



December 5, 2013

## Finisar Announces Fifth Consecutive Quarter of Revenue Growth

SUNNYVALE, CA -- (Marketwired) -- 12/05/13 -- Finisar Corporation (NASDAQ: FNSR), a global technology leader for subsystems and components for fiber optic communications, today announced financial results for its second fiscal quarter ended October 27, 2013.

### COMMENTARY

"I am pleased to report second quarter revenues were \$290.7 million, a new all-time record for Finisar. Revenues increased by \$24.7 million, or 9.3%, over the first quarter and \$58.7 million, or 25.3%, over the second quarter of the prior year. Revenues grew for the fifth consecutive quarter. This quarter's revenue growth came from both datacom and telecom products," said Jerry Rawls, Finisar's executive Chairman of the Board.

"During the quarter, we continued to make significant strides in new product development that we believe will drive future revenue growth. For example, we demonstrated our new 100Gbps CFP4 Ethernet transceiver for short reach datacom applications. This transceiver provides 75% greater face plate density and 80% less power consumption than our original CFP," said Eitan Gertel, Finisar's Chief Executive Officer.

### FINANCIAL HIGHLIGHTS - SECOND QUARTER ENDED October 27, 2013

#### Summary GAAP Results

	<b>Second Quarter Ended October 27, 2013</b>		<b>First Quarter Ended July 28, 2013</b>	
	<i>(in thousands, except per share amounts)</i>			
Revenues	\$	290,722	\$	266,068
Gross margin		35.6 %		34.3 %
Operating expenses	\$	73,264	\$	64,270
Operating income	\$	30,109	\$	27,103
Operating margin		10.4 %		10.2 %
Net income	\$	29,965	\$	26,011
Income per share-basic	\$	0.31	\$	0.27
Income per share-diluted	\$	0.29	\$	0.26
Basic shares		95,941		94,609
Diluted shares		103,696		101,125

#### Summary Non-GAAP Results (a)

	<b>Second Quarter Ended October 27, 2013</b>		<b>First Quarter Ended July 28, 2013</b>	
	<i>(in thousands, except per share amounts)</i>			
Revenues	\$	290,722	\$	266,068
Gross margin		37.1 %		35.1 %
Operating expenses	\$	63,159	\$	60,903
Operating income	\$	44,767	\$	32,397
Operating margin		15.4 %		12.2 %
Net income	\$	43,767	\$	31,269
Income per share-basic	\$	0.46	\$	0.33
Income per share-diluted	\$	0.43	\$	0.31
Basic shares		95,941		94,609
Diluted shares		103,696		101,125

- (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 second quarter of fiscal 2014:**

- Revenues increased to \$290.7 million, up \$24.7 million, or 9.3%, from \$266.1 million in the preceding quarter.
- The sale of products for datacom applications increased by \$ 19.8 million, or 10.7%, over the preceding quarter, and the sale of products for telecom applications increased by \$4.8 million, or 5.9%, over the preceding quarter
- GAAP gross margin increased to 35.6% from 34.3% in the preceding quarter, primarily as the result of a favorable product mix.
- Non-GAAP gross margin increased to 37.1% from 35.1% in the preceding quarter.
- GAAP operating income increased \$3.0 million to \$30.1 million, or 10.4% of revenues, compared to \$27.1 million, or 10.2%, of revenues in the preceding quarter.
- Non-GAAP operating income increased \$12.4 million to \$44.8 million, or 15.4% of revenues, compared to \$32.4 million, or 12.2% of revenues, in the preceding quarter.
- Cash and cash equivalents increased \$28.1 million to \$316.5 million at the end of the second quarter, compared to \$288.4 million at the end of the preceding quarter.

**OUTLOOK**

The Company indicated that it currently expects revenues for the third quarter of fiscal 2014 to be in the range of \$290 to \$305 million; GAAP operating margin to be approximately 11.5%; non-GAAP operating margin to be approximately 15.5% and non-GAAP earnings per diluted share to be in the range of approximately \$0.43 to \$0.47.

