



September 8, 2016

Finisar Announces Record First Fiscal Quarter Revenues

SUNNYVALE, CA -- (Marketwired) -- 09/08/16 --

Finisar Corporation (NASDAQ: FNSR), a global technology leader for subsystems and components for fiber optic communications, today announced financial results for its first quarter of fiscal year 2017, ended July 31, 2016.

COMMENTARY

"I am pleased to announce that Finisar achieved record revenues for our first quarter of \$341.3 million, an increase of \$22.5 million, or 7.1% compared to the prior quarter. This growth was primarily driven by strong demand for 100Gb/s transceivers in CFP, CFP2, CFP4, and QSFP28 form factors. In addition, demand for wavelength selective switches was strong. Our gross margins improved significantly due to favorable product mix and leverage of our vertically integrated manufacturing infrastructure over the larger volume. The combination of revenues being at the higher end of our guidance range and better than expected gross margins resulted in earnings per fully diluted share exceeding the upper end of our guidance range," said Jerry Rawls, Finisar's Chief Executive Officer.

FINANCIAL HIGHLIGHTS - First Quarter Ended July 31, 2016

Summary GAAP Results

	First Quarter Ended July 31, 2016	Fourth Quarter Ended May 1, 2016
	<i>(in thousands, except per share amounts)</i>	
Revenues	\$341,325	\$318,794
Gross margin	31.7%	28.4%
Operating expenses	\$79,854	\$76,306
Operating income	\$28,311	\$14,135
Operating margin	8.3%	4.4%
Net income	\$23,949	\$13,072
Income per share-basic	\$0.22	\$0.12
Income per share-diluted	\$0.22	\$0.12
Basic shares	108,820	107,612
Diluted shares	110,821	109,386

Summary Non-GAAP Results (a)

	First Quarter Ended July 31, 2016	Fourth Quarter Ended May 1, 2016
	<i>(in thousands, except per share amounts)</i>	
Revenues	\$341,325	\$318,794
Non-GAAP Gross margin	33.1%	30.6%
Non-GAAP Operating expenses	\$69,344	\$66,186
Non-GAAP Operating income	\$43,520	\$31,239
Non-GAAP Operating margin	12.8%	9.8%
Non-GAAP Net income	\$41,825	\$31,824
Non-GAAP Income per share-basic	\$0.38	\$0.30
Non-GAAP Income per share-diluted	\$0.38	\$0.29
Basic shares	108,820	107,612
Diluted shares	110,821	109,386

(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 of Finisar's core ongoing 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 First Quarter of Fiscal 2017:

- | Revenues were \$341.3 million, an increase of \$22.5 million, or 7.1%, from \$318.8 million in the preceding quarter.
- | Sales of telecom products increased by \$22.0 million, or 29.0%, compared to the preceding quarter. This increase was due to higher sales of wavelength selective switches, coherent receivers, and 100G transceivers, as well as a rebound in demand for other telecom products including amplifiers and 10G transceivers, both tunable and fixed wavelength.
- | Sales of datacom products increased by \$0.5 million, or 0.2%, compared to the preceding quarter, primarily driven by growth in demand for 100G transceivers including CFP, CFP2, CFP4, and QSFP28 form factors, partially offset by a decline in sales of transceivers for wireless applications and 40G transceivers. Datacom revenue, excluding transceivers for wireless applications, increased 3.1% over the preceding quarter. Sales of 100G transceivers for datacom applications increased 21.8% over the preceding quarter, and 115.8% over the first quarter of the prior fiscal year.
- | GAAP gross margin improved to 31.7%, compared to 28.4% in the preceding quarter, primarily due to favorable product mix and the benefit of vertical integration over the larger volume.
- | Non-GAAP gross margin improved to 33.1% compared to 30.6% in the preceding quarter.
- | GAAP operating expenses were \$79.9 million compared to \$76.3 million in the preceding quarter. The increase was due to higher payroll taxes from the annual vesting of employee restricted stock unit grants, higher legal expenses from two patent trials completed in the quarter, and higher employee compensation levels. GAAP operating expenses as a percentage of revenue decreased to approximately 23.4% of revenue compared to 23.9% in the preceding quarter.
- | Non-GAAP operating expenses increased to \$69.3 million compared to \$66.2 million in the preceding quarter. Non-GAAP operating expenses as a percentage of revenue decreased to approximately 20.3% of revenue compared to 20.8% in the preceding quarter.
- | GAAP operating margin improved to 8.3% from 4.4% in the preceding quarter.
- | Non-GAAP operating margin improved to 12.8% from 9.8% in the preceding quarter.
- | GAAP earnings per fully diluted share was \$0.22 compared to \$0.12 in the preceding quarter, primarily due to higher revenues levels and improved gross margins.
- | Non-GAAP earnings per fully diluted share was \$0.38 compared to \$0.29 in the preceding quarter.
- | Cash, cash equivalents and short term investments increased \$31.3 million to \$593.8 million at the end of the first quarter, compared to \$562.5 million at the end of the preceding quarter.

