OCLARO, INC.

FORM 10-Q
(Quarterly Report)

Filed 11/07/16 for the Period Ending 10/01/16

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Telephone	(408) 383-1400
CIK	0001110647
Symbol	OCLR
SIC Code	3674 - Semiconductors and Related Devices
Industry	Communications & Networking
Sector	Technology
Fiscal Year	07/02

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2016

OR

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

For the transition period from __________ to __________

Commission file number 000-30684

OCLARO, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-1303994**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

225 Charcot Avenue, San Jose, California 95134
(Address of principal executive offices, zip code)

(408) 383-1400
(Registrant's telephone number, including area code)

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

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

Indicate by check mark 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	☐		Accelerated filer	☒
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐

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

165,915,155 shares of common stock outstanding as of November 1, 2016

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

OCLARO, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	October 1, 2016	July 2, 2016
	(Thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 228,580	$ 95,929
Restricted cash	715	715
Accounts receivable, net of allowances for doubtful accounts of $1,667 and $1,674 as of October 1, 2016 and July 2, 2016, respectively	95,499	93,571
Inventories	79,951	76,369
Prepaid expenses and other current assets	29,270	23,591
Total current assets	434,015	290,175
Property and equipment, net	76,800	65,045
Other intangible assets, net	1,245	1,498
Other non-current assets	2,466	2,331
Total assets	$ 514,526	$ 359,049
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 73,528	$ 71,201
Accrued expenses and other liabilities	38,994	34,818
Capital lease obligations, current	3,264	3,753
Total current liabilities	115,786	109,772
Deferred gain on sale-leaseback	6,450	6,809
Convertible notes payable	—	62,058
Capital lease obligations, non-current	1,966	2,105
Other non-current liabilities	11,843	11,694
Total liabilities	136,045	192,438
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock: 1,000 shares authorized; none issued and outstanding	—	—
Common stock: $0.01 par value per share; 275,000 shares authorized; 165,902 shares issued and outstanding at October 1, 2016 and 112,207 shares issued and outstanding at July 2, 2016	1,659	1,122
Additional paid-in capital	1,678,708	1,471,280
Accumulated other comprehensive income	40,375	39,821
Accumulated deficit	(1,342,261)	(1,345,612)
Total stockholders' equity	378,481	166,611
Total liabilities and stockholders' equity	$ 514,526	$ 359,049

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

OCLARO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended	
	October 1, 2016	September 26, 2015
	(Thousands, except per share amounts)	
Revenues	$ 135,492	$ 87,550
Cost of revenues	89,136	64,853
Gross profit	46,356	22,697
Operating expenses:		
Research and development	13,107	10,945
Selling, general and administrative	14,792	13,208
Amortization of other intangible assets	244	251
Restructuring, acquisition and related (income) expense, net	311	32
(Gain) loss on sale of property and equipment	(37)	213
Total operating expenses	28,417	24,649
Operating income (loss)	17,939	(1,952)
Other income (expense):		
Interest income (expense), net	(13,858)	(1,276)
Gain (loss) on foreign currency transactions, net	(518)	504
Other income (expense), net	194	113
Total other income (expense)	(14,182)	(659)
Income (loss) before income taxes	3,757	(2,611)
Income tax provision	406	899
Net income (loss)	$ 3,351	$ (3,510)
Net income (loss) per share:		
Basic	$ 0.03	$ (0.03)
Diluted	$ 0.02	$ (0.03)
Shares used in computing net income (loss) per share:		
Basic	132,480	109,458
Diluted	135,529	109,458

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

OCLARO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended	
	October 1, 2016	September 26, 2015
	(Thousands)	
Net income (loss)	$ 3,351	$ (3,510)
Other comprehensive income (loss):		
Currency translation adjustments	554	(1,883)
Pension adjustments	—	(10)
Total comprehensive income (loss)	$ 3,905	$ (5,403)

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

OCLARO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	October 1, 2016	September 26, 2015
	(Thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 3,351	$ (3,510)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of deferred gain on sale-leaseback	(190)	(223)
Amortization of debt discount and issuance costs in connection with convertible notes payable	102	203
Depreciation and amortization	4,992	4,098
Interest make-whole charge and induced conversion expense related to convertible notes	8,463	—
Stock-based compensation expense	2,443	1,824
Other non-cash adjustments	(37)	213
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,883)	(4,698)
Inventories	(3,547)	(1,737)
Prepaid expenses and other current assets	(5,983)	1,878
Other non-current assets	(120)	(13)
Accounts payable	(7,605)	(1,190)
Accrued expenses and other liabilities	4,340	218
Net cash provided by (used in) operating activities	3,326	(2,937)
Cash flows from investing activities:		
Purchases of property and equipment	(5,997)	(3,826)
Transfer from restricted cash	—	676
Net cash used in investing activities	(5,997)	(3,150)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	1,260	9
Shares repurchased for tax withholdings on vesting of restricted stock units	(1,755)	—
Proceeds from the sale of common stock in connection with the public offering, net of expenses	135,153	—
Payments on capital lease obligations	(679)	(765)
Net cash provided by (used in) financing activities	133,979	(756)
Effect of exchange rate on cash and cash equivalents	1,343	145
Net increase (decrease) in cash and cash equivalents	132,651	(6,698)
Cash and cash equivalents at beginning of period	95,929	111,840
Cash and cash equivalents at end of period	$ 228,580	$ 105,142
Supplemental disclosures of cash flow information:		
Cash paid for interest make-whole and induced conversion charges related to the exercise of convertible notes	$ 4,700	$ —
Supplemental disclosures of non-cash transactions:		
Issuance of common stock in exchange for the net carrying value of the liability component of the convertible notes	$ 62,125	$ —
Purchases of property and equipment funded by accounts payable	$ 10,254	$ —

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

OCLARO, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BASIS OF PREPARATION

Basis of Presentation

Oclaro, Inc., a Delaware corporation, is sometimes referred to in this Quarterly Report on Form 10-Q as “Oclaro,” “we,” “us” or “our.”

The accompanying unaudited condensed consolidated financial statements of Oclaro as of October 1, 2016 and for the three months ended October 1, 2016 and September 26, 2015 have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Article 10 of Securities and Exchange Commission ("SEC") Regulation S-X, and include the accounts of Oclaro and all of our subsidiaries. Accordingly, they do not include all of the information and footnotes required by such accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our consolidated financial position and results of operations have been included. The condensed consolidated results of operations for the three months ended October 1, 2016 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending July 1, 2017 .

The condensed consolidated balance sheet as of July 2, 2016 has been derived from our audited financial statements as of such date, but does not include all disclosures required by U.S. GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with our audited financial statements included in our Annual Report on Form 10-K for the year ended July 2, 2016 (" 2016 Form 10-K").

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported periods. Examples of significant estimates and assumptions made by management involve the fair value of other intangible assets and long-lived assets, valuation allowances for deferred tax assets, the fair value of stock-based compensation, the fair value of embedded derivatives related to convertible debt, the fair value of pension liabilities, estimates for allowances for doubtful accounts and valuation of excess and obsolete inventories. These judgments can be subjective and complex and consequently actual results could differ materially from those estimates and assumptions. Descriptions of the key estimates and assumptions are included in our 2016 Form 10-K.

Fiscal Years

We operate on a 52/53 week year ending on the Saturday closest to June 30. Our fiscal year ending July 1, 2017 will be a 52 week year, with the quarter ended October 1, 2016 being a 13 week quarterly period. Our fiscal year ended July 2, 2016 was a 53 week year, with the quarter ended September 26, 2015 being a 13 week quarterly period.

Reclassifications

For presentation purposes, we have reclassified certain prior period amounts to conform to the current period financial statement presentation. These reclassifications did not affect our consolidated revenues, net loss, cash flows, cash and cash equivalents or stockholders’ equity as previously reported.

Recent Developments

In August 2016, we entered into multiple privately negotiated agreements, pursuant to which all of our 6.00% Notes were cancelled, and the indenture, by and between us and U.S. Bank National Association, pursuant to which the 6.00% Notes were issued, was satisfied and discharged. In connection with these privately negotiated agreements, we issued a total of 34,659,972 shares of our common stock and made total cash payments of $4.7 million . See Note 5, *Credit Line and Notes* , for additional information.

In September 2016, we entered into an underwriting agreement with Jefferies LLC, as representative of several underwriters, pursuant to which we sold 17,250,000 shares of our common stock in a public offering. The net proceeds to us after deducting estimated underwriting discounts and commissions and estimated offering expenses was approximately $135.2 million . See Note 3, *Balance Sheet Details* for additional information.

NOTE 2. RECENT ACCOUNTING STANDARDS

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* to reduce the diversity in practice related to the presentation and classification of various cash flow scenarios. This guidance will be effective for us in the first quarter of fiscal 2019, with early adoption permitted. We are currently evaluating the impact that the implementation of this standard will have on our financial statements and footnote disclosures.

In May 2014 and May 2016, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* and ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients* , respectively. These updates clarify the principles for recognizing revenue and develop a common revenue standard for GAAP and International Financial Reporting Standards. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. This guidance will be effective for us in the first quarter of fiscal 2019, with early adoption permitted for periods beginning after December 15, 2016. We are currently evaluating the impact that the implementation of this standard will have on our financial statements and footnote disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation: Improvements to Employee Share-Based Payment Accounting* , which simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards, and classification on the statement of cash flows. This guidance will be effective for us in the first quarter of fiscal 2018, with early adoption permitted. We are currently evaluating the impact that the implementation of this standard will have on our financial statements and footnote disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* , which requires recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance will be effective for us in the first quarter of fiscal 2020, with early adoption permitted. We are currently evaluating the impact that the implementation of this standard will have on our financial statements and footnote disclosures.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments* . This amendment requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance is effective for us prospectively in the first quarter of fiscal year 2017. This guidance did not have a material impact on our financial statements and footnote disclosures.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory: Simplifying the Measurement of Inventory*. Under ASU 2015-11, we are required to measure inventory at the lower of cost and net realizable value. This guidance clarifies that net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This guidance is effective for us prospectively in the first quarter of fiscal year 2017. This guidance did not have a material impact on our financial statements and footnote disclosures.

In April 2015, the FASB issued ASU No. 2015-04, *Compensation – Retirement Benefits: Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets* . ASU 2015-04 provides a practical expedient for employers with fiscal year-ends that do not fall on a month-end by permitting those employers to measure defined benefit plan assets and obligations as of the month-end that is closest to the entity's fiscal year-end. This guidance is effective for us prospectively in the first quarter of fiscal year 2017. This guidance did not have a material impact on our financial statements and footnote disclosures.

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement - Extraordinary and Unusual Items* . This ASU eliminates from U.S. GAAP the concept of extraordinary items. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. This guidance is effective for us prospectively in the first quarter of fiscal year 2017. This guidance did not have a material impact on our financial statements and footnote disclosures.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements—Going Concern.* The update provides U.S. GAAP guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. This guidance is effective for us beginning with our annual financial statements for the fiscal year ended July 1, 2017. This guidance did not have a material impact on our financial statements and footnote disclosures.

NOTE 3. BALANCE SHEET DETAILS

Cash and Cash Equivalents

The following table provides details regarding our cash and cash equivalents at the dates indicated:

	October 1, 2016	July 2, 2016
	(Thousands)	
Cash and cash equivalents:		
Cash-in-bank	$ 71,319	$ 70,925
Money market funds	157,261	25,004
	$ 228,580	$ 95,929

Restricted Cash

As of October 1, 2016 , we had restricted cash of $1.1 million , including $0.4 million in other non-current assets, consisting of collateral for the performance of our obligations under certain lease facility agreements, collateral to secure certain of our credit card accounts and deposits for value-added taxes in foreign jurisdictions.

Inventories

The following table provides details regarding our inventories at the dates indicated:

	October 1, 2016	July 2, 2016
	(Thousands)	
Inventories:		
Raw materials	$ 28,777	$ 23,751
Work-in-process	31,076	32,819
Finished goods	20,098	19,799
	$ 79,951	$ 76,369

Property and Equipment, Net

The following table provides details regarding our property and equipment, net at the dates indicated:

	October 1, 2016	July 2, 2016
	(Thousands)	
Property and equipment, net:		
Buildings and improvements	$ 10,264	$ 10,389
Plant and machinery	75,574	59,696
Fixtures, fittings and equipment	2,954	3,005
Computer equipment	9,914	9,846
	98,706	82,936
Less: Accumulated depreciation	(21,906)	(17,891)
	$ 76,800	$ 65,045

Property and equipment includes assets under capital leases of $5.2 million at October 1, 2016 and $5.9 million at July 2, 2016 , respectively. Amortization associated with assets under capital leases is recorded in depreciation expense.

Other Intangible Assets, Net

The following table summarizes the activity related to our other intangible assets for the three months ended October 1, 2016 :

	Core and Current Technology	Development and Supply Agreements	Customer Relationships	Patent Portfolio	Other Intangibles	Amortization	Total
				(Thousands)			
Balance at July 2, 2016	$ 6,249	$ 4,509	$ 2,402	$ 915	$ 3,338	$ (15,915)	$ 1,498
Amortization	—	—	—	—	—	(244)	(244)
Translations and adjustments	—	(9)	—	—	—	—	(9)
Balance at October 1, 2016	$ 6,249	$ 4,500	$ 2,402	$ 915	$ 3,338	$ (16,159)	$ 1,245

We expect the amortization of intangible assets to be $0.6 million for the remainder of fiscal year 2017 and $0.6 million for fiscal year 2018, based on the current level of our other intangible assets as of October 1, 2016 .

Accrued Expenses and Other Liabilities

The following table presents details regarding our accrued expenses and other liabilities at the dates indicated:

	October 1, 2016	July 2, 2016
	(Thousands)	
Accrued expenses and other liabilities:		
Trade payables	$ 9,357	$ 6,429
Compensation and benefits related accruals	14,856	14,038
Warranty accrual	4,600	3,827
Accrued restructuring, current	—	204
Purchase commitments in excess of future demand, current	1,331	1,723
Other accruals	8,850	8,597
	$ 38,994	$ 34,818

Common Stock

In August 2016, we issued a total of 34,659,972 shares of our common stock in connection with the cancellation of our 6.00% Notes. See Note 5, *Credit Line and Notes* , for additional information.

On September 21, 2016, we entered into an underwriting agreement (the "Underwriting Agreement") with Jefferies LLC, as representative of the several underwriters (the "Underwriters"), relating to the offering, issuance and sale (the "Offering") of 15.0 million shares of our common stock, par value $0.01 per share (the "Common Stock"). The price to the public in the Offering was $8.35 per share. Under the terms of the Underwriting Agreement, we granted the Underwriters a 30 -day option to purchase up to an additional 2,250,000 shares of Common Stock. The option was exercised in full by the Underwriters on September 23, 2016. All of the shares in the Offering were sold by us. The Offering closed on September 27, 2016, subject to customary closing conditions. The net proceeds to us after deducting estimated underwriting discounts and commissions and estimated offering expenses are approximately $135.2 million.

Accumulated Other Comprehensive Income

The following table presents the components of accumulated other comprehensive income at the dates indicated:

	October 1, 2016	July 2, 2016
	(Thousands)	
Accumulated other comprehensive income:		
Currency translation adjustments	$ 40,738	$ 40,184
Japan defined benefit plan	(363)	(363)
	$ 40,375	$ 39,821

NOTE 4. FAIR VALUE

We define fair value as the estimated price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value measurements for assets and liabilities which are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk. We apply the following fair value hierarchy, which ranks the quality and reliability of the information used to determine fair values:

Level 1- Quoted prices in active markets for identical assets or liabilities.

