

Finisar

March 5, 2015

Finisar Announces Third Quarter Revenues of \$306.3 Million, 3.1% Growth Over Prior Quarter

SUNNYVALE, CA -- (Marketwired) -- 03/05/15 --

Finisar Corporation (NASDAQ: FNSR), a global technology leader for subsystems and components for fiber optic communications, today announced financial results for its third quarter of fiscal 2015, ended January 25, 2015.

COMMENTARY

"Revenues for our third fiscal quarter were \$306.3 million, an increase of \$9.3 million compared to the prior quarter," said Jerry Rawls, Finisar's executive Chairman of the Board. "Revenue growth was primarily driven by the demand for 40 gigabit and 100 gigabit transceivers for datacom applications, as well as transceivers for wireless applications."

"Although our gross margins declined primarily as a result of our annual telecom price reductions and low yields on a new optical engine product, we significantly decreased our operating expenses resulting in a minimal impact to our earnings," said Eitan Gertel, Finisar's Chief Executive Officer.

FINANCIAL HIGHLIGHTS - THIRD QUARTER ENDED JANUARY 25, 2015

Summary GAAP Results

	Third Quarter Ended	Second Quarter Ended
	January 25, 2015	October 26, 2014
	(in thousands, except per share amounts)	
Revenues	\$ 306,283	\$ 296,981
Gross margin	25.5%	28.6%
Operating expenses	\$ 74,552	\$ 92,180
Operating income (loss)	\$ 3,401	\$ (7,259)
Operating margin	1.1%	(2.4)%
Net income (loss)	\$ 1,678	\$ (11,361)
Income per share-basic	\$ 0.02	\$ (0.11)
Income per share-diluted	\$ 0.02	\$ (0.11)
Basic shares	103,563	99,621
Diluted shares	105,990	99,621

Summary Non-GAAP Results (a)

	Third Quarter Ended	Second Quarter Ended
	January 25, 2015	October 26, 2014
	(in thousands, except per share amounts)	
Revenues	\$ 306,283	\$ 296,981
Gross margin	30.0%	31.1%
Operating expenses	\$ 65,128	\$ 67,306
Operating income	\$ 26,852	\$ 24,984
Operating margin	8.8%	8.4%
Net income	\$ 26,706	\$ 23,465
Income per share-basic	\$ 0.26	\$ 0.24
Income per share-diluted	\$ 0.25	\$ 0.23

Basic shares	103,563	99,621
Diluted shares	105,990	105,340

- (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 Third Quarter of Fiscal 2015:

- Revenues increased to \$306.3 million, up \$9.3 million, or 3.1%, from \$297.0 million in the preceding quarter.
- Sales of products for datacom applications increased by \$18.5 million, or 8.5%, compared to the preceding quarter, primarily driven by the demand for 40 gigabit and 100 gigabit transceivers for datacom applications, as well as transceivers for wireless applications.
- Sales of products for telecom applications decreased by \$9.2 million, or 11.3%, compared to the preceding quarter, primarily due to the impact of one month of the annual telecom price reduction that typically takes effect on January 1 and the decrease in demand for transceivers for telecom applications driven by sluggish carrier capital expenditures.
- GAAP gross margin decreased to 25.5% from 28.6% in the preceding quarter, primarily driven by a \$5.7 million non-cash charge for the impairment of long-lived assets.
- Non-GAAP gross margin decreased to 30.0% from 31.1% in the preceding quarter primarily due to the impact of one month of the annual telecom price reduction that typically takes effect on January 1 and the impact of substantial yield loss for a new optical engine product for supercomputing applications that we started to ramp in production during the quarter.
- GAAP operating expenses decreased \$17.6 million to \$74.6 million from \$92.2 million in the preceding quarter, primarily from expense reduction related to resolving patent infringement litigation that occurred in the preceding quarter.
- Non-GAAP operating expenses decreased \$2.2 million to \$65.1 million from \$67.3 million in the preceding quarter.
- GAAP operating income increased \$10.7 million, to \$3.4 million or 1.1% of revenues, compared to an operating loss of \$7.3 million or (2.4)% of revenues in the preceding quarter, primarily as the result of higher revenues and lower operating expenses.
- Non-GAAP operating income increased \$1.9 million to \$26.9 million, or 8.8% of revenues, compared to \$25.0 million, or 8.4% of revenues, in the preceding quarter, primarily as the result of higher revenue and lower operating expenses.
- Cash, cash equivalents and short term investments increased \$11.4 million to \$488.9 million at the end of the third quarter, compared to \$477.4 million at the end of the preceding quarter.

