FINISAR CORPORATION

Moderator: Jerry Rawls
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4:00 pm CT

Operator: Good afternoon ladies and gentlemen and welcome to the Finisar Corporation announces 4th Quarter Results Conference Call.

Just a quick reminder, today's call is being recorded. At this time, I'll turn things over to Jerry Rawls, Executive Chairman. Please go ahead, sir.

Jerry Rawls: Thank you, (Rachel). And good afternoon everyone. We appreciate you're taking the time to listen to our conference call. A replay of this call should appear on our website within eight hours.

An audio replay will be available for two weeks by calling area code 888-203-1112 for domestic or area code 719-457-0820 for international. And then enter the ID number 9069246.

I need to remind all of you that any forward looking statements in today's discussion are subject to risks and uncertainties which are discussed at length in our annual and quarterly SEC filings. Actual events and results can differ materially from any forward-looking statements. In addition, the company undertakes no obligations to update any forward-looking information presented. Unless otherwise indicated, all results are discussed on a non-GAAP basis.

A complete reconciliation of our GAAP to non-GAAP results may be found in our earnings press release and in the Investor Relations section of our website.

We have prepared some slides for today's conference. You can view them by connecting to the Investor Relations page of our website at finisar.com. Click on Investors, then scroll down to Webcast Archives and click. You'll see a listing for today's fourth quarter 2016 earnings call.

I am pleased to announce that revenues for our fourth fiscal quarter were $318.8 million, an increase of 9.6 million or 3.1% over the third quarter. This growth was primarily from increased demand for 40 gigabits per second and 100 gigabits per second Datacom transceivers.

Gross margin was 30.6%. Combined with lower expenses, this resulted in non-GAAP earnings per fully diluted share of 29 cents which was a penny above the upper end of our guidance range. And now I'll let Kurt review the rest of the numbers. Kurt?

Kurt Adzema: Thanks, Jerry.

Sales of products for Datacom applications increased by $23.6 million or 10.8% compared to the preceding quarter, primarily driven by growth in 40 gig and 100 gig transceivers including CFP, CFP2, CFP4, QSFP, and QSFP28 form factors.

Sales of products for Telecom applications decreased by $14.1 million or 15.6% compared to the preceding quarter, primarily as the result of the full three months of the Telecom price negotiations and an unexpected decline in demand for legacy products including 10G fixed wavelength and tunable transceivers and optical amplifiers.

In addition, we experienced delays in adding capacity for adding capacity for manufacturing wavelength selective switches and delays in the qualification of new ROADM line cards.

In the fourth quarter we had one, 10% or greater customer.

Our top 10 customers represented 56.4% of total revenues compared to 58.4 in the preceding quarter.

Non-GAAP gross margin improved to 30.6% compared to 30.3 in the preceding quarter primarily due to favorable product mix, partially offset by the impact of the full three months of annual Telecom price negotiations which typically take effect on January 1st.

Non-GAAP operating expenses were $66.2 million compared to $67.3 million in the prior quarter.

The decrease is primarily due to lower G&A costs including lower legal expenses.

Non-GAAP - GAAP - operating income was $31.2 million or 9.8% of revenues compared to $26.3 million or 8.5% of revenue in the preceding quarter.

Non-GAAP income was $31.8 million or 29 cents per diluted share compared to $26.6 million or 25 cents per diluted share in the preceding quarter.

Average diluted shares for Non-GAAP purposes totaled 109.4 million.

For non-GAAP purposes interest expenses they are $258 million of .5% convertible notes was approximately $323,000.00.

This interest expense is the only impact of these converts on the non-GAAP diluted earnings per share as no shares are added to the fully diluted share counts.

Interest in other income was approximately $685,000.00 in the fiscal 4th Quarter and is expected to be at an approximately level in the first quarter of fiscal 2017.

Non-GAAP taxes for the 4th Quarter were approximately $100,000.00. Non-GAAP taxes for fiscal 2017 are expected to be approximately 5 to 6%.

Cash, cash equivalents, and short term investments increased $31.4 million to $562.5 million at the end of the quarter.

Capital expenditures are expected to be approximately $30 million in the first quarter of fiscal 2017.

Weighted average fully diluted shares for the first quarter of fiscal 17 are expected to be approximately 111 million for non-GAAP purposes.

