

Finisar

December 4, 2014

Finisar Announces Second Quarter Financial Results

SUNNYVALE, CA -- (Marketwired) -- 12/04/14 -- Finisar Corporation (NASDAQ: FNSR), a global technology leader for subsystems and components for fiber optic communications, today announced financial results for its second quarter of fiscal 2015, ended October 26, 2014.

COMMENTARY

"Revenues for our second fiscal quarter were \$297.0 million, an increase of \$6.3 million compared to the second fiscal quarter of 2014, but a decrease of \$30.7 million, or 9.4%, compared to the first fiscal quarter of fiscal 2015. The second quarter was challenging. During the quarter, we experienced decreased demand for telecom products compared to the prior fiscal quarter, due to sluggish carrier capital expenditures. In addition, sales of transceivers for wireless applications were soft as were sales to several datacom customers with lumpy order patterns," said Jerry Rawls, Finisar's executive Chairman of the Board.

"We remain confident in our industry leading market position and the long term growth potential for the industry. We expect revenue to grow sequentially in the third fiscal quarter, primarily driven by growth in the demand for 40 gigabit and 100 gigabit transceivers for datacom applications as well as transceivers for wireless applications," said Eitan Gertel, Finisar's Chief Executive Officer.

FINANCIAL HIGHLIGHTS - SECOND QUARTER ENDED OCTOBER 26, 2014

Summary GAAP Results

	Second Quarter Ended October 26, 2014	First Quarter Ended July 27, 2014
	<i>(in thousands, except per share amounts)</i>	
Revenues	\$ 296,981	\$ 327,638
Gross margin	28.6 %	30.2 %
Operating expenses	\$ 92,180	\$ 78,451
Operating income (loss)	\$ (7,259)	\$ 20,368
Operating margin	(2.4)%	6.2 %
Net income (loss)	\$ (11,361)	\$ 14,243
Income per share-basic	\$ (0.11)	\$ 0.14
Income per share-diluted	\$ (0.11)	\$ 0.14
Basic shares	99,621	98,241
Diluted shares	99,621	106,036

Summary Non-GAAP Results (a)

	Second Quarter Ended October 26, 2014	First Quarter Ended July 27, 2014
	<i>(in thousands, except per share amounts)</i>	
Revenues	\$ 296,981	\$ 327,638
Gross margin	31.1 %	32.0 %
Operating expenses	\$ 67,306	\$ 69,439
Operating income	\$ 24,984	\$ 35,404
Operating margin	8.4 %	10.8 %
Net income	\$ 23,465	\$ 33,332

Income per share-basic	\$	0.24	\$	0.34
Income per share-diluted	\$	0.23	\$	0.32
Basic shares		99,621		98,241
Diluted shares		105,340		106,036

(a) *In evaluating the operating performance of Finisar's business, Finisar management utilizes financial measures that exclude certain charges and credits required by U.S. generally accepted accounting principles, or GAAP, that are considered by management to be outside Finisar's core operating results. A reconciliation of Finisar's non-GAAP financial measures to the most directly comparable GAAP measures, as well as additional related information, can be found under the heading "Finisar Non-GAAP Financial Measures" below.*

Financial Statement Highlights for the Second Quarter of Fiscal 2015:

- Revenues decreased to \$297.0 million, down \$30.7 million, or 9.4%, from \$327.6 million in the preceding quarter.
- Sales of products for datacom applications decreased by \$25.3 million, or 10.5%, compared to the preceding quarter, primarily due to a decrease in sales of transceivers for wireless applications and a decrease in orders from several datacom customers with lumpy order patterns.
- Sales of products for telecom applications decreased by \$5.3 million, or 6.2%, compared to the preceding quarter, primarily due to the decrease in demand for transceivers for telecom applications driven by sluggish carrier capital expenditures.
- GAAP gross margin decreased to 28.6% from 30.2% in the preceding quarter, primarily driven by decreased revenue levels and an increase in depreciation.
- Non-GAAP gross margin decreased to 31.1% from 32.0% in the preceding quarter.
- GAAP operating expenses increased \$13.7 million to \$92.2 million from \$78.5 million in the preceding quarter, primarily from expenses related to resolving a pending litigation alleging patent infringement.
- Non-GAAP operating expenses decreased \$2.1 million to \$67.3 million from \$69.4 million in the preceding quarter.
- GAAP operating income decreased \$27.6 million, to an operating loss \$7.3 million or (2.4)% of revenues, compared to \$20.4 million or 6.2% of revenues in the preceding quarter, primarily as the result of lower revenue levels and gross margins, and higher expenses related to resolving a pending litigation alleging patent infringement.
- Non-GAAP operating income decreased \$10.4 million to \$25.0 million, or 8.4% of revenues, compared to \$35.4 million, or 10.8% of revenues, in the preceding quarter, primarily as the result of lower revenue levels and gross margins.
- Cash, cash equivalents and short term investments decreased \$20.0 million to \$477.4 million at the end of the second quarter, compared to \$497.4 million at the end of the preceding quarter, primarily as the result of capital expenditures of \$28.4 million, increased inventory of \$14.7 million and legal settlement-related expenses of approximately \$13.7 million.