Level 2- Inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices of identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3- Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Our cash equivalents are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include most marketable securities and money market securities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are shown in the table below by their corresponding balance sheet caption and consisted of the following types of instruments at October 1, 2016 and July 2, 2016 :

	Fair Value Measurement at October 1, 2016 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(Thousands)			
Assets:				
Cash and cash equivalents: (1)				
Money market funds	$ 157,261	$ —	$ —	$ 157,261
Restricted cash:				
Money market funds	712	—	—	712
Total assets measured at fair value	$ 157,973	$ —	$ —	$ 157,973

(1) Excludes $71.3 million in cash held in our bank accounts at October 1, 2016 .

	Fair Value Measurement at July 2, 2016 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(Thousands)			
Assets:				
Cash and cash equivalents: (1)				
Money market funds	$ 25,004	$ —	$ —	$ 25,004
Restricted cash:				
Money market funds	712	—	—	712
Total assets measured at fair value	$ 25,716	$ —	$ —	$ 25,716

(1) Excludes $70.9 million in cash held in our bank accounts at July 2, 2016 .

NOTE 5. CREDIT LINE AND NOTES

6.00% Convertible Senior Notes due 2020 (" 6.00% Notes")

On February 12, 2015, we entered into a Purchase Agreement (the "Purchase Agreement"), with Jefferies LLC (the "Initial Purchaser"), pursuant to which we agreed to issue and sell to the Initial Purchaser up to $65.0 million in aggregate principal Convertible Senior Notes due 2020 (the " 6.00% Notes"). On February 19, 2015, we closed the private placement of $65.0 million aggregate principal amount of the 6.00% Notes. The 6.00% Notes were sold at 100 percent of par, resulting in net proceeds of approximately $61.6 million , after deducting the Initial Purchaser's discounts of $3.4 million . We also incurred offering expenses of $0.6 million . The net proceeds of this offering are being used for general corporate purposes, including working capital for, among other things, investing in development of new products and technologies.

The Purchase Agreement contains customary representations and warranties of the parties and indemnification and contribution provisions under which we, on the one hand, and the Initial Purchaser, on the other, have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act").

Prior to February 15, 2018, in the event that the last reported sale price of our common stock for 20 or more trading days (whether or not consecutive) in a period of 30 consecutive trading days ending within five trading days immediately prior to the date we receive a notice of conversion exceeds the conversion price in effect on each such trading day, we will, in addition to delivering shares upon conversion by the holder of 6.00% Notes, together with cash in lieu of fractional shares, make an interest make-whole payment in cash equal to the sum of the remaining scheduled payments of interest on the 6.00% Notes to be converted through February 15, 2018.

The 6.00% Notes were scheduled to mature on February 15, 2020 and bear interest at a fixed rate of 6.00 percent per year, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on August 15, 2015. In August 2016, we entered into multiple privately negotiated agreements, pursuant to which all of our 6.00% Notes were canceled, and the indenture, by and between us and U.S. Bank National Association, pursuant to which the 6.00% Notes were issued, was satisfied and discharged. In connection with these privately negotiated agreements, we issued a total of 34,659,972 shares of our common stock and made total cash payments of $4.7 million .

- On August 8, 2016, we entered into a privately negotiated agreement pursuant to which we (i) issued 12,051,282 shares of our common stock, and (ii) made a cash payment equal to $4.7 million during August 2016 in exchange for approximately $23.5 million aggregate principal amount of our 6.00% Notes.
- On August 9, 2016, we entered into privately negotiated agreements pursuant to which we agreed to issue (i) an aggregate of 20,564,101 shares of our common stock, plus (ii) a to be determined number of additional shares of our common stock based on certain formulaic consideration in exchange for $40.1 million aggregate principal amount of our 6.00% Notes. On August 12, 2016, including the additional shares of common stock, we issued an aggregate of 21,852,477 shares of our common stock.
- On August 18, 2016, we entered into privately negotiated agreements, pursuant to which, on August 22, 2016, we issued an aggregate of 756,213 shares of our common stock, in exchange for $1.4 million aggregate principal amount of our 6.00% Notes.

Pursuant to the terms of the indenture governing the 6.00% Notes, we recorded an interest make-whole charge of $5.9 million in interest (income) expense, net, in the condensed consolidated statements of operations for the three months ended October 1, 2016 , which was settled with a combination of common stock issuances and cash payments. We also recorded an induced conversion expense of $7.4 million , which we recorded in interest (income) expense, net, in the condensed consolidated statements of operations for the three months ended October 1, 2016 .

Silicon Valley Bank Credit Facility

On March 28, 2014, we entered into a loan and security agreement (the "Loan Agreement") with Silicon Valley Bank (the "Bank") pursuant to which the Bank provided us with a three -year revolving credit facility of up to $40.0 million . Under the Loan Agreement, advances are available based on up to 80 percent of "eligible accounts" as defined in the Loan Agreement. The Loan Agreement has a $10.0 million sub-facility for letters of credit, foreign exchange contracts and cash management services.

Borrowings made under the Loan Agreement bear interest at a rate based on either the London Interbank Offered Rate plus 2.25 percent or Wall Street Journal's prime rate plus 1.00 percent . If the sum of (a) our unrestricted cash and cash equivalents that are subject to the Bank's liens less (b) the amount outstanding to the Bank under the Loan Agreement (such sum being "Net Cash") is less than $15.0 million , then the interest rates are increased by 0.75 percent until Net Cash exceeds $15.0 million for a calendar month. If interest paid under the Loan Agreement is less than $45,000 in any fiscal quarter, we are required to pay the Bank an additional amount equal to the difference between $45,000 and the actual interest paid during such fiscal quarter. The minimum interest payment is in lieu of a stand-by charge.

If the Loan Agreement terminates prior to its maturity date, we will pay a termination fee equal to 1.00 percent of the total credit facility if such termination occurs in the first year after closing, 0.75 percent of the total credit facility if such termination occurs in the second year after closing and 0.50 percent of the total credit facility if such termination occurs in the third year after closing. The maturity date of the Loan Agreement is March 28, 2017.

At October 1, 2016 and July 2, 2016 , there were no amounts outstanding under the Loan Agreement.

NOTE 6. POST-RETIREMENT BENEFITS

We maintain a defined contribution plan and a defined benefit plan that provides retirement benefits to our employees in Japan. We also contribute to a U.K. based defined contribution pension scheme for employees.

Japan Defined Contribution Plan

Under the defined contribution plan in Japan, contributions are provided based on grade level and totaled $0.1 million and $0.1 million for the three months ended October 1, 2016 and September 26, 2015 , respectively. Employees can elect to receive the benefit as additional salary or contribute the benefit to the plan on a tax-deferred basis.

Japan Defined Benefit Plan

Under the defined benefit plan in Japan (the “Japan Plan”), we calculate benefits based on an employee’s individual grade level and years of service. Employees are entitled to a lump sum benefit upon retirement or upon certain instances of termination.

As of October 1, 2016 , there were no plan assets associated with the Japan Plan. As of October 1, 2016 , there was $0.1 million in accrued expenses and other liabilities and $7.0 million in other non-current liabilities in our condensed consolidated balance sheet to account for the projected benefit obligations under the Japan Plan. Net periodic pension costs for the Japan Plan included the following:

	Three Months Ended	
	October 1, 2016	September 26, 2015
	(Thousands)	
Service cost	$ 172	$ 122
Interest cost	1	10
Net amortization	—	—
Net periodic pension costs	$ 173	$ 132

We made benefit payments under the Japan Plan of $0.1 million and $0.1 million during the three months ended October 1, 2016 and September 26, 2015 , respectively.

U.K. Defined Contribution Pension Scheme

Under the defined contribution pension scheme, contributions totaled $0.3 million and $0.3 million for the three months ended October 1, 2016 and September 26, 2015 , respectively.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Loss Contingencies

We are involved in various lawsuits, claims, and proceedings that arise in the ordinary course of business. We record a loss provision when we believe it is both probable that a liability has been incurred and the amount can be reasonably estimated.

Guarantees

We indemnify our directors and certain employees as permitted by law, and have entered into indemnification agreements with our directors and executive officers. We have not recorded a liability associated with these indemnification arrangements, as we historically have not incurred any material costs associated with such indemnification obligations. Costs associated with such indemnification obligations may be mitigated by insurance coverage that we maintain, however, such insurance may not cover any, or may cover only a portion of, the amounts we may be required to pay. In addition, we may not be able to maintain such insurance coverage in the future.

We also have indemnification clauses in various contracts that we enter into in the normal course of business, such as indemnifications in favor of customers in respect of liabilities they may incur as a result of purchasing our products should such products infringe the intellectual property rights of a third party. We have not historically paid out any material amounts related to these indemnifications; therefore, no accrual has been made for these indemnifications.

Warranty Accrual

We generally provide a warranty for our products for twelve months to thirty-six months from the date of sale, although warranties for certain of our products may be longer. We accrue for the estimated costs to provide warranty services at the time revenue is recognized. Our estimate of costs to service our warranty obligations is based on historical experience and expectation of future conditions. To the extent we experience increased warranty claim activity or increased costs associated with servicing those claims, our warranty costs would increase, resulting in a decrease in gross profit.

The following table summarizes movements in the warranty accrual for the periods indicated:

	Three Months Ended	
	October 1, 2016	**September 26, 2015**
	(Thousands)	
Warranty provision—beginning of period	$ 3,827	$ 2,932
Warranties issued	1,105	504
Warranties utilized or expired	(284)	(253)
Currency translation and other adjustments	(48)	(15)
Warranty provision—end of period	$ 4,600	$ 3,168

Capital Leases

In connection with our acquisition of Opnext, we assumed certain capital leases for certain equipment. The terms of the leases generally range from one to five years and the equipment can be purchased at the residual value upon expiration. We can terminate the leases at our discretion in return for a penalty payment as stated in the lease contracts.

In October 2015, we entered into a capital lease agreement for certain capital equipment. The lease term is for 5 years, after which time the ownership of the equipment will transfer from lessor to us. During the lease term, we will make twenty equal installments of principal and interest, payable quarterly. Interest on the capital lease will accrue at 1.15 percent per annum.

The following table shows the future minimum lease payments due under non-cancelable capital leases at October 1, 2016 :

	Capital Leases
	(Thousands)
Fiscal Year Ending:	
2017 (remaining)	$ 2,907
2018	970
2019	627
2020	666
2021	293
Thereafter	—
Total minimum lease payments	5,463
Less amount representing interest	(233)
Present value of capitalized payments	5,230
Less: current portion	(3,264)
Long-term portion	$ 1,966

Purchase Commitments

We purchase components from a variety of suppliers and use contract manufacturers to provide manufacturing services for our products. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, we enter into agreements with suppliers and contract manufacturers that either allow them to procure inventory based upon criteria as defined by us or establish the parameters defining our requirements. A significant portion of our reported purchase commitments arising from these agreements consist of firm, non-cancelable and unconditional commitments.

We record a liability for firm, non-cancelable and unconditional purchase commitments for quantities in excess of our future demand forecasts consistent with the valuation of our excess and obsolete inventory. As of October 1, 2016 and July 2, 2016 , the liability for these purchase commitments was $1.3 million and $1.7 million , respectively, and was included in accrued expenses and other liabilities in our condensed consolidated balance sheets.

Malaysian Goods and Services Tax ("GST")

In February 2016, the Malaysian tax authorities preliminarily denied our Malaysia GST refund claims representing approximately $2.4 million . These claims were made in connection with the export of finished goods from our contract manufacturing partner's Malaysian facilities. We are currently contesting the denial of these claims before a Malaysian administrative review panel, and believe that additional appeal options may be available to us if we do not obtain a favorable ruling. Although we have taken action to minimize the impact of the GST with respect to our ongoing operations, we believe it is reasonably possible that, ultimately, our refund claims may be partially or fully rejected. We have accounted for the $2.4 million GST claims as a receivable classified in prepaid expenses and other current assets in our condensed consolidated balance sheet at October 1, 2016 .

Litigation

Overview

In the ordinary course of business, we are involved in various legal proceedings, and we anticipate that additional actions will be brought against us in the future. The most significant of these proceedings are described below. These legal proceedings, as well as other matters, involve various aspects of our business and a variety of claims in various jurisdictions. Complex legal proceedings frequently extend for several years, and a number of the matters pending against us are at very early stages of the legal process. As a result, some pending matters have not yet progressed sufficiently through discovery and/or development of important factual information and legal issues to enable us to determine whether the proceeding is material to us or to estimate a range of possible loss, if any. Unless otherwise disclosed, we are unable to estimate the possible loss or range of loss for the legal proceedings described below. While it is not possible to accurately predict or determine the eventual outcomes of these items, an adverse determination in one or more of these items currently pending could have a material adverse effect on our results of operations, financial position or cash flows.

Kunst Worker Compensation Matter

On June 18, 2015, Gerald Kunst, or Kunst, filed a civil suit against us and Travelers Property Casualty Company of America, or Travelers, in Massachusetts Superior Court, Civil Action No. SUCV2015-01818F. Travelers is our general liability insurance carrier. The complaint filed by Kunst, an employee of a third party service provider, alleges that he was injured while performing air conditioning repair services on the premises of our Acton, Massachusetts facility and seeks judgment in an amount to be determined by the court or jury, together with interest and costs. On July 24, 2015, we filed an answer to the complaint, which included our affirmative defenses. A pretrial conference is scheduled for April 12, 2017. We intend to vigorously defend against this litigation.

NOTE 8. EMPLOYEE STOCK PLANS

Stock Incentive Plans

As of October 1, 2016 , there were approximately 8.0 million shares of our common stock available for grant under the Fifth Amended and Restated 2001 Long-Term Stock Incentive Plan (the "Plan").

We generally grant stock options that vest over a two to four year service period, and restricted stock awards and restricted stock unit ("RSU") awards that vest over a one to four year service period, and in certain cases each may vest earlier based upon the achievement of specific performance-based objectives as set by our board of directors or the compensation committee of our board of directors.

Performance Stock Units

In August 2015, our board of directors approved a grant of 0.9 million performance-based restricted stock units ("PSUs") to certain executive officers with an aggregate estimated grant date fair value of $2.5 million . Subject to the achievement of positive free cash flow (defined as adjusted EBITDA less capital expenditures) in any fiscal quarter ending prior to June 30, 2018, vesting of these PSUs is contingent upon service conditions being met through August 10, 2018. On October 29, 2015, the compensation committee of our board of directors certified that this performance condition was achieved during the first quarter of fiscal year 2016. As a result, these PSUs cliff vested with respect to 33.4 percent of the underlying shares on August 10, 2016, and will vest with respect to 8.325 percent of the underlying shares each subsequent quarter over the following two years , subject to continuous service.

In August 2016, our board of directors approved a grant of 0.8 million PSUs to certain executive officers with an aggregate estimated grant date fair value of $4.8 million . Subject to the achievement of an aggregate of $25.0 million or more of free cash flow (defined as adjusted EBITDA less capital expenditures delivered) over any consecutive four fiscal quarters ending on or before June 27, 2020, as determined by our board of directors, these PSUs will vest with respect to 25 percent of the shares subject to the PSUs on August 10, 2017, and with respect to 6.25 percent of the underlying shares each subsequent quarter over the following three years, subject to continuous service.

Restricted Stock Units

In July 2015, our board of directors approved a long term incentive grant of 0.9 million RSUs to certain executive officers and 1.5 million RSUs to other employees, which vest over three years.

In August 2016, our board of directors approved a long term incentive grant of 0.8 million RSUs to certain executive officers and 2.0 million RSUs to other employees, which vest over four years.

