



December 8, 2016

Finisar Announces Record Second Fiscal Quarter Revenues and Profits

SUNNYVALE, CA -- (Marketwired) -- 12/08/16 --

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 year 2017, ended October 30, 2016.

COMMENTARY

"I am pleased to announce that Finisar achieved all-time quarterly records for revenues and profits in our second quarter. Revenues were \$369.9 million, an increase of \$28.5 million, or 8.4% over the first quarter. This growth was primarily driven by strong demand for 100G transceivers. In addition, customer demand for wavelength selective switch and ROADM line card products was strong. Our gross margins improved significantly due to a favorable product mix and leverage achieved from our vertical integration with larger volumes. The combination of revenues being at the higher end of our guidance range with higher gross margins resulted in earnings per fully diluted share above our guidance range," said Jerry Rawls, Finisar's Chief Executive Officer.

FINANCIAL HIGHLIGHTS - Second Quarter Ended October 30, 2016

Summary GAAP Results	Second Quarter Ended October 30, 2016	First Quarter Ended July 31, 2016
	<i>(in thousands, except per share amounts)</i>	
Revenues	\$369,863	\$341,325
Gross margin	36.1%	31.7%
Operating expenses	\$80,853	\$79,854
Operating income	\$52,828	\$28,311
Operating margin	14.3%	8.3%
Net income	\$48,765	\$23,949
Income per share-basic	\$0.44	\$0.22
Income per share-diluted	\$0.43	\$0.22
Basic shares	110,407	108,820
Diluted shares	113,192	110,821

Summary Non-GAAP Results (a)	Second Quarter Ended October 30, 2016	First Quarter Ended July 31, 2016
	<i>(in thousands, except per share amounts)</i>	
Revenues	\$369,863	\$341,325
Non-GAAP Gross margin	37.2%	33.1%
Non-GAAP Operating expenses	\$69,418	\$69,344
Non-GAAP Operating income	\$68,250	\$43,520
Non-GAAP Operating margin	18.5%	12.8%
Non-GAAP Net income	\$65,154	\$41,825
Non-GAAP Income per share-basic	\$0.59	\$0.38

Non-GAAP Income per share-diluted	\$0.58	\$0.38
Basic shares	110,407	108,820
Diluted shares	113,192	110,821

- (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 Second Quarter of Fiscal 2017:

- | Revenues were \$369.9 million, an increase of \$28.5 million, or 8.4%, from \$341.3 million in the first quarter.
- | Sales of telecom products increased by \$9.7 million, or 9.9%, compared to the first quarter. This increase was due primarily to higher sales of 100G transceivers, as well as wavelength selective switch and ROADM line card products.
- | Sales of datacom products increased by \$18.8 million, or 7.7%, compared to the first quarter. This increase was due primarily to growth in demand for 100G transceivers. Sales of 100G transceivers for datacom applications increased approximately 30% compared to the first quarter, and more than 80% compared to the second quarter of the prior fiscal year. Sales of 40G datacom transceivers were approximately flat compared to the first quarter.
- | GAAP gross margin improved to 36.1%, compared to 31.7% in the first quarter, primarily due to favorable product mix and the operational leverage from our vertical integration.
- | Non-GAAP gross margin improved to 37.2% compared to 33.1% in the first quarter.
- | GAAP operating expenses were \$80.9 million compared to \$79.9 million in the first quarter. GAAP operating expenses as a percentage of revenue decreased to approximately 21.9% of revenue compared to 23.4% in the first quarter.
- | Non-GAAP operating expenses were \$69.4 million compared to \$69.3 million in the first quarter. Non-GAAP operating expenses as a percentage of revenue decreased to approximately 18.8% compared to 20.3% in the first quarter.
- | GAAP operating margin improved to 14.3% from 8.3% in the first quarter.
- | Non-GAAP operating margin improved to 18.5% from 12.8% in the first quarter.
- | GAAP earnings per fully diluted share was \$0.43 compared to \$0.22 in the first quarter, primarily due to higher revenue levels and improved gross margins.
- | Non-GAAP earnings per fully diluted share was \$0.58 compared to \$0.38 in the preceding quarter.
- | Cash, cash equivalents and short-term investments increased \$32.5 million to \$626.3 million at the end of the second quarter, compared to \$593.8 million at the end of the preceding quarter.

