FINISAR CORP
Form 10-Q
March 06, 2014

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

Form 10-Q
(Mark One)

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

For the Quarterly Period Ended January 26, 2014
or

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

For the transition period from to

Commission file number 000-27999

Finisar Corporation
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-3038428 (I.R.S. Employer Identification No.)
1389 Moffett Park Drive Sunnyvale, California (Address of principal executive offices)	94089 (Zip Code)

Registrant's telephone number, including area code:
408-548-1000

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

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

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

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

At February 28, 2014, there were 96,767,546 shares of the registrant's common stock, $.001 par value, issued and outstanding.

Table of Contents

INDEX TO QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended January 26, 2014

FORWARD LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We use words like “anticipates,” “believes,” “plans,” “expects,” “future,” “intends” and similar expressions to identify th forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events; however, our business and operations are subject to a variety of risks and uncertainties, and, consequently, actual results may materially differ from those projected by any forward-looking statements. As a result, you should not place undue reliance on these forward-looking statements since they may not occur.

Certain factors that could cause actual results to differ from those projected are discussed in “Part II. Other Information, Item 1A. Risk Factors.” We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events.

Table of Contents

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
FINISAR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	January 26, 2014 (Unaudited)	April 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$374,902	$289,076
Short-term investments	179,847	—
Accounts receivable, net of allowance for doubtful accounts of $868 at January 26, 2014 and $958 at April 28, 2013	195,442	149,612
Accounts receivable, other	24,274	16,538
Inventories	247,126	200,670
Deferred tax assets	27	1,224
Prepaid expenses	22,737	17,178
Total current assets	1,044,355	674,298
Property, equipment and improvements, net	247,394	201,442
Purchased intangible assets, net	10,523	14,893
Other intangible assets, net	11,453	15,564
Goodwill	90,986	90,986
Minority investments	2,041	884
Other assets	21,034	9,780
Total assets	$1,427,786	$1,007,847
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$96,723	$77,630
Accrued compensation	46,402	31,492
Other accrued liabilities	26,370	23,533
Deferred revenue	15,620	9,182
Short-term debt	4,230	—
Current portion of convertible debt	40,015	—
Total current liabilities	229,360	141,837
Long-term liabilities:		
Convertible debt, net of current portion	210,029	40,015
Other non-current liabilities	11,680	13,480
Total liabilities	451,069	195,332
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding at January 26, 2014 and April 28, 2013	—	—
Common stock, $0.001 par value, 750,000,000 shares authorized, 96,721,272 shares and 93,778,620 shares issued and outstanding at January 26, 2014 and April 28, 2013, respectively	97	94
Additional paid-in capital	2,440,849	2,350,146
Accumulated other comprehensive income	18,980	28,525

Accumulated deficit	(1,488,923)	(1,571,960)
Finisar Corporation stockholders' equity	971,003	806,805
Non-controlling interest	5,714	5,710
Total stockholders' equity	976,717	812,515
Total liabilities and stockholders' equity	$1,427,786	$1,007,847

See accompanying notes.

Table of Contents

FINISAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	January 26, 2014	January 27, 2013	January 26, 2014	January 27, 2013
Revenues	$294,018	$238,351	$850,808	$690,918
Cost of revenues	187,368	168,377	546,638	496,001
Amortization of acquired developed technology	961	1,930	3,735	5,202
Gross profit	105,689	68,044	300,435	189,715
Operating expenses:				
Research and development	46,734	39,725	135,223	117,514
Sales and marketing	10,911	10,398	35,038	31,291
General and administrative	14,353	12,797	38,081	39,058
Amortization of purchased intangibles	595	1,035	1,785	2,906
Impairment of long-lived assets	—	4,886	—	4,886
Total operating expenses	72,593	68,841	210,127	195,655
Income (loss) from operations	33,096	(797)	90,308	(5,940)
Interest income	335	186	834	544
Interest expense	(1,663)	(648)	(2,582)	(2,045)
Other income (expense), net	(1,873)	(275)	(890)	(295)
Income (loss) before income taxes and non-controlling interest	29,895	(1,534)	87,670	(7,736)
Provision for income taxes	2,827	2,153	4,816	1,733
Consolidated net income (loss)	27,068	(3,687)	82,854	(9,469)
Adjust for net (income) loss attributable to non-controlling interest	(7)	280	183	136
Net income (loss) attributable to Finisar Corporation	$27,061	$(3,407)	$83,037	$(9,333)
Net income (loss) per share attributable to Finisar Corporation common stockholders:				
Basic	$0.28	$(0.04)	$0.87	$(0.10)
Diluted	$0.26	$(0.04)	$0.82	$(0.10)
Shares used in computing net income (loss) per share:				
Basic	96,394	93,097	95,649	92,624
Diluted	104,361	93,097	103,491	92,624

See accompanying notes.

Table of Contents

FINISAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands)

	Three Months Ended		Nine Months Ended	
	January 26, 2014	January 27, 2013	January 26, 2014	January 27, 2013
Consolidated net income (loss)	$27,068	$(3,687)	$82,854	$(9,469)
Other comprehensive income (loss), net of tax:				
Change in cumulative foreign currency translation adjustment	(8,336)	558	(9,545)	(1,816)
Total other comprehensive income (loss), net of tax	(8,336)	558	(9,545)	(1,816)
Total consolidated comprehensive income (loss)	18,732	(3,129)	73,309	(11,285)
Adjust for comprehensive (income) loss attributable to non-controlling interest, net of tax	(7)	280	183	136
Comprehensive income (loss) attributable to Finisar Corporation	$18,725	$(2,849)	$73,492	$(11,149)

See accompanying notes.

FINISAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended	
	January 26, 2014	January 27, 2013
Operating activities		
Consolidated net income (loss)	$82,854	$(9,469)
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Depreciation	44,551	39,112
Amortization	5,878	8,667
Stock-based compensation expense	29,437	26,048
(Gain) loss on sale or retirement of assets and asset disposal group	(128)	25
Impairment of long-lived assets	—	4,886
Equity in earnings of equity method investment	(509)	—
Amortization of discount on 0.50% Convertible Senior Notes due 2033	927	—
Changes in operating assets and liabilities:		
Accounts receivable	(47,905)	15,561
Inventories	(55,544)	18,465
Other assets	(16,727)	4,259
Deferred income taxes	1,197	1,249
Accounts payable	20,214	(7,845)
Accrued compensation	13,137	(1,732)
Other accrued liabilities	2,573	2,935
Deferred revenue	4,959	(689)
Net cash provided by operating activities	84,914	101,472
Investing activities		
Additions to property, equipment and improvements	(93,028)	(65,281)
Sale of minority investment	—	10,495
Net proceeds from sale of property and equipment and asset disposal group	457	194
Acquisitions, net of cash acquired	—	(20,580)
Purchases of short-term investments	(179,847)	—
Purchase of intangible assets	—	(201)
Net cash used in investing activities	(272,418)	(75,373)
Financing activities		
Repayments of debt	—	(3,150)
Proceeds from issuance of 0.50% Convertible Senior Notes due 2033, net of issuance costs	255,000	—
Proceeds from a bank loan	4,230	—
Proceeds from the issuance of shares under equity plans and employee stock purchase plan	14,100	7,961
Net cash provided by financing activities	273,330	4,811
Net increase in cash and cash equivalents	85,826	30,910
Cash and cash equivalents at beginning of period	289,076	234,544
Cash and cash equivalents at end of period	$374,902	$265,454
Supplemental disclosure of cash flow information		
Cash paid for interest	$1,067	$1,011
Cash paid for taxes	$3,276	$1,733

See accompanying notes.

Table of Contents

FINISAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation
The accompanying unaudited condensed consolidated financial statements as of January 26, 2014 and for the three and nine month periods ended January 26, 2014 and January 27, 2013 have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”), and include the accounts of Finisar Corporation and its controlled subsidiaries (collectively, “Finisar” or the “Company”). Non-controlling interest represents the minority shareholders' proportionate share of the net assets and results of operations of the Company's majority-owned subsidiary. Intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP and pursuant to the rules and regulations of the SEC have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company's financial position as of January 26, 2014, its operating results for the three and nine month periods ended January 26, 2014 and January 27, 2013, and its cash flows for the nine month periods ended January 26, 2014 and January 27, 2013. Operating results for the three and nine month periods ended January 26, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending April 27, 2014. The condensed consolidated balance sheet as of April 28, 2013 has been derived from the audited consolidated financial statements as of that date but does not include all the footnotes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended April 28, 2013.

Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Segments
The Company has one reportable segment consisting of optical subsystems and components.

2. Summary of Significant Accounting Policies
For a description of significant accounting policies, see Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in the Company's annual report on Form 10-K for the fiscal year ended April 28, 2013. There have been no material changes to the Company's significant accounting policies since the filing of the annual report on Form 10-K.

Pending Adoption of New Accounting Standards
From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standards setting bodies that are adopted by the Company as of the specified effective date. The Company believes the impact of recently issued standards that are not yet effective will not have a material impact on its consolidated financial position, results of operations and cash flows upon adoption.

3. Acquisition of Red-C Optical Networks, Inc.
During the first quarter of fiscal 2013, the Company completed the acquisition of Red-C Optical Networks, Inc., ("Red-C"), a Delaware corporation, with subsidiary operations in Tel Aviv, Israel, engaged in research, development

and marketing of optical amplifiers and subsystems for the wavelength division multiplexing, or WDM, sector of the optical communication market. For additional information regarding this acquisition, see Note 4, Acquisitions, to the consolidated financial statements included in the Company's annual report on Form 10-K for the fiscal year ended April 28, 2013.

Table of Contents

4. Net Income (Loss) per Share

Basic net income (loss) per share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per share has been computed using the weighted-average number of shares of common stock and dilutive potential common shares from stock options and restricted stock units (under the treasury stock method), 5.0% Convertible Senior Notes due 2029 (on an as-if-converted basis), and 0.50% Convertible Senior Notes due 2033 (under the treasury stock method) outstanding during the period.

The following table presents the calculation of basic and diluted net income (loss) per share:

	Three Months Ended		Nine Months Ended	
(in thousands, except per share amounts)	January 26, 2014	January 27, 2013	January 26, 2014	January 27, 2013
Numerator:				
Net income (loss) attributable to Finisar Corporation	$27,061	$(3,407)	$83,037	$(9,333)
Numerator for basic net income (loss) per share	27,061	(3,407)	83,037	(9,333)
Effect of dilutive securities:				
Interest expense on 5.0% Convertible Senior Notes due 2029	539	—	1,617	—
Numerator for diluted net income (loss) per share	$27,600	$(3,407)	$84,654	$(9,333)
Denominator:				
Denominator for basic net income (loss) per share - weighted average shares	96,394	93,097	95,649	92,624
Effect of dilutive securities:				
Stock options and restricted stock units	4,219	—	4,094	—
5.0% Convertible Senior Notes due 2029	3,748	—	3,748	—
Dilutive potential common shares	7,967	—	7,842	—
Denominator for diluted net income (loss) per share	104,361	93,097	103,491	92,624
Net income (loss) per share attributable to Finisar Corporation common stockholders:				
Basic	$0.28	$(0.04)	$0.87	$(0.10)
Diluted	$0.26	$(0.04)	$0.82	$(0.10)

The following table presents common shares related to potentially dilutive securities excluded from the calculation of diluted net income (loss) per share as their effect would have been anti-dilutive:

	Three Months Ended		Nine Months Ended	
(in thousands)	January 26, 2014	January 27, 2013	January 26, 2014	January 27, 2013
Stock options and restricted stock units	664	4,215	1,073	4,597
Conversion of 5.0% Convertible Senior Notes due 2029	—	3,748	—	3,748
Conversion of 0.50% Convertible Senior Notes due 2033 (1)	—	—	—	—
	664	7,963	1,073	8,345

____

(1) 0.50% Convertible Senior Notes due 2033 were excluded from the calculation of diluted earnings per share under the treasury stock method since the conversion price exceeded the average market price for the Company's common stock.