We excluded from our non-GAAP results a number of charges or benefits to either non-cash or we consider outside of our core ongoing operations. These totaled $18.8 million last quarter. If you include all these items as required under GAAP, we generated net income of $13.1 million or 12 cents per diluted share compared to net income of $12.1 million or 11 cents per diluted share in the preceding quarter.

That concludes my comments. And I'll turn it back to Jerry.

Jerry Rawls: Thanks, Kurt. For our first fiscal quarter of FY 17, we expect revenues to be in the range of $323 million to $343 million. We expect both Datacom and Telecom revenues to be greater than the 4th Quarter.

We continue to see strong demand from China due to the long haul and wireless build outs at all the major carriers. North America demand remains strong due to the expansion of Next Generation Metro networks. Europe and Middle East demand is also strong.

We expect Datacom revenue growth during the first quarter will be primarily from increased sales of 100 gigabit Ethernet transceivers.

Telecom revenue growth in the first quarter is expected to be primarily from continued strong demand for our wavelength selective switches, 10 gigabit tunable transceivers, and our ROADM line cards.

In addition, revenues for 100 gigabit and 200 gigabit line side products such as CFP2-ACO are expected to increase.

We are experiencing such strong demand for a broad range of our product lines that we have many capacity constraints. We are actively adding capacity to try to meet our customers' demands.

We expect non-GAAP gross margins for the 1st Quarter of FY 17 to be approximately 31%.

Expect operating expenses to increase to approximately $68.5 million mostly due to higher legal expenses from a patent trial where we are the plaintiff. We also expect an increase in payroll taxes from an annual vesting of employee RSU grants which occurs every June. In addition, sales and marketing expenses are expected to be higher due to the expected growth in revenue.

Non-GAAP operating margins are expected to be between 9.9% and 10.9%.

And non-GAAP earnings per diluted share are expected to be in the range of 27 cents to 33 cents per share.

Overall demand is strong from a broad range of customers. And we expect demand to remain strong for quite some time. We continue to believe in the long term growth prospects of our company and the optical communications industry. And we think they're positive.

And our fiscal 2017 we expect to benefit from the ramp of many products. Revenue growth will be driven by both data center construction and upgrades as well as increased deployment of ROADMs and 100 gigabits and 200 gigabits coherent transceivers in Telecom networks.

Finisar's revenue is driven primarily by growth and the global demand for bandwidth due to the increasing distribution and use of video, images, and digital information. In addition, we continue to benefit from the growth in cloud services which drives network hardware upgrades of existing data centers. And the construction of new hyper scale data centers.

And now with that I'm going to turn it back over to (Rachel) and open it up for questions. (Rachel)?

Operator: If you would like to ask a question, please signal by pressing star, 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Again, press star, 1 to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. Our first question comes from Patrick Newton with Stifel.

Patrick Newton: Kurt, thank you very much for taking my questions. I guess first off just a multipart question on ROADMs. Could you help us understand the update or update us on the status of the Verizon qualification?

It would seem from your guidance that you're anticipating that the qualification will be completed in the current quarter and you will ship for revenue.

And can you also comment on what is causing some of the delays in some of the adding of your WSS capacity?

Jerry Rawls: Let's see, Verizon we don't - we're not qualifying directly with Verizon. We qualify with equipment companies who supply to Verizon. And, qualification is in progress. A lot of tests have been run. A lot of success has been achieved. But there's a lot of details that relate to firmware or software - all kinds of things.

And it's like we expect full qualification at any time and it could happen in weeks or, it could be longer. But we expect it. It's making good progress and we expect it to be completed shortly.

ROADM capacity is a - for us it's a wave length selective switch capacity is a reasonably complicated subject. In that we do most of the work in China in our Wuxi factory. So we have to add equipment and people and training there. And it takes a fair amount of training for this.

And we also end up - we do some of the work on many of the wave length selective switch products back in our Sydney, Australia facility.

So, anyway, we - it's a little more complicated subject than just saying, oh, we didn't get all the equipment in and running because you not only have to have the equipment. You've got to have operators hired. And you've got to have operators trained.

And so and somewhere between all of that we didn't quite get the capacity up on line that we thought we were. But we feel sure we're going to have it online this next quarter. And we're predicting that our revenues for wave length selective switches will be up nicely.

Patrick Newton: Jerry, any concerns at all that the delay in qualification with Verizon could impact our market share?

Jerry Rawls: Well, we don't have any market share with Verizon. So our market share can only go up.