OUTLOOK

The Company indicated that for the fourth quarter of fiscal 2015 it currently expects revenues in the range of \$310 to \$330 million, non-GAAP gross margin of approximately 30%, non-GAAP operating margin of approximately 8% to 9%, and non-GAAP earnings per diluted share in the range of approximately \$0.22 to \$0.28. Please note that the fourth quarter fiscal 2015 will have 14 weeks compared to 13 weeks in the preceding quarter. However, the positive benefit to revenue of the extra week will be partially offset by the impact of Chinese New Year which occurred in February. In addition, operating expenses are expected to increase primarily due to the extra week relative to the preceding quarter.

CONFERENCE CALL

Finisar will discuss its financial results for the third quarter and current business outlook during its regular quarterly conference call scheduled for Thursday, March 5, 2015, 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 877-718-5108 (domestic) or + 719-325-4773(international) and enter conference ID 3629508.

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 3629508 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; 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		Nine Months Ended		Three Months Ended
	January 25, 2015	January 26, 2014	January 25, 2015	January 26, 2014	October 26, 2014
Revenues	\$ 306,283	\$ 294,018	\$ 930,902	\$ 850,808	\$ 296,981
Cost of revenues	221,173	187,368	659,183	546,638	210,625
Impairment of acquired developed technology and other long-lived assets	5,722	-	5,722	-	-
Amortization of acquired developed technology	1,435	961	4,304	3,735	1,435
Gross profit	77,953	105,689	261,693	300,435	84,921
Gross margin	25.5%	35.9%	28.1%	35.3%	28.6%
Operating expenses:					
Research and development	48,782	46,734	150,972	135,223	51,184
Sales and marketing	10,926	10,911	34,378	35,038	11,487
General and administrative	14,062	14,353	57,553	38,081	28,772
Impairment of acquired developed technology and other long-lived assets	45	-	45	-	-
Amortization of purchased intangibles	737	595	2,235	1,785	737
Total operating expenses	74,552	72,593	245,183	210,127	92,180
Income (loss) from operations	3,401	33,096	16,510	90,308	(7,259)
Interest income	321	335	1,275	834	342
Interest expense	(2,686)	(1,663)	(8,687)	(2,582)	(2,867)
Other income (expenses), net	2,051	(1,873)	58	(890)	33
Income (loss) before income taxes and non-controlling interest	3,087	29,895	9,156	87,670	(9,751)
Provision for income taxes	1,409	2,827	4,596	4,816	1,610
Income (loss) before non-controlling interest	1,678	27,068	4,560	82,854	(11,361)
Adjust for net loss attributable to non-controlling interest	-	(7)	-	183	-
Net income (loss) attributable to Finisar Corporation	<u>\$ 1,678</u>	<u>\$ 27,061</u>	<u>\$ 4,560</u>	<u>\$ 83,037</u>	<u>\$ (11,361)</u>

Net income (loss) per share attributable to Finisar Corporation common stockholders:

Basic	\$	0.02	\$	0.28	\$	0.05	\$	0.87	\$	(0.11)
Diluted	\$	0.02	\$	0.26	\$	0.04	\$	0.82	\$	(0.11)
Shares used in computing net income per share - basic		103,563		96,394		100,475		95,649		99,621
Shares used in computing net income per share - diluted		105,990		104,361		103,825		103,491		99,621

Finisar Corporation
Consolidated Balance Sheets
(in thousands)

