



Finisar Announces First Quarter of Fiscal 2019 Financial Results

September 6, 2018

SUNNYVALE, Calif., Sept. 06, 2018 (GLOBE NEWSWIRE) -- Finisar Corporation (NASDAQ: [ENSR](#)), a global technology leader for subsystems and components for fiber optic communications, today announced financial results for its first quarter of fiscal 2019, ended July 29, 2018.

COMMENTARY

"Revenues grew over the prior quarter and exceeded the mid-point of our guidance range, primarily driven by strength in demand for our wavelength selective switches. Gross margin also improved over the prior quarter and exceeded our guidance range due to favorable product mix," said Michael Hurlston, Finisar's Chief Executive Officer. "In addition, we were able to accelerate the process of bringing more focus to our product development efforts, which allowed the company to reduce relative expense levels faster than expected. In combination, this led to better earnings per share, exceeding the high end of our guidance range."

FINANCIAL HIGHLIGHTS – First Quarter Ended July 29, 2018

Summary GAAP Results

	First Quarter Ended July 29, 2018 (in thousands, except per share amounts)	Fourth Quarter Ended April 29, 2018
Revenues (a)	\$317,336	\$310,069
Gross margin	25.4%	20.2%
Operating expenses	\$96,376	\$89,330
Operating loss	\$(15,691)	\$(26,737)
Operating margin	(4.9)%	(8.6)%
Net loss	\$(18,489)	\$(18,344)
Loss per share-basic	\$(0.16)	\$(0.16)
Loss per share-diluted	\$(0.16)	\$(0.16)
Basic shares	115,867	114,742
Diluted shares	115,867	114,742

Summary Non-GAAP Results (b)

	First Quarter Ended July 29, 2018 (in thousands, except per share amounts)	Fourth Quarter Ended April 29, 2018
Revenues (a)	\$317,336	\$310,069
Non-GAAP Gross margin	27.5%	24.7%
Non-GAAP Operating expenses	\$68,311	\$72,029
Non-GAAP Operating income	\$18,841	\$4,573
Non-GAAP Operating margin	5.9%	1.5%
Non-GAAP Net income	21,297	5,780
Non-GAAP Income per share-basic	\$0.18	\$0.05
Non-GAAP Income per share-diluted	\$0.18	\$0.05
Basic shares	115,867	114,742
Diluted shares	117,191	115,991

(a) During the first quarter of fiscal 2019, Finisar recognized revenue based on the ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," but revenue for the three months ended April 29, 2018 was recognized based on Topic 605. Therefore, the periods are not directly comparable. For additional information on the impact of the new revenue recognition accounting standard, see refer to Note 2 in the notes to condensed consolidated financial statements in Finisar's Form 10-Q for the first quarter of fiscal 2019.

(b) 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.

OUTLOOK

Finisar indicated that for the second quarter of fiscal 2019 it currently expects revenues in the range of \$315 to \$335 million, non-GAAP gross margin of approximately 28%, non-GAAP operating margin of approximately 7-8%, and non-GAAP earnings per fully diluted share in the range of approximately \$0.19 to \$0.25.

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 fiscal quarter of 2019 and current business outlook during its regular quarterly conference call scheduled for September 6, 2018, 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-(855) 473-9088 (domestic) or 1- (720) 405-0995 (international) and enter conference ID 9594409.

An audio replay will be available for two weeks following the call by dialing 1- (855) 859-2056 (domestic) or 1-404-537-3406 (international) and then following the prompts: enter conference ID 9594409 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 16, 2017) and quarterly SEC filings.

ABOUT FINISAR

Finisar Corporation (NASDAQ: FNSR) is a global technology leader in optical communications, providing components and subsystems to networking equipment manufacturers, data center operators, telecom service providers, consumer electronics and automotive companies. Founded in 1988, Finisar designs products that meet the increasing demands for network bandwidth, data storage and 3D sensing subsystems. The company is headquartered in Sunnyvale, California, USA with R&D, manufacturing sites, and sales offices worldwide. Visit our website at www.finisar.com.