Stock Incentive Plan Activity

The following table summarizes the combined activity under all of our equity incentive plans for the three months ended October 1, 2016 :

	Shares Available For Grant	Stock Options / SARs Outstanding	Weighted-Average Exercise Price	Time and Performance-based Restricted Stock Awards / Units Outstanding	Weighted-Average Grant Date Fair Value
	(Thousands)	(Thousands)		(Thousands)	
Balance at July 2, 2016	12,824	2,975	$ 7.03	5,022	$ 2.67
Granted	(5,046)	—	—	3,604	6.23
Exercised or released	—	(237)	5.32	(1,863)	2.34
Forfeited or expired	178	(24)	9.13	(42)	4.52
Balance at October 1, 2016	7,956	2,714	$ 7.16	6,721	$ 4.66

Supplemental disclosure information about our stock options and stock appreciation rights ("SARs") outstanding as of October 1, 2016 is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
	(Thousands)		(Years)	(Thousands)
Options and SARs exercisable	2,558	$ 7.47	3.3	$ 7,051
Options and SARs outstanding	2,714	$ 7.16	3.5	$ 8,070

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value, based on the closing price of our common stock of $8.55 on September 30, 2016, which would have been received by the option holders had all option holders exercised their options as of that date. There were approximately 1.8 million shares of common stock subject to in-the-money options which were exercisable as of October 1, 2016 . We settle employee stock option exercises with newly issued shares of common stock.

NOTE 9. STOCK-BASED COMPENSATION

We recognize stock-based compensation expense in our condensed consolidated statement of operations related to all share-based awards, including grants of stock options, based on the grant date fair value of such share-based awards. Estimating the grant date fair value of such share-based awards requires us to make judgments in the determination of inputs into the Black-Scholes stock option pricing model which we use to arrive at an estimate of the grant date fair value for such awards.

The amounts included in cost of revenues and operating expenses for stock-based compensation were as follows:

	Three Months Ended	
	October 1, 2016	September 26, 2015
	(Thousands)	
Stock-based compensation by category of expense:		
Cost of revenues	$ 289	$ 456
Research and development	457	424
Selling, general and administrative	1,697	944
	$ 2,443	$ 1,824
Stock-based compensation by type of award:		
Stock options	$ 38	$ 62
Restricted stock awards	2,590	1,761
Inventory adjustment to cost of revenues	(185)	1
	$ 2,443	$ 1,824

As of October 1, 2016 and July 2, 2016 , we had capitalized approximately $0.5 million and $0.3 million , respectively, of stock-based compensation as inventory.

As of October 1, 2016, we had capitalized approximately $0.1 million of stock-based compensation in connection with the development of internal use software.

As of October 1, 2016 , we had $0.1 million in unrecognized stock-based compensation expense related to unvested stock options, net of estimated forfeitures, that will be recognized over a weighted-average period of 1.7 years , and $19.5 million in unrecognized stock-based compensation expense related to unvested time-based restricted stock awards, net of estimated forfeitures, that will be recognized over a weighted-average period of 2.6 years .

The amount of stock-based compensation expense recognized in any one period related to PSUs can vary based on the achievement or anticipated achievement of the performance conditions. If the performance conditions are not met or not expected to be met, no compensation cost would be recognized on the shares underlying the PSUs, and any previously recognized compensation expense related to those PSUs would be reversed. As of October 1, 2016 , we determined that the achievement of the performance conditions associated with the PSUs issued in August 2016 is probable at 100 percent of the target level.

During the three months ended October 1, 2016 , we recorded $0.6 million in stock-based compensation in connection with the PSUs issued in August 2015 and August 2016. During the three months ended September 26, 2015 , we recorded $0.2 million in stock-based compensation expense in connection with the issuance of PSUs.

NOTE 10. INCOME TAXES

The income tax provision of $0.4 million and $0.9 million for the three months ended October 1, 2016 and September 26, 2015 , respectively, relates primarily to our foreign operations.

The total amount of our unrecognized tax benefits as of October 1, 2016 and July 2, 2016 were approximately $3.8 million in both periods. As of October 1, 2016 , we had $3.2 million of unrecognized tax benefits that, if recognized, would affect our effective tax rate. While it is often difficult to predict the final outcome of any particular uncertain tax position, we believe that unrecognized tax benefits could decrease by approximately $0.3 million in the next twelve months.

NOTE 11. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using only the weighted-average number of shares of common stock outstanding for the applicable period, while diluted net income (loss) per share is computed assuming conversion of all potentially dilutive securities, such as stock options, unvested restricted stock units and awards, warrants and convertible notes during such period.

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

	Three Months Ended	
	October 1, 2016	September 26, 2015
	(Thousands, except per share amounts)	
Net income (loss)	$ 3,351	$ (3,510)
Weighted-average shares - Basic	132,480	109,458
Effect of dilutive potential common shares from:		
Stock options and stock appreciation rights	656	—
Restricted stock units and awards	2,393	—
Convertible notes	—	—
Weighted-average shares - Diluted	135,529	109,458
Basic net income (loss) per share	$ 0.03	$ (0.03)
Diluted net income (loss) per share	$ 0.02	$ (0.03)

For the three months ended October 1, 2016 , we excluded 15.8 million of outstanding stock options, stock appreciation rights, unvested restricted stock awards and shares issuable in connection with convertible notes from the calculation of diluted net income (loss) per share because their effect would have been anti-dilutive. Included in the 15.8 million are approximately 15.0 million shares issuable in connection with convertible notes. In accordance with ASC 260, *Earnings Per Share* , we excluded the convertible notes for the period prior to actual conversion in the first quarter of fiscal year 2017, since the convertible notes for that period prior to conversion are considered anti-dilutive because the interest per common share obtainable on conversion exceeds the basic earnings per share.

For the three months ended September 26, 2015 , we excluded 42.1 million of outstanding stock options, stock appreciation rights, unvested restricted stock awards and shares issuable in connection with convertible notes from the calculation of diluted net income (loss) per share because their effect would have been anti-dilutive.

NOTE 12. GEOGRAPHIC INFORMATION, PRODUCT GROUPS AND CUSTOMER CONCENTRATION INFORMATION

Geographic Information

The following table shows revenues by geographic area based on the delivery locations of our products:

	Three Months Ended	
	October 1, 2016	September 26, 2015
	(Thousands)	
Asia-Pacific:		
China	$ 58,742	$ 33,056
Thailand	21,945	359
Malaysia	6,326	7,853
Other Asia-Pacific	3,338	1,013
Total Asia-Pacific	$ 90,351	$ 42,281
Americas:		
United States	14,461	13,051
Mexico	9,291	12,338
Other Americas	2,002	1,155
Total Americas	$ 25,754	$ 26,544
EMEA:		
Italy	9,305	7,071
Germany	3,289	4,942
Other EMEA	5,262	5,090
Total EMEA	$ 17,856	$ 17,103
Japan	$ 1,531	$ 1,622
Total revenues	$ 135,492	$ 87,550

Product Groups

The following table sets forth revenues by product group:

	Three Months Ended	
	October 1, 2016	September 26, 2015
	(Thousands)	
100 Gb/s transmission modules	$ 97,771	$ 40,828
40 Gb/s and lower transmission modules	37,721	46,722
	$ 135,492	$ 87,550

Significant Customers and Concentration of Credit Risk

For the three months ended October 1, 2016 , four customers accounted for 10 percent or more of our revenues, representing approximately 20 percent , 18 percent , 18 percent and 11 percent of our revenues, respectively. For the three months ended September 26, 2015 , two customers accounted for 10 percent or more of our revenues, each representing approximately 16 percent of our revenues.

As of October 1, 2016 , three customers accounted for 10 percent or more of our accounts receivable, representing approximately 23 percent , 22 percent and 10 percent of our accounts receivable, respectively. As of July 2, 2016 , four customers accounted for 10 percent or more of our accounts receivable, representing approximately 23 percent , 16 percent , 13 percent and 10 percent of our accounts receivable, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, about our future expectations, plans or prospects and our business. You can identify these statements by the fact that they do not relate strictly to historical or current events, and contain words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will," "should," "outlook," "could," "target," "model," "objective" and other words of similar meaning in connection with discussion of future operating or financial performance. We have based our forward looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. There are a number of important factors that could cause our actual results or events to differ materially from those indicated by such forward-looking statements, including (i) our ability to timely develop, commercialize and ramp the production of new products to customer required volumes, (ii) our ability to respond to evolving technologies, customer requirements and demands, and product design challenges, (iii) our dependence on a limited number of customers for a significant percentage of our revenues, (iv) our manufacturing yields, (v) the risks associated with delays, disruptions or quality control problems in manufacturing, (vi) our ability to obtain governmental licenses and approvals for international trading activities or technology transfers, including export licenses, (vii) competition and pricing pressure, (viii) our ability to meet or exceed our gross margin expectations, (ix) our ability to effectively manage our inventory, (x) the effects of fluctuations in foreign currency exchange rates, (xi) our dependence on a limited number of suppliers and key contract manufacturers, (xii) our ability to have our manufacturing lines qualified by our customers, (xiii) the impact of financial market and general economic conditions in the industries in which we operate and any resulting reduction in demand for our products, (xiv) the absence of long-term purchase commitments from the majority of our long-term customers, (xv) our ability to conclude agreements with our customers on favorable terms, (xvi) our ability to continue increasing the percentage of sales associated with our new products, (xvii) our ability to attract and retain key personnel, (xviii) the outcome of tax audits or similar proceedings, (xix) our ability to maintain or increase our cash reserves and obtain debt or equity-based financing on acceptable terms or at all, (xx) the risks associated with our international operations, (xxi) the outcome of pending litigation against us, and (xxii) other factors described in our most recent annual report on Form 10-K and other documents we periodically file with the SEC. We cannot guarantee any future results, levels of activity, performance or achievements. You should not place undue reliance on forward-looking statements. Moreover, we assume no obligation to update forward-looking statements or update the reasons actual results could differ materially from those anticipated in forward-looking statements. Several of the important factors that may cause our actual results to differ materially from the expectations we describe in forward-looking statements are identified in the sections captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" in this Quarterly Report on Form 10-Q and the documents incorporated herein by reference.

As used herein, "Oclaro," "we," "our," and similar terms include Oclaro, Inc. and its subsidiaries, unless the context indicates otherwise.

OVERVIEW

We are one of the leading providers of optical components, modules and subsystems for the core optical transport, service provider, enterprise and data center markets. Leveraging over three decades of laser technology innovation, photonic integration and subsystem design, we provide differentiated solutions for optical networks and high-speed interconnects driving the next wave of streaming video, cloud computing, application virtualization and other bandwidth-intensive and high-speed applications.

We have research and development ("R&D") and fabrication facilities in China, Italy, Japan, United Kingdom and the United States. We also have contract manufacturing sites in China, Japan, Malaysia, Taiwan and Thailand, with design, sales and service organizations in most of the major regions around the world.

Our customers include: ADVA Optical Networking; Ciena Corporation; Cisco Systems, Inc.; Coriant GmbH; Fiberhome Technologies Group; Huawei Technologies Co. Ltd; InnoLight Technology Corporation; Juniper Networks, Inc.; Nokia/Alcatel-Lucent and ZTE Corporation.

RECENT DEVELOPMENTS

6.00% Convertible Senior Notes

In August 2016, we entered into multiple privately negotiated agreements, pursuant to which all $65.0 million of our 6.00% Convertible Senior Notes Due 2020 ("6.00% Notes") were canceled, and the indenture, dated as of February 19, 2015, by and between us and U.S. Bank National Association, pursuant to which the 6.00% Notes were issued, was satisfied and discharged.

- On August 8, 2016, we entered into a privately negotiated agreement pursuant to which we (i) issued 12,051,282 shares of our common stock, par value $0.01 per share, and (ii) made a cash payment equal to $4.7 million during August 2016 in exchange for approximately $23.5 million aggregate principal amount of our 6.00% Notes.
- On August 9, 2016, we entered into privately negotiated agreements pursuant to which we agreed to issue (i) an aggregate of 20,564,101 shares of our common stock, plus (ii) a to be determined number of additional shares of our common stock based on certain formulaic consideration in exchange for $40.1 million aggregate principal amount of our 6.00% Notes. On August 12, 2016, including the additional shares of common stock, we issued an aggregate of 21,852,477 shares of our common stock.
- On August 18, 2016, we entered into privately negotiated agreements, pursuant to which, on August 22, 2016, we issued an aggregate of 756,213 shares of our common stock, in exchange for $1.4 million aggregate principal amount of our 6.00% Notes.

Common Stock Offering

On September 21, 2016, we entered into an underwriting agreement (the “Underwriting Agreement”) with Jefferies LLC, as representative of the several underwriters (the “Underwriters”), relating to the offering, issuance and sale (the “Offering”) of 15,000,000 shares of our common stock, par value $0.01 per share (the “Common Stock”). The price to the public in the Offering was $8.35 per share. Under the terms of the Underwriting Agreement, we granted the Underwriters a 30-day option to purchase up to an additional 2,250,000 shares of Common Stock. The option was exercised in full by the Underwriters on September 23, 2016. All of the shares in the Offering were sold by us. The Offering closed on September 27, 2016, subject to customary closing conditions. The net proceeds to us after deducting estimated underwriting discounts and commissions and estimated offering expenses was approximately $135.2 million.

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RESULTS OF OPERATIONS

The following table sets forth our condensed consolidated results of operations for the periods indicated, along with amounts expressed as a percentage of revenues, and comparative information regarding the absolute and percentage changes in these amounts:

	Three Months Ended					Increase
	October 1, 2016		September 26, 2015		Change	(Decrease)
	(Thousands)	%	(Thousands)	%	(Thousands)	%
Revenues	$ 135,492	100.0	$ 87,550	100.0	$ 47,942	54.8
Cost of revenues	89,136	65.8	64,853	74.1	24,283	37.4
Gross profit	46,356	34.2	22,697	25.9	23,659	104.2
Operating expenses:						
Research and development	13,107	9.7	10,945	12.5	2,162	19.8
Selling, general and administrative	14,792	10.9	13,208	15.1	1,584	12.0
Amortization of other intangible assets	244	0.2	251	0.3	(7)	(2.8)
Restructuring, acquisition and related (income) expense, net	311	0.2	32	—	279	871.9
Gain (loss) on sale of property and equipment	(37)	—	213	0.2	(250)	n/m (1)
Total operating expenses	28,417	21.0	24,649	28.1	3,768	15.3
Operating income (loss)	17,939	13.2	(1,952)	(2.2)	19,891	n/m (1)
Other income (expense):						
Interest income (expense), net	(13,858)	(10.2)	(1,276)	(1.5)	(12,582)	986.1
Gain (loss) on foreign currency transactions, net	(518)	(0.4)	504	0.6	(1,022)	n/m (1)
Other income (expense), net	194	0.2	113	0.1	81	71.7
Total other income (expense)	(14,182)	(10.4)	(659)	(0.8)	(13,523)	2,052.0
Income (loss) before income taxes	3,757	2.8	(2,611)	(3.0)	6,368	n/m (1)
Income tax provision	406	0.3	899	1.0	(493)	(54.8)
Net income (loss)	$ 3,351	2.5	$ (3,510)	(4.0)	$ 6,861	n/m (1)

(1) Not meaningful.

Revenues

Revenues for the three months ended October 1, 2016 increased by $47.9 million , or 55 percent , compared to the three months ended September 26, 2015 . Compared to the three months ended September 26, 2015 , revenues from sales of our 100 Gb/s transmission modules increased by $56.9 million , or 139 percent , primarily due to growth in our 100 Gb/s client side transceivers and our line side discrete components; and revenues from sales of our 40 Gb/s and lower transmission modules decreased by $9.0 million , or 19 percent , primarily due to certain legacy 40 Gb/s and 10 Gb/s products being gradually replaced by our newer products. This product mix shift reflects our continued focus on the market for higher speed products that are smaller in size and have lower power consumption.

