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Finisar Announces Second Fiscal Quarter 2016 Financial Results

SUNNYVALE, CA -- (Marketwired) -- 12/10/15 --

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 2016, ended November 1, 2015.

COMMENTARY

"Revenues for our second fiscal quarter were \$321.1 million compared to \$314.0 million in the prior quarter; an increase of approximately 2.3%. This increase was primarily driven by growth in 100 gigabit Ethernet transceivers and 10 gigabit tunable transceivers and wavelength selective switches for telecom WDM applications," said Jerry Rawls, Finisar's Chief Executive Officer.

FINANCIAL HIGHLIGHTS - Second Quarter Ended November 1, 2015 Summary GAAP Results

	Second Quarter Ended November 1, 2015	First Quarter Ended August 2, 2015
	<i>(in thousands, except per share amounts)</i>	
Revenues	\$ 321,136	\$ 314,030
Gross margin	27.7%	27.8%
Operating expenses	\$ 79,723	\$ 80,316
Operating income (loss)	\$ 9,368	\$ 7,061
Operating margin	2.9%	2.2%
Net income (loss)	\$ 6,644	\$ 3,393
Income per share-basic	\$ 0.06	\$ 0.03
Income per share-diluted	\$ 0.06	\$ 0.03
Basic shares	106,635	105,286
Diluted shares	107,493	108,107

Summary Non-GAAP Results (a)

	Second Quarter Ended November 1, 2015	First Quarter Ended August 2, 2015
	<i>(in thousands, except per share amounts)</i>	
Revenues	\$ 321,136	\$ 314,030

Gross margin		30.0%		30.2%
Operating expenses	\$	68,025	\$	68,406
Operating income	\$	28,274	\$	26,511
Operating margin		8.8%		8.4%
Net income	\$	26,857	\$	24,532
Income per share-basic	\$	0.25	\$	0.23
Income per share-diluted	\$	0.25	\$	0.23
Basic shares		106,635		105,286
Diluted shares		107,493		108,107

(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 2016:

- Revenues increased to \$321.1 million, an increase of \$7.1 million, or 2.3%, from \$314.0 million in the preceding quarter.
- Sales of products for datacom applications increased by \$0.5 million, or 0.2%, compared to the preceding quarter, primarily driven by growth in 100 gigabit transceivers offset by a decline in 40 gigabit transceivers, after a record quarter for 40 gigabit transceivers in the preceding quarter.
- Sales of products for telecom applications increased by \$6.6 million, or 8.2%, compared to the preceding quarter, primarily driven by growth in 10 gigabit tunable transceivers and wavelength selective switches.
- GAAP gross margin was 27.7% compared to 27.8% in the preceding quarter.
- Non-GAAP gross margin was 30.0% compared to 30.2% in the prior quarter.
- GAAP operating expenses were \$79.7 million compared to \$80.3 million in the prior quarter.
- Non-GAAP operating expenses were \$68.0 million, or 21.2% of revenues compared to \$68.4 million, or 21.8% of revenues, in the prior quarter.
- GAAP operating income increased by \$2.3 million, to \$9.4 million or 2.9% of revenues, compared to \$7.1 million or 2.2% of revenues in the preceding quarter, primarily due to the higher revenue level.
- Non-GAAP operating income increased by \$1.8 million to \$28.2 million, or 8.8% of revenues, compared to \$26.5 million, or 8.4% of revenues, in the preceding quarter.
- Cash, cash equivalents and short term investments increased \$25.1 million to \$520.8 million at the end of the second quarter, compared to \$495.7 million at the end of the preceding quarter.

OUTLOOK

The Company indicated that for the third quarter of fiscal 2016 it currently expects revenues in the range of \$300 to \$320 million, non-GAAP gross margin of approximately 30%, non-GAAP operating margin of approximately 7.5% to 8.5%, and non-GAAP earnings per diluted share in the range of approximately \$0.19 to \$0.25.

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 10, 2015, at 2:00 pm PT (5:00 pm ET). To listen to the call you may connect through the Finisar investor relations page at <http://investor.finisar.com/> or dial 800-500-0177 (domestic) or +1.719.457.2602 (international) and enter conference ID 1806814.

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 1806814 and provide your name, affiliation, and contact number. A replay of the webcast will be available shortly after the conclusion of the call on the Company's website until the next regularly scheduled earnings conference call.

SAFE HARBOR UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This press release contains forward-looking statement concerning Finisar's expected financial performance. These statements are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on our current expectations, estimates, assumptions and projections about our business and industry, and the markets and customers we serve, and they are subject to numerous risks and uncertainties that may cause these forward-looking statements to be inaccurate. Finisar assumes no obligation to update any such forward-looking statements. Forward-looking statements involve risks and uncertainties which could cause actual results to differ materially from those projected. Examples of such risks include those associated with: the uncertainty of customer demand for Finisar's products; the rapidly evolving markets for Finisar's products and uncertainty regarding the development of these markets; Finisar's historical dependence on sales to a limited number of customers and fluctuations in the mix of products and customers in any period; ongoing new product development and introduction of new and enhanced products; the challenges of rapid growth followed by periods of contraction; 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 19, 2015) and quarterly SEC filings.