OUTLOOK

Finisar indicated that for the second quarter of fiscal 2017 it currently expects revenues in the range of \$355 to \$375 million, non-GAAP gross margin of approximately 34%, non-GAAP operating margin of approximately 14.3% to 15.3%, and non-GAAP earnings per fully diluted share in the range of approximately \$0.44 to \$0.50.

Finisar has not provided a reconciliation of its second quarter outlook for non-GAAP gross margin, non-GAAP operating margin and non-GAAP earnings per fully diluted share because estimates of all of the reconciling items cannot be provided without unreasonable efforts. It is difficult to reasonably provide a forward-looking estimate of certain reconciling items between such non-GAAP forward-looking measures and the comparable forward-looking GAAP measures. Certain factors that are materially significant to Finisar's ability to estimate these items are out of its control and/or cannot be reasonably

predicted, including with respect to restructuring charges, litigation settlements and resolutions and related costs, and the timing of tax related adjustments. Accordingly, a reconciliation of such non-GAAP forward-looking measures to the comparable forward-looking GAAP measures are not available within a reasonable range of predictability.

CONFERENCE CALL

Finisar will discuss its financial results for the first quarter and current business outlook during its regular quarterly conference call scheduled for Thursday, September 8, 2016, 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 888-208-1815 (domestic) or 719-325-2291 (international) and enter conference ID 1833924.

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 1833924 and provide your name, affiliation, and contact number. A replay of the webcast will be available shortly after the conclusion of the call on Finisar'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; the challenges of rapid growth followed by periods of contraction; and intensive competition. 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 17, 2016) 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 over 25 years, Finisar has provided critical optics technologies to system manufacturers to meet the increasing demands for network bandwidth and storage. 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 Balance Sheets (in thousands)

	<u>July 31, 2016</u> <i>(Unaudited)</i>	<u>May 1, 2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 280,414	\$ 299,221
Short-term held-to-maturity investments	313,389	263,255
Accounts receivable, net	255,036	249,257
Accounts receivable, other	43,678	44,576
Inventories	272,592	273,291
Prepaid expenses and other assets	18,646	18,483
Total current assets	<u>1,183,755</u>	<u>1,148,083</u>
Property, equipment and improvements, net	338,918	348,613
Purchased intangible assets, net	16,197	18,388
Goodwill	106,735	106,735
Minority investments	3,974	4,051
Other assets	<u>18,928</u>	<u>19,501</u>

Total assets	\$	1,668,507	\$	1,645,371
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$	136,317	\$	141,591
Accrued compensation		36,332		36,084
Other accrued liabilities		39,201		42,206
Deferred revenue		16,468		13,529
Total current liabilities		228,318		233,410
Long-term liabilities:				
Convertible notes, net of current portion		232,016		229,393
Other non-current liabilities		14,056		14,882
Total liabilities		474,390		477,685
Stockholders' equity:				
Common stock		110		108
Additional paid-in capital		2,621,260		2,605,859
Accumulated other comprehensive income (loss)		(38,109)		(25,188)
Accumulated deficit		(1,389,144)		(1,413,093)
Total stockholders' equity		1,194,117		1,167,686
Total liabilities and stockholders' equity	\$	1,668,507	\$	1,645,371

Note - Balance sheet amounts as of May 1, 2016 are derived from the audited consolidated financial statements as of the date.