For the three months ended October 1, 2016 , four customers accounted for 10 percent or more of our revenues, representing approximately 20 percent , 18 percent , 18 percent and 11 percent of our revenues, respectively. For the three months ended September 26, 2015 , two customers accounted for 10 percent or more of our revenues, each representing approximately 16 percent our revenues.

Gross Profit

Gross profit is calculated as revenues less cost of revenues. Gross margin rate is gross profit reflected as a percentage of revenues.

Our gross margin rate increased to approximately 34 percent for the three months ended October 1, 2016 , compared to 26 percent for the three months ended September 26, 2015 . The improvement in the gross margin rate was primarily related to economies of scale related to manufacturing overhead and inventory management that contributed approximately 6 percentage points of improvement; and the product mix of our sales, with a higher mix of higher margin 100 Gb/s products contributing approximately 2 percentage points of improvement.

Our cost of revenues consists of the costs associated with manufacturing our products, and includes the purchase of raw materials, labor costs and related overhead, including stock-based compensation charges and the costs charged by our contract manufacturers for the products they manufacture for us. Charges for excess and obsolete inventory are also included in cost of revenues. Costs and expenses related to our manufacturing resources incurred in connection with the development of new products are included in research and development expenses.

Research and Development Expenses

Research and development expenses increased to $13.1 million for the three months ended October 1, 2016 , from $10.9 million for the three months ended September 26, 2015 . The increase was primarily related to an investment of $1.4 million in research and development resources, primarily personnel-related; an increase of $0.4 million related to the impact of the Japanese yen, British pound and Euro relative to the U.S. dollar; an increase of $0.3 million in building-related expenses; and an increase of $0.2 million in non-recurring engineering and material expenses.

Research and development expenses consist primarily of salaries and related costs of employees engaged in research and design activities, including stock-based compensation charges related to those employees, costs of design tools and computer hardware, costs related to prototyping and facilities costs for certain research and development focused sites.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $14.8 million for the three months ended October 1, 2016 , from $13.2 million for the three months ended September 26, 2015 . The increase was primarily related to an increase of $1.3 million in personnel-related costs, which included an increase in stock compensation related charges of $0.8 million .

Selling, general and administrative expenses consist primarily of personnel-related expenses, including stock-based compensation charges related to employees engaged in sales, general and administrative functions, legal and professional fees, facilities expenses, insurance expenses and certain information technology costs.

Amortization of Other Intangible Assets

Amortization of other intangible assets remained flat during the three months ended October 1, 2016 as compared to the three months ended September 26, 2015 . We expect the amortization of other intangible assets to be $0.6 million for the remainder of fiscal year 2017 and $0.6 million for fiscal year 2018, based on the current level of our other intangible assets as of October 1, 2016 .

Restructuring, Acquisition and Related (Income) Expense, Net

During the first quarter of fiscal year 2017, we incurred $0.3 million in restructuring, acquisition and related charges primarily related to the consolidation and closure of a facility.

During the first quarter of fiscal year 2016, we incurred minimal restructuring, acquisition and related charges.

Other Income (Expense)

Other income (expense) was $14.2 million in expense for the three months ended October 1, 2016 as compared to $0.7 million in expense for the three months ended September 26, 2015 . This change in other income (expense) primarily related to the conversion of $65.0 million of our 6.00% Notes during the first quarter of fiscal year 2017, resulting in an induced conversion expense of $7.4 million and an interest make-whole charge of $5.9 million , which were both recorded in interest (income) expense, net. We also recorded a $1.0 million increase in foreign currency transaction losses during the three months ended October 1, 2016 , as compared to the three months ended September 26, 2015 , related to the revaluation of our U.S. dollar denominated balances in our U.K. and Japan subsidiaries.

Income Tax (Benefit) Provision

The income tax provision of $0.4 million and $0.9 million for the three months ended October 1, 2016 and September 26, 2015 , respectively, relates primarily to our foreign operations.

The total amount of our unrecognized tax benefits as of October 1, 2016 and July 2, 2016 were approximately $3.8 million in both periods. As of October 1, 2016 , we had $3.2 million of unrecognized tax benefits that, if recognized, would affect our effective tax rate. While it is often difficult to predict the final outcome of any particular uncertain tax position, we believe that unrecognized tax benefits could decrease by approximately $0.3 million in the next twelve months.

RECENT ACCOUNTING STANDARDS

See Note 2, *Recent Accounting Standards* , to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for information regarding the effect of new accounting pronouncements on our condensed consolidated financial statements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements contained elsewhere in this Quarterly Report on Form 10-Q, which have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of our financial statements requires us to make estimates and judgments that affect our reported assets and liabilities, revenues and expenses and other financial information. Actual results may differ significantly from those based on our estimates and judgments or could be materially different if we used different assumptions, estimates or conditions. In addition, our financial condition and results of operations could vary due to a change in the application of a particular accounting policy.

We identified our critical accounting policies in our Annual Report on Form 10-K for the year ended July 2, 2016 ("2016 Form 10-K") related to revenue recognition and sales returns, inventory valuation, business combinations, impairment of other intangible assets, accounting for stock-based compensation and income taxes. It is important that the discussion of our operating results be read in conjunction with the critical accounting policies discussed in our 2016 Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

Net cash provided by operating activities for the three months ended October 1, 2016 was $3.3 million , primarily resulting from net income adjusted for non-cash items of $19.1 million , partially offset by $15.8 million decrease in cash due to changes in operating assets and liabilities. The adjustment to net income for non-cash items consisted of an $8.5 million charge related to the issuance of common stock to settle a portion of the interest make-whole and induced conversion liabilities in connection with the 6.00% Notes, $5.0 million in depreciation and amortization, $2.4 million of expense related to stock-based compensation and $0.1 million from the amortization of the debt discount and issuance costs in connection with the convertible notes, partially offset by $0.2 million from the amortization of a deferred gain from a sales-leaseback transaction in Caswell, U.K. The $15.8 million decrease in cash due to changes in operating assets and liabilities was comprised of a $7.6 million decrease in accounts payable largely attributable to the timing of purchases and payments to vendors, a $6.0 million increase in prepaid expenses and other current assets, a $3.5 million increase in inventories resulting from the receipt of inventory intended for sale in future quarters, and a $2.9 million increase in accounts receivable attributable to timing of collections, partially offset by a $4.3 million increase in accrued expenses and other liabilities.

Net cash used in operating activities for the three months ended September 26, 2015 was $2.9 million, primarily resulting from a net loss of $3.5 million and a $5.5 million decrease in cash due to changes in operating assets and liabilities, partially offset by non-cash adjustments of $6.1 million. The $5.5 million decrease in cash due to changes in operating assets and liabilities was comprised of a $4.7 million increase in accounts receivable attributable to timing of collections, a $1.7 million increase in inventories resulting from the receipt of inventory intended for sale in future quarters, and a $1.2 million decrease in accounts payable largely attributable to the timing of purchases and payments to vendors, partially offset by a $1.9 million decrease in prepaid expenses and other current assets and a $0.2 million increase in accrued expenses and other liabilities. The $6.1 million increase in cash resulting from non-cash adjustments primarily consisted of $4.1 million in depreciation and amortization, $1.8 million of expense related to stock-based compensation and $0.2 million from the amortization of the debt discount and issuance costs in connection with the convertible notes payable, partially offset by $0.2 million from the amortization of a deferred gain from a sales-leaseback transaction in Caswell, U.K.

Cash Flows from Investing Activities

Net cash used in investing activities for the three months ended October 1, 2016 was $6.0 million , consisting of capital expenditures.

Net cash used in investing activities for the three months ended September 26, 2015 was $3.2 million, consisting of $3.8 million used in capital expenditures, partially offset by a $0.7 million reduction in restricted cash.

Cash Flows from Financing Activities

Net cash provided by financing activities for the three months ended October 1, 2016 was $134.0 million , primarily consisting of $135.2 million in proceeds relating to the offering, issuance and sale of 17,250,000 shares of our common stock and $1.3 million in proceeds from the exercise of stock options, partially offset by $1.8 million related to shares repurchased for tax withholdings on vesting of restricted stock units and $0.7 million in payments on capital lease obligations.

Net cash used in financing activities for the three months ended September 26, 2015 was $0.8 million, primarily consisting of $0.8 million in payments on capital lease obligations.

Credit Line and Notes

On February 19, 2015, we closed the private placement of our 6.00% Notes, representing $65.0 million in aggregate principal. The sale of the 6.00% Notes resulted in proceeds of approximately $61.6 million, after deducting the initial purchaser's discount of $3.4 million. We also incurred offering costs of $0.6 million in connection with the 6.00% Notes. In August 2016, we entered into multiple privately negotiated agreements, pursuant to which all of our 6.00% Notes were canceled, and the indenture, dated as of February 19, 2015, by and between us and U.S. Bank National Association, pursuant to which the 6.00% Notes were issued, was satisfied and discharged. We issued in aggregate 34,659,972 shares of our common stock and made cash payments totaling $4.7 million in exchange for $65.0 million aggregate principal amount of our 6.00% Notes. These agreements are more fully discussed in Note 5, *Credit Line and Notes* to our condensed consolidated financial statements included elsewhere in this Quarterly Report.

As of October 1, 2016 , we had a $40.0 million revolving credit facility with Silicon Valley Bank. As of October 1, 2016 , there were no amounts outstanding under this credit facility. See Note 5, *Credit Line and Notes* , for additional information regarding this credit facility.

Future Cash Requirements

As of October 1, 2016 , we held $229.3 million in cash, cash equivalents and restricted cash, comprised of $228.6 million in cash and cash equivalents and $0.7 million in restricted cash (excluding $0.4 million of restricted cash in other non-current assets); and we had working capital of $318.2 million .

Based on our current cash and cash equivalent balances, together with our existing credit facility, we believe that we have sufficient funds to support our operations through the next 12 months, including approximately $40.0 million to $50.0 million of capital expenditures that we expect to incur through the remainder of the current fiscal year.

In the event we need additional liquidity beyond our current expectations, such as to fund future growth or strengthen our balance sheet, we may find it necessary to undertake additional cost cutting measures. We will continue to explore other sources of additional liquidity. These additional sources of liquidity could include one, or a combination, of the following: (i) issuing equity securities, (ii) incurring indebtedness secured by our assets, (iii) issuing debt and/or convertible debt securities, or (iv) selling product lines, other assets and/or portions of our business. There can be no guarantee that we will be able to raise additional funds on terms acceptable to us, or at all.

For additional information on the risks we face related to future cash requirements, see Item 1A. Risk Factors under "— Risks Related to Our Business — We have a history of large operating losses and we may not be able to achieve profitability in the future and maintain sufficient levels of liquidity," included elsewhere in this Quarterly Report on Form 10-Q.

As of October 1, 2016 , $39.9 million of the $229.3 million of our cash, cash equivalents and restricted cash was held by our foreign subsidiaries. If these funds are needed for our operations in the United States, we could be required to accrue and pay foreign withholding taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S., except for specific entities in China, Korea, Israel, Germany and Japan where we decided to exit certain businesses in fiscal year 2015.

Off-Balance Sheet Arrangements

We indemnify our directors and certain employees as permitted by law, and have entered into indemnification agreements with our directors and executive officers. We have not recorded a liability associated with these indemnification arrangements, as we historically have not incurred any material costs associated with such indemnification obligations. Costs associated with such indemnification obligations may be mitigated by insurance coverage that we maintain, however, such insurance may not cover any, or may cover only a portion of, the amounts we may be required to pay. In addition, we may not be able to maintain such insurance coverage in the future.

We also have indemnification clauses in various contracts that we enter into in the normal course of business, such as indemnification in favor of customers in respect of liabilities they may incur as a result of purchasing our products should such products infringe the intellectual property rights of a third party. We have not historically paid out any material amounts related to these indemnifications; therefore, no accrual has been made for these indemnifications.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk affecting us, see “Quantitative and Qualitative Disclosures About Market Risk” in Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended July 2, 2016 , which is incorporated herein by reference. Our exposure to market risk has not changed materially since July 2, 2016 .

INTEREST RATES

We finance our operations through a mixture of issuances of equity and debt securities, capital leases, working capital and by drawing on our credit agreement. We have exposure to interest rate fluctuations on our cash deposits and for amounts borrowed under our credit agreement and through our capital leases. At October 1, 2016 , there were no amounts outstanding under our credit facility and $5.2 million outstanding under capital leases. An increase in our average interest rate by 1.0 percent would increase our annual interest expense by approximately $0.1 million .

We monitor our interest rate risk on cash balances primarily through cash flow forecasting. We believe our current interest rate risk is immaterial.

FOREIGN CURRENCY

As our business is multinational in scope, we are subject to fluctuations based upon changes in the exchange rates between the currencies in which we collect revenues and pay expenses. We expect that a majority of our revenues will continue to be denominated in U.S. dollars, while a significant portion of our expenses will continue to be denominated in U.K. pounds sterling and the Japanese yen. Fluctuations in the exchange rate between the U.S. dollar, the U.K. pound sterling, the Japanese yen and, to a lesser extent, other currencies in which we collect revenues and pay expenses could affect our operating results. This includes the Chinese yuan and the Euro in which we pay expenses in connection with operating our facilities in Shenzhen and Shanghai, China; and San Donato, Italy. To the extent the exchange rate between the U.S. dollar and these currencies were to fluctuate more significantly than experienced to date, our exposure would increase.

As of October 1, 2016 , our U.K. subsidiary had $95.0 million , net, in U.S. dollar denominated operating intercompany payables, $23.8 million in U.S. dollar denominated accounts receivable, net of accounts payable, related to sales to external customers and purchases from suppliers, and $20.2 million in U.S. dollar denominated cash accounts. It is estimated that a 10 percent fluctuation in the U.S. dollar relative to the U.K. pound sterling would lead to a profit of $5.1 million (U.S. dollar weakening), or loss of $5.1 million (U.S. dollar strengthening) on the translation of these balances, which would be recorded as gain (loss) on foreign currency transactions, net, in our condensed consolidated statement of operations.

As of October 1, 2016 , our Japan subsidiary had $15.6 million , net, in U.S. dollar denominated operating intercompany payables, $9.2 million in U.S. dollar denominated accounts payable, net of accounts receivable, related to sales to external customers and purchases from suppliers, and $16.1 million in U.S. dollar denominated cash accounts. It is estimated that a 10 percent fluctuation in the U.S. dollar relative to the Japanese yen would lead to a profit of $0.9 million (U.S. dollar weakening), or loss of $0.9 million (U.S. dollar strengthening) on the translation of these balances, which would be recorded as gain (loss) on foreign currency transactions, net, in our condensed consolidated statement of operations.

HEDGING PROGRAM

From time to time, we enter into foreign currency forward contracts in an effort to mitigate a portion of our exposure to fluctuations between the U.S. dollar and the Japanese yen and between the U.S. dollar and the U.K. pound sterling. We do not currently hedge our exposure to the Chinese yuan or the Euro, but we may in the future if conditions warrant. We also do not currently hedge our exposure related to our U.S. dollar denominated intercompany payables and receivables. We may be required to convert currencies to meet our obligations. Under certain circumstances, foreign currency forward contracts can have an adverse effect on our financial condition.

During the three months ended October 1, 2016 , we entered into foreign currency forward exchange contracts, which expired in the same fiscal quarter in which they were opened. In connection with these hedges, during the three months ended October 1, 2016 , we recorded a $0.1 million gain in gain (loss) on foreign currency transactions, net within our condensed consolidated statement of operations. As of October 1, 2016 , we did not have any outstanding foreign currency forward contracts.