5. Inventories

Inventories consist of the following as of January 26, 2014 and April 28, 2013:

(in thousands)	January 26, 2014	April 28, 2013
Raw materials	$47,624	$44,705
Work-in-process	118,993	95,937

Finished goods	80,509	60,028
Total inventories	$247,126	$200,670

Table of Contents

6. Property, Equipment and Improvements

Property, equipment and improvements consist of the following as of January 26, 2014 and April 28, 2013:

(in thousands)	January 26, 2014	April 28, 2013
Land and buildings	$46,134	$29,834
Computer equipment	51,328	54,868
Office equipment, furniture and fixtures	4,420	5,373
Machinery and equipment	399,873	352,032
Leasehold property and improvements	35,088	32,665
Total	536,843	474,772
Accumulated depreciation and amortization	(289,449)	(273,330)
Property, equipment and improvements (net)	$247,394	$201,442

7. Intangible Assets

The following table reflects intangible assets subject to amortization as of January 26, 2014 and April 28, 2013:

	January 26, 2014		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	$101,044	$(90,521)	$10,523
Purchased trade name	1,172	(1,172)	—
Purchased customer relationships	26,944	(18,002)	8,942
Purchased internal use software, backlog and in-process research and development	3,396	(2,164)	1,232
Purchased patents	1,872	(593)	1,279
Total	$134,428	$(112,452)	$21,976

	April 28, 2013		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	$101,044	$(86,786)	$14,258
Purchased trade name	2,072	(2,072)	—
Purchased customer relationships	31,602	(21,120)	10,482
Purchased internal use software, backlog and in-process research and development	3,396	(1,920)	1,476
Purchased patents	1,872	(429)	1,443
Total	$139,986	$(112,327)	$27,659

Estimated remaining amortization expense for the next five fiscal years and thereafter is as follows (in thousands):

Year	Amount
2014 (remainder of year)	$1,610
2015	6,356
2016	6,092
2017	4,065
2018	2,149
2019 and beyond	1,704
Total	$21,976

Table of Contents

8. Debt

0.50% Convertible Senior Notes Due 2033
In December 2013, the Company issued and sold $258.8 million in aggregate principal amount of 0.50% Convertible Senior Notes due 2033 (the "2033 Notes") at par. The terms of the notes are governed by an indenture by and between the Company and Wells Fargo Bank, National Association, as Trustee. The notes will mature on December 15, 2033, unless earlier repurchased, redeemed or converted. The notes are senior unsecured and unsubordinated obligations of the Company, and are effectively subordinated to the Company's secured indebtedness and the indebtedness and other liabilities of the Company's subsidiaries. The notes bear interest at a rate of 0.5% per year, payable semi-annually in arrears on June 15 and December 15 each year.

Holders of the notes may convert their notes at their option prior to the close of business on the business day immediately preceding June 15, 2033 only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on January 26, 2014 (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period ("measurement period"), in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after June 15, 2033 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of whether any of the foregoing circumstances have occurred. The conversion rate will initially equal 33.1301 shares of common stock per $1,000 principal amount of notes (which is equivalent to an initial conversion price of approximately $30.18 per share of common stock), subject to adjustment. Upon conversion of a note, the Company will pay or deliver, as the case may be, either cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election, as provided in the indenture. If holders elect to convert their notes in connection with a "fundamental change" (as defined in the indenture) that occurs on or before December 22, 2018, the Company will, to the extent provided in the indenture, increase the conversion rate applicable to such notes ("make-whole feature").

Holders will have the option to require the Company to redeem for cash any notes held by them in the event of a fundamental change at a purchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest to, but excluding, the redemption date. Holders also have the option to require the Company to redeem for cash any notes held by them on December 15, 2018, December 15, 2023 and December 15, 2028 at a redemption price equal to 100% of the principal amount of the notes plus accrued and unpaid interest to, but excluding, the redemption date. The Company may redeem the notes in whole or in part at any time on or after December 22, 2018 at 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date.

The Company considered the features embedded in the notes, that is, the conversion feature, the holders' put feature, the Company's call feature, and the make-whole feature, and concluded that they are not required to be bifurcated and accounted for separately from the host debt instrument.

Because of its option to settle conversion of the notes in cash, the Company separated the liability and equity components of the notes. The carrying amount of the liability component at issuance date of $209.1 million was calculated by estimating the fair value of similar liabilities without a conversion feature. The residual principal amount of the notes of $49.6 million was allocated to the equity component. The resulting debt discount is amortized as interest expense. As of January 26, 2014, the remaining debt discount amortization period was 58 months.

The notes consisted of the following:

(in thousands)	As of January 26, 2014
Liability component:	
Principal	$258,750
Unamortized debt discount	(48,721)
Net carrying amount of the liability component	$210,029
Carrying amount of the equity component	$49,648

11

Table of Contents

The Company incurred approximately $3.8 million in transaction costs in connection with the issuance of the notes. These costs were allocated to the liability and equity components in proportion to the allocation of proceeds. Transaction costs of $3.1 million, allocated to the liability component, were recognized as a non-current asset and are amortized. Transaction costs of $725,000, allocated to the equity component, were recognized as a reduction of additional paid-in capital.

The following table sets forth interest expense information related to the notes:

(in thousands, except percentages)	Three and Nine Months Ended January 26, 2014	
Contractual interest expense	$135	
Amortization of the debt discount	927	
Amortization of issuance costs	24	
Total interest cost	$1,086	
Effective interest rate on the liability component	4.87	%

The Company applies the treasury stock method to determine the potential dilutive effect of the 2033 Notes on net income per share as a result of the Company's intent and stated policy to settle the principal amount of the Notes in cash.

Korean Bank Loan

During the second quarter of fiscal 2014, the Company's Korean subsidiary entered into a loan agreement with a Korean bank. Under this agreement, the subsidiary borrowed a total of $4.2 million at an interest rate of 4.17% per annum. The interest is payable monthly and the principal is payable in September 2014. The loan is secured by the subsidiary's fixed assets.

5.0% Convertible Senior Notes Due 2029

The terms of the Company's 5.0% Convertible Senior Notes due 2029 (the "2029 Notes") include a provision that allows the holders to require the Company to redeem, for cash, any of their notes on October 15, 2014 at a redemption price equal to 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest up to, but excluding, the redemption date. Accordingly, all $40.0 million of the 2029 Notes principal amount outstanding as of January 26, 2014 was classified as a current liability as of that date.

9. Investments

Fixed Income Securities

The Company's portfolio of fixed income securities consists of commercial paper notes and term bank certificates of deposit. All of the Company's investments in fixed income securities have original maturity (maturity at the purchase date) of less than 12 months. Investments with original maturities of three months or less are classified as cash equivalents. All of the Company's investments in fixed income securities are classified as held-to-maturity since the Company has the positive intent and ability to hold these investments until maturity. These investments are carried at amortized cost.

The Company's investments in fixed income securities as of January 26, 2014 and April 28, 2013 were as follows:

	January 26, 2014				April 28, 2013			
		Gross Unrealized				Gross Unrealized		
(in thousands)	Amortized Cost	Gains	Losses	Fair Value	Amortized Cost	Gains	Losses	Fair Value
Commercial paper	$119,835	$—	$—	$119,835	$—	$—	$—	$—

Certificates of deposit	120,000	—	—	120,000	—	—	—	—
Total	$239,835	$—	$—	$239,835	$—	$—	$—	$—
Reported as:								
Cash equivalents	$59,988	$—	$—	$59,988	$—	$—	$—	$—
Short-term investments	179,847	—	—	179,847	—	—	—	—
Total	$239,835	$—	$—	$239,835	$—	$—	$—	$—

12

Table of Contents

The Company monitors its investment portfolio for impairment on a periodic basis. In order to determine whether a decline in fair value is other-than-temporary, the Company evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value; the Company's financial condition and business outlook, including key operational and cash flow metrics, current market conditions and future trends in its industry; the Company's relative competitive position within the industry; and the Company's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. A decline in the fair value of the security below amortized cost that is deemed other-than-temporary is charged to earnings, resulting in the establishment of a new cost basis for the affected securities. During the three and nine month periods ended January 26, 2014 and January 27, 2013 there were no realized gains or losses, and the Company did not recognize any other-than-temporary impairments.

Minority Investments

Included in minority investments at both January 26, 2014 and April 28, 2013 is $884,000 representing the carrying value of the Company's minority investment in one privately held company accounted for under the cost method. Additionally, included in minority investments is $1,157,000 and $0 at January 26, 2014 and April 28, 2013, respectively, representing the carrying value of the Company's minority investment in one privately held company accounted for under the equity method. At January 26, 2014, the Company had a 19.9% ownership interest in this company. For the three and nine month periods ended January 26, 2014, the Company recorded income of $200,000 and $509,000, respectively, representing its share of the net income of this minority investee, which was included in other income (expense), net in the accompanying condensed consolidated statements of operations.

10. Warranty

The Company generally offers a one-year limited warranty for its products. The specific terms and conditions of these warranties vary depending upon the product sold. The Company estimates the costs that may be incurred under its basic limited warranty and records a liability for the amount of such costs at the time revenue is recognized. Factors that affect the Company's warranty liability include the historical and anticipated rates of warranty claims and cost to repair. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes in the Company's warranty liability during the following period were as follows:

(in thousands)	Nine Months Ended January 26, 2014
Beginning balance at April 28, 2013	$4,155
Additions during the period based on product sold	4,618
Change in estimate	(1,699)
Settlements and expirations	(1,875)
Ending balance at January 26, 2014	$5,199

11. Fair Value of Financial Instruments

The Company's financial instruments measured at fair value on a recurring basis as of January 26, 2014 and April 28, 2013 were as follows:

	January 26, 2014					April 28, 2013				
	Carrying	Fair Value				Carrying	Fair Value			
(in thousands)	Amount	Level 1	Level 2	Level 3	Total	Amount	Level 1	Level 2	Level 3	Total
Money market funds	$15,324	$15,324	$—	$—	$15,324	$—	$—	$—	$—	$—
Commercial paper	119,835	—	119,835	—	119,835	—	—	—	—	—
	120,000	—	120,000	—	120,000	—	—	—	—	—

Certificates of deposit										
Total	$255,159	$15,324	$239,835	$—	$255,159	$—	$—	$—	$—	$—

The Company's Level 2 financial instruments in the table above are valued using quoted market prices for similar instruments or non-binding market prices that are corroborated by observable market data.

Table of Contents

The Company has not estimated the fair value of its minority investments in two privately held companies as it is not practicable to estimate the fair value of these investments because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs. As of January 26, 2014, the carrying value of the Company's minority investments in these privately held companies was $2.0 million, which management believes is not impaired.

The Company's financial instruments not measured at fair value on a recurring basis as of January 26, 2014 and April 28, 2013 were as follows:

	January 26, 2014					April 28, 2013				
	Carrying	Fair Value				Carrying	Fair Value			
(in thousands)	Amount	Level 1	Level 2	Level 3	Total	Amount	Level 1	Level 2	Level 3	Total
2029 Notes	$40,015	$86,720	$—	$—	$86,720	$40,015	$59,931	$—	$—	$59,931
2033 Notes	258,750	268,923	—	—	268,923	—	—	—	—	—
Short-term debt	4,230	—	4,230	—	4,230	—	—	—	—	—
Total	$302,995	$355,643	$4,230	$—	$359,873	$40,015	$59,931	$—	$—	$59,931

The fair value of the 2029 Notes and 2033 Notes is based on the market price in the open market as of or close to the respective dates. The difference between the carrying value and the fair value is primarily due to the spread between the conversion price and the market value of the shares underlying the conversion.

The fair value of short-term debt is estimated by discounting the contractual cash flows at the current interest rates charged for similar debt instruments.

12. Stockholders' Equity

The Company's share-based compensation expense was recorded in the following cost and expense categories:

	Three Months Ended		Nine Months Ended	
(in thousands)	January 26, 2014	January 27, 2013	January 26, 2014	January 27, 2013
Cost of revenues	$2,140	$1,992	$6,163	$5,058
Research and development	3,760	2,401	10,866	8,323
Sales and marketing	1,310	830	3,741	2,786
General and administrative	2,558	2,167	7,509	7,814
Total	$9,768	$7,390	$28,279	$23,981

The number of shares of common stock issued or becoming vested under the Company's stock compensation plans was as follows:

	Three Months Ended		Nine Months Ended	
	January 26, 2014	January 27, 2013	January 26, 2014	January 27, 2013
Employee stock purchase plan	268,289	237,832	608,946	577,136
Exercises of stock options	108,921	64,262	633,665	176,806
Restricted stock units vesting	144,360	107,676	1,618,326	1,141,107

As of January 26, 2014, total compensation expense, net of estimated forfeitures, related to unvested stock options and unvested restricted stock units not yet recognized was approximately $71.6 million, which is expected to be recognized in the Company's operating results over a weighted average period of 31 months.
The total share-based compensation capitalized as part of inventory as of January 26, 2014 was $2.0 million.