OUTLOOK

Finisar indicated that for the third quarter of fiscal 2017 it currently expects revenues in the range of \$378 to \$398 million, non-GAAP gross margin of approximately 37% to 38%, non-GAAP operating margin of approximately 18.5% to 19.5%, and non-GAAP earnings per fully diluted share in the range of approximately \$0.58 to \$0.64.

Finisar has not provided a reconciliation of its third 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 second quarter and current business outlook during its regular quarterly conference call scheduled for Thursday, December 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 1-877-741-4239 (domestic) or 1-719-325-4771 (international) and enter conference ID 7509499.

An audio replay will be available for two weeks following the call by dialing 1-888-203-1112 (domestic) or 1-719-457-0820 (international) and then following the prompts: enter conference ID 7509499 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 Statements of Operations
(Unaudited, in thousands, except per share data)

	Three Months Ended		Six Months Ended		Three Months Ended
	Oct 30, 2016	Nov 01, 2015	Oct 30, 2016	Nov 01, 2015	Jul 31, 2016
Revenues	\$ 369,863	\$ 321,136	\$ 711,188	\$ 635,166	\$ 341,325
Cost of revenues	235,192	230,610	466,829	454,757	231,637
Impairment of long-lived assets	-	-	-	1,071	-
Amortization of acquired developed technology	990	1,435	2,513	2,870	1,523
Gross profit	133,681	89,091	241,846	176,468	108,165
Gross margin	36.1%	27.7%	34.0%	27.8%	31.7%
Operating expenses:					
Research and development	53,242	50,972	104,250	103,380	51,008
Sales and marketing	13,367	11,897	25,230	23,099	11,863
General and administrative	13,576	16,186	29,891	31,394	16,315
Impairment of long-lived assets	-	-	-	830	-
Amortization of purchased intangibles	668	668	1,336	1,336	668
Total operating expenses	80,853	79,723	160,707	160,039	79,854
Income from operations	52,828	9,368	81,139	16,429	28,311
Interest income	1,021	469	1,747	834	726
Interest expense	(3,025)	(2,917)	(6,011)	(5,800)	(2,986)
Other income (expenses), net	795	445	736	1,326	(59)
Income before income taxes	51,619	7,365	77,611	12,789	25,992
Provision for income taxes	2,854	721	4,897	2,752	2,043
Net income	\$ 48,765	\$ 6,644	\$ 72,714	\$ 10,037	\$ 23,949

Net income per share attributable to Finisar Corporation common stockholders:

Basic	\$	0.44	\$	0.06	\$	0.66	\$	0.09	\$	0.22
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Diluted	\$	0.43	\$	0.06	\$	0.65	\$	0.09	\$	0.22
Shares used in computing net income per share - basic		110,407		106,635		109,614		105,961		108,820
Shares used in computing net income per share - diluted		113,192		107,493		112,450		108,238		110,821

Finisar Corporation
Consolidated Balance Sheets
(in thousands)