BANK LIQUIDITY RISK

As of October 1, 2016 , we have approximately $71.3 million in cash, excluding money market funds, held with domestic and international financial institutions. These cash balances could be lost or become inaccessible if the underlying financial institutions fail or if they are unable to meet the liquidity requirements of their depositors and they are not supported by the national government of the country in which such financial institution is located. Notwithstanding, to date, we have not incurred any losses and have had full access to our operating accounts. See Note 3, *Balance Sheet Details*. We believe any failures of domestic and international financial institutions could impact our ability to fund our operations in the short term.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of October 1, 2016 . The term "disclosure controls and procedures," as defined in Rules13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of October 1, 2016 , our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

There was no change in our internal control over financial reporting during the three months ended October 1, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Overview

In the ordinary course of business, we are involved in various legal proceedings, and we anticipate that additional actions will be brought against us in the future. The most significant of these proceedings are described below. These legal proceedings, as well as other matters, involve various aspects of our business and a variety of claims in various jurisdictions. Complex legal proceedings frequently extend for several years, and a number of the matters pending against us are at very early stages of the legal process. As a result, some pending matters have not yet progressed sufficiently through discovery and/or development of important factual information and legal issues to enable us to determine whether the proceeding is material to us or to estimate a range of possible loss, if any. Unless otherwise disclosed, we are unable to estimate the possible loss or range of loss for the legal proceedings described below. While it is not possible to accurately predict or determine the eventual outcomes of these items, an adverse determination in one or more of these items currently pending could have a material adverse effect on our results of operations, financial position or cash flows.

Kunst Worker Compensation Matter

On June 18, 2015, Gerald Kunst, or Kunst, filed a civil suit against us and Travelers Property Casualty Company of America, or Travelers, in Massachusetts Superior Court, Civil Action No. SUCV2015-01818F. Travelers is our general liability insurance carrier. The complaint filed by Kunst, an employee of a third party service provider, alleges that he was injured while performing air conditioning repair services on the premises of our Acton, Massachusetts facility and seeks judgment in an amount to be determined by the court or jury, together with interest and costs. On July 24, 2015, we filed an answer to the complaint, which included our affirmative defenses. A pretrial conference is scheduled for April 12, 2017. We intend to vigorously defend against this litigation.

ITEM 1A. RISK FACTORS

Investing in our securities involves a high degree of risk. The risks described below are not the only ones facing us. Additional risks not currently known to us or that we currently believe are immaterial also may impair our business, operations, liquidity and stock price materially and adversely. You should carefully consider the risks and uncertainties described below in addition to the other information included or incorporated by reference in this Quarterly Report on Form 10-Q. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. In that case, the trading price of our common stock could fall and you could lose all or part of your investment.

We may not be able to ramp the production of our new products to customer required volumes, which could result in delayed or lost revenue.

Many of our new product samples for metro, data center and long haul 100 and 200 gigahertz ("GHz") communication applications have been well received by potential customers of these products. As a result, we anticipate significant backlog for these new generation products. These newer generation products typically will have greater functionality and a smaller footprint, resulting in more complexity in the manufacturing process. This increased complexity may result in lower manufacturing yields or more difficult production to manufacture in volume. If we experience large demand for these products and are unable to manufacture them in sufficient volume, we would fall short of the planned output and revenue targets as we move from low volume sampling to manufacturing for commercial production. In addition, a production ramp for certain products can include a manufacturing transition between two or more locations which carries an inherent risk of delay. For example, we are currently in the process of ramping the production of our 200 Gb/s CFP2-ACO coherent transceivers which has been transitioned from our Caswell, UK facility to our Shenzhen, China facility and to Venture Corporation Limited ("Venture"). Our failure to satisfy our customers' demand for these products could result in our customers postponing or canceling orders or seeking alternative suppliers for these products, which would adversely affect our results of operations.

Customer requirements for new products are increasingly challenging, which could lead to significant executional risk in designing and manufacturing such products.

Across the entire network, our customers are demanding increased performance from our products, at lower prices and in smaller and lower power designs. These requirements stretch the capabilities of our optical chips, packages and electronics to the limit of technical feasibility. In addition these demands are often customer specific, leading to numerous product variations. We enter our new product introduction, or NPI, process with clear performance and cost goals. Because of the complexity of design requirements, executing on these goals is becoming increasingly difficult and less predictable. These difficulties could result in product sampling delays and/or missing targets on key specifications and customer requirements, leading to design losses. Our failure to meet our customers' technical and performance requirements for these products could result in our customers seeking alternative suppliers for these products, which would adversely affect our results of operations.

We depend on a limited number of customers for a significant percentage of our revenues and the loss of a major customer could have a materially adverse impact on our financial condition.

Historically, we have generated most of our revenues from a limited number of customers. Our dependence on a limited number of customers is due to the fact that the optical telecommunications and data communications systems industries are dominated by a small number of large companies. These companies in turn depend primarily on a limited number of major telecommunications carrier and data center customers to purchase their products that incorporate our optical components. The industry in which our customers operate is subject to a trend of consolidation. To the extent this trend continues, we may become dependent on even fewer customers to maintain and grow our revenues.

During the first quarter of fiscal year 2017 and for fiscal years ended July 2, 2016 and June 27, 2015, our three largest customers accounted for 57 percent , 44 percent and 45 percent of our revenues, respectively. Because we rely on a limited number of customers for significant percentages of our revenues, a decrease in demand for our products from any of our major customers for any reason (including due to market conditions, catastrophic events or otherwise) could have a materially adverse impact on our financial conditions and results of operations. For example, in early March 2016, we temporarily ceased shipment of products to one of our significant customers because the U.S. Department of Commerce (the "DOC") imposed additional licensing restrictions on our customer.

We may experience low manufacturing yields.

Manufacturing yields depend on a number of factors, including the volume of production due to customer demand and the nature and extent of changes in specifications required by customers for which we perform design-in work. Higher volumes due to demand for a fixed, rather than continually changing, design generally results in higher manufacturing yields, whereas lower volume production generally results in lower yields. In addition, lower yields may result, and have in the past resulted, from commercial shipments of products prior to full manufacturing qualification to the applicable specifications. Changes in manufacturing processes required as a result of changes in product specifications, changing customer needs, introduction of new product lines and changes in contract manufacturers have historically caused, and may in the future cause, significantly reduced manufacturing yields, resulting in low or negative margins on those products. Moreover, an increase in the rejection rate of products during the quality control process, before, during or after manufacture, results in lower gross margins from lower yields and additional rework costs. Finally, manufacturing yields and margins can also be lower if we receive or inadvertently use defective or contaminated materials from our suppliers. Any reduction in our manufacturing yields will adversely affect our gross margins and could have a material impact on our operating results.

Delays, disruptions or quality control problems in manufacturing could result in delays in product shipments to customers and could adversely affect our business.

We may experience delays, disruptions or quality control problems in our manufacturing operations or the manufacturing operations of our subcontractors. As a result, we could incur additional costs that would adversely affect our gross margins, and our product shipments to our customers could be delayed beyond the shipment schedules requested by our customers, which would negatively affect our revenues, competitive position and reputation. Furthermore, even if we are able to deliver products to our customers on a timely basis, we may be unable to recognize revenues at the time of delivery based on our revenue recognition policies.

The inability to obtain government licenses and approvals for desired international trading activities or technology transfers, including export licenses, may prevent the profitable operation of our business.

Many of our present and future business activities are subject to licensing by the United States government under the Export Administration Act, the Export Administration Regulations and other laws, regulations and requirements governing international trade and technology transfer. For example, in early March 2016, the U.S. Department of Commerce (the "DOC") amended the Export Administration Regulations ("EAR") and imposed additional licensing restrictions on exports of certain products to Zhongxing Telecommunications Equipment Corporation and its subsidiary, ZTE Kangxun Telecommunications Ltd. (collectively, "ZTE"), one of our significant customers. In response to the DOC's action, we temporarily ceased shipment of products to ZTE. In late March 2016, the DOC created a temporary general license applicable to exports to ZTE, in effect until June 30, 2016. Pursuant to this new temporary license, we subsequently resumed our shipment of products to ZTE. On June 28, 2016, the DOC extended the temporary general license until August 30, 2016, and, on August 19, 2016, the DOC granted a further extension through November 30, 2016. We do not know what export licensing rules will apply to ZTE after November 30, 2016, however, any action that precludes us from shipping product to ZTE, including the non-renewal of the temporary license, or to other customers in China, may have a material adverse impact on our revenues and results of operations.

We also presently manufacture products in China and Thailand that require licenses. The profitable operations of our business may require the continuity of these licenses and may require further licenses and approvals for future products in these and other countries. However, there is no certainty to the continuity of these licenses, nor that further desired licenses and approvals may be obtained.

The markets in which we operate are highly competitive, which could result in lost sales and lower revenues.

The market for optical components and modules is highly competitive and this competition could result in our existing customers moving their orders to our competitors. We are aware of a number of companies that have developed or are developing optical component products, including tunable lasers, pluggable components, modulators and subsystems, among others, that compete directly with our current and proposed product offerings.

Certain of our competitors may be able to more quickly and effectively:

- develop or respond to new technologies or technical standards;
- react to changing customer requirements and expectations;
- devote needed resources to the development, production, promotion and sale of products;
- attain high manufacturing yields on new product designs; and
- deliver competitive products at lower prices.

Some of our current competitors, as well as some of our potential competitors, have longer operating histories, greater name recognition, broader customer relationships and industry alliances and substantially greater financial, technical and marketing resources than we do. In addition, market leaders in adjacent industries such as semiconductor and data communications, who may also have significantly more resources than we do, may in the future enter our market with competing products. Our competitors and new Chinese companies are establishing manufacturing operations in China and other Asian countries to take advantage of comparatively low manufacturing costs. Network equipment manufacturers and service providers may decide to design and manufacture the optical module and subsystems portion of their products in-house rather than outsourcing to companies such as us. All of these risks may be increased if the market were to further consolidate through mergers or other business combinations between our competitors.

We may not be able to compete successfully with our competitors and aggressive competition in the market may result in lower prices for our products and/or decreased gross margins. Any such development could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to maintain or improve gross margin levels.

We may not be able to maintain or improve our gross margins, due to slow introductions of new products, pricing pressure from increased competition, the failure to effectively reduce the cost of existing products, the failure to improve our product mix, the potential for future macroeconomic or market volatility reducing sales volumes, changes in customer demand (including a change in product mix between different areas of our business) or other factors. Our gross margins can also be adversely impacted for reasons including, but not limited to, fixed manufacturing costs that would not be expected to decrease in proportion to any decrease in revenues; unfavorable production yields or variances; increases in costs of input parts and materials; the timing of movements in our inventory balances; warranty costs and related returns; changes in foreign currency exchange rates; and possible exposure to inventory valuation reserves. Any failure to maintain, or improve, our gross margins will adversely affect our financial results, including our goals to achieve profitability and achieve sustainable cash flow from operations.

Our results of operations may suffer if we do not effectively manage our inventory, and we may continue to incur inventory-related charges.

We need to manage our inventory of component parts and finished goods effectively to meet changing customer requirements. Accurately forecasting customers' product needs is difficult. Some of our products and supplies have in the past, and may in the future, become obsolete or be deemed excess while in inventory due to rapidly changing customer specifications or a decrease in customer demand. We also have exposure to contractual liabilities to our contract manufacturers for inventories purchased by them on our behalf, based on our forecasted requirements, which may become excess or obsolete. Our inventory balances also represent an investment of cash. To the extent our inventory turns are slower than we anticipate based on historical practice, our cash conversion cycle extends and more of our cash remains invested in working capital. If we are not able to manage our inventory effectively, we may need to write down the value of some of our existing inventory or write off non-saleable or obsolete inventory. We have from time to time incurred significant inventory-related charges. Any such charges we incur in future periods could materially and adversely affect our results of operations and our cash flow.

As a result of our global operations, our business is subject to currency fluctuations that may adversely affect our results of operations.

Our financial results have been and will continue to be materially impacted by foreign currency fluctuations. At certain times in our history, declines in the value of the U.S. dollar versus the U.K. pound sterling and the Japanese yen have had a major negative effect on our margins and our cash flow. A significant portion of our expenses are denominated in U.K. pounds sterling and Japanese yen and substantially all of our revenues are denominated in U.S. dollars.

Fluctuations in the exchange rate between these currencies and, to a lesser extent, other currencies in which we collect revenues and/or pay expenses could have a material effect on our future operating results. For example, on June 23, 2016, the U.K. citizens voted in a referendum to exit the European Union, which resulted in a sharp decline in the value of the British pound, which may impact our future manufacturing overhead and operating expenses. Also during fiscal year 2016, the Japanese yen appreciated approximately 18 percent relative to the U.S. dollar, adversely impacting our manufacturing overhead and operating expenses. If the U.S. dollar appreciates or depreciates relative to the U.K. pound sterling and/or Japanese yen in the future, our future operating results may be materially impacted. Additional exposure could also result should the exchange rate between the U.S. dollar and the Chinese yuan or the Euro vary more significantly than they have to date.

We periodically engage in currency hedging transactions in an effort to cover some of our exposure to U.S. dollar to U.K. pound sterling and Japanese Yen currency fluctuations, and we may be required to convert currencies to meet our obligations. These transactions may not operate to fully hedge our exposure to currency fluctuations, and under certain circumstances, these transactions could have an adverse effect on our financial condition.

We depend on a limited number of suppliers and key contract manufacturers who could disrupt our business if they stopped, decreased, delayed or were unable to meet our demand for shipments of their products or manufacturing of our products.

We depend on a limited number of suppliers of raw materials and equipment used to manufacture our products. We currently also depend on a limited number of contract manufacturers, principally Fabrinet in Thailand, Venture in Malaysia, Toyo in Japan and Thailand, and eLASER in Taiwan to manufacture certain of our products. Some of these suppliers are sole sources. We typically have not entered into long-term agreements with our suppliers other than Fabrinet and Venture. As a result, these suppliers generally may stop supplying us materials and equipment at any time. Our reliance on a sole supplier or limited number of suppliers could result in delivery problems, reduced control over product pricing and quality, and an inability to identify and qualify another supplier in a timely manner. Some of our suppliers that may be small or under-capitalized may experience financial difficulties that could prevent them from supplying us materials and equipment. In addition, our suppliers, including our sole source suppliers, may experience manufacturing delays or shut downs due to circumstances beyond their control such as earthquakes, floods, fires, labor unrest, political unrest or other natural disasters.

Any supply deficiencies relating to the quality or quantities of materials or equipment we use to manufacture our products could materially and adversely affect our ability to fulfill customer orders and our results of operations. Lead times for the purchase of certain materials and equipment from suppliers have increased and in some cases have limited our ability to rapidly respond to increased demand, and may continue to do so in the future. To the extent we introduce additional contract manufacturing partners, introduce new products with new partners and/or move existing internal or external production lines to new partners, we could experience supply disruptions during the transition process. In addition, due to our customers' requirements relating to the qualification of our suppliers and contract manufacturing facilities and operations, we cannot quickly enter into alternative supplier relationships, which prevents us from being able to respond immediately to adverse events affecting our suppliers.

If our customers do not qualify our manufacturing lines or the manufacturing lines of our subcontractors for volume shipments, our operating results could suffer.