OUTLOOK

The Company indicated that for the third quarter of fiscal 2015 it currently expects revenues in the range of \$297 to \$312 million, non-GAAP gross margin of approximately 31%, non-GAAP operating margin of approximately 8.4% to 9.4%, and non-GAAP earnings per diluted share in the range of approximately \$0.23 to \$0.27.

CONFERENCE CALL

Finisar will discuss its financial results for the second quarter and current business outlook during its regular quarterly conference call scheduled for Thursday, December 4, 2014, at 2:00 pm PT (5:00 pm ET). To listen to the call you may connect through the Finisar investor relations page at <http://investor.finisar.com/> or dial 1-800-432-7390 (domestic) or +1-913-312-1454 (international) and enter conference ID 1607677.

An audio replay will be available for two weeks following the call by dialing 1-888-203-1112 (domestic) or +1-719-457-0820 and then following the prompts: enter conference ID 1607677 and provide your name, affiliation, and contact number. A replay of the webcast will be available shortly after the conclusion of the call on the Company's website until the next regularly scheduled earnings conference call.

SAFE HARBOR UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This press release contains forward-looking statement concerning Finisar's expected financial performance. These statements are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on our current expectations, estimates, assumptions and projections about our business and industry, and the markets and customers we serve, and they are subject to numerous risks and uncertainties that may cause these forward-looking statements to be inaccurate. Finisar assumes no obligation to update any such forward-looking statements. Forward-looking statements involve risks and uncertainties which could cause actual results to differ materially from those projected. Examples of such risks include those associated with: the uncertainty of customer demand for Finisar's products; the rapidly evolving markets for Finisar's products and uncertainty regarding the development of these markets; Finisar's historical dependence on sales to a limited number of customers and fluctuations in the mix of products and customers in any period; ongoing new product development and introduction of new and enhanced products; and the challenges of rapid growth followed by periods of contraction; intensive competition; and the uncertainty of achieving anticipated cost savings and synergies in connection with the recently completed u2t acquisition. Further information regarding these and other risks relating to Finisar's business is set forth in Finisar's annual report on Form 10-K (filed June 26, 2014) and quarterly SEC filings.

ABOUT FINISAR

Finisar Corporation (NASDAQ: FNSR) is a global technology leader for fiber optic subsystems and components that enable high-speed voice, video and data communications for telecommunications, networking, storage, wireless, and cable TV applications. For 25 years, Finisar has provided critical optics technologies to system manufacturers to meet the increasing demands for network bandwidth. Finisar is headquartered in Sunnyvale, California, USA with R&D, manufacturing sites, and sales offices worldwide. For additional information, visit www.finisar.com.

FINISAR FINANCIAL STATEMENTS The following financial tables are presented in accordance with GAAP.

Finisar Corporation
Consolidated Statements of Operations
(Unaudited, in thousands, except per share data)

	Three Months Ended		Six Months Ended		Three Months Ended
	October 26, 2014	October 27, 2013	October 26, 2014	October 27, 2013	July 27, 2014
Revenues	\$ 296,981	\$ 290,722	\$ 624,619	\$ 556,790	\$ 327,638
Cost of revenues	210,625	186,168	438,010	359,270	227,385
Amortization of acquired developed technology	1,435	1,181	2,869	2,774	1,434
Gross profit	84,921	103,373	183,740	194,746	98,819
Gross margin	28.6 %	35.6 %	29.4 %	35.0 %	30.2 %
Operating expenses:					
Research and development	51,184	44,959	102,190	88,489	51,006
Sales and marketing	11,487	12,322	23,452	24,127	11,965
General and administrative	28,772	15,388	43,491	23,728	14,719
Amortization of purchased intangibles	737	595	1,498	1,190	761
Total operating expenses	92,180	73,264	170,631	137,534	78,451
Income (loss) from operations	(7,259)	30,109	13,109	57,212	20,368
Interest income	342	282	954	499	612
Interest expense	(2,867)	(367)	(6,001)	(919)	(3,134)
Other income (expenses), net	33	495	(1,993)	983	(2,026)
Income (loss) before income taxes and non-controlling interest	(9,751)	30,519	6,069	57,775	15,820
Provision for income taxes	1,610	568	3,187	1,989	1,577
Income (loss) before non-controlling interest	(11,361)	29,951	2,882	55,786	14,243
Adjust for net loss attributable to non-controlling interest	-	14	-	190	-
Net income (loss) attributable to Finisar Corporation	\$ (11,361)	\$ 29,965	\$ 2,882	\$ 55,976	\$ 14,243
Net income (loss) per share attributable to Finisar Corporation common stockholders:					