	<u>Oct 30, 2016</u>	<u>Jul 31, 2016</u>	<u>May 1, 2016</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 282,963	\$ 280,414	\$ 299,221
Short-term held-to-maturity investments	343,319	313,389	263,255
Accounts receivable, net	277,667	255,036	249,257
Accounts receivable, other	49,997	43,678	44,576
Inventories	292,439	272,592	273,291
Prepaid expenses and other assets	17,140	18,646	18,483
Total current assets	<u>1,263,525</u>	<u>1,183,755</u>	<u>1,148,083</u>
Property, equipment and improvements, net	341,563	338,918	348,613
Purchased intangible assets, net	16,339	16,197	18,388
Goodwill	106,735	106,735	106,735
Minority investments	3,893	3,974	4,051
Other assets	18,008	18,928	19,501
Total assets	<u>\$ 1,750,063</u>	<u>\$ 1,668,507</u>	<u>\$ 1,645,371</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 153,023	\$ 136,317	\$ 141,591
Accrued compensation	45,213	36,332	36,084
Other accrued liabilities	36,736	39,201	42,206
Deferred revenue	17,818	16,468	13,529
Total current liabilities	<u>252,790</u>	<u>228,318</u>	<u>233,410</u>
Long-term liabilities:			
Convertible notes, net of current portion	234,679	232,016	229,393
Other non-current liabilities	13,279	14,056	14,882
Total liabilities	<u>500,748</u>	<u>474,390</u>	<u>477,685</u>
Stockholders' equity:			
Common stock	111	110	108
Additional paid-in capital	2,639,355	2,621,260	2,605,859
Accumulated other comprehensive income (loss)	(49,772)	(38,109)	(25,188)
Accumulated deficit	(1,340,379)	(1,389,144)	(1,413,093)
Total stockholders' equity	<u>1,249,315</u>	<u>1,194,117</u>	<u>1,167,686</u>
Total liabilities and stockholders' equity	<u>\$ 1,750,063</u>	<u>\$ 1,668,507</u>	<u>\$ 1,645,371</u>

Note - Balance sheet amounts as of May 1, 2016 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, 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 that 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:

- | Acquisition related costs (non-core cash charges);
- | Gain or loss on litigation settlements and resolutions and related costs (non-core cash charges or benefits); 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-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)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>		<u>Three</u>
	<u>Oct 30, 2016</u>	<u>Nov 01, 2015</u>	<u>Oct 30, 2016</u>	<u>Nov 01, 2015</u>	<u>Months</u>
					<u>Ended</u>
					<u>Jul 31, 2016</u>
GAAP to non-GAAP reconciliation of gross profit:					
Gross profit - GAAP	\$ 133,681	\$ 89,091	\$ 241,846	\$ 176,468	\$ 108,165
Gross margin - GAAP	36.1%	27.7%	34.0%	27.8%	31.7%
Adjustments:					
Cost of revenues					
Change in excess and obsolete inventory valuation adjustments (1)	-	2,402	-	3,832	-
Amortization of acquired technology	990	1,435	2,513	2,870	1,523
Duplicate facility costs during					

facility move	8	4	16	86	8
Stock compensation	2,949	2,922	5,996	5,614	3,047
Impairment of long-lived assets	-	-	-	1,282	-
Reduction in force costs	14	417	116	971	102
Acquisition related retention payment	26	28	45	93	19
Total cost of revenue adjustments	<u>3,987</u>	<u>7,208</u>	<u>8,686</u>	<u>14,748</u>	<u>4,699</u>
Gross profit - non-GAAP	<u>137,668</u>	<u>96,299</u>	<u>250,532</u>	<u>191,216</u>	<u>112,864</u>
Gross margin - non-GAAP	37.2%	30.0%	35.2%	30.1%	33.1%

GAAP to non-GAAP reconciliation of operating income:

Operating income - GAAP	52,828	9,368	81,139	16,429	28,311
Operating margin - GAAP	14.3%	2.9%	11.4%	2.6%	8.3%
Adjustments:					
Total cost of revenue adjustments	3,987	7,208	8,686	14,748	4,699
Total operating expense adjustments					
Operating expenses - GAAP	80,853	79,723	160,707	160,039	79,854
Research and development					
Reduction in force costs	88	-	262	288	174
Duplicate facility costs during facility move	7	49	14	270	7
Acquisition related retention payment	32	67	64	158	32
Stock compensation	5,552	4,970	10,663	9,808	5,111
Impairment of long-lived assets	-	-	-	287	-
Sales and marketing					
Reduction in force costs	-	117	29	180	29
Acquisition related retention payment	-	3	-	13	-
Stock compensation	1,877	1,718	3,628	3,425	1,751
General and administrative					
Reduction in force costs	20	963	33	1,315	13
Duplicate facility costs	154	8	297	17	143
Acquisition related retention payment	-	-	(2)	(5)	(2)
Stock compensation	2,989	2,757	5,542	5,517	2,553
Acquisition related costs	2	378	33	396	31
Litigation settlements and resolutions and related costs	46	-	46	16	-
Amortization of purchased intangibles	668	668	1,336	1,336	668
Impairment of long-lived assets	-	-	-	587	-
Total operating expense adjustments	<u>11,435</u>	<u>11,698</u>	<u>21,945</u>	<u>23,608</u>	<u>10,510</u>
Operating expenses - non-GAAP	<u>69,418</u>	<u>68,025</u>	<u>138,762</u>	<u>136,431</u>	<u>69,344</u>
Operating income - non-GAAP	<u>68,250</u>	<u>28,274</u>	<u>111,770</u>	<u>54,785</u>	<u>43,520</u>
Operating margin - non-GAAP	18.5%	8.8%	15.7%	8.6%	12.8%