13. Income Taxes

The Company recorded provisions for income taxes of $2.8 million and $2.2 million, respectively, for the three month periods ended January 26, 2014 and January 27, 2013 and $4.8 million and $1.7 million, respectively, for the nine month periods ended January 26, 2014 and January 27, 2013. The income tax provisions for the three and nine month periods ended January 26, 2014 and January 27, 2013 include state taxes and foreign income taxes arising in certain foreign jurisdictions in which the Company conducts business.

Table of Contents

The Company records a valuation allowance against its deferred tax assets for each period in which management concludes that it is more likely than not that the deferred tax assets will not be realized. Realization of the Company's net deferred tax assets is dependent upon future taxable income, the amount and timing of which are uncertain. Due to U.S. operating losses in previous years and continuing U.S. earnings volatility, management has established and maintained a full valuation allowance for the U.S. deferred tax assets, which comprise approximately 94% of total deferred tax assets as of January 26, 2014, which management does not believe are more likely than not to be realized in future periods.
Utilization of the Company's net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations set forth by Internal Revenue Code Sections 382 and 383 and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss and tax credit carryforwards before full utilization.

14. Pending Litigation

The Company is a party to several pending legal proceedings described below. In each of these proceedings in which the Company is a defendant, the Company believes that it has strong defenses and intends to vigorously defend the action. As of the date of this report, the Company does not believe it is reasonably possible that losses related to any of these cases have been incurred in excess of the amounts, if any, that have been accrued as of January 26, 2014. However, the litigation process is inherently uncertain, and accordingly, the Company cannot predict the outcome of any of these matters with certainty. Future developments in one or more of these matters may cause the Company to revise its estimates and related accruals in future periods.

Class Action and Shareholder Derivative Litigation

March 8, 2011 Earnings Announcement Cases

Several securities class action lawsuits related to the Company's March 8, 2011 earnings announcement alleging claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 have been filed in the United States District Court for the Northern District of California on behalf of a purported class of persons who purchased stock between December 1 or 2, 2010 through March 8, 2011. The named defendants are the Company and its Chairman of the Board, Chief Executive Officer and Chief Financial Officer. To date, no specific amount of damages have been alleged. The cases were consolidated, lead plaintiffs were appointed and a consolidated complaint was filed. The Company filed a motion to dismiss the case. On January 16, 2013, the District Court granted the Company's motion to dismiss and granted the lead plaintiffs leave to amend the consolidated complaint. An amended consolidated complaint was filed on February 6, 2013. Thereafter, the Company filed a renewed motion to dismiss the case. On September 30, 2013, the District Court granted the Company's motion and dismissed the case with prejudice. On October 25, 2013, the lead plaintiffs filed a notice of appeal of the District Court's dismissal ruling, and the appeal is pending.
In addition, two purported shareholder derivative lawsuits related to the Company's March 8, 2011 earnings announcement have been filed in the California Superior Court for the County of Santa Clara, and a third derivative lawsuit has been filed in the United States District Court for the Northern District of California. The complaints assert claims for alleged breach of fiduciary duty, unjust enrichment, and waste on behalf of the Company. Named as defendants are the members of the Company's board of directors, including the Company's Chairman of the Board and Chief Executive Officer, and its Chief Financial Officer. No specific amount of damages has been alleged and, by the derivative nature of the lawsuits, no damages will be alleged, against the Company. The state court cases have been consolidated and a lead plaintiff has been appointed to file a consolidated complaint. The derivative cases were stayed pending a ruling in the federal class action case. Following the September 30 ruling dismissing the class action case, the derivative cases remain stayed, subject to the right of the parties to reinstate them.

Stock Option Cases

On November 30, 2006, the Company announced that it had undertaken a voluntary review of its historical stock option grant practices subsequent to its initial public offering in November 1999. The review was initiated by senior management, and preliminary results of the review were discussed with the Audit Committee of the Company's board of directors. Based on the preliminary results of the review, senior management concluded, and the Audit Committee agreed, that it was likely that the measurement dates for certain stock option grants differed from the recorded grant dates for such awards and that the Company would likely need to restate its historical financial statements to record non-cash charges for compensation expense relating to some past stock option grants. The Audit Committee thereafter conducted a further investigation and engaged independent legal counsel and financial advisors to assist in that investigation. The Audit Committee concluded that measurement dates for certain option grants differed from the recorded grant dates for such awards. The Company's management, in conjunction with the Audit Committee, conducted a further review to finalize revised measurement dates and determine the appropriate accounting adjustments to its historical financial statements. The announcement of the investigation resulted in delays in filing the Company's quarterly reports on Form 10-Q for the quarters ended October 29, 2006, January 28, 2007, and January 27, 2008, and the Company's annual report on Form 10-K for the fiscal year ended April 30, 2007. On December 4, 2007, the Company filed all four of these reports which included revised financial statements.

Following the Company's announcement on November 30, 2006 that the Audit Committee of the board of directors had voluntarily commenced an investigation of the Company's historical stock option grant practices, the Company was named as a nominal defendant in several shareholder derivative cases. These cases were consolidated into two proceedings in federal and state courts in California. The federal court cases were consolidated in the United States District Court for the Northern District of California. The state court cases were consolidated in the Superior Court of California for the County of Santa Clara. The plaintiffs in all cases alleged that certain of the Company's current or former officers and directors caused the Company to grant stock options at less than fair market value, contrary to the Company's public statements (including its financial statements), and that, as a result, those officers and directors were liable to the Company. No specific amount of damages was alleged, and by the nature of the lawsuits, no damages could be alleged against the Company. The state court action was stayed pending resolution of the consolidated federal court action. On June 12, 2007, the plaintiffs in the federal court case filed an amended complaint to reflect the results of the stock option investigation announced by the Audit Committee in June 2007. On August 28, 2007, the Company and the individual defendants filed motions to dismiss the complaint. On January 11, 2008, the Court granted the motions to dismiss, with leave to amend. On May 12, 2008, the plaintiffs filed an amended complaint. The Company and the individual defendants filed motions to dismiss the amended complaint on July 1, 2008. The Court granted the motions to dismiss on September 22, 2009, and entered judgment in favor of the defendants. The plaintiffs appealed the judgment to the United States Court of Appeals for the Ninth Circuit. On April 26, 2011, a panel of the Ninth Circuit reversed the District Court ruling and remanded the case to the District Court for further proceedings. The individual defendants filed additional motions to dismiss the case in the District Court. On July 12, 2012, the District Court issued an order granting the motion as to certain claims and individual defendants, with leave to amend except as to certain defendants, and denying the motion as to other claims and individual defendants.

On June 27, 2013, the parties, through their respective counsel, executed a stipulation of settlement and related documents formalizing a settlement agreement that covers all of the above-referenced federal and state cases. The stipulation of settlement provided that, subject to approval by the District Court, the Company would be entitled to receive payments totaling $12.5 million from its insurance carriers and $250,000 from certain individual defendants and would be obligated to make a payment of $6.3 million to plaintiffs' counsel. In addition, under the terms of the settlement, the insurers would release any rights to recoup approximately $3.0 million previously advanced for defense costs. On August 9, 2013, the District Court issued an order preliminarily approving the proposed settlement. Following the District Court's preliminary approval, the Company assessed the likelihood of final approval as probable, and accordingly, recognized the recovery of previously incurred direct costs related to the litigation of $12.75 million as an offset to general and administrative expenses and a charge of $6.3 million for the payment to plaintiffs' counsel as general and administrative expense in the first quarter of fiscal 2014. On October 18, 2013, the District Court granted final approval of the settlement. Thereafter, the payments to the Company and plaintiffs' counsel were made in accordance with the terms of the stipulation of settlement.

Cheetah Omni Litigation

Customer Texas Litigation

On July 29, 2011, Cheetah Omni LLC filed a complaint for patent infringement in the United States District Court for the Eastern District of Texas against Alcatel-Lucent USA Inc., Alcatel-Lucent Holdings, Inc., Ciena Corporation, Ciena Communications, Inc., Fujitsu Network Communications, Inc., Tellabs, Inc., Tellabs Operations, Inc., Tellabs North America, Inc., Nokia Siemens Networks US LLC, Huawei Technologies USA, Inc. and Huawei Device USA, Inc. Finisar was not named as a defendant in the lawsuit. However, the named defendants or entities affiliated with them are Finisar customers. The complaint alleges that certain ROADM products of the named defendants infringe one or more of seven Cheetah Omni patents. With respect to two of the seven patents, the Company understands

Cheetah Omni to be asserting infringement by the customer defendants making, using, offering for sale, selling, and/or importing into the United States certain ROADM products that include a Finisar wavelength selective switch (WSS). Finisar has no specific information regarding whether the claims of infringement with respect to the remaining five asserted Cheetah Omni patents implicate any Finisar products.

Finisar has received a request for indemnification from all six customer defendants with respect to the two patents mentioned above. The Company is currently evaluating the requests for indemnification. On November 19, 2012, the United States District Court in the Finisar Michigan litigation described below issued an order enjoining Cheetah Omni from continuing to pursue its claims against Finisar customers in the Texas litigation with respect to the two patents asserted against products containing a Finisar WSS. As a result, these Texas claims have been stayed pending the outcome of the Michigan litigation. If such a stay is later lifted, the Company expects that the defendant customers will defend the lawsuit vigorously at least with respect to the claims that implicate any Finisar products. However, there can be no assurance that they will be

Table of Contents

successful in their defense and, if they are not successful with respect to the two patents mentioned above, Finisar may be liable to indemnify the accused customers for significant costs and damages. Even if the defense is successful, the Company may incur substantial legal fees and other costs in defending and/or aiding in the defense of the lawsuit with respect to the two patents mentioned above. Further, the lawsuit could divert the efforts and attention of the Company's management and technical personnel, which could harm its business.

Finisar Michigan Litigation
On December 23, 2011, the Company filed a declaratory judgment action in the United States District Court for the Eastern District of Michigan seeking a declaration of invalidity and non-infringement by Finisar and its customers of four Cheetah Omni patents, including the two patents implicating the Company's WSS that are asserted against Finisar customers in the case described above that is currently pending in the Eastern District of Texas. On February 27, 2012, Cheetah Omni filed its answer to the complaint in which it denied the allegations of invalidity with respect to the four patents at issue. However, in its initial answer Cheetah Omni did not deny any of the allegations of non-infringement in the Company's complaint. Cheetah Omni also did not include any counterclaims. Before Cheetah Omni's answer was filed, on February 24, 2012, the Company filed a motion seeking to enjoin Cheetah Omni's pending claims implicating the Company's WSS asserted against the Company's customers in the Eastern District of Texas case described above and for leave to file a motion for summary judgment of non-infringement. This motion with respect to the requested injunction was granted on November 19, 2012 as described above with respect to the customer Michigan litigation. The motion for leave to file a motion for summary judgment has been denied pending completion of claim construction. After Cheetah Omni's answer was filed, the Company filed a motion for judgment on the pleadings in favor of the Company, and Cheetah Omni filed a motion requesting permission to add counterclaims of infringement by the Company's WSS devices. The motion for judgment on the pleadings was denied. The motion for permission to add counterclaims of infringement was granted, and Cheetah Omni thereafter added claims accusing the Company's WSS devices of infringement of the two Cheetah Omni patents. The Company intends to defend the counterclaims vigorously. However, there can be no assurance that the defense will be successful and, if the defense is not successful, Finisar may be liable for substantial damages, including possible indemnification obligations to the Company's customers. Even if the defense is successful, the Company may incur substantial legal fees and other costs in defending the counterclaims. Further, the lawsuit could divert the efforts and attention of the Company's management and technical personnel, which could harm its business.