Most of our customers do not purchase products, other than limited numbers of evaluation units, prior to qualification of the manufacturing line for volume production. Our existing manufacturing lines, as well as each new manufacturing line, must pass through varying levels of qualification with our customers. Our manufacturing lines have passed our qualification standards, as well as our technical standards. However, our customers also require that our manufacturing lines pass their specific qualification standards and that we, and any subcontractors that we may use, be registered under international quality standards. In addition, we have in the past, and may in the future, encounter quality control issues as a result of relocating our manufacturing lines or introducing new products to fill production. We may be unable to obtain customer qualification of our manufacturing lines or we may experience delays in obtaining customer qualification of our manufacturing lines. Such delays or failure to obtain qualifications would harm our operating results and customer relationships. If we introduce new contract manufacturing partners and move any production lines from existing internal or external facilities, the new production lines will likely need to be re-qualified with our customers.

Our business and results of operations may be negatively impacted by financial market conditions and general economic conditions in the industries in which we operate, and such conditions may increase the other risks that affect our business.

Over the past few years, the world's financial markets have experienced significant turmoil, resulting in reductions in available credit, increased costs of credit, extreme volatility in security prices, potential changes to existing credit terms, and rating downgrades of investments. In the past, due to these conditions, many of our customers reduced their spending plans, leading them to draw down their existing inventory and reduce orders for our products. It is possible that changes in current economic conditions could result in similar setbacks in the future, and that some of our customers could as a result reduce production levels of existing products, defer introduction of new products or place orders and accept delivery for products for which they do not pay us due to their economic difficulties or other reasons. In the past, financial market volatility has materially and adversely affected the market conditions in the industries in which we operate, and has had a material adverse impact on our revenues. Our suppliers may also be adversely affected by economic conditions that may impact their ability to provide important components used in our manufacturing processes on a timely basis, or at all. To a large degree, orders from our customers are dependent on demand from telecom carriers around the world. Telecom carrier capital expenditure plans and execution can also be adversely impacted, both in terms of total spend and in determination of areas of investment within network infrastructures, by global and regional macroeconomic conditions. We are unable to predict the likely occurrence, severity or duration of any potential future disruption in financial markets or adverse economic conditions in the U.S. and other countries, but the longer the duration the greater the risks we face in operating our business.

The majority of our long-term customer contracts do not commit customers to specified buying levels, and our customers may decrease, cancel or delay their buying levels at any time with little or no advance notice to us.

The majority of our customers typically purchase our products pursuant to individual purchase orders or contracts that do not contain purchase commitments. Some customers provide us with their expected forecasts for our products several months in advance, but these customers may decrease, cancel or delay purchase orders already in place, and the impact of any such actions may be intensified given our dependence on a small number of large customers. If any of our major customers decrease, stop or delay purchasing our products for any reason, our business and results of operations would be harmed. Cancellation or delays of such orders may cause us to fail to achieve our short-term and long-term financial and operating goals and result in excess and obsolete inventory.

In order to remain competitive, we have been in the past and may be in the future required to agree to customer terms and conditions that may have an adverse effect on our financial condition and operating results.

Many of our customers have significant purchasing power and, accordingly, have requested more favorable terms and conditions, including extended payment terms, than we typically provide. In order for us to remain competitive, we may be required to accommodate these requests, which may include granting terms that affect the timing of our receipt of cash. As a result, these more favorable customer terms may have a material adverse effect on our financial condition and results of operations.

Sales of older legacy products continue to represent a significant percentage of our total revenues and, if we do not increase the percentage of sales associated with new products, our revenues may not grow in the future or could decline.

The markets for our products are characterized by changing technology and continuing process development. The future of our business will depend in large part upon the continuing relevance of our technological capabilities, and our ability to introduce new products that address our customers' requirements for more cost-effective and higher bandwidth solutions. Our inability to successfully launch or sustain new or next generation programs or product features that anticipate or adequately address future market trends and market transitions in a timely manner could materially adversely affect our revenues and financial results. We may also encounter competition from new or revised technologies that render our products less profitable or obsolete in our chosen markets, and our operating results may suffer. Furthermore, we cannot assure you that we will introduce new or next generation products in a timely manner, that these products will gain market acceptance, or that new product revenues will increase at a rate sufficient to replace declining legacy product revenues, and failure to do so could materially affect our operating results.

If we fail to attract and retain key personnel, our business could suffer.

Our future success depends, in part, on our ability to attract and retain key personnel, including executive management. Competition for highly skilled technical personnel is extremely intense and we continue to face difficulty identifying and hiring qualified engineers in many areas of our business. We may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure. Our future success also depends on the continued contributions of our executive management team and other key management and technical personnel, each of whom would be difficult to replace. The loss of services of these or other executive officers or key personnel or the inability to continue to attract qualified personnel could have a material adverse effect on our business.

We have a complex multinational tax structure, and changes in effective tax rates or adverse outcomes resulting from examination of our income tax returns could adversely affect our results.

We have a complex multinational tax structure with multiple types of intercompany transactions, and our allocation of profits and losses among us and our subsidiaries through our intercompany transfer pricing agreements is subject to review by the Internal Revenue Service and other tax authorities. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles or interpretations thereof. In addition, we are also subject to periodic examination of our income tax returns and related transfer pricing documentation by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these examinations will not have an adverse effect on our operating results and financial condition.

We are also exposed to changes in tax law which can impact our current and future year's tax provision. For example, proposals in the United Kingdom's 2016 Budget, if enacted, would result in restrictions on our ability to fully utilize our historical U.K. loss carry-forwards to offset current year income potentially resulting in additional income tax liability.

We may incur significant changes in our deferred tax asset valuation allowances based on our current assessment of reaching and maintaining profitability.

We maintain full valuation allowances on our deferred tax assets in several jurisdictions where we conduct business and will continue to do so until there is sufficient evidence to support the reversal of these allowances. There is a reasonable possibility that, in the near term, sufficient evidence may exist to conclude that some, or all, of our valuation allowances are no longer needed and should be released against our deferred tax assets. This release of our valuation allowances may have a material impact on our deferred tax assets and results of operations.

We may undertake acquisitions or mergers, which do not prove successful, which would materially and adversely affect our business, prospects, financial condition and results of operations.

From time to time, we consider acquisitions or mergers, collectively referred to as "acquisitions," of other businesses, assets or companies that would complement our current product offerings, enhance our intellectual property rights or offer other competitive opportunities. For example, on March 26, 2012, we entered into an Agreement and Plan of Merger and Reorganization with Opnext, which was completed on July 23, 2012. However, in the future, we may not be able to identify suitable acquisition candidates at prices we consider appropriate. In addition, we are in an industry that is actively consolidating and, as a result, there is no guarantee that we will successfully and satisfactorily bid against third parties, including competitors, when we identify a critical target we want to acquire.

We cannot readily predict the timing or size of our future acquisitions, or the success of our recent or future acquisitions. Failure to successfully implement our future acquisition plans could have a material adverse effect on our business, prospects, financial condition and results of operations. Even successful acquisitions could have the effect of reducing our cash balances, diluting the ownership interests of existing stockholders or increasing our indebtedness. For example, in our acquisition of Opnext we issued approximately 38.4 million newly issued shares of our common stock to the former stockholders of Opnext.

All acquisitions involve potential risks and uncertainties, including the following, any of which could harm our business and adversely affect our results of operations:

- failure to realize the potential financial or strategic benefits of the acquisition;
- increased costs associated with merged or acquired operations;
- increased indebtedness obligations;
- economic dilution to gross and operating profit (loss) and earnings (loss) per share;
- failure to successfully further develop the combined, acquired or remaining technology, which could, among other things, result in the impairment of amounts recorded as goodwill or other intangible assets;
- unanticipated costs and liabilities and unforeseen accounting charges;
- difficulty in integrating product offerings;
- difficulty in coordinating and rationalizing research and development activities to enhance introduction of new products and technologies with reduced cost;
- difficulty in coordinating and integrating the manufacturing activities, including with respect to third-party manufacturers, including coordination, integration or transfers of any manufacturing activities associated with our acquisition of Opnext in 2012;
- delays and difficulties in delivery of products and services;
- failure to effectively integrate or separate management information systems, personnel, research and development, marketing, sales and support operations;
- difficulty in maintaining internal control procedures and disclosure controls that comply with the requirements of the Sarbanes-Oxley Act of 2002, or poor integration of a target’s procedures and controls;
- difficulty in preserving important relationships of our acquired businesses and resolving potential conflicts between business cultures;
- uncertainty on the part of our existing customers, or the customers of an acquired company, about our ability to operate effectively after a transaction, and the potential loss of such customers;
- loss of key employees;
- difficulty in coordinating the international activities of our acquired businesses, including Opnext, which has substantial operations in Japan, and which uses contract manufacturing suppliers in Southeast Asia;
- inherited tax liabilities from our acquisitions together with the effect of tax laws and other legal and regulatory regimes due to increasing the scope of our global operating structure;
- greater exposure to the impact of foreign currency changes on our business;
- the effect of employment law or regulations or other limitations in foreign jurisdictions that could have an impact on timing, amounts or costs of achieving expected synergies; and
- substantial demands on our management as a result of these transactions that may limit their time to attend to other operational, financial, business and strategic issues.

Our integration with acquired businesses has been and will continue to be a complex, time-consuming and expensive process. We cannot assure you that we will be able to successfully integrate these businesses in a timely manner, or at all, or that any of the anticipated benefits from our previous or future acquisitions will be realized. There are inherent challenges in integrating the operations of geographically diverse companies. We may have difficulty, and may incur unanticipated expenses related to, integrating management and personnel from our acquisitions. Our failure to achieve the strategic objectives of our past and future acquisitions could have a material adverse effect on our revenues, expenses and our other operating results and cash resources, and could result in us not achieving the anticipated potential benefits of these transactions. In addition, we cannot assure you that the growth rate of the combined company will equal the historical growth rate experienced by any of the companies that we have acquired. Comparable risks would accompany any divestiture of businesses or assets we might undertake.

In addition, even if we successfully integrate the operations of companies that we have acquired or may acquire in the future, we cannot predict with certainty which strategic, financial or operating synergies or other benefits, if any, will actually be achieved from our acquisition, the timing of any such benefits, or whether those benefits which have been achieved will be sustainable on a long-term basis. Our failure to successfully integrate the operations of companies that we acquire would likely have a material and adverse impact on our business, prospects, financial condition and results of operations.

We have a history of large operating losses. We may not be able to sustain profitability in the future and as a result we may not be able to maintain sufficient levels of liquidity.

We have historically incurred losses and negative cash flows from operations since our inception. As of October 1, 2016, we had an accumulated deficit of $1,342.3 million . Although we achieved income from continuing operations during the quarter ended October 1, 2016 and the year ended July 2, 2016, we incurred losses from continuing operations for the years ended June 27, 2015 and June 28, 2014 of $48.2 million and $102.1 million, respectively.

As of October 1, 2016, we held $229.3 million in cash and restricted cash, comprised of $228.6 million in cash and cash equivalents, and $0.7 million in short-term restricted cash; and we had working capital, including cash, of $318.2 million . At October 1, 2016, we had debt of $5.2 million , consisting of capital leases.

The optical communications industry is subject to significant operational fluctuations. In order to remain competitive we incur substantial costs associated with research and development, qualification, production capacity and sales and marketing activities in connection with products that may be purchased, if at all, long after we have incurred such costs. In addition, the rapidly changing industry in which we operate, the length of time between developing and introducing a product to market, frequent changing customer specifications for products, customer cancellations of products and general down cycles in the industry, among other things, make our prospects difficult to evaluate. As a result of these factors, it is possible that we may not (i) generate sufficient positive cash flow from operations; (ii) raise funds through the issuance of equity, equity-linked or convertible debt securities; (iii) be able to draw advances under our loan agreement in the future or repay any such amounts; (iv) conclude additional strategic dispositions or similar transactions; or (v) otherwise have sufficient capital resources to meet our future capital or liquidity needs. There are no guarantees we will be able to generate additional financial resources beyond our existing balances.

We have a large amount of intercompany balances with our China entities which may be subject to taxes and penalties when we try to pay them down or collect them.

Payments for goods and services into and out of China are subject to numerous and over-lapping government regulation with respect to foreign exchange controls, banking controls, import and export controls, and taxes. We have been operating in China for an extended period of time and have accumulated significant intercompany balances with our related entities. Our ability to repay or collect these balances may be restricted by Chinese laws and, as a result, we may be unable to successfully pay down or collect on these balances. As a consequence, we may be assessed additional taxes in China if we are unable to claim bad debt deductions or incur debt forgiveness income from the cancellation of these intercompany balances. Additionally, if we are found not to have complied with the various local laws surrounding cross border payments, we may incur penalties and fines for non-compliance. Any such taxes, penalties and/or fines could be significant in amount and, as a result, could have a material adverse effect on our financial condition, including our cash and cash equivalent balances.

Our intellectual property rights may not be adequately protected.

Our future success will depend, in large part, upon our intellectual property rights, including patents, copyrights, design rights, trade secrets, trademarks and know-how. We maintain an active program of identifying technology appropriate for patent protection. Our practice is to require employees and consultants to execute non-disclosure and proprietary rights agreements upon commencement of employment or consulting arrangements. These agreements acknowledge our exclusive ownership of all intellectual property developed by the individuals during their work for us and require that all proprietary information disclosed will remain confidential. Although such agreements may be binding, they may not be enforceable in full or in part in all jurisdictions and any breach of a confidentiality obligation could have a negative effect on our business and our remedy for such breach may be limited.

Our intellectual property portfolio is an important corporate asset. The steps we have taken and may take in the future to protect our intellectual property may not adequately prevent misappropriation or ensure that others will not develop competitive technologies or products. We cannot assure you that our competitors will not successfully challenge the validity of our patents or design products that avoid infringement of our proprietary rights with respect to our technology. There can be no assurance that other companies are not investigating or developing other similar technologies, any patents will be issued from any application pending or filed by us, or, if patents are issued, the claims allowed will be sufficiently broad to deter or prohibit others from marketing similar products. In addition, we cannot assure you that any patents issued to us will not be challenged, invalidated or circumvented, or that the rights under those patents will provide a competitive advantage to us or that our products and technology will be adequately covered by our patents and other intellectual property. Further, the laws of certain regions in which our products are or may be developed, manufactured or sold, including Asia-Pacific, Southeast Asia and Latin America, may not be enforceable to protect our products and intellectual property rights to the same extent as the laws of the United States, the United Kingdom and continental European countries. This is especially relevant since we have transferred our assembly and test operations and chip-on-carrier operations, including certain engineering-related functions, to Shenzhen, China, and have completed the transition of portions of these assembly and test operations to Venture in Malaysia.

Opnext historically relied on Hitachi, previously one of our major shareholders, for assistance with the research and development efforts related to Opnext's product portfolio. Any failure of Hitachi to continue to provide these services could have a material adverse effect on our business. Opnext's product expertise is based on the research ability developed within their Hitachi heritage and through joint research and development in lasers and optical technologies. A key factor to Opnext's business success and strategy is fundamental laser research. Opnext relied on access to Hitachi's research laboratories pursuant to a research and development agreement with Hitachi, which includes access to Hitachi's research facilities and engineers, to conduct research and development activities that are important to the establishment of new technologies and products vital to their current and future business. Should access to Hitachi's research laboratories become unavailable or available at less attractive terms in the future, this may impede development of new technologies and products, and our financial condition and operating results could be materially adversely affected.

Our revenues and operating results are likely to fluctuate significantly as a result of factors that are outside our control, which could adversely impact our operating results.