Basic	\$	(0.11)	\$	0.31	\$	0.03	\$	0.59	\$	0.14
Diluted	\$	(0.11)	\$	0.29	\$	0.03	\$	0.56	\$	0.14
Shares used in computing net income per share - basic		99,621		95,941		98,931		95,275		98,241
Shares used in computing net income per share - diluted		99,621		103,696		102,390		102,771		106,036

Finisar Corporation
Consolidated Balance Sheets
(in thousands)

		<u>October 26, 2014</u>	<u>July 27, 2014</u>	<u>April 27, 2014</u>
		<u>(Unaudited)</u>	<u>(Unaudited)</u>	
ASSETS				
Current assets:				
Cash and cash equivalents	\$	186,952	\$ 287,455	\$ 303,101
Short-term held-to-maturity investments		290,478	209,927	209,922
Accounts receivable, net		213,721	231,312	225,020
Accounts receivable, other		34,573	41,595	33,749
Inventories		284,789	270,122	259,759
Prepaid expenses and other assets		38,065	38,582	33,022
Total current assets		1,048,578	1,078,993	1,064,573
Property, equipment and improvements, net		306,331	301,020	273,328
Purchased intangible assets, net		31,508	33,680	34,141
Goodwill		106,735	106,735	106,115
Minority investments		2,547	2,317	2,117
Other assets		22,528	20,907	17,272
Total assets	\$	<u>1,518,227</u>	<u>\$ 1,543,652</u>	<u>\$ 1,497,546</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$	113,235	\$ 143,224	\$ 119,439
Accrued compensation		35,354	28,215	38,541
Other accrued liabilities		33,529	27,568	31,533
Deferred revenue		12,358	16,872	16,659
Short term debt		187	247	243
Current portion of convertible notes		36,665	40,015	40,015
Total current liabilities		231,328	256,141	246,430
Long-term liabilities:				
Convertible notes, net of current portion		216,775	214,496	212,253
Other non-current liabilities		24,900	24,042	22,804
Total liabilities		473,003	494,679	481,487
Stockholders' equity:				
Common stock		100	100	97
Additional paid-in capital		2,485,133	2,469,687	2,456,110
Accumulated other comprehensive income		17,282	25,116	20,025
Accumulated deficit		(1,457,291)	(1,445,930)	(1,460,173)
Total stockholders' equity		1,045,224	1,048,973	1,016,059
Total liabilities and stockholders' equity	\$	<u>1,518,227</u>	<u>\$ 1,543,652</u>	<u>\$ 1,497,546</u>

Note - Balance sheet amounts as of April 27, 2014 are derived from the audited consolidated financial statements as of the date.

FINISAR NON-GAAP FINANCIAL MEASURES

In addition to reporting financial results in accordance with U.S. generally accepted accounting principles, or GAAP, Finisar provides the following financial measures defined as non-GAAP financial measures by the Securities and Exchange Commission: non-GAAP gross profit, non-GAAP operating income and non-GAAP income per share. These non-GAAP financial measures are supplemental information regarding the Company's operating performance on a non-GAAP basis that excludes certain gains, losses and charges of a non-cash nature or which occur relatively infrequently and which management considers to be outside our core operating results. Some of these non-GAAP measures also exclude the ongoing impact of historical business decisions made in different business and economic environments. Management believes that tracking non-GAAP gross profit, non-GAAP income from operations, non-GAAP net income and non-GAAP net income per share provides management and the investment community with valuable insight into our current operations, our ability to generate cash and the underlying business trends which are affecting our performance. These non-GAAP measures are used by both management and our Board of Directors, along with the comparable GAAP information, in evaluating our current performance and planning our future business activities. In particular, management finds it useful to exclude non-cash charges in order to better correlate our operating activities with our ability to generate cash from operations and to exclude certain cash charges as a means of more accurately predicting our liquidity requirements. We believe that these non-GAAP measures, when used in conjunction with our GAAP financial information, also allow investors to better evaluate our financial performance in comparison to other periods and to other companies in our industry.