**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 5, 2013, 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 1-877-719-9795 (domestic) or +1-719-325-4786 (international) and enter conference ID 5981213.

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 5981213 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**

The statements contained in this press release that are not purely historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All forward-looking statements included in this press release are based upon information available to Finisar as of the date hereof, and 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 24, 2013) 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](http://www.finisar.com).

**FINISAR FINANCIAL STATEMENTS**

The following financial tables are presented in accordance with GAAP.

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

	<i>Three Months Ended</i>		<i>Six Months Ended</i>		<i>Three Months Ended</i>
	<i>October 27, 2013</i>	<i>October 28, 2012</i>	<i>October 27, 2013</i>	<i>October 28, 2012</i>	<i>July 28, 2013</i>
	<i>(Unaudited)</i>		<i>(Unaudited)</i>		
Revenues	\$ 290,722	\$ 232,041	\$ 556,790	\$ 452,567	\$ 266,068
Cost of revenues	186,168	166,167	359,270	327,624	173,102
Amortization of acquired developed technology	1,181	2,000	2,774	3,272	1,593
Gross profit	103,373	63,874	194,746	121,671	91,373
Gross margin	35.6 %	27.5 %	35.0 %	26.9 %	34.3 %
Operating expenses:					
Research and development	44,959	39,620	88,489	77,789	43,530
Sales and marketing	12,322	10,219	24,127	20,893	11,805
General and administrative	15,388	12,919	23,728	26,261	8,340
Amortization of purchased intangibles	595	1,062	1,190	1,871	595
Total operating expenses	73,264	63,820	137,534	126,814	64,270
Income (loss) from operations	30,109	54	57,212	(5,143)	27,103
Interest income	282	162	499	358	217
Interest expense	(367)	(750)	(919)	(1,397)	(552)
Other income (expenses), net	495	(101)	983	(20)	488
Income (loss) before income taxes and non-controlling interest	30,519	(635)	57,775	(6,202)	27,256
Provision (benefits) for income taxes	568	(1,062)	1,989	(420)	1,421
Income (loss) before non-controlling interest	29,951	427	55,786	(5,782)	25,835
Adjust for net (income) loss attributable to non-controlling interest	14	(156)	190	(144)	176
Net income (loss) attributable to Finisar Corporation	<u>\$ 29,965</u>	<u>\$ 271</u>	<u>\$ 55,976</u>	<u>\$ (5,926)</u>	<u>\$ 26,011</u>
Net income (loss) per share attributable to Finisar Corporation common stockholders:					
Basic	\$ 0.31	\$ 0.00	\$ 0.59	\$ (0.06)	\$ 0.27
Diluted	\$ 0.29	\$ 0.00	\$ 0.56	\$ (0.06)	\$ 0.26
Shares used in computing net income (loss) per share - basic	95,941	92,780	95,275	92,386	94,609
Shares used in computing net income (loss) per share - diluted	103,696	94,735	102,771	92,386	101,125

**Finisar Corporation**  
**Consolidated Balance Sheets**  
*(in thousands)*

<i>October 27, 2013</i>	<i>July 28, 2013</i>	<i>April 28, 2013</i>
<i>(Unaudited)</i>	<i>(Unaudited)</i>	

## ASSETS

### Current assets:

Cash and cash equivalents	\$ 316,488	\$ 288,433	\$ 289,076
Accounts receivable, net	186,486	171,823	149,612
Accounts receivable, other	25,890	34,386	16,538
Inventories	231,235	207,029	200,670
Prepaid expenses	20,902	19,533	18,402
Total current assets	781,001	721,204	674,298
Property, equipment and improvements, net	231,022	213,044	201,442
Purchased intangible assets, net	23,587	25,416	30,457
Goodwill	90,986	90,986	90,986
Minority investments	1,841	1,711	884
Other assets	16,946	12,954	9,780
Total assets	\$ 1,145,383	\$ 1,065,315	\$ 1,007,847