Our revenues and operating results are likely to fluctuate significantly in the future as a result of factors that are outside our control. The timing of order placement, size of orders and satisfaction of contractual customer acceptance criteria, changes in the pricing of our products due to competitive pressures as well as order or shipment delays or deferrals, with respect to our products, may cause material fluctuations in revenues. Our lengthy sales cycle, which may extend to more than one year, may cause our revenues and operating results to vary from period to period and it may be difficult to predict the timing and amount of any variation. Delays or deferrals in purchasing decisions by our customers may increase as we develop new or enhanced products for new markets, including data communications, industrial, research, consumer and biotechnology markets. Purchase decisions by our customers are also impacted by the capital expenditure plans of the global telecom carriers, which tend to be the primary customers of our customers. Our current and anticipated future dependence on a small number of customers increases the revenue impact of each such customer's decision to delay or defer purchases from us, or decision not to purchase products from us. For example, during the second half of fiscal 2012, our revenues were adversely impacted by a significant change in demand expectations from a particular major customer. Our expense levels in the future will be based, in large part, on our expectations regarding future revenue sources and, as a result, operating results for any quarterly period in which material orders fail to occur, or are delayed or deferred, could vary significantly. Because our business is capital intensive, significant fluctuations in our revenues, without a corresponding decrease in expenses, can have a significant adverse impact on our operating results.

We have significant operations in China, which exposes us to risks inherent in doing business in China.

A significant portion of our assembly and test operations, chip-on-carrier operations and manufacturing and supply chain management operations are concentrated in our facility in Shenzhen, China. In addition, we have research and development related activities in Shenzhen, China. To be successful in China we will need to:

- qualify our manufacturing lines and the products we produce in Shenzhen, as required by our customers; and
- attract and retain qualified personnel to operate our Shenzhen facility.

We cannot assure you that we will be able to achieve these objectives.

Employee turnover in China is high due to the intensely competitive and fluid market for skilled labor. To operate our Shenzhen facility under these conditions, we need to continue to hire direct manufacturing personnel, administrative personnel and technical personnel; obtain and retain required legal authorization to hire such personnel; and incur the time and expense to hire and train such personnel. On March 28, 2012, shortly after announcing our agreement with Venture to transition certain manufacturing operations, certain of our employees in Shenzhen initiated a work stoppage. The work stoppage impacted our Shenzhen manufacturing capabilities temporarily up to and including April 4, 2012. Revenues for the three months ended March 31, 2012 were adversely impacted by approximately $4.0 million due to the work stoppage.

Inflation rates in China are higher than in most jurisdictions in which we operate. We believe that salary inflation rates for the skilled personnel we hire and seek to retain in Shenzhen are likely to be higher than overall inflation rates.

Operations in China are subject to greater political, legal and economic risks than our operations in other countries. In particular, the political, legal and economic climate in China, both nationally and regionally, is fluid and unpredictable. For example, we have been subject to commercial litigation in China initiated by a former supplier. For a description of this lawsuit, see Part I, Item 3, *Legal Proceedings,* "Raysung Commercial Litigation," in our 2016 Annual Report. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations such as those related to, among other things, taxation, import and export tariffs, environmental regulations, land use rights, intellectual property, currency controls, employee benefits and other matters. In addition, we may not obtain or retain the requisite legal permits to continue to operate in China, and costs or operational limitations may be imposed in connection with obtaining and complying with such permits.

We intend to continue to export the products manufactured at our Shenzhen facility. Under current regulations, upon application and approval by the relevant governmental authorities, we will not be subject to certain Chinese taxes and will be exempt from certain duties on imported materials that are used in the manufacturing process and subsequently exported from China as finished products. However, Chinese trade regulations are subject to frequent change, and we may become subject to other forms of taxation and duties in China or may be required to pay export fees in the future. In the event that we become subject to new forms of taxation or export fees in China, our business and results of operations could be materially adversely affected. We may also be required to expend greater amounts than we currently anticipate in connection with increasing production at our Shenzhen facility. Any one of the factors cited above, or a combination of them, could result in unanticipated costs or interruptions in production, which could materially and adversely affect our business.

Our products may infringe the intellectual property rights of others, which could result in expensive litigation or require us to obtain a license to use the technology from third parties, or we may be prohibited from selling certain products in the future.

Companies in the industry in which we operate frequently are sued or receive informal claims of patent infringement or infringement of other intellectual property rights. We have, from time to time, received such claims, including from competitors and from companies that have substantially more resources than us. For example, see Part I, Item 3, *Legal Proceedings,* "Furukawa Patent Litigation," in our 2014 Annual Report.

Third parties may in the future assert claims against us concerning our existing products or with respect to future products under development, or with respect to products that we may acquire through acquisitions. We have entered into and may in the future enter into indemnification obligations in favor of some customers that could be triggered upon an allegation or finding that we are infringing other parties' proprietary rights. If we do infringe a third party's rights, we may need to negotiate with holders of those rights in order to obtain a license to those rights or otherwise settle any infringement claim. We have from time to time received notices from third parties alleging infringement of their intellectual property and where appropriate have entered into license agreements with those third parties with respect to that intellectual property. Any license agreements that we wish to enter into the future with respect to intellectual property rights may not be available to us on commercially reasonable terms, or at all. We may not in all cases be able to resolve allegations of infringement through licensing arrangements, settlement, alternative designs or otherwise. We may take legal action to determine the validity and scope of the third-party rights or to defend against any allegations of infringement. Holders of intellectual property rights could become more aggressive in alleging infringement of their intellectual property rights and we may be the subject of such claims asserted by a third party. In the course of pursuing any of these means or defending against any lawsuits filed against us, we could incur significant costs and diversion of our resources and our management's attention. Due to the competitive nature of our industry, it is unlikely that we could increase our prices to cover such costs. In addition, such claims could result in significant penalties or injunctions that could prevent us from selling some of our products in certain markets or result in settlements or judgments that require payment of significant royalties or damages.

If we fail to obtain the right to use the intellectual property rights of others necessary to operate our business, our business and results of operations will be materially and adversely affected.

Certain companies in the telecommunications, data communications and optical components markets in which we sell our products have experienced frequent litigation regarding patent and other intellectual property rights. Numerous patents in these industries are held by others, including academic institutions and our competitors. Optical component suppliers may seek to gain a competitive advantage or other third parties, inside or outside our market, may seek an economic return on their intellectual property portfolios by making infringement claims against us. We currently in-license certain intellectual property of third parties, and 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 such licenses on commercially reasonable terms, patents or other intellectual property held by others could be used to inhibit or prohibit our production and sale of existing products and our development of new products for our markets. Licenses granting us the right to use third-party technology may not be available on commercially reasonable terms, or 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. In addition, in the event we are granted such a license, it is likely such license would be non-exclusive and other parties, including competitors, may be able to utilize such technology. Our larger competitors may be able to obtain licenses or cross-license their technology on better terms than we can, which could put us at a competitive disadvantage. In addition, our larger competitors may be able to buy such technology and preclude us from licensing or using such technology.

We generate a significant portion of our revenues internationally and therefore are subject to additional risks associated with the extent of our international operations.

For the quarter ended October 1, 2016 and the fiscal years ended July 2, 2016, June 27, 2015 and June 28, 2014, 11 percent, 15 percent, 16 percent and 11 percent of our revenues, respectively, were derived from sales to customers located in the United States and 89 percent, 85 percent, 84 percent and 89 percent of our revenues, respectively, were derived from sales to customers located outside the United States. We are subject to additional risks related to operating in foreign countries, including:

- currency fluctuations, which could result in increased operating expenses and reduced revenues;
- difficulty in enforcing or adequately protecting our intellectual property;
- ability to hire qualified candidates;
- trade restrictions, including restrictions imposed by the United States government on trading with parties in foreign countries;
- foreign income, value added and customs taxes;
- trade restrictions, including restrictions imposed by the United States government on trading with parties in foreign countries;
- greater difficulty in accounts receivable collection and longer collection periods;
- political, legal and economic instability in foreign markets;
- foreign regulations;
- changes in, or impositions of, legislative or regulatory requirements;
- transportation delays;
- epidemics and illnesses;
- terrorism and threats of terrorism;
- work stoppages and infrastructure problems due to adverse weather conditions or natural disasters;
- work stoppages related to employee dissatisfaction; and
- the effective protections of, and the ability to enforce, contractual arrangements.

Any of these risks, or any other risks related to our foreign operations, could materially adversely affect our business, financial condition and results of operations.

We may face product liability claims.

Despite quality assurance measures, defects may occur in our products. The occurrence of any defects in our products could give rise to liability for damages caused by such defects, including consequential damages. Such defects could, moreover, impair market acceptance of our products. Both could have a material adverse effect on our business and financial condition. In addition, we may assume product warranty liabilities related to companies we acquire, which could have a material adverse effect on our business and financial condition. In order to mitigate the risk of liability for damages, we carry product liability insurance with a $25.0 million aggregate annual limit and errors and omissions insurance with a $5.0 million annual limit. We cannot assure you that this insurance would adequately cover our costs arising from any defects in our products or otherwise.

At times, the market price of our common stock has fluctuated significantly.

The market price of our common stock has been, and is likely to continue to be, highly volatile. For example, between July 3, 2016 and October 1, 2016, the market price of our common stock ranged from a low of $4.58 per share to a high of $9.34 per share. Many factors could cause the market price of our common stock to rise and fall.

In addition to the matters discussed in other risk factors included in our public filings, some of the events that could impact our stock price are:

- fluctuations in our financial condition and results of operations, including our gross margins and cash flow;
- changes in our business, operations or prospects;
- hiring or departure of key personnel;
- new contractual relationships with key suppliers or customers by us or our competitors;

- proposed acquisitions and dispositions by us or our competitors;
- financial results or projections that fail to meet public market analysts' expectations and changes in stock market analysts' recommendations regarding us, other optical technology companies or the telecommunication industry in general;
- future sales of common stock, or securities convertible into, exchangeable or exercisable for common stock;
- adverse judgments or settlements obligating us to pay damages;
- future issuances of common stock in connection with acquisitions or other transactions;
- acts of war, terrorism, or natural disasters;
- industry, domestic and international market and economic conditions, including sovereign debt issues in certain parts of the world and related global macroeconomic issues;
- low trading volume in our stock;
- developments relating to patents or property rights; and
- government regulatory changes.

In connection with our acquisition of Xtellus, during the first quarter of fiscal year 2012 we issued 0.9 million shares of our common stock to settle our escrow liability. In connection with our acquisition of Mintera, during the second quarter of fiscal year 2012, we issued 0.8 million shares of our common stock to pay portions of the 12 month earnout obligations. In connection with our acquisition of Opnext, during the first quarter of fiscal year 2013, we issued 38.4 million shares of our common stock. In addition, during the second quarter of fiscal year 2014, we issued 13.5 million shares of our common stock in connection with the conversion of the convertible notes issued in December 2012. In May 2013, we also issued 1.8 million warrants to purchase our common stock at an exercise price of $1.50 per share in connection with the term loan we received in May 2013. On May 2, 2014, these warrants were exercised, resulting in the issuance of 978,457 shares of our common stock. In August 2016, we issued 34,659,972 shares of our common stock and made a cash payment of $4.7 million in exchange for $65 million aggregate principal amount of our 6.00% Notes. The issuance of these shares has diluted our existing stockholders and their subsequent sale could potentially have a negative impact on our stock price.

Our shares of common stock have experienced substantial price and volume fluctuations, in many cases without any direct relationship to our operating performance. An outgrowth of this market volatility is the significant vulnerability of our stock price to any actual or perceived fluctuation in the strength of the markets we serve, regardless of the actual consequence of such fluctuations. As a result, the market price for our stock is highly volatile. These broad market and industry factors have caused the market price of our common stock to fluctuate, and may in the future cause the market price of our common stock to fluctuate, regardless of our actual operating performance.

We are not restricted from issuing additional shares of our common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, shares of our common stock. Issuances of shares of our common stock or convertible securities, including outstanding options and warrants, will dilute the ownership interest of our stockholders.

We have been named as a party to derivative action lawsuits in the past, and we may be named in additional litigation in the future, all of which would require significant management time and attention and result in significant legal expenses and could result in an unfavorable outcome which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

When the market price of a stock experiences a sharp decline, as has happened to us in the past, holders of that stock have often brought securities class action litigation against the company that issued the stock. Several securities class action lawsuits have been filed against us and certain of our current and former officers and directors. Other class action lawsuits have been initiated in the past against Opnext, us and certain of our respective current and former officers and directors as purported derivative actions. The securities class action complaints alleged violations of section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated by the Securities and Exchange Commission (the "SEC"). Each purported derivative complaint alleged, among other things, counts for breaches of fiduciary duty, waste, and unjust enrichment. The courts approved the settlement of these lawsuits and the settlements became final in December 2014. For a description of these lawsuits, see Part II, Item 1, *Legal Proceedings,* "Class Action and Derivative Litigation" in our Quarterly Report on Form 10-Q filed on February 5, 2015. If new litigation of this type were to be initiated in the future, such litigation would likely divert the time and attention of our management and could cause us to incur significant expense in defending against the litigation. In addition, if any such suits were resolved in a manner adverse to us, the damages we could be required to pay may be substantial and could have an adverse impact on our results of operations and our ability to operate our business.

Because we do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We have never declared or paid any dividends on our common stock. We anticipate that we will retain any future earnings to support operations and to finance the development of our business and do not expect to pay cash dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend entirely upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

We are subject to anti-corruption laws in the jurisdictions in which we operate, including the U.S. Foreign Corrupt Practices Act, or the FCPA. Our failure to comply with these laws could result in penalties which could harm our reputation and have a material adverse effect on our business, results of operations and financial condition.

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits, along with various other anti-corruption laws. Although we have implemented policies and procedures designed to ensure that we, our employees and other intermediaries comply with the FCPA and other anti-corruption laws to which we are subject, there is no assurance that such policies or procedures will work effectively all of the time or protect us against liability under the FCPA or other laws for actions taken by our employees and other intermediaries with respect to our business or any businesses that we may acquire. We have manufacturing operations in China and other jurisdictions, many of which pose elevated risks of anti-corruption violations, and we export our products for sale internationally. This puts us in frequent contact with persons who may be considered “foreign officials” under the FCPA, resulting in an elevated risk of potential FCPA violations. If we are not in compliance with the FCPA and other laws governing the conduct of business with government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, financial condition, results of operations and liquidity. Any investigation of any potential violations of the FCPA or other anti-corruption laws by U.S. or foreign authorities could harm our reputation and have an adverse impact on our business, financial condition and results of operations.

In the future we may need to access the capital markets to raise additional equity, which could dilute our shareholder base.

We may need additional liquidity beyond our current expectations, such as to fund future growth, strengthen our balance sheet or to fund the cost of restructuring activities, and will continue to explore other sources of additional liquidity. These additional sources of liquidity could include one, or a combination, of the following: (i) issuing equity securities, (ii) incurring indebtedness secured by our assets, (iii) issuing debt and/or convertible debt securities, or (iv) selling product lines, other assets and/or portions of our business. There can be no guarantee that we will be able to raise additional funds on terms acceptable to us, or at all.

If we raise funds through the issuance of equity, equity-linked or convertible debt securities, our stockholders may be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of securities held by existing stockholders. For example, we raised funds in a public offering of our common stock in September 2016, which diluted our existing stockholder base. If we raise funds in the future through the issuance of debt instruments, such as we did in February 2015 when we issued convertible notes and December 2012 when we issued exchangeable bonds, the agreements governing such debt instruments may contain covenant restrictions that limit our ability to, among other things: (i) incur additional debt, assume obligations in connection with letters of credit, or issue guarantees; (ii) create liens; (iii) make certain investments or acquisitions; (iv) enter into transactions with our affiliates; (v) sell certain assets; (vi) redeem capital stock or make other restricted payments; (vii) declare or pay dividends or make other distributions to stockholders; and (viii) merge or consolidate with any entity. (See Note 5, *Credit Line and Notes* , elsewhere in this Quarterly Report, for further details). The exchangeable bonds issued in 2012 and the convertible notes issued in 2015 were subsequently exchanged for common stock and, in the case of the convertible notes issued in 2015, a cash payment. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations, develop or enhance our products, or otherwise respond to competitive pressures and operate effectively could be significantly limited.