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

Income before income taxes - GAAP	51,619	7,365	77,611	12,789	25,992
Adjustments:					
Total cost of revenue adjustments	3,987	7,208	8,686	14,748	4,699
Total operating expense adjustments	11,435	11,698	21,945	23,608	10,510
Total Interest and other adjustments					
Non-cash imputed interest expenses on convertible debt	2,509	2,391	4,978	4,745	2,469

Imputed interest related to restructuring	37	44	75	89	38
Other (income) expense, net					
Loss (gain) on sale of assets	(17)	85	(25)	(100)	(8)
Other miscellaneous income	-	(120)	-	(137)	-
Foreign exchange transaction (gain) or loss	(970)	51	(999)	(642)	(29)
Amortization of debt issuance cost	154	154	308	308	154
Total Interest and other adjustments	1,713	2,605	4,337	4,263	2,624
Income before income taxes - non-GAAP	68,754	28,876	112,579	55,408	43,825
GAAP to non-GAAP reconciliation of net income:					
Net income - GAAP	48,765	6,644	72,714	10,037	23,949
Total cost of revenue adjustments	3,987	7,208	8,686	14,748	4,699
Total operating expense adjustments	11,435	11,698	21,945	23,608	10,510
Total Interest and other adjustments	1,713	2,605	4,337	4,263	2,624
Income tax provision adjustments	(746)	(1,298)	(703)	(1,267)	43
Total adjustments	<u>16,389</u>	<u>20,213</u>	<u>34,265</u>	<u>41,352</u>	<u>17,876</u>
Net income - non-GAAP	<u>\$ 65,154</u>	<u>\$ 26,857</u>	<u>\$ 106,979</u>	<u>\$ 51,389</u>	<u>\$ 41,825</u>
Non-GAAP net income for diluted earnings per share calculation					
Non-GAAP net income	\$ 65,154	\$ 26,857	\$ 106,979	\$ 51,389	\$ 41,825
Add: interest expense for dilutive convertible notes	-	-	-	-	-
Adjusted non-GAAP income	<u>\$ 65,154</u>	<u>\$ 26,857</u>	<u>\$ 106,979</u>	<u>\$ 51,389</u>	<u>\$ 41,825</u>
Basic non-GAAP income per share					
GAAP earnings per share	\$ 0.44	\$ 0.06	\$ 0.66	\$ 0.09	\$ 0.22
Impact of all non-GAAP adjustments	\$ 0.15	\$ 0.19	\$ 0.31	\$ 0.39	\$ 0.16
Non-GAAP earnings per share	\$ 0.59	\$ 0.25	\$ 0.98	\$ 0.48	\$ 0.38
Diluted non-GAAP income per share					
GAAP earnings per share	\$ 0.43	\$ 0.06	\$ 0.65	\$ 0.09	\$ 0.22
Impact of all non-GAAP adjustments	\$ 0.15	\$ 0.19	\$ 0.30	\$ 0.38	\$ 0.16
Non-GAAP earnings per share	\$ 0.58	\$ 0.25	\$ 0.95	\$ 0.47	\$ 0.38
Shares used in computing non-GAAP income per share					
Basic	110,407	106,635	109,614	105,961	108,820
Diluted	113,192	107,493	112,450	108,238	110,821

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

Finisar-F

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