## LIABILITIES AND STOCKHOLDERS' EQUITY

### Current liabilities:

Accounts payable	\$ 98,220	\$ 90,488	\$ 77,630
Accrued compensation	48,182	32,001	31,492
Other accrued liabilities	32,943	31,542	23,533
Deferred revenue	14,235	12,582	9,182
Short term debt	4,700	-	-
Current portion of convertible notes	40,015	-	-
Total current liabilities	238,295	166,613	141,837

### Long-term liabilities:

Convertible notes, net of current portion	-	40,015	40,015
Other non-current liabilities	12,756	12,908	13,480
Total liabilities	251,051	219,536	195,332

### Stockholders' equity:

Common stock	96	96	94
Additional paid-in capital	2,377,198	2,363,514	2,350,146
Accumulated other comprehensive income	27,315	22,397	28,525
Accumulated deficit	(1,515,984)	(1,545,949)	(1,571,960)
Finisar Corporation stockholders' equity	888,625	840,058	806,805
Non-controlling interest	5,707	5,721	5,710
Total stockholders' equity	894,332	845,779	812,515
Total liabilities and stockholders' equity	\$ 1,145,383	\$ 1,065,315	\$ 1,007,847

Note - Balance sheet amounts as of April 28, 2013 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 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:

- 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);
- Stock-based compensation expense (non-cash charges);
- Acquisition method accounting adjustment for sale of acquired inventory (non-cash charges);
- Reduction in force costs (non-recurring cash charges); and
- Acquisition related retention payments (non-recurring 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:

- Gain or loss on litigation settlements and resolutions and related costs (non-recurring cash charges or benefits);
- Shareholder class action and derivative litigation costs (non-recurring cash expenses 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:

- Gains and losses on sales of assets (non-recurring or non-cash losses and cash 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);
- Debt extinguishment loss (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.

In calculating non-GAAP income per share in this release, we have included the shares issuable upon conversion of our outstanding convertible notes and excluded the interest expenses associated with such notes in such periods where such treatment is dilutive to non-GAAP income (loss) per share.

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 Months Ended</u>
	<u>October 27, 2013</u>	<u>October 28, 2012</u>	<u>October 27, 2013</u>	<u>October 28, 2012</u>	<u>July 28, 2013</u>
<b>GAAP to non-GAAP reconciliation of gross profit:</b>					
Gross profit - GAAP	\$ 103,373	\$ 63,874	\$ 194,746	\$ 121,671	\$ 91,373
Gross margin - GAAP	35.6 %	27.5 %	35.0 %	26.9 %	34.3 %
Adjustments:					
Cost of revenues					
Change in excess and obsolete inventory reserve	1,199	2,003	(329)	6,869	(1,528)
Amortization of acquired technology	1,181	2,000	2,774	3,272	1,593
Stock compensation	2,056	1,876	3,833	3,362	1,777

Acquisition method accounting adjustment for sale of acquired inventory	-	722	-	1,363	-
Reduction in force costs	47	136	70	784	23
Acquisition related retention payment	70	73	132	73	62
Total cost of revenue adjustments	4,553	6,810	6,480	15,723	1,927
Gross profit - non-GAAP	107,926	70,684	201,226	137,394	93,300
Gross margin - non-GAAP	37.1 %	30.5 %	36.1 %	30.4 %	35.1 %