In calculating non-GAAP gross profit in this release, we have excluded the following items from cost of revenues in applicable periods in this release:

- Changes in excess and obsolete inventory reserve (predominantly non-cash charges or non-cash benefits);
- Amortization of acquired technology (non-cash charges related to technology obtained in acquisitions);
- Duplicate facilities costs during facilities move (non-recurring charges)
- Stock-based compensation expense (non-cash charges);
- Abandonment of fix assets (non-cash charges);
- Reduction in force costs (non-recurring cash charges); and
- Acquisition related retention payments (non-recurring cash charges).

In calculating non-GAAP operating income in this release, we have excluded the same items to the extent they are classified as operating expenses, and have also excluded the following items in applicable periods in this release:

- Gain or loss on litigation settlements and resolutions and related costs (non-recurring cash charges or benefits);
- Gain on fair value re-measurement of contingent consideration (non-cash benefit);
- Employee and employer tax liabilities related to the 2006 special investigation into our historical stock option granting practices (non-recurring cash charges);
- Shareholder class action and derivative litigation costs (non-recurring cash expenses associated with the derivative litigation related to our historical stock option granting practices and related to the class action and derivative litigation related to our March 8, 2011 earnings announcement);
- Acquisition related costs (non-recurring cash charges); and
- Amortization of purchased intangibles (non-cash charges).

In calculating non-GAAP income and non-GAAP income per share in this release, we have also excluded the following items in applicable periods in this release:

- Imputed interest expenses on convertible debt (non-cash charges);
- Imputed interest related to restructuring (non-cash charges);
- Gains and losses on sales of assets (non-recurring and/or non-cash losses and gains related to the periodic disposal of assets no longer required for current activities);
- Gains and losses related to minority investments (non-cash or non-recurring benefits or charges);
- Other miscellaneous expenses (income) (non-recurring charges or benefits);
- Dollar denominated foreign exchange transaction losses (gains) (non-cash charges or benefits);
- Amortization of debt issuance costs (non-cash charges);
- Non-controlling interest non-GAAP adjustment (non-cash and/or non-recurring charges or benefits attributable to the non-controlling interest in majority-controlled subsidiaries); and
- Differences between cash payable for income taxes and the provision for income taxes in accordance with GAAP, less discrete items.

A reconciliation of this non-GAAP financial information to the corresponding GAAP information is set forth below:

Finisar Corporation
Reconciliation of Results of Operations under GAAP and non-GAAP
(Unaudited, in thousands, except per share data)

	<i>Three Months Ended</i>		<i>Six Months Ended</i>		<i>Three Months Ended</i>
	<i>October 26, 2014</i>	<i>October 27, 2013</i>	<i>October 26, 2014</i>	<i>October 27, 2013</i>	<i>July 27, 2014</i>
GAAP to non-GAAP reconciliation of gross profit:					
Gross profit - GAAP	\$ 84,921	\$ 103,373	\$ 183,740	\$ 194,746	\$ 98,819
Gross margin - GAAP	28.6 %	35.6 %	29.4 %	35.0 %	30.2 %
Adjustments:					
Cost of revenues					
Change in excess and obsolete inventory reserve	2,048	1,199	3,769	(329)	1,721
Amortization of acquired technology	1,435	1,181	2,869	2,774	1,434
Duplicate facility costs during facility move	766	-	766	-	-
Stock compensation	2,588	2,056	4,864	3,833	2,276
Abandonment of fixed assets	124	-	124	-	-
Reduction in force costs	319	47	794	70	475
Acquisition related retention payment	89	70	207	132	118
Total cost of revenue adjustments	<u>7,369</u>	<u>4,553</u>	<u>13,393</u>	<u>6,480</u>	<u>6,024</u>
Gross profit - non-GAAP	<u>92,290</u>	<u>107,926</u>	<u>197,133</u>	<u>201,226</u>	<u>104,843</u>
Gross margin - non-GAAP	31.1 %	37.1 %	31.6 %	36.1 %	32.0 %
GAAP to non-GAAP reconciliation of operating income:					
Operating income (loss) - GAAP	(7,259)	30,109	13,109	57,212	20,368
Operating margin - GAAP	-2.4 %	10.4 %	2.1 %	10.3 %	6.2 %
Adjustments:					
Total cost of revenue adjustments	7,369	4,553	13,393	6,480	6,024
Research and development					
Reduction in force costs	353	16	685	28	332
Duplicate facility costs during facility move	767	-	767	-	-
Acquisition related retention payment	166	190	359	381	193
Stock compensation	4,727	4,069	9,163	7,594	4,436
Sales and marketing					
Acquisition related retention payment	9	17	29	34	20
Stock compensation	1,625	1,382	3,154	2,566	1,529
General and administrative					
Reduction in force costs	59	173	54	240	(5)
Duplicate facility costs	116	-	116	-	-
Acquisition related retention payment	(55)	830	(39)	1,047	16
Stock compensation	2,617	2,663	5,429	5,086	2,812
Payroll taxes related to options investigation	17	-	17	-	-
Acquisition related costs	8	124	238	349	230
Litigation settlements and resolutions and related costs	13,728	-	12,416	5	(1,312)
Shareholder class action and derivative litigation costs	-	46	-	(5,048)	-
Amortization of purchased intangibles	<u>737</u>	<u>595</u>	<u>1,498</u>	<u>1,190</u>	<u>761</u>
Total cost of revenue and operating expense adjustments	<u>32,243</u>	<u>14,658</u>	<u>47,279</u>	<u>19,952</u>	<u>15,036</u>
Operating income - non-GAAP	<u>24,984</u>	<u>44,767</u>	<u>60,388</u>	<u>77,164</u>	<u>35,404</u>
Operating margin - non-GAAP	8.4 %	15.4 %	9.7 %	13.9 %	10.8 %
GAAP to non-GAAP reconciliation of income attributable to Finisar Corporation:					

