registration fee	$4,605
NASD filing fee	15,500
NASDAQ Global Market listing fee	150,000
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue sky fees and expenses	*
Custodian and transfer agent fees	*
Miscellaneous fees and expenses	*
Total	$ *

* To be filed by amendment.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law authorizes a corporation's board of directors to grant, and authorizes a court to award, indemnity to officers, directors and other corporate agents.

As permitted by Section 102(b)(7) of the Delaware General Corporation Law, the registrant's amended and restated certificate of incorporation includes provisions that eliminate the personal liability of its directors and officers for monetary damages for a breach of their fiduciary duty as directors and officers.

In addition, as permitted by Section 145 of the Delaware General Corporation Law, the amended and restated bylaws of the registrant provide that:

- The registrant shall indemnify its directors and officers for serving the registrant in those capacities or for serving other business enterprises at the registrant's request, to the fullest extent permitted by Delaware law. Delaware law provides that a corporation may indemnify such person if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the registrant and, with respect to any criminal proceeding, had no reasonable cause to believe such person's conduct was unlawful.
- The registrant may, in its discretion, indemnify employees and agents in those circumstances in which indemnification is not required by law.
- The registrant is required to advance expenses, as incurred, to its directors and officers in connection with defending a proceeding, except that such director or officer shall undertake to repay such advances if it is ultimately determined that such person is not entitled to indemnification.
- The registrant will not be obligated pursuant to the amended and restated bylaws to indemnify a person with respect to proceedings initiated by that person, except with respect to proceedings authorized by the registrant's board of directors.
- The rights conferred in the amended and restated bylaws are not exclusive, and the registrant is authorized to enter into indemnification agreements with its directors, officers, employees and agents and to obtain insurance to indemnify such persons.
- The registrant may not retroactively amend the bylaw provisions to reduce its indemnification obligations to directors, officers, employees and agents.

The registrant's policy is to enter into separate indemnification agreements with each of its directors and officers that provide the maximum indemnity allowed to directors and executive officers by Section 145 of the Delaware General Corporation Law and also provides for certain additional procedural protections. The registrant also maintains insurance to insure directors and officers against certain liabilities.

These indemnification provisions and the indemnification agreements entered into between the registrant and its officers and directors may be sufficiently broad to permit indemnification of the registrant's officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

The underwriting agreement filed as Exhibit 1.1 to this registration statement provides for indemnification by the underwriters of the registrant and its officers and directors for certain liabilities arising under the Securities Act and otherwise.

Item 15. Recent Sales of Unregistered Securities

From January 1, 2004 to December 31, 2006, we issued the following securities in transactions that were not registered under the Securities Act:

1. We granted stock options to purchase 10,207,057 shares of our common stock at exercise prices ranging from $0.76 to $2.24 per share to employees, consultants, directors and other service providers under our 2000 Stock Plan. We did not grant any stock options outside of the 2000 Stock Plan.

2. We issued and sold an aggregate of 4,786,849 shares of our common stock to employees, consultants and other service providers for aggregate consideration of $6,276,978 upon exercises of stock options granted under our 2000 Stock Plan. We did not issue or sell any shares of our common stock to employees, consultants or other service providers outside of the 2000 Stock Plan.

3. In September, October and November 2004, we issued and sold an aggregate of 21,590,036 shares of our Series E convertible preferred stock to 107 institutional and individual investors for an aggregate purchase price of $51,800,000.

4. On June 10 and June 20, 2005, we issued and sold an aggregate of 2,722,563 shares of our Series F convertible preferred stock to an institutional and an individual investor for an aggregate purchase price of $10,300,000.

5. Between October 2005 and October 2006, we issued and sold an aggregate of 20,434,833 shares of our Series G convertible preferred stock to 92 institutional and individual investors for an aggregate purchase price of $110,480,000.

6. In June 2004, we issued a warrant to Maple Commercial Financial Corp. to purchase 31,250 shares of common stock in connection with a credit facility extended to us by that lender.

7. In July 2004, we issued a warrant to Ben Franklin Technology Partners Northeast Pennsylvania to purchase 1,875 shares of common stock in connection with a credit facility extended to us by that lender.

8. In December 2004, we issued warrants to purchase 291,666 shares of Series E convertible preferred stock to debt lenders in connection with their extensions of credit to us.

9. In June 2005, we issued a warrant to purchase 19,824 shares of Series F convertible preferred stock to a debt lender in connection with a credit facility extended to us by that lender.

10. Between November 2005 and May 2006, we issued warrants to purchase 600,784 shares of Series G convertible preferred stock to an institutional investor in connection with its services performed on our behalf.

11. In March 2006, we issued a warrant to purchase 37,037 shares of Series G convertible preferred stock to one of our debt lenders in connection with an additional extension of credit to us.

12. In July 2006, we issued a warrant to an institutional investor to purchase 92,592 shares of Series G convertible preferred stock as partial consideration for a strategic transaction with that institutional investor.