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

	Three Months Ended		
	July 31, 2016	Aug 02, 2015	May 1, 2016
Revenues	\$ 341,325	\$ 314,030	\$ 318,794
Cost of revenues	231,637	224,147	226,723
Impairment of long-lived assets	-	1,071	-
Amortization of acquired developed technology	1,523	1,435	1,630
Gross profit	108,165	87,377	90,441
Gross margin	31.7%	27.8%	28.4%
Operating expenses:			
Research and development	51,008	52,408	50,169
Sales and marketing	11,863	11,202	11,621
General and administrative	16,315	15,208	13,848
Impairment of long-lived assets	-	830	-
Amortization of purchased intangibles	668	668	668
Total operating expenses	79,854	80,316	76,306
Income from operations	28,311	7,061	14,135
Interest income	726	365	802
Interest expense	(2,986)	(2,883)	(3,017)
Other income (expenses), net	(59)	881	(80)
Income before income taxes	25,992	5,424	11,840
Provision (benefit) for income taxes	2,043	2,031	(1,232)
Net income	\$ 23,949	\$ 3,393	\$ 13,072

Net income per share attributable to Finisar Corporation common stockholders:

Basic	\$	0.22	\$	0.03	\$	0.12
Diluted	\$	0.22	\$	0.03	\$	0.12
Shares used in computing net income per share - basic		108,820		105,286		107,612
Shares used in computing net income per share - diluted		110,821		108,107		109,386

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, non-GAAP income and non-GAAP net income per share. These non-GAAP financial measures are supplemental information regarding Finisar's operating performance on a non-GAAP basis that excludes certain gains, losses and charges of a non-cash nature or that occur relatively infrequently and/or that management considers to be outside of our ongoing core operating results. Management believes that tracking non-GAAP gross profit, non-GAAP operating income, non-GAAP net income and non-GAAP net income per share provides management and the investment community with valuable insight into our ongoing core 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);
- | Amortization of acquired technology (non-cash charges related to technology obtained in acquisitions);
- | Duplicate facility costs during facility move (non-core cash charges);
- | Stock-based compensation expense (non-cash charges);
- | Impairment of long-lived assets (non-cash charges);
- | Reduction in force costs (non-core cash charges); and
- | Acquisition related retention payments (non-core 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-core cash charges or benefits);
- | Shareholder class action and derivative litigation costs (non-core cash charges 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-core cash charges);
- | Unclaimed property tax audit accrual (non-core 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);
- | Other interest income (non-core benefits);
- | Gains and losses on sales of assets (non-cash losses and cash gains related to the periodic disposal of assets no longer required for current activities);
- | Other miscellaneous expenses (income) (non-core charges or benefits);
- | Dollar denominated foreign exchange transaction losses (gains) (non-cash charges or benefits); and
- | Amortization of debt issuance costs (non-cash charges).

In addition, in this release we have adjusted non-GAAP income and non-GAAP income per share for the difference between GAAP income taxes and non-GAAP income taxes.

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)

	Three Months Ended		
	July 31, 2016	Aug 02, 2015	May 1, 2016
GAAP to non-GAAP reconciliation of gross			

profit:

Gross profit - GAAP	\$	108,165	\$	87,377	\$	90,441
Gross margin - GAAP		31.7%		27.8%		28.4%
Adjustments:						
Cost of revenues						
Change in excess and obsolete inventory valuation adjustments (1)				1,430		2,102
Amortization of acquired technology		1,523		1,435		1,630
Duplicate facility costs during facility move		8		82		8
Stock compensation		3,047		2,692		2,847
Impairment of long-lived assets		-		1,282		-
Reduction in force costs		102		554		369
Acquisition related retention payment		19		65		28
Total cost of revenue adjustments		4,699		7,540		6,984
Gross profit - non-GAAP		112,864		94,917		97,425
Gross margin - non-GAAP		33.1%		30.2%		30.6%