Thomas Swan Litigation
On February 26, 2013, Thomas Swan & Co. Ltd. filed a complaint for patent infringement in the United States District Court for the Eastern District of Texas against the Company. The complaint alleges that Finisar's WSS products, ROADM line cards containing a Finisar WSS, and Waveshaper products infringe four related Thomas Swan patents. The Company's customer, Fujitsu Network Communications, has been added as a co-defendant in this lawsuit. The Company has performed a review of the asserted patents and believes that the patent claims are not infringed and/or are invalid. The Company intends to defend this lawsuit vigorously. However, there can be no assurance that the defense will be successful and, if the defense is not successful, Finisar may be liable for substantial damages, including possible indemnification obligations to the Company's customers. Even if the defense is successful, the Company may incur substantial legal fees and other costs in defending the lawsuit. Further, the lawsuit could divert the efforts and attention of the Company's management and technical personnel, which could harm its business. Trial in this case has been scheduled for February 2, 2015.

Mears Technologies Litigation
On May 6, 2013, Mears Technologies, Inc. filed a complaint for patent infringement in the United States District Court for the Eastern District of Texas against the Company. The complaint alleges that Finisar's WSS products, ROADM line cards containing a Finisar WSS, and Waveshaper products infringe a Mears Technologies patent. The Company has performed an initial review of the asserted patent and believes that the patent claims are not infringed and/or are invalid. The Company intends to defend this lawsuit vigorously. However, there can be no assurance that

the defense will be successful and, if the defense is not successful, Finisar may be liable for substantial damages, including possible indemnification obligations to the Company's customers. Even if the defense is successful, the Company may incur substantial legal fees and other costs in defending the lawsuit. Further, the lawsuit could divert the efforts and attention of the Company's management and technical personnel, which could harm its business. Trial in this case has been scheduled for December 1, 2014.

Other

In the ordinary course of business, the Company is a party to litigation, claims and assessments in addition to those described above. Based on information currently available, management does not believe the impact of these other matters will have a material adverse effect on its business, financial condition, results of operations or cash flows of the Company.

15. Guarantees and Indemnifications

Upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligations it assumes under that guarantee. As permitted under Delaware law and in accordance with the Company's Bylaws, the Company indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The Company may terminate the indemnification agreements with its officers and directors upon 90 days written notice, but termination will not affect claims for indemnification relating to events occurring prior to the effective date of termination. The maximum amount of potential future indemnification is unlimited; however, the Company has a director and officer liability insurance policy that may enable it to recover a portion of any future amounts paid.

The Company enters into indemnification obligations under its agreements with other companies in its ordinary course of business, including agreements with customers, business partners and insurers. Under these provisions the Company generally indemnifies and holds harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or the use of the Company's products. These indemnification provisions generally survive termination of the underlying agreement. In some cases, the maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited.

The Company believes the fair value of these indemnification obligations is immaterial. Accordingly, the Company has not recorded any liabilities for these agreements as of January 26, 2014. To date, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements.

16. Related Parties

During the three and nine month periods ended January 26, 2014, the Company paid $46,004 and $152,082, respectively, in cash compensation to a company owned by Guy Gertel, the brother of the Chief Executive Officer of the Company, for sales and marketing services. In addition, during the first quarter of fiscal 2014, the Company granted to Mr. Gertel, for no additional consideration, 4,164 restricted stock units with a fair market value of $66,957, which vest as follows: 25% on June 24, 2014 and an additional 25% on each of the next three anniversaries thereafter, to be fully vested on June 24, 2017, subject to him continuing to provide services to Finisar.

During the three and nine month periods ended January 27, 2013, the Company paid $50,466 and $152,690, respectively, in cash compensation to Mr. Gertel's company. In addition, during the first quarter of fiscal 2013, the Company granted to Mr. Gertel, for no additional consideration, 3,814 restricted stock units with a fair market value of $49,086, which vest as follows: 25% on June 14, 2013 and an additional 25% on each of the next three anniversaries thereafter, to be fully vested on June 14, 2016, subject to him continuing to provide services to Finisar.

Amounts paid to Mr. Gertel represented values considered by management to be fair and reasonable, reflective of an arm's length transaction.

17. Subsequent Event

On January 31, 2014, the Company acquired all outstanding equity interests in u^2t Photonics AG (“u^2t”), a German company engaged in research, development and marketing of optical components for high-speed telecom applications, for approximately $20 million in cash, subject to certain adjustments. With this transaction, the Company will add u^2t's Indium-Phosphide (“InP”) -based 100 Gbps high speed receivers and photodetectors to its existing portfolio of high speed optics technologies. In addition, this acquisition will consolidate the Company’s previously announced partnership with u^2t on InP-based IQ Mach-Zehnder modulators for 100 Gbps coherent applications. These receiver, photodiode and modulator technologies and products, when combined with the Company’s narrow-line width tunable lasers, will provide a full suite of optical components and enable the Company to offer its customers vertically integrated modules for the 100 Gbps coherent metro and long haul markets. Due to the timing of closing, the Company has not yet finalized its accounting for this acquisition. Accordingly, financial statement disclosures otherwise required by ASC 805 for business combinations have not been presented herein.

18

Table of Contents

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

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We use words like “anticipates,” “believes,” “plans,” “expects,” “future,” “intends” and similar expressions to identify these forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events; however, our business and operations are subject to a variety of risks and uncertainties, and, consequently, actual results may materially differ from those projected by any forward-looking statements. As a result, you should not place undue reliance on these forward-looking statements since they may not occur.

Certain factors that could cause actual results to differ from those projected are discussed in “Part II. Other Information, Item 1A. Risk Factors.” We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events.

The following discussion should be read together with our condensed consolidated financial statements and related notes thereto included elsewhere in this report.

Business Overview

We are a leading provider of optical subsystems and components that are used in data communication and telecommunication applications. Our optical subsystems consist primarily of transmitters, receivers, transceivers, transponders and active optical cables, which provide the fundamental optical-electrical or optoelectronic interface for interconnecting the electronic equipment used in building these networks, including the switches, routers and servers used in wireline networks as well as antennas and base stations for wireless networks. These products rely on the use of semiconductor lasers and photodetectors in conjunction with integrated circuits and novel optoelectronic packaging to provide a cost-effective means for transmitting and receiving digital signals over fiber optic cable at speeds ranging from less than 1 gigabit per second, or Gbps, to more than 100 Gbps, over distances of less than 10 meters to more than 2,000 kilometers using a wide range of network protocols and physical configurations. We supply optical transceivers and transponders that allow point-to-point communications on a fiber using a single specified wavelength or, bundled with multiplexing technologies, can be used to supply multi-Gbps bandwidth over several wavelengths on the same fiber.

We also provide products known as wavelength selective switches, or WSS. In long-haul and metro networks, each fiber may carry 50 to 100 different high-speed optical wavelengths. WSS are switches that are used to dynamically switch network traffic from one optical fiber to multiple other fibers without first converting to an electronic signal. The wavelength selective feature means that WSS enable any wavelength or combination of wavelengths to be switched from the input fiber to the output fibers. WSS products are sometimes combined with other components and sold as linecards that plug into a system chassis, referred to as reconfigurable optical add/drop multiplexers, or ROADMs.

Our line of optical components consists primarily of packaged lasers and photodetectors for data communication and telecommunication applications.

Demand for our products is largely driven by the continually growing need for additional network bandwidth created by the ongoing proliferation of data and video traffic driven by video downloads, Internet protocol TV, social networking, on-line gaming, file sharing, enterprise IP/Internet traffic, cloud computing, and data center virtualization that must be handled by both wireline and wireless networks. Mobile traffic is increasing as the result of proliferation of smart phones, tablet computers, and other mobile devices.

Our manufacturing operations are vertically integrated and we produce many of the key components used in making our products including lasers, photo-detectors and integrated circuits, or ICs, designed by our internal IC engineering teams. We also have internal assembly and test capabilities that make use of internally designed equipment for the automated testing of our optical subsystems and components.

We sell our optical products primarily to original equipment manufacturers ("OEMs") of storage systems, networking equipment and telecommunication equipment such as Alcatel-Lucent, Brocade, Ciena, Cisco Systems, EMC, Emulex, Ericsson, Fujitsu, Hewlett-Packard Company, Huawei, IBM, Juniper, Nokia-Siemens, Qlogic and Tellabs, and to their contract manufacturers. These customers, in turn, sell their systems to businesses and to wireline and wireless telecommunications service providers and cable TV operators, collectively referred to as carriers.

Table of Contents

Since October 2000, we have completed the acquisition of two publicly-held companies. We have also completed the acquisition of 11 privately-held companies and certain businesses and assets from six other companies in order to broaden our product offerings and provide new sources of revenue, production capabilities and access to advanced technologies that we believe will enable us to reduce our product costs and develop innovative and more highly integrated product platforms while accelerating the timeframe required to develop such products.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make judgments, estimates and assumptions in the preparation of our consolidated financial statements and accompanying notes. Actual results could differ from those estimates. We believe there have been no significant changes in our critical accounting policies from those described in our Annual Report on Form 10-K for the fiscal year ended April 28, 2013.

Results of Operations

Revenues

The following table sets forth changes in revenues by market application:

	Three Months Ended			
(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change
Datacom revenue	$210,363	$147,670	$62,693	42.5 %
Telecom revenue	83,655	90,681	(7,026)	(7.7)%
Total revenues	$294,018	$238,351	$55,667	23.4 %

	Nine Months Ended			
(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change
Datacom revenue	$599,051	$426,976	$172,075	40.3 %
Telecom revenue	251,757	263,942	(12,185)	(4.6)%
Total revenues	$850,808	$690,918	$159,890	23.1 %

The increases in datacom revenue in each of the fiscal 2014 periods relative to comparable periods in fiscal 2013 were primarily due to an increase in market demand for our 10 Gbps and higher Ethernet transceivers as enterprises upgraded their technology infrastructure driving demand for the products of our OEM system customers and thus higher demand for our datacom module products. The decreases in telecom revenue in each of the fiscal 2014 periods relative to comparable periods in fiscal 2013 were primarily due to a decline in average selling prices.

Amortization of Acquired Developed Technology

(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change
Three months ended	$961	$1,930	$(969)	(50.2)%
Nine months ended	$3,735	$5,202	$(1,467)	(28.2)%

The decreases in each of the fiscal 2014 periods relative to comparable periods in fiscal 2013 were primarily due to acquired developed technology impairment recognized in the fourth quarter of fiscal 2013.

Gross Profit

(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change

Three months ended	$105,689	$68,044	$37,645	55.3 %
As a percentage of revenues	35.9 %	28.5 %		
Nine months ended	$300,435	$189,715	$110,720	58.4 %
As a percentage of revenues	35.3 %	27.5 %		

Table of Contents

The increases in gross margin primarily reflected a more favorable product mix in each of the fiscal 2014 periods relative to comparable periods in fiscal 2013.

Research and Development Expenses

(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change
Three months ended	$46,734	$39,725	$7,009	17.6 %
Nine months ended	$135,223	$117,514	$17,709	15.1 %

The increases in each of the fiscal 2014 periods relative to comparable periods in fiscal 2013 were primarily due to increases in employee compensation related expenses, principally as the result of additional hiring related to new product development activities.

Sales and Marketing Expenses

(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change
Three months ended	$10,911	$10,398	$513	4.9 %
Nine months ended	$35,038	$31,291	$3,747	12.0 %

The increases in each of the fiscal 2014 periods relative to comparable periods in fiscal 2013 were primarily due to increases in employee compensation related expenses principally as the result of additional activities required as we expand our product offering and customer base.

General and Administrative Expenses

(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change
Three months ended	$14,353	$12,797	$1,556	12.2 %
Nine months ended	$38,081	$39,058	$(977)	(2.5)%

The increase in general and administrative expenses in the three months ended January 26, 2014 compared to the three months ended January 27, 2013 was primarily due to an increase in employee compensation related expenses. The decrease in general and administrative expenses in the nine months ended January 26, 2014 compared to the nine months ended January 27, 2013 was primarily due to a net benefit of $5.1 million recognized during the quarter ended July 28, 2013 related to the settlement of stock option derivative litigation, partially offset by an increase in employee compensation related expenses.

Amortization of Purchased Intangibles

(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change
Three months ended	$595	$1,035	$(440)	(42.5)%
Nine months ended	$1,785	$2,906	$(1,121)	(38.6)%

The decreases in each of the fiscal 2014 periods relative to comparable periods in fiscal 2013 were primarily due to purchased intangible assets' impairment recognized in the fourth quarter of fiscal 2013.