13. In August 2006, we issued a warrant to an institutional investor to purchase 125,000 shares of Series G convertible preferred stock as consideration for a strategic transaction with that institutional investor.

14. In August 2006, we issued a warrant to purchase 125,000 shares of Series G convertible preferred Stock to Nomadics, Inc. in connection with the acquisition of certain assets of Little Optics, Inc. from that company.

The sale of securities described in Items 15(1) and (2) were deemed to be exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act or Rule 701 promulgated under the Securities Act. The sale of securities described in Items 15(3)-(14) were deemed to be exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving any public offering.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

Exhibit No.	Description
1.1*	Form of Underwriting Agreement.
3.1	Amended and Restated Certificate of Incorporation of Infinera in effect before the closing of this offering.
3.2	Form of Amended and Restated Certificate of Incorporation of Infinera to be effective upon the closing of this offering.
3.3	Bylaws of Infinera, as amended, in effect before the closing of this offering.
3.4	Form of Amended and Restated Bylaws of Infinera to be effective upon the closing of this offering.
4.1*	Form of Common Stock certificate of Infinera.
5.1*	Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation.
10.1+	Form of Indemnification Agreement between Infinera and each of its directors and executive officers.
10.2+	2000 Stock Plan, as amended, and forms of stock option agreements thereunder.
10.3+	2007 Equity Incentive Plan and forms of agreements thereunder.
10.4+	2007 Employee Stock Purchase Plan.

Exhibit No.	Description
10.5+*	2007 Executive Bonus Plan.
10.6+*	Form of Change of Control Severance Agreement for Infinera's chief executive officer, chief financial officer and chief operating officer.
10.7+*	Form of Change of Control Severance Agreement for Infinera's other officers.
10.8+	Offer Letter Agreement by and between Infinera and Duston M. Williams dated May 1, 2006.
10.9+	Agreement and Release by and between Infinera and William R. Zerella dated June 29, 2006.
10.10	Amended and Restated Investors' Rights Agreement, dated October 7, 2005, by and among Infinera and certain stockholders and the Joinder Agreements thereto dated November 17, 2005, December 29, 2005, January 31, 2006, March 31, 2006, May 9, 2006 and June 30, 2006.
10.11*	Master Acquisition Agreement by and between BTE Equipment, LLC and Infinera dated April 11, 2005, as amended on May 19, 2005, August 8, 2005 and November 15, 2006.
10.12	Lease Agreement between Legacy Partners I Sunnyvale, LLC and Infinera, dated December 20, 2005, as amended on February 2, 2006 for Bordeaux Drive, Sunnyvale, CA premises.
10.13	Lease Agreement between SCM Properties, LLC and Infinera, dated July 17, 2006, as amended on November 2, 2006 for Java Drive, Sunnyvale, CA premises.
10.14*	Loan and Security Agreement (Growth Capital Loan) by and among Infinera, Silicon Valley Bank and Gold Hill Venture Lending 03, L.P. dated December 29, 2004, as amended on March 25, 2005, June 21, 2005, November 9, 2005, August 22, 2006 and October 6, 2006.
10.15*	Intellectual Property Security Agreement by and among Infinera, Silicon Valley Bank and Gold Hill Venture Lending 03, L.P. dated December 29, 2004.
10.16*	Loan and Security Agreement (Operating Line of Credit) by and between Infinera and Silicon Valley Bank dated December 29, 2004, as amended on June 21, 2005, November 9, 2005, June 21, 2006, August 22, 2006 and October 6, 2006.
10.17*	Loan and Security Agreement (Revolving Line) by and between Infinera and Silicon Valley Bank dated December 29, 2004, as amended on May 6, 2005, June 21, 2005, November 9, 2005, June 21, 2006, August 22, 2006 and October 6, 2006.
10.18*	Intellectual Property Security Agreement (Revolving Line and Operating Line of Credit) by and between Infinera and Silicon Valley Bank dated December 29, 2004.
10.19*	Amended and Restated Loan and Security Agreement by and between Infinera and United Commercial Bank dated October 31, 2006.
10.20*	Intellectual Property Security Agreement by and between Infinera and United Commercial Bank dated June 21, 2005.
21.1	Subsidiaries of Infinera.
23.1	Consent of Ernst & Young, LLP, Independent Registered Public Accounting Firm.
23.2	Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (contained in Exhibit 5.1).
24.1	Power of Attorney (contained in the signature page to this registration statement).

\+ Indicates management contract or compensatory plan or arrangement.

* To be filed by amendment.

(b) Financial Statement Schedules

All schedules have been omitted because the information required to be presented in them is not applicable or is shown in the financial statements or related notes.

Item 17. Undertakings

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

1. For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

2. For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sunnyvale, State of California, on this 26th day of February, 2007.