Net income (loss) attributable to Finisar Corporation - GAAP	(11,361)	29,965	2,882	55,976	14,243
Adjustments:					
Total cost of revenue and operating expense adjustments	32,243	14,658	47,279	19,952	15,036
Non-cash imputed interest expenses on convertible debt	2,279	56	4,522	113	2,243
Imputed interest related to restructuring	50		101		51
Other (income) expense, net					
Loss (gain) on sale of assets	(27)	5	211	(105)	238
Gain related to minority investments	-	-	-	(743)	-
Other miscellaneous income	(10)	(2)	(11)	(2)	(1)
Foreign exchange transaction (gain) or loss	327	(208)	2,318	359	1,991
Amortization of debt issuance cost	154	-	308	-	154
Provision for income taxes					
Income tax provision adjustments	(190)	(832)	(813)	(706)	(623)
Non-controlling interest non-GAAP adjustment	-	125	-	192	-
Total adjustments	<u>34,826</u>	<u>13,802</u>	<u>53,915</u>	<u>19,060</u>	<u>19,089</u>
Net income attributable to Finisar Corporation - non-GAAP	<u>\$ 23,465</u>	<u>\$ 43,767</u>	<u>\$ 56,797</u>	<u>\$ 75,036</u>	<u>\$ 33,332</u>
Non-GAAP income attributable to Finisar Corporation	\$ 23,465	\$ 43,767	\$ 56,797	\$ 75,036	\$ 33,332
Add: interest expense for dilutive convertible notes	<u>533</u>	<u>539</u>	<u>1,072</u>	<u>1,078</u>	<u>539</u>
Adjusted non-GAAP income attributable to Finisar Corporation	<u>\$ 23,998</u>	<u>\$ 44,306</u>	<u>\$ 57,869</u>	<u>\$ 76,114</u>	<u>\$ 33,871</u>
Non-GAAP income per share attributable to Finisar Corporation common stockholders					
Basic	\$ 0.24	\$ 0.46	\$ 0.57	\$ 0.79	\$ 0.34
Diluted	\$ 0.23	\$ 0.43	\$ 0.55	\$ 0.74	\$ 0.32
Shares used in computing non-GAAP income per share attributable to Finisar Corporation common stockholders					
Basic	99,621	95,941	98,931	95,275	98,241
Diluted	105,340	103,696	106,133	102,771	106,036
Non-GAAP EBITDA					
Non-GAAP income attributable to Finisar Corporation	\$ 23,465	\$ 43,767	\$ 56,797	\$ 75,036	\$ 33,332
Depreciation expense	20,915	14,621	40,563	28,548	19,648
Amortization	33	94	72	188	39
Interest expense	196	29	424	307	228
Income tax expense	<u>1,800</u>	<u>1,400</u>	<u>4,000</u>	<u>2,695</u>	<u>2,200</u>
Non-GAAP EBITDA	<u>\$ 46,409</u>	<u>\$ 59,911</u>	<u>\$ 101,856</u>	<u>\$ 106,774</u>	<u>\$ 55,447</u>

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