Interest Income

(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change
Three months ended	$335	$186	$149	80.1 %

Nine months ended	$834	$544	$290	53.3	%

The increases in each of the fiscal 2014 periods relative to comparable periods in fiscal 2013 were primarily due to higher cash balances during the fiscal 2014 periods compared to the comparable periods in fiscal 2013.

Table of Contents

Interest Expense

(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change
Three months ended	$1,663	$648	$1,015	156.6 %
Nine months ended	$2,582	$2,045	$537	26.3 %

The increases in each of the fiscal 2014 periods relative to comparable periods in fiscal 2013 were primarily due to the issuance of the 2033 Notes during the third quarter of fiscal 2014.

Other Income (Expense), Net

(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change
Three months ended	$(1,873)	$(275)	$(1,598)	(581.1)%
Nine months ended	$(890)	$(295)	$(595)	(201.7)%

The increase in other expense in the three months ended January 26, 2014 compared to the three months ended January 27, 2013 was primarily due to foreign currency exchange losses. The increase in other income in the nine months ended January 26, 2014 compared to the nine months ended January 27, 2013 was primarily due to foreign currency exchange losses, partially offset by $664,000 recovered from an escrow during the first quarter of fiscal 2014 related to the sale of one of our minority investments in fiscal 2012 and $573,000 of accelerated amortization of debt issuance costs related to a revolving credit facility that was terminated during the second quarter of fiscal 2013.

Non-controlling Interest

(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change
Three months ended	$(7)	$280	$(287)	102.5 %
Nine months ended	$183	$136	$47	(34.6)%

Non-controlling interest for the three and nine months ended January 26, 2014 and January 27, 2013 represents minority shareholders' proportionate share of the net income (loss) of our majority-owned subsidiary, Finisar Korea.

Provision for Income Taxes

(in thousands, except percentages)	January 26, 2014	January 27, 2013	Change	% Change
Three months ended	$2,827	$2,153	$674	(31.3)%
Nine months ended	$4,816	$1,733	$3,083	(177.9)%

The income tax provisions for the three and nine months ended January 26, 2014 and January 27, 2013 primarily represent current state and foreign income taxes arising in certain jurisdictions in which we conduct business.

Liquidity and Capital Resources

(in millions)	Nine Months Ended January 26, 2014	Nine Months Ended January 27, 2013
Net cash provided by operating activities	$84.9	$101.5
Net cash used in investing activities	$(272.4)	$(75.4)
Net cash provided by financing activities	$273.3	$4.8

Operating Cash Flows

Net cash provided by operating activities in the nine months ended January 26, 2014 consisted of our net income, as adjusted to exclude depreciation, amortization and other non-cash items totaling $80.2 million, and a $78.1 million increase in working capital primarily related to increases in accounts receivable and inventory, offset by an increase in accounts payable. Accounts receivable increased by $47.9 million primarily due to the increase in revenues during the year. Inventory increased by $55.5 million primarily due to increased purchases to support the increased sales level. Net cash provided by operating activities in the nine months ended January 27, 2013 consisted of our net loss, as adjusted to exclude depreciation, amortization and other non-cash items totaling $78.7 million, and a $32.2 million decrease in working capital primarily related to decreases

Table of Contents

in accounts receivable and inventory. Accounts receivable decreased by $15.6 million primarily due to strong collections during the nine months ended January 27, 2013. Inventory decreased by $18.5 million due to usage in the manufacturing process.

Investing Cash Flows

Net cash used in investing activities in the nine months ended January 26, 2014 primarily consisted of $93.0 million of expenditures for capital equipment and $179.8 million of purchases of short-term marketable securities. Net cash used in investing activities in the nine months ended January 27, 2013 consisted of $20.6 million related to the acquisition of Red-C and $65.3 million of expenditures for capital equipment, partially offset by $10.5 million in proceeds from the sale of a minority interest in a privately-held company. The increase in expenditures for capital equipment related primarily to our new manufacturing facility in Wuxi, China.

Financing Cash Flows

Net cash provided by financing activities for the nine months ended January 26, 2014 primarily reflected $255.0 million of proceeds, net of issuance costs, from issuance of the 2033 Notes, proceeds from the issuance of shares under our employee stock option and stock purchase plans totaling $14.1 million and proceeds from a bank loan totaling $4.2 million. Net cash provided by financing activities for the nine months ended January 27, 2013 primarily consisted of proceeds from the issuance of shares under our employee stock option and stock purchase plans totaling $8.0 million, partially offset by repayments of borrowings totaling $3.2 million.

Contractual Obligations and Commercial Commitments

Our contractual obligations at January 26, 2014 were as follows:

		Payments Due by Period			
		Less than			After
(in thousands)	Total	1 Year	1-3 Years	4-5 Years	5 Years
5.0% Convertible Senior Notes due 2029	$40,015	$40,015	$—	$—	$—
0.50% Convertible Senior Notes due 2033	258,750	—	—	258,750	—
Interest on 2029 Notes (a)	2,001	2,001	—	—	—
Interest on 2033 Notes (b)	6,308	1,294	2,588	2,426	
Short-term debt	4,348	4,348	—	—	—
Operating leases (c)	58,204	8,656	19,883	16,660	13,005
Facility construction	10,706	10,706	—	—	—
Purchase obligations (d)	116,461	116,461	—	—	—
Total contractual obligations	$496,793	$183,481	$22,471	$277,836	$13,005

(a) Includes interest through October 2014 on our 5.0% Convertible Senior Notes due 2029 as we have the right to redeem the notes in whole or in part at any time on or after October 22, 2014.

(b) Includes interest through December 2018 on our 0.50% Convertible Senior Notes due 2033 as we have to right to redeem the notes in whole or in part at any time on or after December 22, 2018.

(c) Includes operating lease obligations that have been accrued as restructuring charges.

(d) Includes open purchase orders with terms that generally allow us the option to cancel or reschedule the order.

The 2029 Notes are convertible by the holders at any time prior to maturity into shares of our common stock at specified conversion prices. These notes are also subject to redemption by the holders in October 2014, 2016, 2019 and 2024. These notes are redeemable by us, in whole or in part, at any time on or after October 22, 2014 if the last reported sale price per share of our common stock exceeds 130% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days ending within five trading days of the date on which we provide the notice of redemption.

The 2033 Notes are convertible into shares of our common stock at specified conversion prices by the holders prior to June 15, 2033 only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on January 26, 2014 (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period ("measurement period"), in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98%

of the product of the last reported sale price of our common stock and the applicable conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after June 15, 2033 until the maturity, holders may convert their notes at any time, regardless of whether any of the foregoing circumstances have occurred. The 2033 Notes are also subject to redemption by the holders in December 2018, 2023 and 2028. These notes are redeemable by us, in whole or in part, at any time on or after December 22, 2018.

Short-term debt consists of a bank loan to our Korean subsidiary and related scheduled interest payments. The loan bears interest at 4.17% per annum. Interest is payable monthly and principal is due in September 2014.

Operating lease obligations consist primarily of base rents for facilities we occupy at various locations.

Facility construction obligations consist primarily of our ongoing commitments related to construction of our manufacturing operations facility in Wuxi, China.

Purchase obligations represent all open purchase orders and contractual obligations in the ordinary course of business for which we have not received the goods or services. Although open purchase orders are considered enforceable and legally binding, their terms generally allow us the option to cancel, reschedule and adjust our requirements based on our business needs prior to the delivery of goods or performance of services.

Sources of Liquidity and Capital Resource Requirements

At January 26, 2014, our principal sources of liquidity consisted of approximately $555 million of cash and cash equivalents and short-term investments, of which approximately $71 million was held by our foreign subsidiaries.

We believe that our existing balances of cash and cash equivalents, together with the cash expected to be generated from future operations, will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 12 months. We may, however, require additional financing to fund our operations in the future, to finance future acquisitions that we may propose to undertake or to repay or otherwise retire all of our outstanding 2029 Notes, in the aggregate principal amount of $40.0 million, which are subject to redemption by the holders in October 2014, 2016, 2019 and 2024, or our 2033 Notes, in the aggregate principal amount of $258.8 million, which are subject to redemption by the holders in December 2018, 2033 and 2028. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if and when it is required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition and results of operations will be adversely affected.

Off-Balance-Sheet Arrangements

At January 26, 2014 and April 28, 2013, we did not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting Finisar, see Item 7A: “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K for the fiscal year ended April 28, 2013. Our exposure related to market risk has not changed materially since April 28, 2013.

Item 4. Controls and Procedures

Evaluation of Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chairman of the Board, our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chairman of the Board, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Changes in Internal Control Over Financial Reporting

Table of Contents

There were no changes in our internal control over financial reporting during the quarter ended January 26, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to “Part I, Item 1, Financial Statements - Note 14. Pending Litigation” for a description of pending legal proceedings, including material developments in certain of those proceedings during the quarter ended January 26, 2014.

Item 1A. Risk Factors

OUR FUTURE PERFORMANCE IS SUBJECT TO A VARIETY OF RISKS, INCLUDING THOSE DESCRIBED BELOW. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS COULD BE HARMED AND THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE. YOU SHOULD ALSO REFER TO THE OTHER INFORMATION CONTAINED IN THIS REPORT, INCLUDING OUR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES. THE RISK FACTORS DESCRIBED BELOW DO NOT CONTAIN ANY MATERIAL CHANGES FROM THOSE PREVIOUSLY DISCLOSED IN ITEM 1A OF OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED APRIL 28, 2013.

Our quarterly revenues and operating results fluctuate due to a variety of factors, which may result in volatility or a decline in the price of our stock.

Our quarterly operating results have varied significantly due to a number of factors, including:

- fluctuation in demand for our products;
- the timing of new product introductions or enhancements by us and our competitors;
- the level of market acceptance of new and enhanced versions of our products;
- the timing of acquisitions that we have undertaken;
- the timing or cancellation of large customer orders;
- the length and variability of the sales cycle for our products;
- pricing policy changes by us and our competitors and suppliers;
- the availability of development funding and the timing of development revenue;
- changes in the mix of products sold;
- increased competition in product lines, and competitive pricing pressures; and
- the evolving and unpredictable nature of the markets for products incorporating our optical components and subsystems.

We expect that our operating results will continue to fluctuate in the future as a result of these factors and a variety of other factors, including:

- fluctuations in manufacturing yields;
- the emergence of new industry standards;
- failure to anticipate changing customer product requirements;
- the loss or gain of important customers;
- product obsolescence; and
- the amount of research and development expenses associated with new product introductions.

Our operating results could also be harmed by:

- the continuation or worsening of the current global economic slowdown or economic conditions in various geographic areas where we or our customers do business;
- acts of terrorism and international conflicts or domestic crises;
- other conditions affecting the timing of customer orders; or
- a downturn in the markets for our customers' products, particularly the data storage and networking and telecommunication components markets.

We may experience a delay in generating or recognizing revenues for a number of reasons. Orders at the beginning of each quarter are typically lower than expected revenues for that quarter and are generally cancelable with minimal notice. Accordingly, we depend on obtaining orders during each quarter for shipment in that quarter to achieve our revenue objectives. Failure to ship these products by the end of a quarter may adversely affect our operating results. Furthermore, our customer agreements typically provide that the customer may delay scheduled delivery dates and cancel orders within specified timeframes without significant penalty. Because we base our operating expenses on anticipated revenue trends and a high percentage of our expenses are fixed in the short term, any delay in generating or recognizing forecasted revenues could significantly harm our business. It is likely that in some future quarters our operating results will again decrease from the previous quarter or fall below the expectations of securities analysts and investors.

As a result of these factors, our operating results may vary significantly from quarter to quarter. Accordingly, we believe that period-to-period comparisons of our results of operations should not be relied upon as indications of future performance. Any shortfall in revenues or net income from the previous quarter or from levels expected by the investment community could cause a decline in the trading price of our stock.

We may lose sales if our suppliers or independent contract manufacturers fail to meet our needs or go out of business.