Patrick Newton: Okay. And then I guess on the 40G side or I guess on data centers I think there was an expectation that the CFP product family would be very strong. But I was a little bit surprised by the 40G growth.

So could you isolate the intra-datacenter part of your single mode product portfolio and help us understand your thoughts on when 40EG growth will turn to decline or on the duration of the current string?

Jerry Rawls: I don't really have a break out that I could say between single mode intra-datacenter and single mode that goes inter-datacenter. The 40 gig decline is one of those things where we've expected the decline in 40 gig revenues prior to this time. But are surprised at its strength.

But that maybe that's not surprising since there's been a lot of switches deployed with 40 gigabit sockets in them for - what - the last two, three years?

And some of those sockets aren't filled yet. And so there's still an ongoing market of - as you expand capacity in existing 40 gig datacenters - fill in those sockets with the 40 gig transceivers.

So I'm not the guy that's going to - because I predicted that it would've declined already. But - so I was wrong. And I'm not going to predict again when it's going to decline.

Kurt Adzema: I would also add that Q3 was a low quarter for us in the 40 gig. So it was a little bit of a bounce back from tough Q3 for 40 gig in the 40 gig Datacom in the 4th Quarter. And, we think in general it will be relatively flattish in the Q1.

Patrick Newton: Great and just on the gross margin side, Kurt, you've consistently talked about mix being the most important driver. Could you help us understand how to think about the gross margin potential in FY 17 especially given the new prepared remarks you talked about a significant number of new products coming to market.

Kurt Adzema: Yes, well, we had some pretty extreme favorable mix this last quarter, obviously, as we talked about with all the growth especially coming - a lot of the growth coming from 100 gig Datacom. And with some of the weakness coming from legacy Telecom products that have lower gross margin.

And so you saw the benefits in that quarter of what can happen, obviously, we think we're going to sell more 100 gig this quarter which should be helpful. Which is why we're comfortable expecting 31% gross margin in Q1.

It's hard to predict what the margins will be after that. As always there's a bunch of factors that determine margin. It's not just product mix. It's revenue growth rate. It's our ability to ramp and yield cost effectively our new products. And obviously, it's the pricing environment.

So I'd say, we're pleased with where our gross margins were for the 4th Quarter. We're happy that the 1st Quarter is expected that those gross margins are going to increase. And, we'll see where we go after that.

But we don't give any guidance beyond Q1.

Patrick Newton: Thank you for taking my questions. Good luck.

Operator: Our next question comes from Alex Henderson with Needham.

Alex Henderson: Hey, guys, a couple of questions. First can you talk a little bit about the rate of change in the 100 gig product line? Just how rapidly it's growing, you know, quarter to quarter or ideally year over year as well - if you could adjust for the 14 to 13 week compare.

Kurt Adzema: Well, I would say in general that it grew, I think...

Jerry Rawls: About 20%.

Kurt Adzema: ...20% quarter over quarter. Yes. That's what I was going to say. About 20% quarter over quarter.

Alex Henderson: Great. And within the Telecom piece can you give us a little bit of more granularity on what individual pieces did that? What was the - how much was the pressure quarter to quarter on ROADMs? What is it down 5, 10, 15%?

Kurt Adzema: Well, so I think first of all, we're not going to break out every single product line. But overall, again, you have the full three months of the Telecom price reductions that affect every area.

WSS was still up a little bit but it was not up nearly as much as we expected due to the delays of adding capacity that Jerry talked about. Certainly not from a lack or orders.

And I'd say unexpectedly we saw 10 gig tunable decline. Part of that was due to the fact that a large customer ended up pulling several million dollars of product after the end of the quarter that we expected them pull in the last week of the quarter.

And we expect that Telecom business to pop back this quarter. So as I think about the growth that we are expecting this quarter at the midpoint I'd say we probably may see more Telecom growth than even Datacom growth just given how weak some of the products were in the 4th Quarter.

Alex Henderson: Yes, so it sounds like the non-, you know, the legacy products had to have been down a lot then. I mean you're talking...

Kurt Adzema: Yes.

Alex Henderson: ...very steep declines there.

Kurt Adzema: Yes. And part of that was due to just the annual price reductions. And part of that was units.

Alex Henderson: So are we talking like 30% type declines there?

Kurt Adzema: Again, I'm not going to break it down by product line by product line. But, it is as I said WSS was up a little bit. And you can do the math on the rest of it.