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

Finisar Corporation Consolidated Balance Sheets (in thousands)

	Jul 29, 2018 (Unaudited)	Apr 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 326,189	\$ 312,257
Short-term held-to-maturity investments	832,681	884,838
Accounts receivable, net	248,138	233,529
Inventories	325,846	348,527
Other current assets	54,863	56,001
Total current assets	1,787,717	1,835,152
Property, equipment and improvements, net	587,203	520,849
Purchased intangible assets, net	6,742	7,878
Goodwill	106,735	106,735
Other assets	25,179	31,721
Deferred tax assets	85,873	80,850

Total assets	\$ 2,599,449	\$ 2,583,185
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 149,876	\$ 132,161
Accrued compensation	35,349	32,525
Other accrued liabilities	50,944	32,824
Deferred revenue	-	9,535
Current portion of convertible notes	254,150	251,278
Total current liabilities	490,319	458,323
Long-term liabilities:		
Convertible notes	494,316	488,877
Other non-current liabilities	11,366	12,368
Total liabilities	996,001	959,568
Stockholders' equity:		
Common stock	117	115
Additional paid-in capital	2,869,657	2,850,195
Accumulated other comprehensive income (loss)	(44,356)	(14,659)
Accumulated deficit	(1,221,970)	(1,212,034)
Total stockholders' equity	1,603,448	1,623,617
Total liabilities and stockholders' equity	\$ 2,599,449	\$ 2,583,185

Note - Balance sheet amounts as of April 29, 2018 are derived from the audited consolidated financial statements as of that date.

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

	Three Months Ended		Three Months Ended	
	Jul 29, 2018	Jul 30, 2017	Apr 29, 2018	
Revenues	\$ 317,336	\$ 341,806	\$ 310,069	
Cost of revenues	236,155	225,896	246,501	
Amortization of acquired developed technology	496	611	604	
Impairment of long-lived assets	-	-	371	
Gross profit	80,685	115,299	62,593	
Gross margin	25.4	% 33.7	% 20.2	%
Operating expenses:				
Research and development	62,874	58,040	60,520	
Sales and marketing	12,480	12,351	12,530	
General and administrative	12,643	14,289	12,207	
Startup costs	7,553	-	2,897	
Amortization of purchased intangibles	640	707	666	
Impairment of long-lived assets	186	-	510	
Total operating expenses	96,376	85,387	89,330	
Income (loss) from operations	(15,691)	) 29,912	(26,737))
Interest income	5,155	3,440	4,904	
Interest expense	(9,386)	) (9,013)	(9,322))
Other income (expenses), net	(1,789)	) (2,694)	1,097)
Income (loss) before income taxes	(21,711)	) 21,645	(30,058))
Provision (benefit) for income taxes	(3,222)	) 1,786	(11,714))
Net income (loss)	\$ (18,489)	) \$ 19,859	\$ (18,344))
Net income (loss) per share:				
Basic	\$ (0.16)	) \$ 0.18	\$ (0.16))
Diluted	\$ (0.16)	) \$ 0.17	\$ (0.16))
Shares used in computing net income (loss) per share - basic	115,867	112,544	114,742	
Shares used in computing net income (loss) per share - diluted	115,867	115,698	114,742	

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:

- Amortization of acquired technology (non-cash charges related to technology obtained in acquisitions);
- Stock-based compensation expense (non-cash charges);
- Impairment of long-lived/intangible assets (non-cash charges);
- Reduction in force costs and other restructuring charges (non-core cash charges);
- Acquisition related retention payments (non-core cash charges); and
- Inventory write-off related to discontinued products (non-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:

- Discontinued product services fee (non-core cash charges);
- Duplicate facilities cost during facility move (non-core cash charges);
- Acquisition related costs (non-core cash charges);
- Litigation settlements and resolutions and related costs (non-core cash charges);
- Amortization of purchased intangibles (non-cash charges); and
- Start-up cash costs related to our Sherman VCSEL fab until we begin commercial production.

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 miscellaneous 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);
- Loss related to impairment of minority investment (non-core charges);
- 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.