We currently purchase a number of key components used in the manufacture of our products from single or limited sources, and we rely on several independent contract manufacturers to supply us with certain key components and subassemblies, including lasers, modulators, and printed circuit boards. We depend on these sources to meet our production needs. Moreover, we depend on the quality of the components and subassemblies that they supply to us, over which we have limited control. Several of our suppliers are or may become financially unstable as the result of current global market conditions. In addition, from time to time we have encountered shortages and delays in obtaining components, and we may encounter additional shortages and delays in the future. If we cannot supply products due to a lack of components, or are unable to redesign products with other components in a timely manner, our business will be significantly harmed. We generally have no long-term contracts with any of our component suppliers or contract manufacturers. As a result, a supplier or contract manufacturer can discontinue supplying components or subassemblies to us without penalty. If a supplier were to discontinue supplying a key component or cease operations, the resulting product manufacturing and delivery delays could be lengthy, and our business could be substantially harmed. We are also subject to potential delays in the development by our suppliers of key components which may affect our ability to introduce new products. Similarly, disruptions in the operations of our key suppliers or in the services provided by our contract manufacturers, including disruptions due to natural disasters, or the transition to other suppliers of these key components or services could lead to supply chain problems or delays in the delivery of our products. These problems or delays could damage our relationships with our customers and adversely affect our business.

We use rolling forecasts based on anticipated product orders to determine our component and subassembly requirements. Lead times for materials and components that we order vary significantly and depend on factors such as specific supplier requirements, contract terms and current market demand for particular components. If we overestimate our component requirements, we may have excess inventory, which would increase our costs. If we underestimate our component requirements, we may have inadequate inventory, which could interrupt our manufacturing and delay delivery of our products to our customers. Any of these occurrences could significantly harm our business.

If we are unable to realize anticipated cost savings from the transfer of certain manufacturing operations to our overseas locations and increased use of internally-manufactured components our results of operations could be harmed.

As part of our ongoing initiatives to reduce the cost of revenues, we expect to realize significant cost savings through (i) the transfer of certain product manufacturing operations to lower cost off-shore locations and (ii) product engineering changes to enable the broader use of internally-manufactured components. The transfer of production to overseas locations may be more difficult and costly than we currently anticipate which could result in increased transfer costs and time delays. Further, following transfer, we may experience lower manufacturing yields than those historically achieved in our U.S. manufacturing locations. In addition, the engineering changes required for the use of internally-manufactured components may be more technically-challenging than we anticipate and customer acceptance of such changes could be delayed. If we fail to achieve the planned product manufacturing transfer and increase in internally-manufactured component use within our currently anticipated timeframe, or if our manufacturing yields decrease as a result, we may be unsuccessful in achieving cost savings or such savings will be less than anticipated, and our results of operations could be harmed.

Continued competition in our markets may lead to an accelerated reduction in our prices, revenues and market share.

The end markets for optical products have experienced significant industry consolidation during the past few years while the industry that supplies these customers has experienced less consolidation. As a result, the markets for optical subsystems and components are highly competitive. Our current competitors include a number of domestic and international companies, many of which have substantially greater financial, technical, marketing and distribution resources and brand name recognition than we have. Increased consolidation in our industry, should it occur, will reduce the number of our competitors but would be likely to further strengthen surviving industry participants. We may not be able to compete successfully against either current or

Table of Contents

future competitors. Companies competing with us may introduce products that are competitively priced, have increased performance or functionality, or incorporate technological advances and may be able to react quicker to changing customer requirements and expectations. There is also the risk that network systems vendors may re-enter the subsystem market and begin to manufacture the optical subsystems incorporated in their network systems. Increased competition could result in significant price erosion, reduced revenue, lower margins or loss of market share, any of which would significantly harm our business. Our principal competitors for data communication applications include Avago Technologies, JDS Uniphase and Oclaro. Our principal competitors for telecommunication applications include JDS Uniphase, Oclaro and Sumitomo. Our competitors continue to introduce improved products and we will have to do the same to remain competitive.

Decreases in average selling prices of our products may reduce our gross margins.

The market for optical subsystems is characterized by declining average selling prices resulting from factors such as increased competition, overcapacity, the introduction of new products and increased unit volumes as manufacturers continue to deploy network and storage systems. We have in the past experienced, and in the future may experience, substantial period-to-period fluctuations in operating results due to declining average selling prices. We anticipate that average selling prices will decrease in the future in response to product introductions by competitors or us, or by other factors, including pricing pressures from significant customers. In particular, we typically conduct pricing negotiations for our existing products with some of our largest telecommunication OEM customers in the last several months of the calendar year. Decreases in our average selling prices resulting from these negotiations typically become effective at the beginning of the next calendar year and generally have an adverse impact on our gross margins in future quarters. This impact is typically most pronounced in our fourth fiscal quarter ending in April, when the impact of the new pricing is first felt over a full quarter. In order to sustain profitable operations, we must continue to develop and introduce on a timely basis new products that incorporate features that can be sold at higher average selling prices. Failure to do so could cause our revenues and gross margins to decline, which would result in additional operating losses and significantly harm our business.

We may be unable to reduce the cost of our products sufficiently to enable us to compete with others. Our cost reduction efforts may not allow us to keep pace with competitive pricing pressures and could adversely affect our margins. In order to remain competitive, we must continually reduce the cost of manufacturing our products through design and engineering changes. We may not be successful in redesigning our products or delivering our products to market in a timely manner. We cannot assure you that any redesign will result in sufficient cost reductions to allow us to reduce the price of our products to remain competitive or improve our gross margins.

Shifts in our product mix may result in declines in gross margins.

Gross margins on individual products fluctuate over the product's life cycle. Our overall gross margins have fluctuated from period to period as a result of shifts in product mix, the introduction of new products, decreases in average selling prices for older products and our ability to reduce product costs, and these fluctuations are expected to continue in the future.

Failure to accurately forecast our revenues could result in additional charges for obsolete or excess inventories or non-cancelable purchase commitments.

We base many of our operating decisions, and enter into purchase commitments, on the basis of anticipated revenue trends which are highly unpredictable. Some of our purchase commitments are not cancelable, and in some cases we are required to recognize a charge representing the amount of material or capital equipment purchased or ordered which exceeds our actual requirements. In the past, we have periodically experienced significant growth followed by a significant decrease in customer demand such as occurred in fiscal 2001, when revenues increased by 181% followed by a decrease of 22% in fiscal 2002. Based on projected revenue trends during these periods, we acquired inventories and entered into purchase commitments in order to meet anticipated increases in demand for our products which did not materialize. As a result, we recorded significant charges for obsolete and excess inventories and non-cancelable purchase commitments which contributed to substantial operating losses in fiscal 2002. Should revenues in future periods again fall substantially below our expectations, or should we fail again to accurately forecast changes in demand mix, we could again be required to record substantial charges for obsolete or excess inventories or non-cancelable purchase commitments.

If we encounter sustained yield problems or other delays in the production or delivery of our internally-manufactured components or in the final assembly and test of our products, we may lose sales and damage our customer relationships.

Our manufacturing operations are highly vertically integrated. In order to reduce our manufacturing costs, we have acquired a number of companies, and business units of other companies that manufacture optical components incorporated in our optical subsystem products and have developed our own facilities for the final assembly and testing of our products. For example, we design and manufacture many critical components incorporated in transceivers used for data communication and telecommunication applications, including all of the short wavelength VCSEL lasers, at our wafer fabrication facility in Allen, Texas and manufacture a portion of our internal requirements for longer wavelength lasers at our wafer fabrication facility in Fremont, California. We assemble and test most of our transceiver products at our facility in Ipoh, Malaysia. As a result of this vertical integration, we have become increasingly dependent on our internal production capabilities. The manufacture of critical components, including the fabrication of wafers, and the assembly and testing of our products, involve highly complex processes. For example, minute levels of contaminants in the manufacturing environment, difficulties in the fabrication process or other factors can cause a substantial portion of the components on a wafer to be nonfunctional. These problems may be difficult to detect at an early stage of the manufacturing process and often are time-consuming and expensive to correct. From time to time, we have experienced problems achieving acceptable yields at our wafer fabrication facilities, resulting in delays in the availability of components. Moreover, an increase in the rejection rate of products during the quality control process before, during or after manufacture, results in lower yields and margins. In addition, changes in manufacturing processes required as a result of changes in product specifications, changing customer needs and the introduction of new product lines have historically significantly reduced our manufacturing yields, resulting in low or negative margins on those products. Poor manufacturing yields over a prolonged period of time could adversely affect our ability to deliver our subsystem products to our customers and could also affect our sale of components to customers in the merchant market. Our inability to supply components to meet our internal needs could harm our relationships with customers and have an adverse effect on our business.

The markets for our products are subject to rapid technological change, and to compete effectively we must continually introduce new products that achieve market acceptance.

The markets for our products are characterized by rapid technological change, frequent new product introductions, substantial capital investment, changes in customer requirements and evolving industry standards with respect to the protocols used in data communication and telecommunication networks. Our future performance will depend on the successful development, introduction and market acceptance of new and enhanced products that address these changes as well as current and potential customer requirements. For example, the market for optical subsystems is currently characterized by a trend toward the adoption of “pluggable” modules and subsystems that do not require customized interconnections and by the development of more complex and integrated optical subsystems. We expect that new technologies will emerge as competition and the need for higher and more cost-effective bandwidth increases. The introduction of new and enhanced products may cause our customers to defer or cancel orders for existing products. In addition, a slowdown in demand for existing products ahead of a new product introduction could result in a write-down in the value of inventory on hand related to existing products and/or a charge for the impairment of long-lived assets related to such products. We have in the past experienced a slowdown in demand for existing products and delays in new product development and such delays may occur in the future. To the extent customers defer or cancel orders for existing products due to a slowdown in demand or in the expectation of a new product release or if there is any delay in development or introduction of our new products or enhancements of our products, our operating results would suffer. We also may not be able to develop the underlying core technologies necessary to create new products and enhancements, or to license these technologies from third parties. Product development delays may result from numerous factors, including:

- changing product specifications and customer requirements;
- unanticipated engineering complexities;
- expense reduction measures we have implemented, and others we may implement, to conserve our cash and attempt to achieve and sustain profitability;
- difficulties in hiring and retaining necessary technical personnel;
- difficulties in reallocating engineering resources and overcoming resource limitations; and
- changing market or competitive product requirements.

The development of new, technologically advanced products is a complex and uncertain process requiring high levels of innovation and highly skilled engineering and development personnel, as well as the accurate anticipation of technological and market trends. The introduction of new products also requires significant investment to ramp up production capacity, for which benefit will not be realized if customer demand does not develop as expected. Ramping of production capacity also entails risks of delays which can limit our ability to realize the full benefit of the new product introduction. We cannot assure you that we will be able to identify, develop, manufacture, market or support new or enhanced products successfully, if at all, or on a timely basis. Further, we cannot assure you that our new products will gain market acceptance or that we will be able to respond effectively to product announcements by competitors, technological changes or emerging industry standards. Any failure to respond to technological change would significantly harm our business.

Table of Contents

Our future success ultimately depends on the continued growth of the communications industry and, in particular, the continued expansion of global information networks, particularly those directly or indirectly dependent upon a fiber optics infrastructure.

We are relying on increasing demand for voice, video and other data delivered over high-bandwidth network systems as well as commitments by network systems vendors to invest in the expansion of the global information network. As network usage and bandwidth demand increase, so does the need for advanced optical networks to provide the required bandwidth. Without network and bandwidth growth, the need for optical subsystems and components, and hence our future growth as a manufacturer of these products, will be jeopardized, and our business would be significantly harmed.

Many of these factors are beyond our control. In addition, in order to achieve widespread market acceptance, we must differentiate ourselves from our competition through product offerings and brand name recognition. We cannot assure you that we will be successful in making this differentiation or achieving widespread acceptance of our products. Failure of our existing or future products to maintain and achieve widespread levels of market acceptance will significantly impair our revenue growth.

We depend on large purchases from a few significant customers, and any loss, cancellation, reduction or delay in purchases by these customers could harm our business.

A small number of customers have consistently accounted for a significant portion of our revenues. Our success will depend on our continued ability to develop and manage relationships with our major customers. Although we are attempting to expand our customer base, we expect that significant customer concentration will continue for the foreseeable future. We may not be able to offset any decline in revenues from our existing major customers with revenues from new customers, and our quarterly results may be volatile because we are dependent on large orders from these customers that may be reduced or delayed.