Alex Henderson: All right. Can you also give us a little bit more update on the ACO product? A little bit more granularity on, what you've done relative to getting sample units out where you are in terms of ramping that product line. You said - made some comments about it being creative to growth going out into the upcoming quarter. Any sense of magnitudes around those?

Jerry Rawls: I don't know that I'm ready to predict magnitude. I will tell you that we shipped about 100 units last quarter. Some of those actually ended up in customer installations. So they're actually in the field.

But they were part of systems that our customers - equipment companies - wanted to ship with some urgency. Because we have not completed our full qualification - all the qualification tests that go into the CFP-ACO. So we're close but we've got a few things that are still in the oven as they say.

But all that stuff I expect to be cleared up soon. And we expect that we're going to - we're going to ship, several times in the first quarter what we shipped in the first quarter - in the fourth quarter.

Alex Henderson: So just so I can get some clarity on what we're saying here. It's - these are production - these are non-production line products. These are coming off of the prototype line I would assume. And we're not yet at the point where we've moved to any production type line at this point.

Jerry Rawls: That's correct.

Alex Henderson: Okay.

Jerry Rawls: Our ultimate production of this product is going to be in Wuxi, China.

Alex Henderson: I think I know the answer to this. But generally speaking the pricing should be fairly stable from April quarter forward for the rest of the calendar year?

Jerry Rawls: In general or for this product?

Alex Henderson: In general.

Kurt Adzema: You're talking Telecom, Alex?

Alex Henderson: Just talking in general.

Kurt Adzema: Well, there'll be Datacom price declines. As you know Datacom price declines happen every three to six months. So there'll be the typical priced declines on the Datacom side.

But we've gone through the annual Telecom price negotiations. And the major impact of that was reflected in Q4.

Alex Henderson: Great. I'll cede the floor, thank you.

Operator: Your next question comes from Troy Jensen with Piper Jaffray.

Troy Jensen: Hey, congrats on the nice quarter, gentlemen.

Kurt Adzema: Thank you.

Troy Jensen: Hey, Kurt, can you give us any color on Web 2.0 customers? Maybe what percentage of your Datacom business or percentage of total sales comes from Web 2.0?

Kurt Adzema: I think we've talked about it being roughly 20% of Datacom. And I still that number, plus or minus in that ballpark.

Troy Jensen: Okay. And for you too, Kurt, any comments on what the book to bill would've looked like in the April quarter?

Kurt Adzema: Well, as you know most of our revenue comes through Just-In-Time CMI inventory hubs. So book to bill is not really a great measure for us. But certainly it was better than one. And that is why we're forecasting the growth that we're forecasting.

Troy Jensen: Yes. Hey, do you guys have 2 - 10% customer last quarter? And prior quarter.

Jerry Rawls: In prior quarter, we had two.

Kurt Adzema: In Q3 we had two. In Q4, we had one.

Troy Jensen: Okay. And any thoughts on the Huawei subpoena?

Jerry Rawls: We have no information about that. So I only know what I read on the web. Because it's - I don't read much - it's not covered in the local paper.

Troy Jensen: Okay. I guess we are locally. But I mean any changes in the ROADM patterns, any concerns? I mean there's been concerns about, you know, the bookings in China. Whether or not they can grow from here. You know, this chatter on Huawei create any pull in orders? Or do you think there's any concerns like we saw from ZTE. I know that was a quick fix. But just quick thoughts would be great.

Jerry Rawls: Well, you know, Huawei is a big customer for this entire industry. And if they got into hot water with the US Government. And the same problem that happened with ZTE happened with Huawei, I mean it'd be a problem for a lot of companies in the optics industry.

I have no reason to expect that that's the case. I only know the rumors that you've heard. Our view of demand from China - both for domestic use and for their export of systems - is that, demand will remain strong.

Troy Jensen: All right, understood. Good luck in the second half of the calendar year, guys.

Jerry Rawls: Thanks.

Kurt Adzema: Thank you.

Operator: Our next question comes from Joseph Wolf with Barclays.

Joseph Wolf: Thanks. I wanted to ask a capacity question from two fronts. One is if on the CAPEX guidance - how much of that is facility and how much of that is new capacity? And how should we think about that ramping through the fiscal year?

And I know it's early and you talked about price stability and Telecom for the rest of the year. But given you and your competitors talking about capacity constraints - especially in new products for Telecom. Is there any thought that next year's price negotiations and reductions will be mitigated or lower than this year? Or is it just too early for that?