INFINERA CORPORATION	
By:	/s/ Jagdeep Singh
	Jagdeep Singh

	President and Chief Executive Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Jagdeep Singh, Duston M. Williams and Michael O. McCarthy III, and each of them, his true and lawful attorneys in fact and agents with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post effective amendments) to this registration statement, and to sign any registration statement for the same offering covered by this registration statement that is to be effective on filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, as amended, and all post effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, with the SEC, granting unto said attorneys in fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys in fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

	Title	Date
/s/ Jagdeep Singh **Jagdeep Singh**	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 26, 2007
/s/ Duston M. Williams **Duston M. Williams**	Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2007
/s/ Alexandre Balkanski **Alexandre Balkanski**	Director	February 26, 2007
/s/ Kenneth A. Goldman **Kenneth A. Goldman**	Director	February 26, 2007
/s/ Reed E. Hundt **Reed E. Hundt**	Director	February 26, 2007

	Title	Date
/s/ Dan Maydan **Dan Maydan**	Director	February 26, 2007
/s/ Hugh C. Martin **Hugh C. Martin**	Director	February 26, 2007
/s/ Carl Redfield **Carl Redfield**	Director	February 26, 2007
/s/ Pradeep S. Sindhu **Pradeep S. Sindhu**	Director	February 26, 2007

Index to Exhibits

Exhibit No.	Description
1.1*	Form of Underwriting Agreement.
3.1	Amended and Restated Certificate of Incorporation of Infinera in effect before the closing of this offering.
3.2	Form of Amended and Restated Certificate of Incorporation of Infinera to be effective upon the closing of this offering.
3.3	Bylaws of Infinera, as amended, in effect before the closing of this offering.
3.4	Form of Amended and Restated Bylaws of Infinera to be effective upon the closing of this offering.
4.1*	Form of Common Stock certificate of Infinera.
5.1*	Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation.
10.1+	Form of Indemnification Agreement between Infinera and each of its directors and executive officers.
10.2 +	2000 Stock Plan, as amended, and forms of stock option agreements thereunder.
10.3 +	2007 Equity Incentive Plan and forms of agreements thereunder.

10.4 +	2007 Employee Stock Purchase Plan.
10.5 +*	2007 Executive Bonus Plan.
10.6 +*	Form of Change of Control Severance Agreement for Infinera's chief executive officer, chief financial officer and chief operating officer.
10.7 +*	Form of Change of Control Severance Agreement for Infinera's other officers.
10.8 +	Offer Letter Agreement by and between Infinera and Duston M. Williams dated May 1, 2006.
10.9+	Agreement and Release by and between Infinera and William R. Zerella dated June 29, 2006.
10.10	Amended and Restated Investors' Rights Agreement, dated October 7, 2005, by and among Infinera and certain stockholders and the Joinder Agreements thereto dated November 17, 2005, December 29, 2005, January 31, 2006, March 31, 2006, May 9, 2006 and June 30, 2006.
10.11*	Master Acquisition Agreement by and between BTE Equipment, LLC and Infinera dated April 11, 2005, as amended on May 19, 2005, August 8, 2005 and November 15, 2006.
10.12	Lease Agreement between Legacy Partners I Sunnyvale, LLC and Infinera, dated December 20, 2005, as amended on February 2, 2006 for Bordeaux Drive, Sunnyvale, CA premises.
10.13	Lease Agreement between SCM Properties, LLC and Infinera, dated July 17, 2006, as amended on November 2, 2006 for Java Drive, Sunnyvale, CA premises.
10.14*	Loan and Security Agreement (Growth Capital Loan) by and among Infinera, Silicon Valley Bank and Gold Hill Venture Lending 03, L.P. dated December 29, 2004, as amended on March 25, 2005, June 21, 2005, November 9, 2005, August 22, 2006 and October 6, 2006.
10.15*	Intellectual Property Security Agreement by and among Infinera, Silicon Valley Bank and Gold Hill Venture Lending 03, L.P. dated December 29, 2004.
10.16*	Loan and Security Agreement (Operating Line of Credit) by and between Infinera and Silicon Valley Bank dated December 29, 2004, as amended on June 21, 2005, November 9, 2005, June 21, 2006, August 22, 2006 and October 6, 2006.

Exhibit No.	Description
10.17*	Loan and Security Agreement (Revolving Line) by and between Infinera and Silicon Valley Bank dated December 29, 2004, as amended on May 6, 2005, June 21, 2005, November 9, 2005, June 21, 2006, August 22, 2006 and October 6, 2006.
10.18*	Intellectual Property Security Agreement (Revolving Line and Operating Line of Credit) by and between Infinera and Silicon Valley Bank dated December 29, 2004.
10.19*	Amended and Restated Loan and Security Agreement by and between Infinera and United Commercial Bank dated October 31, 2006.
10.20*	Intellectual Property Security Agreement by and between Infinera and United Commercial Bank dated June 21, 2005.
21.1	Subsidiaries of Infinera.
23.1	Consent of Ernst & Young, LLP, Independent Registered Public Accounting Firm.
23.2	Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (contained in Exhibit 5.1).
24.1	Power of Attorney (contained in the signature page to this registration statement).

+ Indicates management contract or compensatory plan or arrangement.

* To be filed by amendment.