	<u>January 25, 2015</u>	<u>October 26, 2014</u>	<u>July 27, 2014</u>	<u>April 27, 2014</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 198,344	\$ 186,952	\$ 287,455	\$ 303,101
Short-term held-to-maturity investments	290,520	290,478	209,927	209,922
Accounts receivable, net	210,116	213,721	231,312	225,020
Accounts receivable, other	41,540	34,573	41,595	33,749
Inventories	277,862	284,789	270,122	259,759
Prepaid expenses and other assets	37,265	38,065	38,582	33,022
Total current assets	<u>1,055,647</u>	<u>1,048,578</u>	<u>1,078,993</u>	<u>1,064,573</u>
Property, equipment and improvements, net	304,547	306,331	301,020	273,328
Purchased intangible assets, net	29,336	31,508	33,680	34,141
Goodwill	106,735	106,735	106,735	106,115
Minority investments	2,647	2,547	2,317	2,117
Other assets	22,444	22,528	20,907	17,272
Total assets	<u>\$ 1,521,356</u>	<u>\$ 1,518,227</u>	<u>\$ 1,543,652</u>	<u>\$ 1,497,546</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$ 123,895	\$ 113,235	\$ 143,224	\$ 119,439
Accrued compensation	30,632	35,354	28,215	38,541
Other accrued liabilities	31,854	33,529	27,568	31,533
Deferred revenue	11,240	12,358	16,872	16,659
Short term debt	175	187	247	243
Current portion of convertible notes		36,665	40,015	40,015
Total current liabilities	<u>197,796</u>	<u>231,328</u>	<u>256,141</u>	<u>246,430</u>
Long-term liabilities:				
Convertible notes, net of current portion	219,072	216,775	214,496	212,253
Other non-current liabilities	24,184	24,900	24,042	22,804
Total liabilities	<u>441,052</u>	<u>473,003</u>	<u>494,679</u>	<u>481,487</u>
Stockholders' equity:				
Common stock	104	100	100	97
Additional paid-in capital	2,537,231	2,485,133	2,469,687	2,456,110
Accumulated other comprehensive income	(1,418)	17,282	25,116	20,025
Accumulated deficit	(1,455,613)	(1,457,291)	(1,445,930)	(1,460,173)
Total stockholders' equity	<u>1,080,304</u>	<u>1,045,224</u>	<u>1,048,973</u>	<u>1,016,059</u>
Total liabilities and stockholders' equity	<u>\$ 1,521,356</u>	<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 cash charges)
- Stock-based compensation expense (non-cash charges);
- Abandonment of fix assets (non-cash charges);
- Impairment of long-lived assets (non-recurring 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);
- 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 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-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>Nine Months Ended</i>		<i>Three Months Ended</i>
	<i>January 25, 2015</i>	<i>January 26, 2014</i>	<i>January 25, 2015</i>	<i>January 26, 2014</i>	<i>October 26, 2014</i>
GAAP to non-GAAP reconciliation of gross profit:					
Gross profit - GAAP	\$ 77,953	\$ 105,689	\$ 261,693	\$ 300,435	\$ 84,921
Gross margin - GAAP	25.5%	35.9%	28.1%	35.3%	28.6%
Adjustments:					
Cost of revenues					
Change in excess and obsolete inventory reserve	3,772	384	7,541	55	2,048
Amortization of acquired technology	1,435	961	4,304	3,735	1,435
Duplicate facility costs during facility move	6		772		766
Stock compensation	2,660	2,374	7,524	6,207	2,588
Abandonment of fixed assets	-	-	124	-	124
Impairment of long-lived assets	5,722	-	5,722	-	-
Reduction in force costs	371	34	1,165	104	319
Acquisition related retention payment	61	62	268	194	89
Total cost of revenue adjustments	14,027	3,815	27,420	10,295	7,369
Gross profit - non-GAAP	91,980	109,504	289,113	310,730	92,290
Gross margin - non-GAAP	30.0%	37.2%	31.1%	36.5%	31.1%

GAAP to non-GAAP reconciliation of operating income:

Operating income (loss) - GAAP	3,401	33,096	16,510	90,308	(7,259)
Operating margin - GAAP	1.1%	11.3%	1.8%	10.6%	-2.4%
Adjustments:					
Total cost of revenue adjustments					
Research and development					
Reduction in force costs	23	-	708	28	353
Duplicate facility costs during facility move	99	-	866	-	767
Acquisition related retention payment	132	190	491	571	166
Stock compensation	4,669	3,995	13,832	11,589	4,727
Sales and marketing					
Acquisition related retention payment	9	17	38	51	9
Stock compensation	1,600	1,369	4,754	3,935	1,625
General and administrative					
Reduction in force costs	49	(82)	103	158	59
Duplicate facility costs	36	-	152	-	116
Acquisition related retention payment	7	(11)	(32)	1,036	(55)
Stock compensation	2,654	2,618	8,083	7,704	2,617
Payroll taxes related to options investigation	-	-	17	-	17
Acquisition related costs	36	591	274	940	8
Litigation settlements and resolutions and related costs	(662)	5	11,754	10	13,728
Shareholder class action and derivative litigation costs	(10)	97	(10)	(4,951)	-
Amortization of purchased intangibles	737	595	2,235	1,785	737
Impairment of long-lived assets	45	-	45	-	-
Total cost of revenue and operating expense adjustments	23,451	13,199	70,730	33,151	32,243
Operating income - non-GAAP	26,852	46,295	87,240	123,459	24,984
Operating margin - non-GAAP	8.8%	15.7%	9.4%	14.5%	8.4%

GAAP to non-GAAP reconciliation

of income attributable to Finisar Corporation:

Net income (loss) attributable to Finisar Corporation - GAAP	1,678	27,061	4,560	83,037	(11,361)
Adjustments:					
Total cost of revenue and operating expense adjustments	23,451	13,199	70,730	33,151	32,243
Non-cash imputed interest expenses on convertible debt	2,297	927	6,819	927	2,279
Imputed interest related to restructuring	48	54	149	167	50
Other (income) expense, net					
Loss (gain) on sale of assets	31	(30)	242	(135)	(27)
Gain related to minority investments	-	-	-	(743)	-
Other miscellaneous income	(167)	(3)	(178)	(5)	(10)
Foreign exchange transaction (gain) or loss	(338)	2,200	1,980	2,559	327
Amortization of debt issuance cost	154	76	462	76	154
Provision for income taxes					
Income tax provision adjustments	(448)	1,327	(1,261)	621	(190)
Non-controlling interest non-GAAP adjustment	-	182	-	374	-
Total adjustments	<u>25,028</u>	<u>17,932</u>	<u>78,943</u>	<u>36,992</u>	<u>34,826</u>
Net income attributable to Finisar Corporation - non-GAAP	<u>\$ 26,706</u>	<u>\$ 44,993</u>	<u>\$ 83,503</u>	<u>\$ 120,029</u>	<u>\$ 23,465</u>
Non-GAAP income attributable to Finisar Corporation	\$ 26,706	\$ 44,993	\$ 83,503	\$ 120,029	\$ 23,465
Add: interest expense for dilutive convertible notes	-	539	1,072	1,617	533
Adjusted non-GAAP income attributable to Finisar Corporation	<u>\$ 26,706</u>	<u>\$ 45,532</u>	<u>\$ 84,575</u>	<u>\$ 121,646</u>	<u>\$ 23,998</u>
Non-GAAP income per share attributable to Finisar Corporation common stockholders					
Basic	\$ 0.26	\$ 0.47	\$ 0.83	\$ 1.25	\$ 0.24
Diluted	\$ 0.25	\$ 0.44	\$ 0.80	\$ 1.18	\$ 0.23
Shares used in computing non-GAAP income per share attributable to Finisar Corporation common stockholders					
Basic	103,563	96,394	100,475	95,649	99,621
Diluted	105,990	104,361	106,339	103,491	105,340

Non-GAAP EBITDA

Non-GAAP income attributable to Finisar Corporation	\$ 26,706	\$ 44,993	\$ 83,503	\$ 120,029	\$ 23,465
Depreciation expense	21,371	15,960	61,934	44,508	20,915
Amortization	-	94	72	282	33
Interest expense	20	347	444	654	196
Income tax expense	1,857	1,500	5,857	4,195	1,800
Non-GAAP EBITDA	<u>\$ 49,954</u>	<u>\$ 62,894</u>	<u>\$ 151,810</u>	<u>\$ 169,668</u>	<u>\$ 46,409</u>

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