Jerry Rawls: I think it's too early to tell. But our hopes are that with the shortages of the industry supply will be more of an issue than price.

We'll wait and see how that shakes out. With respect to the CAPEX and capacity, I'll let Kurt address that one.

Kurt Adzema: Sure. So of the estimated $30 million expected there's only, a handful of that that is for facilities. For the most part we're - at this point - we're done with the second Wuxi building. I think there might be a million dollars left that's going to happen this quarter that's related to that.

So most of that is equipment. But, obviously, there's some maintenance CAPEX as well as some to add capacity. So as far as beyond Q1, I would estimate - it's always hard to tell - but I would estimate an average of $30 million per quarter for each of the four quarters of fiscal 17 at this point.

Joseph Wolf: Okay. That's helpful. And then just - I guess longer term or maybe not even longer term. But as you look at the inside the datacenter and you think about the landscape there. Could you talk a little bit about the competitive landscape? This should be a year where 2550 - 100 interconnects start to take off on the Ethernet side. A good percentage of that probably goes optical towards the end of the year.

And I'm just wondering how you guys see yourself positioned.

And then any comments about the adapter ((inaudible)) you're working with given a Cavium's acquisition of QLogic. And what's going on at that level and the datacenter?

Jerry Rawls: Let's see. It's going to be a good year for our fiscal 17 and for calendar year 17. The rest of 16 and 17 I think will be a very good year in datacenters. As you pointed out, it's now the rollout of 25 gigabit lanes.

And then N times 25 gigabit in transceivers. So and I can tell you we're sold out on all those versions of 25 gigabit lane products. And the orders keep coming. So it's going to be a good year.

Cavium and QLogic - you know, I don't know how to read that one. Cavium's an IC company. They make switch chips. I don't know what else is in their product line because I'm not that familiar with the company.

QLogic is obviously, one of the HBA players in the fiber channel industry. And, they're good at it. So I don't expect there to be much change in the - at least in the fiber channel side of QLogic's business.

I mean there may be some. One of the things that QLogic has been investing in for some time has been Ethernet NIC cards. And so maybe being part of Cavium would benefit their Ethernet NIC card business.

Joseph Wolf: So you don't - do you see more competition? Or us trying to integrate optics? Because Intel's been talking about it. Other companies have been talking about it. Is that impacting anything you're seeing in terms of pricing or competition?

Jerry Rawls: Hadn't yet. I don't - right now the biggest concerns we have is all about capacity. It's about - we've got more orders than we can ship, so.

Joseph Wolf: All right. Thanks, guys.

Operator: Our next question comes from Simon Leopold with Raymond James.

Simon Leopold: Thank you for taking my question. First I just wanted to follow-up on some comments you've made on the ROADM WWS sales in the past. I think you indicated last quarter that the revenue for those products was in the neighborhood of $25 million.

And I recall some suggestions that maybe you would exit the calendar year around $35 million for those products. I just wanted to double check your thoughts on that baseline and the trajectory for the WSS ROADM growth?

Jerry Rawls: Well, the baseline's right. And exactly where we're going to end up the calendar year - it's not clear. But it will be higher than the baseline.

So we're - I mean - we're - we are expecting growth in that business. We have very strong demand in the wave length selective switch product lines. And we're adding capacity.

Simon Leopold: And in terms of kind of the longer term gross margin trends, I think you said your typical range is from 30 to 35%. And we're coming from the low point and improving. And I want to get an understanding from you how you see the industry dynamic.

How have things changed in the current cycle or maybe the secular trends where it seems as if on one side you've got headwinds from some lower cost upstarts - private companies - that are talking about very aggressive pricing inside the datacenter. Maybe that's a headwind.

On the positive side, it sounds like there's a lot of capacity constraints in the industry and very significant unit demand.

So how do you think about the longer term trend for Finisar as well as the industry in terms of gross margin and your ability to get back to the high end of your typical range?

Jerry Rawls: Let's see. Getting back to the high end of our range is a long term goal. But I don't - it's unlikely that we're going to get back to 35% anywhere in the near future.

I guess that could change but that's what I expect right now.

But it's nice that our gross margins were better this quarter. It's nice that they're going to be even better next quarter. I think that's a very positive trend.

The whole thing about - there is increased competition particularly in the Web 2.0 space. But the demand is so strong that there isn't enough productive capacity. A lot of the demand - or excuse me - a lot of the competition comes from smaller companies who don't have a lot of production capacity who are forward pricing in order to gain market share. And then they got the challenge of can they deliver?