The markets in which we have historically sold our optical subsystems and components products are dominated by a relatively small number of systems manufacturers, thereby limiting the number of our potential customers. Recent consolidation of portions of our customer base, including telecommunication systems manufacturers, and potential future consolidation, may have a material adverse impact on our business. Our dependence on large orders from a relatively small number of customers makes our relationship with each customer critically important to our business. We cannot assure you that we will be able to retain our largest customers, that we will be able to attract additional customers or that our customers will be successful in selling their products that incorporate our products. We have in the past experienced delays and reductions in orders from some of our major customers. In addition, our customers have in the past sought price concessions from us, and we expect that they will continue to do so in the future. Expense reduction measures that we have implemented over the past several years, and additional action we are taking to reduce costs, may adversely affect our ability to introduce new and improved products which may, in turn, adversely affect our relationships with some of our key customers. Further, some of our customers may in the future shift their purchases of products from us to our competitors or to joint ventures between these customers and our competitors. The loss of one or more of our largest customers, any reduction or delay in sales to these customers, our inability to successfully develop relationships with additional customers or future price concessions that we may make could significantly harm our business.

Because we do not have long-term contracts with our customers, our customers may cease purchasing our products at any time if we fail to meet our customers' needs.

Typically, we do not have long-term contracts with our customers. As a result, our agreements with our customers do not provide any assurance of future sales. Accordingly:

- our customers can stop purchasing our products at any time without penalty;
- our customers are free to purchase products from our competitors; and
- our customers are not required to make minimum purchases.

Sales are typically made pursuant to inventory hub arrangements under which customers may draw down inventory to satisfy their demand as needed or pursuant to individual purchase orders, often with extremely short lead times. If we are unable to fulfill these orders in a timely manner, it is likely that we will lose sales and customers. If our major customers stop purchasing our products for any reason, our business and results of operations would be harmed.

Table of Contents

Our customers often evaluate our products for long and variable periods, which causes the timing of our revenues and results of operations to be unpredictable.

The period of time between our initial contact with a customer and the receipt of an actual purchase order typically spans over a year. During this time, customers may perform, or require us to perform, extensive and lengthy evaluation and testing of our products before purchasing and using the products in their equipment. These products often take substantial time to develop because of their complexity and because customer specifications sometimes change during the development cycle. Our customers do not typically share information on the duration or magnitude of these qualification procedures. The length of these qualification processes also may vary substantially by product and customer, and, thus, cause our results of operations to be unpredictable. While our potential customers are qualifying our products and before they place an order with us, we may incur substantial research and development and sales and marketing expenses and expend significant management effort. Even after incurring such costs we ultimately may not sell any products to such potential customers. In addition, these qualification processes often make it difficult to obtain new customers, as customers are reluctant to expend the resources necessary to qualify a new supplier if they have one or more existing qualified sources. Once our products have been qualified, the agreements that we enter into with our customers typically contain no minimum purchase commitments. Failure of our customers to incorporate our products into their systems would significantly harm our business.

We may not be able to obtain additional capital in the future, and failure to do so may harm our business.

We believe that our existing balances of cash and cash equivalents, together with the cash expected to be generated from future operations, will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 12 months. We may, however, require additional financing to fund our operations in the future, to finance future acquisitions that we may propose to undertake or to repay or otherwise retire our outstanding 2029 Notes, in the aggregate principal amount of $40 million, which are subject to redemption by the holders in October 2014, 2016, 2019 and 2024, or our 2033 Notes, in the aggregate principal amount of $258.8 million, which are subject to redemption by the holders in December 2018, 2033 and 2028. Due to the unpredictable nature of the capital markets, particularly in the technology sector, we cannot assure you that we will be able to raise additional capital if and when it is required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, or is not available on favorable terms, we could be required to significantly reduce or restructure our business operations. If we do raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our existing stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders.

Our international business and operations expose us to additional risks.

Products shipped to customers located outside the United States account for a majority of our revenues. In addition, we have significant tangible assets located outside the United States. Our principal manufacturing facilities are located in Malaysia and China. We currently operate smaller facilities in Australia, Israel, Korea and Sweden, and we are further expanding one of our manufacturing facilities in China. We also rely on several contract manufacturers located in Asia for our supply of key subassemblies. Conducting business outside the United States subjects us to a number of additional risks and challenges, including:

- periodic changes in a specific country's or region's economic conditions, such as recession;
- compliance with a wide variety of domestic and foreign laws and regulations and unexpected changes in those laws and regulatory requirements, including uncertainties regarding taxes, tariffs, quotas, export controls, export licenses and other trade barriers;
- certification requirements;
- environmental regulations;

- fluctuations in foreign currency exchange rates;
- inadequate protection of intellectual property rights in some countries;
- potential political, legal and economic instability, foreign conflicts, and the impact of regional and global infectious illnesses in the countries in which we and our customers, suppliers and contract manufacturers are located;
- preferences of certain customers for locally produced products;
- difficulties and costs of staffing and managing international operations across different geographic areas and cultures, including assuring compliance with the U.S. Foreign Corrupt Practices Act and other U. S. and foreign anticorruption laws;
- seasonal reductions in business activities in certain countries or regions; and
- fluctuations in freight rates and transportation disruptions.

Table of Contents

These factors, individually or in combination, could impair our ability to effectively operate one or more of our foreign facilities or deliver our products, result in unexpected and material expenses, or cause an unexpected decline in the demand for our products in certain countries or regions. Our failure to manage the risks and challenges associated with our international business and operations could have a material adverse effect on our business.
Our future operating results may be subject to volatility as a result of exposure to foreign exchange risks.

We are exposed to foreign exchange risks. Foreign currency fluctuations may affect both our revenues and our costs and expenses and significantly affect our operating results. Prices for our products are currently denominated in U.S. dollars for sales to our customers throughout the world. If there is a significant devaluation of the currency in a specific country relative to the dollar, the prices of our products will increase relative to that country's currency, our products may be less competitive in that country and our revenues may be adversely affected.

Although we price our products in U.S. dollars, portions of both our cost of revenues and operating expenses are incurred in foreign currencies, principally the Malaysian ringgit, the Chinese yuan, the Australian dollar, the Israeli shekel, the Swedish krona, and the Korean won. As a result, we bear the risk that the rate of inflation in one or more countries will exceed the rate of the devaluation of that country's currency in relation to the U.S. dollar, which would increase our costs as expressed in U.S. dollars. To date, we have not engaged in currency hedging transactions to decrease the risk of financial exposure from fluctuations in foreign exchange rates.

Our failure to protect our intellectual property may significantly harm our business.

Our success and ability to compete is dependent in part on our proprietary technology. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements to establish and protect our proprietary rights. We license certain of our proprietary technology, including our digital diagnostics technology, to customers who include current and potential competitors, and we rely largely on provisions of our licensing agreements to protect our intellectual property rights in this technology. Although a number of patents have been issued to us, we have obtained a number of other patents as a result of our acquisitions, and we have filed applications for additional patents, we cannot assure you that any patents will issue as a result of pending patent applications or that our issued patents will be upheld. Additionally, significant technology used in our product lines is not the subject of any patent protection, and we may be unable to obtain patent protection on such technology in the future. Any infringement of our proprietary rights could result in significant litigation costs, and any failure to adequately protect our proprietary rights could result in our competitors offering similar products, potentially resulting in loss of a competitive advantage and decreased revenues.

Despite our efforts to protect our proprietary rights, existing patent, copyright, trademark and trade secret laws afford only limited protection. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States. Attempts may be made to copy or reverse engineer aspects of our products or to obtain and use information that we regard as proprietary. Accordingly, we may not be able to prevent misappropriation of our technology or deter others from developing similar technology. Furthermore, policing the unauthorized use of our products is difficult and expensive. We are currently engaged in pending litigation to enforce certain of our patents, and additional litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. In connection with the pending litigation, substantial management time has been, and will continue to be, expended. In addition, we have incurred, and we expect to continue to incur, substantial legal expenses in connection with these pending lawsuits. These costs and this diversion of resources could significantly harm our business.

Claims that we or any user of our products infringe third-party intellectual property rights could result in significant expenses or restrictions on our ability to sell our products.

The networking industry is characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. We are currently involved as a defendant in patent infringement litigation and have been involved in the past as a defendant in such lawsuits. In one such lawsuit involving two of our cable TV products, we were found liable for infringement, and the two products have subsequently been redesigned. In addition, in connection with a patent infringement lawsuit that we initiated in January 2010, the defendants raised counterclaims alleging patent infringement by us, and in a later case, the defendant also raised patent infringement counterclaims against us. In connection with our settlement of two of the cases, we received royalty free licenses to the patents involved. While, as a result of various procedural events in the 2010 lawsuit and a tolling agreement between the parties, certain patent counterclaims are not currently being asserted against us, such claims could be re-asserted against us in the future. From time to time, other parties may assert patent, copyright, trademark and other intellectual property rights to technologies and in various jurisdictions that are important to our business. Any claims asserting that our products infringe or may infringe proprietary rights of third parties, if determined adversely to us,

Table of Contents

could significantly harm our business. Further, claims against a user of our products in combination with other products that such use infringes proprietary rights of third parties could cause users to choose to not or be required to not utilize our products in such combination, which could harm our sales of such products. Any claims, against us or any use of our products, with or without merit, could be time-consuming, result in costly litigation, divert the efforts of our technical and management personnel, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could significantly harm our business. In addition, our agreements with our customers typically require us to indemnify our customers from any expense or liability resulting from claimed infringement of third party intellectual property rights. In the event a claim against us was successful and we could not obtain a license to the relevant technology on acceptable terms or license a substitute technology or redesign our products to avoid infringement, our business would be significantly harmed.

Numerous patents in our industry are held by others, including academic institutions and competitors. Optical subsystem suppliers may seek to gain a competitive advantage or other third parties may seek an economic return on their intellectual property portfolios by making infringement claims against us. In the future, we may need to obtain license rights to patents or other intellectual property held by others to the extent necessary for our business. Unless we are able to obtain those licenses on commercially reasonable terms, patents or other intellectual property held by others could inhibit our development of new products. Licenses granting us the right to use third party technology may not be available on commercially reasonable terms, if at all. Generally, a license, if granted, would include payments of up-front fees, ongoing royalties or both. These payments or other terms could have a significant adverse impact on our operating results.

Our products may contain defects that may cause us to incur significant costs, divert our attention from product development efforts and result in a loss of customers.

Our products are complex and defects may be found from time to time. Networking products frequently contain undetected software or hardware defects when first introduced or as new versions are released. In addition, our products are often embedded in or deployed in conjunction with our customers' products which incorporate a variety of components produced by third parties. As a result, when problems occur, it may be difficult to identify the source of the problem. These problems may cause us to incur significant damages or warranty and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relation problems or loss of customers, all of which would harm our business.

If we are unable to retain our key management and technical personnel and attract and retain additional key personnel as required, our business could be significantly harmed.

Our future success is substantially dependent upon the continued contributions of the members of our senior management team, many of whom have years of management, engineering, sales, marketing and manufacturing experience that would be difficult to replace. We also believe our future success will depend in large part upon our ability to attract and retain additional highly skilled managerial, technical, sales and marketing, finance and manufacturing personnel. In particular, we will need to increase the number of our technical staff members with experience in high-speed networking applications as we further develop our product lines. Competition for these highly skilled employees in our industry is intense. In making employment decisions, particularly in the high-technology industries, job candidates often consider the value of the equity they are to receive in connection with their employment. Therefore, significant volatility in the price of our common stock may adversely affect our ability to attract or retain key management and technical personnel. The loss of service of any our key management or technical employees, our inability to attract or retain qualified personnel in the future or delays in hiring key personnel, as required, could significantly harm our business. In addition, employees may leave our company and subsequently compete against us. Moreover, companies in our industry whose employees accept positions with competitors frequently claim that their competitors have engaged in unfair hiring practices. We have been subject to claims of this type and may be subject to such claims in the future as we seek to hire qualified personnel. Some of these claims may result in material litigation. We could incur substantial costs in defending ourselves against these claims, regardless of their merits.

Our business and future operating results are subject to a wide range of uncertainties arising out of the continuing threat of terrorist attacks and ongoing military actions in the Middle East.