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		Three Months Ended		
	Jul 29, 2018	Jul 30, 2017	Apr 29, 2018		%
GAAP to non-GAAP reconciliation of gross profit:					
Gross profit - GAAP	\$ 80,685	\$ 115,299	\$ 62,593		
Gross margin - GAAP	25.4	% 33.7	% 20.2		%
Adjustments:					
Cost of revenues					
Amortization of acquired technology	496	611	604		

Stock compensation	3,806		2,570		3,453	
Impairment of long-lived/intangible assets	-		-		371	
Reduction in force costs	482		634		556	
Acquisition related retention payment	12		41		30	
Write off of discontinued product inventory	1,671		-		8,995	
Total cost of revenues adjustments	6,467		3,856		14,009	
Gross profit - non-GAAP	87,152		119,155		76,602	
Gross margin - non-GAAP	27.5	%	34.9	%	24.7	%
	-					

GAAP to non-GAAP reconciliation of operating income (loss):

Operating income (loss) - GAAP	(15,691	)	29,912		(26,737)
Operating margin - GAAP	-4.9	%	8.8	%	-8.6	%
Adjustments:						
Total cost of revenues adjustments	6,467		3,856		14,009	
Total operating expense adjustments						
Operating expenses - GAAP	96,376		85,387		89,330	
Research and development						
Reduction in force costs and other restructuring	7,024		93		1,505	
Acquisition related retention payment	29		32		32	
Stock compensation	6,175		6,082		6,034	
Discontinued product service fees	313		-		185	
Sales and marketing						
Reduction in force costs	402		(12	)	335	
Acquisition related retention payment	-		(2)	-	
Stock compensation	2,146		2,044		1,956	
General and administrative						
Reduction in force costs	493		37		145	
Duplicate facility costs during facility move	26		183		129	
Stock compensation	3,017		3,069		2,233	
Acquisition related costs	(2	)	4		127	
Litigation settlements and resolutions and related costs	63		-		551	
Amortization of purchased intangibles	640		707		666	
Startup costs	7,553		-		2,897	
Impairment of long-lived assets/intangible assets	186		-		506	
Total operating expense adjustments	28,065		12,237		17,301	
Operating expenses - non-GAAP	68,311		73,150		72,029	
Operating income - non-GAAP	18,841		46,005		4,573	
Operating margin - non-GAAP	5.9	%	13.5	%	1.5	%

GAAP to non-GAAP reconciliation of income (loss) before income taxes:

Income (loss) before income taxes - GAAP	(21,711	)	21,645		(30,058)
Adjustments:						
Total cost of revenues adjustments	6,467		3,856		14,009	
Total operating expense adjustments	28,065		12,237		17,301	
Non-cash imputed interest expenses on convertible debt	7,927		7,555		7,863	
Imputed interest related to restructuring	20		30		23	
Other (income) expense, net						
Gain on sale of assets	(57	)	(113	)	(157)
Loss related to impairment of minority investments	-		2,347		-	
Other miscellaneous income	(20	)	(4)	-	
Foreign exchange transaction (gain) or loss	1,921		463		(936)
Amortization of debt issuance cost	385		385		385	
Total interest and other adjustments	10,176		10,663		7,178	
Income before income taxes - non-GAAP	22,997		48,401		8,430	

GAAP to non-GAAP reconciliation of net income (loss):

Net income (loss) - GAAP	(18,489	)	19,859		(18,344)
Total cost of revenues adjustments	6,467		3,856		14,009	
Total operating expense adjustments	28,065		12,237		17,301	
Total interest and other adjustments	10,176		10,663		7,178	
Income tax provision adjustments	(4,922	)	(865	)	(14,364)
Total adjustments	39,786		25,891		24,124	

Net income - non-GAAP	\$ 21,297	\$ 45,750	\$ 5,780
Non-GAAP net income for diluted earnings per share calculation			
Non-GAAP net income	\$ 21,297	\$ 45,750	\$ 5,780
Add: interest expense for dilutive convertible notes	-	-	-
Adjusted non-GAAP income	\$ 21,297	\$ 45,750	\$ 5,780
Basic non-GAAP income per share			
GAAP earnings per share	\$ (0.16)	\$ 0.18	\$ (0.16)
Impact of all non-GAAP adjustments	\$ 0.34	\$ 0.23	\$ 0.21
Non-GAAP earnings per share	\$ 0.18	\$ 0.41	\$ 0.05
Diluted non-GAAP income per share			
GAAP earnings per share	\$ (0.16)	\$ 0.17	\$ (0.16)
Impact of all non-GAAP adjustments	\$ 0.34	\$ 0.23	\$ 0.21
Non-GAAP earnings per share	\$ 0.18	\$ 0.40	\$ 0.05
Shares used in computing non-GAAP income per share			
Basic	115,867	112,544	114,742
Diluted	117,191	115,698	115,991

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Source: Finisar Corporation