So, how the equilibrium is going to be reached - probably isn't clear yet. I just know that we run the biggest factories and optics in the world. We are a dependable supplier. And all of these equipment companies and all of these Web 2.0 companies know they can count on us. That we can produce the parts.

So and the orders keep flowing, so.

Simon Leopold: So maybe set the bar just a little bit lower. Do you see it as reasonable to model a trajectory over, let's say, the next two fiscal years of achieving the midpoint of your historic range?

Jerry Rawls: We don't give any guidance beyond our net quarter. And, is that - I mean is it possible? Sure it's possible. But we're not necessarily predicting that today.

Kurt Adzema: Yes, there's a lot of factors as we've talked about in the past that go on the gross margin. And trying to predict that two years out is a challenge.

Simon Leopold: I realize that and appreciate it. Just wanted to get your perspective. Certainly appreciate you taking my questions. Thank you.

Operator: And our next question comes from James Kisner with Jefferies.

James Kisner: Thank you. I just want to clarify quickly again on the comment that you think WSS will recover in the coming quarter or grow in the coming quarter. Where do you expect the bulk of that growth to come? Is that in North American vendors assuming you do get qualified in North America when you say that.

Or is that driven by China? Just any kind of or the Chinese vendors to other regions. Just what's driving that comment?

Jerry Rawls: Our WSS sales are worldwide. And it is true that demand from China has been strong. But it's also true that demand from North America and even Europe has been strong.

We expect that there will be a - our business is strong. And remember, we're not qualified in the line cards that we're trying to get qualified in for chip board for Verizon.

So when that happens that's going to be an extra spurt in this WSS business. I think I'm very optimistic about our wave length selective switch business and the outlook there for quite some time.

James Kisner: To qualify - to clarify I mean so what you're saying is your guidance already senses to be up sequentially does not rely on the qualification that ((inaudible))?

Kurt Adzema: The primary driver of the growth of that business is for WSS on a standalone basis.

James Kisner: Okay, that's helpful. So I know you don't answer a lot of these questions about revenue breakouts but I'll try this anyway. I mean QSFP28, universal CFP and CFP2. Just curious if you could provide some update on the mix there. And maybe a revenue number for QSFP28 that would be great. Thanks.

Kurt Adzema: Yes, so I think we talked last quarter that, you know, QSFP28 was about $2.5 million. It more than doubled this quarter. And we'd expect it to more than double again next quarter.

In terms of overall 100 gigabit Datacom it's about 25% now of Datacom revenue. And that includes, you know, CFP, CFP2, CFP4, as well as QSFP28. Next is 40 gig Datacom which is about 22% of Datacom. And 10 gig is also a little bit less now than 40 gig last quarter. But, you know, 21% of Datacom.

James Kisner: Well, that's a lot of detail I appreciate that. Just one quick though. On CFP2 versus CFP - which ones is bigger.

Kurt Adzema: I think CFP is still bigger than CFP2.

James Kisner: All right. Thank you very much.

Operator: If you'd like to ask a question, please press star, 1 on your telephone key pad. Again, that's star, 1 to ask a question.

We'll take our next question from Doug Clark with Goldman Sachs.

Doug Clark: Great. Thanks for taking my question. My first one's a follow-on to the ROADM discussion. Kind of pulling it all together.

I understand you're building out additional capacity right now for the demand and that's kind of before the Verizon opportunity. Given the fact that you're still capacity constrained at these levels - will you have capacity online in time for when those project deployments theoretically begin? Or will you have to continue adding from here? And might capacity continue to be a limiting factor?

Jerry Rawls: Not clear. If whether we have capacity available for incremental business depends on how the rest of the world demand for wave length selective switches goes.

And the world's demand for ROADMs right now is pretty strong. I mean in any developed country of the world - whatever continent they're on - if they're building a new telephone network or adding to an existing one - it includes ROADMs and it typically includes 100 gig coherent transmission.

So I'm - I guess maybe my answer is I sure hope we have the capacity but I'm - to serve all of our customers but I'm not certain. It depends on the growth and demand.

Doug Clark: Okay. And then more broadly on the Telecom side - I mean, investors and we would agree that we're entering kind of this multiyear cycle. And yet revenues in the quarter on the Telecom business came in at the second lowest level that they've been since you started breaking it out.