Like other U.S. companies, our business and operating results are subject to uncertainties arising out of the continuing threat of terrorist attacks on the United States and ongoing military actions in the Middle East, including the economic consequences of the war in Afghanistan or additional terrorist activities and associated political instability, and the impact of heightened security concerns on domestic and international travel and commerce. In particular, due to these uncertainties we are subject to:

- increased risks related to the operations of our manufacturing facilities in Malaysia;

- greater risks of disruption in the operations of our China, Singapore and Israeli facilities and our Asian contract manufacturers, including contract manufacturers located in Thailand, and more frequent instances of shipping delays; and
- the risk that future tightening of immigration controls may adversely affect the residence status of non-U.S. engineers and other key technical employees in our U.S. facilities or our ability to hire new non-U.S. employees in such facilities.

Future acquisitions could be difficult to integrate, disrupt our business, dilute stockholder value and harm our operating results.

In addition to our combination with Optium in August 2008 and our acquisitions of Ignis in May 2011 and Red-C in July 2012, we have completed the acquisition of ten privately-held companies and certain businesses and assets from six other companies since October 2000. We continue to review opportunities to acquire other businesses, product lines or technologies that would complement our current products, expand the breadth of our markets or enhance our technical capabilities, or that may otherwise offer growth opportunities, and we from time to time make proposals and offers, and take other steps, to acquire businesses, products and technologies.

The Optium merger and several of our other past acquisitions have been material, and acquisitions that we may complete in the future may be material. In 13 of our 19 acquisitions, we issued common stock or notes convertible into common stock as all or a portion of the consideration. The issuance of common stock or other equity securities by us in connection with any future acquisition would dilute our stockholders' percentage ownership.

Other risks associated with acquiring the operations of other companies include:

- problems assimilating the purchased operations, technologies or products;
- unanticipated costs associated with the acquisition;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience; and
- potential loss of key employees of purchased organizations.

Not all of our past acquisitions have been successful. In the past, we have subsequently sold some of the assets acquired in prior acquisitions, discontinued product lines and closed acquired facilities. As a result of these activities, we incurred significant restructuring charges and charges for the write-down of assets associated with those acquisitions. Through fiscal 2013, we have written off all of the goodwill associated with our past acquisitions with the exception of the recently completed acquisitions of Ignis and Red-C. We cannot assure you that we will be successful in overcoming problems encountered in connection with the recent Ignis acquisition or potential future acquisitions, and our inability to do so could significantly harm our business. In addition, to the extent that the economic benefits associated with the Ignis acquisition or any of our future acquisitions diminish in the future, we may be required to record additional write downs of goodwill, intangible assets or other assets associated with such acquisitions, which would adversely affect our operating results.

We have made and may continue to make strategic investments which may not be successful, may result in the loss of all or part of our invested capital and may adversely affect our operating results.

Since inception we have made minority equity investments in a number of early-stage technology companies, totaling approximately $61.9 million. Our investments in these early stage companies were primarily motivated by our desire to gain early access to new technology. We intend to review additional opportunities to make strategic equity investments in pre-public companies where we believe such investments will provide us with opportunities to gain access to important technologies or otherwise enhance important commercial relationships. We have little or no influence over the early-stage companies in which we have made or may make these strategic, minority equity investments. Each of these investments in pre-public companies involves a high degree of risk. We may not be successful in achieving the financial, technological or commercial advantage upon which any given investment is premised, and failure by the early-stage company to achieve its own business objectives or to raise capital needed on acceptable economic terms could result in a loss of all or part of our invested capital. Between fiscal 2003 and 2013, we wrote off an aggregate of $26.2 million in seven investments which became impaired and reclassified $4.2 million of another investment to goodwill as the investment was deemed to have no value. We may be required to write off all or a portion of the $2.0 million in such equity investments remaining on our balance sheet as of January 26, 2014 in future periods.

Table of Contents

Our ability to utilize certain net operating loss carryforwards and tax credit carryforwards may be limited under Sections 382 and 383 of the Internal Revenue Code.

As of April 28, 2013, we had net operating loss, or NOL, carryforward amounts of approximately $467.3 million, $160.4 million and $75.7 million for U.S. federal, state and foreign income tax purposes, respectively, and tax credit carryforward amounts of approximately $22.8 million and $14.9 million for U.S. federal and state income tax purposes, respectively. The federal and state tax credit carryforwards will expire at various dates beginning in 2014 through 2032, and $108,000 of such carryforwards will expire in the next five years. The federal and state NOL carryforwards will expire at various dates beginning in 2014 through 2029, and $127.2 million of such carryforwards will expire in the next five years. Utilization of these NOL and tax credit carryforward amounts may be subject to a substantial annual limitation if the ownership change limitations under Sections 382 and 383 of the Internal Revenue Code and similar state provisions are triggered by changes in the ownership of our capital stock. Such an annual limitation could result in the expiration of the NOL and tax credit carryforward amounts before utilization.

We will lose sales if we are unable to obtain government authorization to export certain of our products, and we would be subject to legal and regulatory consequences if we do not comply with applicable export control laws and regulations.

Exports of certain of our products are subject to export controls imposed by the U.S. Government and administered by the United States Departments of State and Commerce. In certain instances, these regulations may require pre-shipment authorization from the administering department. For products subject to the Export Administration Regulations, or EAR, administered by the Department of Commerce's Bureau of Industry and Security, the requirement for a license is dependent on the type and end use of the product, the final destination, the identity of the end user and whether a license exception might apply. Virtually all exports of products subject to the International Traffic in Arms Regulations, or ITAR, administered by the Department of State's Directorate of Defense Trade Controls, require a license. Certain of our fiber optics products are subject to EAR and certain of our RF-over-fiber products, as well as certain products developed with government funding, are currently subject to ITAR. Products developed and manufactured in our foreign locations are subject to export controls of the applicable foreign nation.

Given the current global political climate, obtaining export licenses can be difficult and time-consuming. Failure to obtain export licenses for these shipments could significantly reduce our revenue and materially adversely affect our business, financial condition and results of operations. Compliance with U.S. Government regulations also subjects us to additional fees and costs. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position.

We have previously been the subject of inquiries from the Department of State and the Department of Justice regarding compliance with ITAR. Although these inquiries were closed with no action being taken, we expended significant time and resources to resolve them, and future inquiries of this type could also be costly to resolve.

We are subject to pending securities class action and shareholder derivative legal proceedings.

Several securities class action lawsuits were filed against us and our Chairman of the Board, Chief Executive Officer and Chief Financial Officer following our March 8, 2011 announcement of unaudited financial results for the third quarter of fiscal 2011 and our financial outlook for the fourth quarter of fiscal 2011. We also have been named as a nominal defendant in several shareholder derivative lawsuits filed in 2011 concerning our March 8, 2011 earnings announcement. No specific amounts of damages have been alleged in the class action lawsuits and, by the nature of the lawsuits, no damages will be alleged against Finisar in the derivative lawsuits.

We will continue to incur legal fees in connection with these pending cases, including expenses for the reimbursement of legal fees of present and former officers and directors under indemnification obligations. The expense of continuing to defend such litigation may be significant. We intend to defend these lawsuits vigorously, however there can be no assurance that we will be successful in any defense. If any of the lawsuits related to our earnings announcement are adversely decided, we may be liable for significant damages directly or under our indemnification obligations, which could adversely affect our business, results of operations and cash flows. Further, the amount of time that will be required to resolve these lawsuits is unpredictable and these actions may divert management's attention from the day-to-day operations of our business, which could adversely affect our business, results of operations and cash flows.

Table of Contents

Our business and future operating results may be adversely affected by events outside our control.

Our business and operating results are vulnerable to events outside of our control, such as earthquakes, floods, fire, power loss, telecommunication failures and uncertainties arising out of terrorist attacks in the United States and overseas. Our corporate headquarters and a portion of our manufacturing operations are located in California, and our principal manufacturing operations and those of most of our key suppliers and contract manufacturers are located in Asia. These areas have been vulnerable to natural disasters, such as earthquakes, floods and fires, and other risks which at times have disrupted the local economy and posed physical risks to our property. We are also dependent on communications links with our overseas manufacturing locations and would be significantly harmed if these links were interrupted for any significant length of time. We presently do not have adequate redundant, multiple site capacity if any of these events were to occur, nor can we be certain that the insurance we maintain against these events would be adequate.

The conversion of our outstanding convertible subordinated notes would result in dilution to our current stockholders.

As of January 26, 2014, we had outstanding an aggregate principal amount of $40.0 million of our 2029 Notes and an aggregate principal amount of $258.8 million of our 2033 Notes. The 2029 Notes are convertible, at the option of the holder, at any time on or prior to maturity into shares of our common stock at a conversion price of $10.68 per share, and the 2033 Notes are convertible at the option of the holder, under certain circumstances, into shares of our common stock at an initial conversion price of $30.18 per share, subject to adjustment. An aggregate of approximately 3,748,478 shares of common stock would be issued upon the conversion of all outstanding 2029 Notes and an aggregate of approximately 8,572,413 shares of common stock would be issued upon the conversion of all outstanding 2033 Notes at these conversion prices, which would dilute the voting power and ownership percentage of our existing stockholders. We have previously entered into privately negotiated transactions with certain holders of our convertible notes for the repurchase of notes in exchange for a greater number of shares of our common stock than would have been issued had the principal amount of the notes been converted at the original conversion rate specified in the notes, thus resulting in more dilution. We may enter into similar transactions in the future and, if we do so, there will be additional dilution to the voting power and percentage ownership of our existing stockholders.

Delaware law, our charter documents and our stockholder rights plan contain provisions that could discourage or prevent a potential takeover, even if such a transaction would be beneficial to our stockholders.

Some provisions of our certificate of incorporation and bylaws, as well as provisions of Delaware law, may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable. These include provisions:

- authorizing the board of directors to issue additional preferred stock;
- prohibiting cumulative voting in the election of directors;
- limiting the persons who may call special meetings of stockholders;
- prohibiting stockholder actions by written consent;
- creating a classified board of directors pursuant to which our directors are elected for staggered three-year terms;
- permitting the board of directors to increase the size of the board and to fill vacancies;
- requiring a super-majority vote of our stockholders to amend our bylaws and certain provisions of our certificate of incorporation; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law which limit the right of a corporation to engage in a business combination with a holder of 15% or more of the corporation's outstanding voting securities, or certain affiliated persons.

Although we believe that these charter and bylaw provisions and provisions of Delaware law provide an opportunity for the board to assure that our stockholders realize full value for their investment, they could have the effect of delaying or preventing a change of control, even under circumstances that some stockholders may consider beneficial.

We do not currently intend to pay dividends on Finisar common stock and, consequently, a stockholder's ability to achieve a return on such stockholder's investment will depend on appreciation in the price of the common stock.

We have never declared or paid any cash dividends on Finisar common stock and we do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, a stockholder is not likely to receive any dividends on such stockholder's common stock for the foreseeable future.

Table of Contents

Our stock price has been and is likely to continue to be volatile.

The trading price of our common stock has been and is likely to continue to be subject to large fluctuations. Our stock price may increase or decrease in response to a number of events and factors, including:

- trends in our industry and the markets in which we operate;
- changes in the market price of the products we sell;
- changes in financial estimates and recommendations by securities analysts;
- acquisitions and financings;
- quarterly variations in our operating results;
- the operating and stock price performance of other companies that investors in our common stock may deem comparable; and
- purchases or sales of blocks of our common stock.

Part of this volatility is attributable to the current state of the stock market, in which wide price swings are common. This volatility may adversely affect the prices of our common stock regardless of our operating performance. If any of the foregoing occurs, our stock price could fall and we may be exposed to class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

Item 6. Exhibits

Exhibit Number	Exhibit Description
4.1	Indenture dated as of December 16, 2013, by and between Finisar Corporation and Wells Fargo Bank, National Association (1)
10.1	Purchase Agreement dated December 10, 2013, by and between Finisar Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated
31.1	Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chairman of the Board Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document

101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

____

(1) Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K filed December 16, 2013.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FINISAR CORPORATION

By: /s/ JERRY S. RAWLS
Jerry S. Rawls
Chairman of the Board of Directors (Co-Principal Executive Officer)

By: /s/ EITAN GERTEL
Eitan Gertel
Chief Executive officer (Co-Principal Executive Officer)

By: /s/ KURT ADZEMA
Kurt Adzema
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: March 6, 2014