We may have to incur substantially more debt in the future, which may subject us to restrictive covenants that could limit our ability to operate our business.

In the future, we may incur additional indebtedness through arrangements such as credit agreements or term loans that may impose restrictions and covenants that limit our ability to respond appropriately to market conditions, make capital investments or take advantage of business opportunities. In addition, any debt arrangements we may enter into would likely require us to make regular interest payments, which would adversely affect our results of operations.

In the future we may incur significant additional restructuring charges that could adversely affect our results of operations.

We have previously enacted a series of restructuring plans and cost reduction plans designed to reduce our manufacturing overhead and our operating expenses that have resulted in significant restructuring charges.

For instance, while we incurred minimal restructuring charges in fiscal year 2016, during fiscal years 2015 and 2014, we incurred $2.5 million and $3.5 million in restructuring charges, respectively, in connection with the transition of certain portions of our Shenzhen, China assembly and test operations to Venture. In addition, during fiscal years 2015 and 2014, we incurred $4.0 million and $13.2 million, respectively, in restructuring charges in connection with the restructuring plan we initiated in the first quarter of fiscal year 2014 to simplify our operating footprint, reduce our cost structure and focus our research and development investment in the optical communications market where we can leverage our core competencies.

We cannot assure you that we will not incur additional restructuring charges in the future. Significant additional restructuring charges could materially and adversely affect our operating results in the periods that they are incurred and recognized. In addition, such charges could require significant cash commitments that may adversely affect our cash balances.

We may undertake divestitures of portions of our business, such as the divestiture of our Komoro Business, Zurich Business and our Amplifier Business, that require us to continue providing substantial post-divestiture transition services and support, which may cause us to incur unanticipated costs and liabilities and adversely affect our financial condition and results of operations.

From time to time, we consider divestitures of product lines or portions of our assets in order to streamline our business, focus on our core operations and raise cash. For example, on October 27, 2014, we sold our Komoro Business to Ushio Opto Semiconductors, Inc. ("Ushio"). In addition, on September 12, 2013, we sold our Zurich Business to II-VI and on November 1, 2013, we sold our Amplifier Business to II-VI (See Note 3, *Business Combinations and Dispositions* , in our 2016 Annual Report, for further details). In connection with these divestitures, we entered into transition service, manufacturing service and supply agreements with both Ushio and II-VI to facilitate the ownership transition, collectively referred to as “transition agreements.” In order to perform under these transition agreements, we have been required to continue operating certain facilities, dedicate certain manufacturing capacity and maintain certain supplier agreements that have added additional costs and delayed our ability to fully restructure our operations to efficiently focus on our core ongoing business. If we fail to perform under any of these transition agreements, or if we do not successfully execute the restructuring of our operations after our transition agreement obligations have been fulfilled, our financial condition and results of operations could be harmed.

Litigation may substantially increase our costs and harm our business.

We are a party to a small number of lawsuits and will continue to incur legal fees and other costs related thereto, including potentially expenses for the reimbursement of legal fees of officers and directors under indemnification obligations. The expense of continuing to defend such litigation may be significant. In addition, there can be no assurance that we will be successful in any defense. 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. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters that may arise from time to time could have a material adverse effect on our business, results of operations and financial condition.

For a description of our current material litigation, see Part II, Item 1 – *Legal Proceedings* of this Quarterly Report.

In addition, from time to time, we have been a party to certain intellectual property infringement litigation as more fully described above under “Risks Related to Our Business — *Our products may infringe the intellectual property rights of others, which could result in expensive litigation or require us to obtain a license to use the technology from third parties, or we may be prohibited from selling certain products in the future* .”

A lack of effective internal controls over our financial reporting could result in an inability to report our financial results accurately, which could lead to a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

In fiscal year 2013, in connection with establishing the fair values of certain assets and liabilities associated with our acquisition of Opnext, we identified a material weakness over controls related to our recording of the purchase under Accounting Standards Codification Topic 805, *Business Combinations* . In the fourth quarter of fiscal year 2013, we made adjustments to the fair value of certain items, including property and equipment, capital leases and intangible assets. As a result of these adjustments, management concluded that we did not maintain effective internal controls over financial reporting as of June 29, 2013, because the potential impact of these adjustments could have been material to our financial position and results of operations. During the year ended June 28, 2014, we hired new finance personnel and added oversight for the accounting of acquisitions and dispositions. Our remediation efforts, including the testing of these controls, continued throughout fiscal year 2014. This material weakness was considered remediated in the fourth quarter of fiscal year 2014, once these controls were shown to be operational for a sufficient period of time to allow management to conclude that these controls were operating effectively.

In fiscal year 2014, we also identified control deficiencies relating to inventory and property and equipment, which in the aggregate constituted a material weakness. We determined that our processes, procedures and controls related to the review and analysis of inventory and property and equipment were not effective to ensure that certain amounts related to these financial statement accounts were accurately reported in a timely manner. As a result of these adjustments, management concluded that we did not maintain effective internal controls over financial reporting as of June 28, 2014. Our remediation efforts, including the testing of these controls, continued throughout fiscal year 2015. This material weakness was considered remediated in the fourth quarter of fiscal year 2015, once these controls were shown to be operational for a sufficient period of time to allow management to conclude that these controls were operating effectively.

In addition, we have in the past, and may in the future, acquire companies that have either experienced material weaknesses in their internal controls over financial reporting or have had no previous reporting obligations under Sarbanes-Oxley. Failure to integrate acquired businesses into our internal controls over financial reporting could cause those controls to fail. We cannot assure you that similar material weaknesses will not recur in the future. If additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports. Our failure to implement and maintain effective internal control over financial reporting could result in a material misstatement of our financial statements or otherwise cause us to fail to meet our financial reporting obligations. This, in turn, could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our business, financial condition, operating results and our stock price, and we could be subject to stockholder litigation and our common stock may be delisted as a result. Even if we are able to implement and maintain effective internal control over financial reporting, the costs of doing business may increase and our management may be required to dedicate greater time and resources to that effort.

Prior to our acquisition of Opnext, Opnext licensed its intellectual property to Hitachi and its wholly owned subsidiaries without restriction. In addition, Hitachi is free to license certain of Hitachi's intellectual property that Opnext used in its business to any third party, including competitors, which could harm our business and operating results.

Opnext was initially created as a stand-alone entity by acquiring certain assets of Hitachi through various transactions. In connection with these transactions, Opnext acquired a number of patents and know-how from Hitachi, but also granted Hitachi and its wholly owned subsidiaries a perpetual right to continue to use those patents and know-how, as well as other patents and know-how that Opnext developed during a period which ended in July 2011 (or October 2012 in certain cases). This license back to Hitachi is broad and permits Hitachi to use this intellectual property for any products or services anywhere in the world, including licensing this intellectual property to our competitors.

Additionally, while significant intellectual property owned by Hitachi was assigned to Opnext when Opnext was formed, Hitachi retained and only licensed to Opnext the intellectual property rights to underlying technologies used in both Opnext products and the products of Hitachi. Under the agreement, Hitachi remains free to license these intellectual property rights to the underlying technologies to any party, including competitors. The intellectual property that has been retained by Hitachi and that can be licensed in this manner does not relate solely or primarily to one or more of Opnext's products, or groups of products; rather, the intellectual property that is licensed to Opnext by Hitachi is generally used broadly across Opnext's entire product portfolio. Competition by third parties using the underlying technologies retained by Hitachi could harm the Opnext business, financial condition and results of operations.

We may record additional impairment charges that will adversely impact our results of operations.

As of October 1, 2016, we had $1.2 million in other intangible assets and $76.8 million of property and equipment, net on our condensed consolidated balance sheet. If we make changes in our business strategy or if market or other conditions adversely affect our business operations, we may be forced to record an impairment charge related to these assets, which would adversely impact our results of operations. If impairment has occurred, we will be required to record an impairment charge for the difference between the carrying value of the other intangible assets and the implied fair value of the other intangible assets in the period in which such determination is made. The testing of other intangible assets for impairment requires us to make significant estimates about the future performance and cash flows of our business, as well as other assumptions. These estimates can be affected by numerous factors, including changes in economic, industry, or market conditions, changes in underlying business operations, future reporting unit operating performance, changes in competition, or changes in technologies. Any changes in key assumptions, or actual performance compared with those assumptions, about our business and its future prospects or other assumptions could affect the fair value of one or more reporting units, and result in an impairment charge.

Man-made problems such as computer viruses or terrorism may disrupt our operations and harm our operating results.

Despite our implementation of network security measures our servers are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with our computer systems. Any such event could have a material adverse effect on our business, operating results, and financial condition. Efforts to limit the ability of malicious third parties to disrupt the operations of the Internet or undermine our own security efforts may meet with resistance. In addition, the continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the economies of the United States and other countries and create further uncertainties or otherwise materially harm our business, operating results, and financial condition. Likewise, events such as widespread blackouts could have similar negative impacts. To the extent that such disruptions or uncertainties result in delays or cancellations of customer orders or the manufacture or shipment of our products, our business, operating results, and financial condition could be materially and adversely affected.

We may be subject to theft, loss, or misuse of personal data about our employees, customers, or other third parties, which could increase our expenses, damage our reputation, or result in legal or regulatory proceedings.

The theft, loss, or misuse of personal data collected, used, stored, or transferred by us to run our business could result in significantly increased security costs or costs related to defending legal claims. Global privacy legislation, enforcement, and policy activity in this area are rapidly expanding and creating a complex compliance regulatory environment. Costs to comply with and implement these privacy-related and data protection measures could be significant. In addition, our even inadvertent failure to comply with federal, state, or international privacy-related or data protection laws and regulations could result in proceedings against us by governmental entities or others.

Our business and operating results may be adversely affected by natural disasters or other catastrophic events beyond our control.

Our business and operating results are vulnerable to natural disasters, such as earthquakes, fires, tsunami, volcanic activity and floods, as well as other events beyond our control such as power loss, telecommunications failures and uncertainties arising out of terrorist attacks in the United States and armed conflicts overseas. For example, in the latter three quarters of fiscal year 2012, our results of operations were materially and adversely impacted by the flooding in Thailand. Additionally, our corporate headquarters and a portion of our research and development and manufacturing operations are located in Silicon Valley, California, and select manufacturing facilities are located in Japan. These regions in particular have been vulnerable to natural disasters, such as the 2011 earthquake and subsequent tsunami that occurred in Japan, and the April 2016 earthquakes that took place on the island of Kyushu in Japan. The occurrence of any of these events could pose physical risks to our property and personnel, which may adversely affect our ability to produce and deliver products to our customers. Although we presently maintain insurance against certain of these events, we cannot be certain that our insurance will be adequate to cover any damage sustained by us or by our customers.

Our business involves the use of hazardous materials, and we are subject to environmental and import/export laws and regulations that may expose us to liability and increase our costs.

We handle hazardous materials as part of our manufacturing activities. Consequently, our operations are subject to environmental laws and regulations governing, among other things, the use and handling of hazardous substances and waste disposal. We may incur costs to comply with current or future environmental laws. As with other companies engaged in manufacturing activities that involve hazardous materials, a risk of environmental liability is inherent in our manufacturing activities, as is the risk that our facilities will be shut down in the event of a release of hazardous waste, or that we would be subject to extensive monetary liabilities. The costs associated with environmental compliance or remediation efforts or other environmental liabilities could adversely affect our business. Under applicable European Union regulations, we, along with other electronics component manufacturers, are prohibited from using lead and certain other hazardous materials in our products. We could lose business or face product returns if we fail to maintain these requirements properly.

In addition, the sale and manufacture of certain of our products require on-going compliance with governmental security and import/export regulations. We may, in the future, be subject to investigation which may result in fines for violations of security and import/export regulations. Furthermore, any disruptions of our product shipments in the future, including disruptions as a result of efforts to comply with governmental regulations, could adversely affect our revenues, gross margins and results of operations.

The disclosure requirements related to the "conflict minerals" provision of the Dodd-Frank Act may limit our supply and increase our costs for certain metals used in our products and could affect our reputation with customers or shareholders.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the SEC adopted a rule requiring public companies to disclose the use of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The rule, which went into effect for calendar year 2013 and requires a disclosure report to be filed with the SEC generally by the end of May each year, requires companies to perform due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo (DRC) or an adjoining country. The rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacturing of our products. The number of suppliers who provide conflict-free minerals may be limited. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to the due diligence process of determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. As our supply chain is complex and we use contract manufacturers for some of our products, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement, which may harm our reputation. If we cannot determine that our products exclude conflict minerals sourced from the DRC or adjoining countries, some of our customers may discontinue, or materially reduce, purchases of our products, which could negatively affect our results of operations.

We can issue shares of preferred stock that may adversely affect your rights as a stockholder of our common stock.

Our certificate of incorporation authorizes us to issue up to 1.0 million shares of preferred stock with designations, rights and preferences determined from time-to-time by our board of directors. Accordingly, our board of directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights superior to those of holders of our common stock. For example, an issuance of shares of preferred stock could:

- adversely affect the voting power of the holders of our common stock;
- make it more difficult for a third-party to gain control of us;
- discourage bids for our common stock at a premium;
- limit or eliminate any payments that the holders of our common stock could expect to receive upon our liquidation; or
- otherwise adversely affect the market price of our common stock.

We may in the future issue shares of authorized preferred stock at any time.

Delaware law and our charter documents 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 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 percent or more of the corporation’s outstanding voting securities, or certain affiliated persons. We do not currently have a stockholder rights plan in place.

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.

ITEM 6. EXHIBITS

The exhibits filed as part of this Quarterly Report on Form 10-Q, or incorporated by reference, are listed on the Exhibit Index immediately preceding such exhibits, which Exhibit Index is incorporated herein by reference.

SIGNATURE

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 authorize

	OCLARO, INC. (Registrant)	
November 7, 2016	By:	/s/ GREG DOUGHERTY
		Greg Dougherty Chief Executive Officer (Principal Executive Officer)
November 7, 2016	By:	/s/ PETE MANGAN
		Pete Mangan Chief Financial Officer (Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.1	Underwriting Agreement, dated as of September 21, 2016, by and between Oclaro, Inc. and Jefferies LLC, as representative of the Underwriters (previously filed as Exhibit 1.1 to Registrants Current Report on Form 8-K filed on September 27, 2016.)
31.1 (1)	Certification of Chief Executive Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2 (1)	Certification of Chief Financial Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1 (1)	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2 (1)	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

(1) Filed herewith.

Exhibit 31.1

SECTION 302(a) CERTIFICATION

I, Greg Dougherty, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Oclaro, Inc. for the period ended October 1, 2016 ;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 7, 2016

By: **/s/ GREG DOUGHERTY**

Greg Dougherty
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

SECTION 302(a) CERTIFICATION

I, Pete Mangan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Oclaro, Inc. for the period ended October 1, 2016 ;

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

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

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

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

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

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

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

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

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

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

November 7, 2016 By: **/s/ PETE MANGAN**

Pete Mangan

Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Oclaro, Inc. (the “Company”) for the period ended October 1, 2016 , as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Greg Dougherty, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 7, 2016	By:	**/s/ GREG DOUGHERTY**
		Greg Dougherty
		Chief Executive Officer
		(Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Oclaro, Inc. (the "Company") for the period ended October 1, 2016 , as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Pete Mangan, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 7, 2016	By:	**/s/ PETE MANGAN**
		Pete Mangan
		Chief Financial Officer
		(Principal Financial Officer)