Is there something that needs to change in terms of industry structure or pricing dynamics to get that business back to kind of prior peak levels or close to the $100 million range?

Kurt Adzema: Well, again, I think that the decline in the quarter, obviously, was partially due to the price decline - the annual price reductions. But it caught us a little bit by surprise on some of this legacy stuff that's going down - that went down I should say.

But we expect that business to pop back. And as I said looking kind of at the midpoint of guidance, the $15 million or so of growth I would expect more than half of that to come from Telecom, so I think that the large decline we saw this quarter we do not think that that's an ongoing trend. I think in terms of Telecom growing and getting back to higher levels. I think that's going to be dependent on two things.

It's going to be dependent on WSS and ROADM line card growth which Jerry just talked about. And then it's going to be also dependent on the success of 100 gig CFP2-ACO. And I think the combination of those two things are probably the biggest potential growth drivers to get that business back to a more attractive level.

Doug Clark: Okay. That's helpful. And then you mentioned - and my final question - is on the 10 gig legacy side. Was that geographically specific or were there any kind of particular end markets or geographies that you'd point to where you saw the weakness?

Kurt Adzema: The 10 gig side?

Doug Clark: Yes, yes.

Kurt Adzema: Well, there was one large customer, again, that I mention that we thought was going to pull multiple millions of dollars before the end of the quarter. And it ended up pulling in the first week, so. That was specific to that customer.

But, I don't think it was more of a customer thing than a geography thing I guess.

Doug Clark: Okay. Well, just out of curiosity, was that a North American customer or an international?

Kurt Adzema: I'm not going to get into that.

Doug Clark: Okay, that's it for me. Thank you.

Operator: Our next question comes from Tim Savageaux with Northland Capital Markets.

Tim Savageaux: Hi, good afternoon guys. Nice quarter.

Wanted to follow-up on some of the dynamics in the quarter in terms of revenues.

Assuming you had pretty good visibility to the impact of pricing declines heading into the quarter. And you did guide Telecom revenues up, heading out of last quarter.

I imagine that wasn't a sort of surprise on the down side. I'm just trying to get at sort of what the X factor was on the Datacom side to kind of bug that hole. It sounds like you were - from my perspective it looks like 100 gig had nice growth as expected. It sounded like 40 gig might've been a surprise to the upside that kind of allowed you to report kind of round in line. Would that be an idea?

Kurt Adzema: Yes. I would say 40 gig Datacom ended up being stronger than expected in the 4th quarter. I also think we were able to make more 100 gig CFP and CFP2 than expected in the quarter. And so we were able to expand capacity a little bit more there. And we knew that demand was there. So I would say it was a combination of stronger demand in 40 gig Datacom. And our ability to make a couple of more CFP and CFP2 100 gig Datacom modules than we had originally expected.

Tim Savageaux: Right. And then - just to follow-up kind of digging into that 100 gig. I would've imagined that that was the source of the upside given the QSFP28 ramp is, again, sort of in line with what I might've expected - and what you probably expected.

And that occurs in light of at least some commentary around chip availability - chip side availability may be constraining some of your peers or competitor's ability to ramp QSFP28. It doesn't sound like you're seeing that but I wonder if you could offer a comment on any constraints outside of Finisar that might be weighing on your ability to ramp QSFP28.

Jerry Rawls: I'm not aware of any constraints there for us. We're quite vertically integrated on the QSFP28 products.

Tim Savageaux: Okay. I'll pass it on. Thanks very much.

Operator: Our next question comes from Richard Shannon with Craig Hallum.

Richard Shannon: Well, hi, guys. Thank you for taking my questions. My first one will be on 100 gig CFP. How would you characterize the geographic demand for that here? And would you characterize your past quarter as one showing some straw gains for you relative to competition?

Jerry Rawls: It's hard to tell in the short run what our share is and how it's shifting. I mean we sort of see the data from the analysts like light counting that comes out sort of I don't know six months late that says here's how it was the last half of last year.

So I'm not sure whether we're really gaining share or not. But I will tell you that the 100 gig deployment in the world is strong. A hundred gig coherent business in the world is strong. And the 100 gig CFP usually goes on the client side of those routers that have 100 gig output.

So there's a lot of 100 gig everywhere. So it's - and did we - did we gain share on a worldwide basis during that period? Honestly, I would be speculating. I can - for sure I can point to a couple of customers where I think we gained share, but.