GAAP to non-GAAP reconciliation of operating income:

Operating income - GAAP		28,311		7,061		14,135
Operating margin - GAAP		8.3%		2.2%		4.4%
Adjustments:						
Total cost of revenue adjustments		4,699		7,540		6,984
Total operating expense adjustments						
Operating expenses - GAAP		79,854		80,316		76,306
Research and development						
Reduction in force costs		174		288		386
Duplicate facility costs during facility move		7		221		7
Acquisition related retention payment		32		91		32
Stock compensation		5,111		4,838		4,855
Impairment of long-lived assets		-		287		-
Sales and marketing						
Reduction in force costs		29		63		1
Acquisition related retention payment		-		10		-
Stock compensation		1,751		1,707		1,747
General and administrative						
Reduction in force costs		13		352		49
Duplicate facility costs		143		9		24
Acquisition related retention payment		(2)		(5)		4
Stock compensation		2,553		2,760		2,381
Acquisition related costs		31		18		(1)
Litigation settlements and resolutions and related costs		-		16		1
Shareholder class action and derivative litigation costs		-		-		(184)
Unclaimed property tax audit accrual		-		-		150
Amortization of purchased intangibles		668		668		668
Impairment of long-lived assets		-		587		-
Total operating expense adjustments		10,510		11,910		10,120
Operating expenses - non-GAAP		69,344		68,406		66,186
Operating income - non-GAAP		43,520		26,511		31,239
Operating margin - non-GAAP		12.8%		8.4%		9.8%

GAAP to non-GAAP reconciliation of income before income taxes:

Income before income taxes - GAAP		25,992		5,424		11,840
Adjustments:						
Total cost of revenue adjustments		4,699		7,540		6,984
Total operating expense adjustments		10,510		11,910		10,120
Total Interest and other adjustments						
Other interest income		-		-		(6)
Non-cash imputed interest expenses on convertible debt		2,469		2,354		2,449
Imputed interest related to restructuring		38		45		40
Other (income) expense, net						

Loss (gain) on sale of assets	(8)	(185)	165
Other miscellaneous income	-	(17)	(184)
Foreign exchange transaction (gain) or loss	(29)	(693)	362
Amortization of debt issuance cost	154	154	154
Total Interest and other adjustments	2,624	1,658	2,980
Income before income taxes - non-GAAP	43,825	26,532	31,924

GAAP to non-GAAP reconciliation of net income:

Net income - GAAP	23,949	3,393	13,072
Total cost of revenue adjustments	4,699	7,540	6,984
Total operating expense adjustments	10,510	11,910	10,120
Total Interest and other adjustments	2,624	1,658	2,980
Income tax provision adjustments	43	31	(1,332)
Total adjustments	17,876	21,139	18,752
Net income - non-GAAP	\$ 41,825	\$ 24,532	\$ 31,824

Non-GAAP net income for diluted earnings per share calculation

Non-GAAP net income	\$ 41,825	\$ 24,532	\$ 31,824
Add: interest expense for dilutive convertible notes	-	-	-
Adjusted non-GAAP income	\$ 41,825	\$ 24,532	\$ 31,824

Basic non-GAAP income per share

GAAP earnings per share	\$ 0.22	\$ 0.03	\$ 0.12
Impact of all non-GAAP adjustments	\$ 0.16	\$ 0.20	\$ 0.18
Non-GAAP earnings per share	\$ 0.38	\$ 0.23	\$ 0.30

Diluted non-GAAP income per share

GAAP earnings per share	\$ 0.22	\$ 0.03	\$ 0.12
Impact of all non-GAAP adjustments	\$ 0.16	\$ 0.20	\$ 0.17
Non-GAAP earnings per share	\$ 0.38	\$ 0.23	\$ 0.29

Shares used in computing non-GAAP income per share

Basic	108,820	105,286	107,612
Diluted	110,821	108,107	109,386

(1) Non-GAAP adjustment no longer made effective fiscal 2017.

Finisar-F

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