**GAAP to non-GAAP reconciliation of operating income:**

Operating income (loss) - GAAP	30,109	54	57,212	(5,143 )	27,103
Operating margin - GAAP	10.4 %	0.0 %	10.3 %	-1.1 %	10.2 %
Adjustments:					
Total cost of revenue adjustments	4,553	6,810	6,480	15,723	1,927
Research and development					
Reduction in force costs	16	-	28	177	12
Acquisition related retention payment	190	222	381	222	191
Stock compensation	4,069	3,353	7,594	6,339	3,525
Sales and marketing					
Acquisition related retention payment	17	20	34	20	17
Stock compensation	1,382	1,002	2,566	2,079	1,184
General and administrative					
Reduction in force costs	173	54	240	69	67
Acquisition related retention payment	830	253	1,047	253	217
Stock compensation	2,663	2,956	5,086	5,785	2,423
Acquisition related costs	124	96	349	421	225
Litigation settlements and resolutions and related costs	-	(10 )	5	13	5
Shareholder class action and derivative litigation costs	46	(34 )	(5,048 )	9	(5,094 )
Amortization of purchased intangibles	595	1,062	1,190	1,871	595
Total cost of revenue and operating expense adjustments	14,658	15,784	19,952	32,981	5,294
Operating income - non-GAAP	44,767	15,838	77,164	27,838	32,397
Operating margin - non-GAAP	15.4 %	6.8 %	13.9 %	6.2 %	12.2 %

**GAAP to non-GAAP reconciliation of income attributable to Finisar Corporation:**

Net income (loss) attributable to Finisar Corporation - GAAP	29,965	271	55,976	(5,926 )	26,011
Adjustments:					
Total cost of revenue and operating expense adjustments	14,658	15,784	19,952	32,981	5,294
Imputed interest related to restructuring	56	164	113	226	57
Other (income) expense, net					
Gain on sale of assets	5	(170 )	(105 )	(189 )	(110 )

Gain related to minority investments	-	-	(743)	-	(743)
Other miscellaneous income	(2)	-	(2)	(160)	-
Foreign exchange transaction (gain) or loss	(208)	(607)	359	(611)	567
Debt extinguishment loss	-	573	-	573	-
Provision for income taxes					
Income tax provision adjustments	(832)	(1,810)	(706)	(1,818)	126
Non-controlling interest non-GAAP adjustment	<u>125</u>	<u>-</u>	<u>192</u>	<u>-</u>	<u>67</u>
Total adjustments	<u>13,802</u>	<u>13,934</u>	<u>19,060</u>	<u>31,002</u>	<u>5,258</u>
Net income attributable to Finisar Corporation - non-GAAP	<u>\$ 43,767</u>	<u>\$ 14,205</u>	<u>\$ 75,036</u>	<u>\$ 25,076</u>	<u>\$ 31,269</u>
Non-GAAP income attributable to Finisar Corporation	\$ 43,767	\$ 14,205	\$ 75,036	\$ 25,076	\$ 31,269
Add: interest expense for dilutive convertible notes	<u>539</u>	<u>539</u>	<u>1,078</u>	<u>-</u>	<u>539</u>
Adjusted non-GAAP income attributable to Finisar Corporation	<u>\$ 44,306</u>	<u>\$ 14,744</u>	<u>\$ 76,114</u>	<u>\$ 25,076</u>	<u>\$ 31,808</u>
Non-GAAP income per share attributable to Finisar Corporation common stockholders					
Basic	\$ 0.46	\$ 0.15	\$ 0.79	\$ 0.27	\$ 0.33
Diluted	\$ 0.43	\$ 0.15	\$ 0.74	\$ 0.26	\$ 0.31
Shares used in computing non-GAAP income per share attributable to Finisar Corporation common stockholders					
Basic	95,941	92,780	95,275	92,386	94,609
Diluted	103,696	98,483	102,771	94,780	101,125
<b>Non-GAAP EBITDA</b>					
Non-GAAP income attributable to Finisar Corporation	\$ 43,767	\$ 14,205	\$ 75,036	\$ 25,076	\$ 31,269
Depreciation expense	14,621	13,106	28,548	25,817	13,927
Amortization	94	237	188	473	94
Interest expense	29	424	307	813	278
Income tax expense	<u>1,400</u>	<u>748</u>	<u>2,695</u>	<u>1,398</u>	<u>1,295</u>
Non-GAAP EBITDA	<u>\$ 59,911</u>	<u>\$ 28,720</u>	<u>\$ 106,774</u>	<u>\$ 53,577</u>	<u>\$ 46,863</u>

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