Richard Shannon: Okay. That's fair enough. Appreciate the detail there, Jerry. Question on 100 gig kits that would 28. Based on the response from the last question talking about, you know, roughly $5 million or so in the last quarter. And you expect it to double to roughly $10 million.

Kurt Adzema: It would more than double.

Richard Shannon: More than double. I'll use $10 million as a proxy, hopefully you don't mind that. Just thinking about that number, obviously, nice growth and a meaningful number for you. But based on the scale that's expected the industry's still a longs way away from where you possibly could go.

Do you see RFPs and RFQs out there from customers that are shorter term in nature? Or do you see some ones out there that are possibly getting to some very large numbers over a multi-quarter period of time?

Jerry Rawls: We have some pretty big orders that we're trying to fill. But we have very big forecasts from lots of customers about what their needs are going to be. And we have a lot of incoming phone calls about people concerned about their delivery. So they're anxious. So we're building capacity. We're building more parts. And our expectations for growth in that - in the QSFP28 product line is we're very optimistic there.

Richard Shannon: Okay. And to follow-up on that topic, Jerry, what do you - how do you view your pricing in that space relative to what some of the more price aggressive ones have been talking about. There's a lot of speculation going around OFC a few months ago.

How would you characterize where you're at? And, where could this go in a year? I think kind of the boogie that some people are talking about is getting down to $500.00, somewhere between where PSM4 and CWM4 might be. Where would you speculate the timeframe to reach those kinds of levels?

Jerry Rawls: I don't know. I think there's a lot of - there's been a lot of speculation and a lot of talk that was either overly ambitious by somebody. But generally I think as I mentioned earlier the advantage that we have is big capacity.

And the ability to supply and the ability to increase our capacity - to ramp production. And it's not - we don't generally have the lowest prices in the industry. And I doubt that we ever will have.

We like to think we make the best products in industry. And we're the most reliable supplier. So I think for a long time the demand is going to be stronger than the world's capacity for these products.

And some of the components that go on these products are going to be in short supply as well. So we feel like we're in pretty good shape since we make - we make all the lasers that go in our CFP28s - the integrated circuits in there are of our design and from our foundry runs.

So we're - I think we're in good shape.

Richard Shannon: Okay. Great, Jerry. Appreciate all those perspectives as well. And that's all the questions for me. Thank you.

Operator: Our next question comes from Dave Kang with B Reilly.

Dave Kang: Thank you, good afternoon. First question is I don't know whether you talked about this but regarding the price - the Telecom price negotiations - was it worse than expected?

Kurt Adzema: Well, again, we've talked about how it was at the high end of the 10 to 15% range. But, we said that in the last - in the December conference call, so. It wasn't - it didn't end up being worse in this quarter than what we had said back then.

Dave Kang: Got it. And then you gave the Datacom mix of 100, 40 and 10 that's about roughly 70% or so. So what's the remaining 30%. Is that wireless CPRIs and...

Kurt Adzema: No, about 20% is fiber channel and then the rest is everything else.

Dave Kang: Got it. All right. And I think you said that CAPEX will be $30 million for this current quarter. What was CAPEX for the fiscal 4th Quarter?

Kurt Adzema: Fiscal 4th Quarter was about $20 million and that was less than expected. So we had some delays in some of the final CAPEX associated with our Wuxi building as well as some delays in some of the CAPEX associated with the expansion of capacity for wave length selective switches.

And so it was a little bit lower than expected. But we think for this quarter it will be about $30 million.

Dave Kang: All right. And my last question is so what's the mix - regarding your Telecom mix - what's the mix between 10 gig versus 100 gig?

Kurt Adzema: For Telecom I think, 100 gig is still a pretty small piece of that. As Jerry mentioned, for CFP2-ACO, right, we're only shipping a small amount of units.

So between that and,100 gig is so small amount for us.

Dave Kang: Right. I mean would you classify, you know, ROADM as a 100 gig product or is it a separate...

Kurt Adzema: I wouldn't classify it as any gig. That's a different category of product.

Dave Kang: Got it. All right, thank you.

Operator: And there are no further questions at this time. I would like to turn the conference back over to today's presenters for additional or closing remarks.

Jerry Rawls: Thank you, (Rachel), and thank you everyone for tuning into our 4th Quarter conference call today. We hope you'll be able to join us again in three months. Have a good day.

Operator: This concludes today's conference. You may now disconnect.

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