ABOUT FINISAR

Finisar Corporation (NASDAQ: FNSR) is a global technology leader for fiber optic subsystems and components that enable high-speed voice, video and data

communications for telecommunications, networking, storage, wireless, and cable TV applications. For 25 years, Finisar has provided critical optics technologies to system manufacturers to meet the increasing demands for network bandwidth. Finisar is headquartered in Sunnyvale, California, USA with R&D, manufacturing sites, and sales offices worldwide. For additional information, visit www.finisar.com.

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

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>		<u>Three Months Ended</u>
	<u>Nov 01, 2015</u>	<u>October 26, 2014</u>	<u>Nov 01, 2015</u>	<u>October 26, 2014</u>	<u>Aug 02, 2015</u>
Revenues	\$321,136	\$296,981	\$ 635,166	\$624,619	\$314,030
Cost of revenues	230,610	210,625	454,757	438,010	224,147
Impairment of long-lived assets	-	-	1,071	-	1,071
Amortization of acquired developed technology	1,435	1,435	2,870	2,869	1,435
Gross profit	89,091	84,921	176,468	183,740	87,377
Gross margin	27.7%	28.6%	27.8%	29.4%	27.8%
Operating expenses:					
Research and development	50,972	51,184	103,380	102,190	52,408
Sales and marketing	11,897	11,487	23,099	23,452	11,202
General and administrative	16,186	28,772	31,394	43,491	15,208
Impairment of long-lived assets	-	-	830	-	830
Amortization of purchased intangibles	668	737	1,336	1,498	668
Total operating expenses	79,723	92,180	160,039	170,631	80,316
Income (loss) from operations	9,368	(7,259)	16,429	13,109	7,061
Interest income	469	342	834	954	365
Interest expense	(2,917)	(2,867)	(5,800)	(6,001)	(2,883)
Other income (expenses), net	445	33	1,326	(1,993)	881
Income (loss) before income taxes	7,365	(9,751)	12,789	6,069	5,424

Provision for income taxes	721	1,610	2,752	3,187	2,031
Net income (loss)	<u>\$ 6,644</u>	<u>\$ (11,361)</u>	<u>\$ 10,037</u>	<u>\$ 2,882</u>	<u>\$ 3,393</u>
Net income (loss) per share attributable to Finisar Corporation common stockholders:					
Basic	\$ 0.06	\$ (0.11)	\$ 0.09	\$ 0.03	\$ 0.03
Diluted	\$ 0.06	\$ (0.11)	\$ 0.09	\$ 0.03	\$ 0.03
Shares used in computing net income per share - basic	106,635	99,621	105,961	98,931	105,286
Shares used in computing net income per share - diluted	107,493	99,621	108,238	102,390	108,107

Finisar Corporation
Consolidated Balance Sheets
(in thousands)

	Nov 01, 2015	Aug 02, 2015	May 03, 2015
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u></u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 258,270	\$ 232,997	\$ 197,443
Short-term held-to-maturity investments	262,500	262,695	292,748
Accounts receivable, net	230,065	234,798	213,234
Accounts receivable, other	39,982	40,807	40,650
Inventories	264,706	282,093	283,670
Prepaid expenses and other assets	20,538	22,649	36,518
Total current assets	<u>1,076,061</u>	<u>1,076,039</u>	<u>1,064,263</u>
Property, equipment and improvements, net	344,695	322,043	315,777
Purchased intangible assets, net	22,983	25,086	27,188
Goodwill	106,735	106,735	106,735
Minority investments	3,647	2,997	2,847
Other assets	23,133	34,960	35,072
Total assets	<u>\$ 1,577,254</u>	<u>\$ 1,567,860</u>	<u>\$ 1,551,882</u>

**LIABILITIES AND
STOCKHOLDERS' EQUITY**

Current liabilities:			
Accounts payable	\$ 133,220	\$ 139,600	\$ 131,510
Accrued compensation	31,680	26,392	24,918
Other accrued liabilities	43,301	39,753	39,238
Deferred revenue	12,438	11,480	9,850
Total current liabilities	<u>220,639</u>	<u>217,225</u>	<u>205,516</u>
Long-term liabilities:			

Convertible notes, net of current portion	226,151	223,760	221,406
Other non-current liabilities	23,195	21,545	21,167
Total liabilities	<u>469,985</u>	<u>462,530</u>	<u>448,089</u>
Stockholders' equity:			
Common stock	107	107	104
Additional paid-in capital	2,577,246	2,564,506	2,551,114
Accumulated other comprehensive income (loss)	(31,835)	(14,390)	861
Accumulated deficit	<u>(1,438,249)</u>	<u>(1,444,893)</u>	<u>(1,448,286)</u>
Total stockholders' equity	<u>1,107,269</u>	<u>1,105,330</u>	<u>1,103,793</u>
Total liabilities and stockholders' equity	<u>\$ 1,577,254</u>	<u>\$ 1,567,860</u>	<u>\$ 1,551,882</u>

Note - Balance sheet amounts as of May 3, 2015 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, non-GAAP income per share, and Non-GAAP EBITDA. These non-GAAP financial measures are supplemental information regarding the Company's operating performance on a non-GAAP basis that excludes certain gains, losses and charges of a non-cash nature or which occur relatively infrequently and which management considers to be outside our core operating results. Management believes that tracking non-GAAP gross profit, non-GAAP income from operations, non-GAAP net income and non-GAAP net income per share provides management and the investment community with valuable insight into our current operations, our ability to generate cash and the underlying business trends which are affecting our performance. These non-GAAP measures are used by both management and our Board of Directors, along with the comparable GAAP information, in evaluating our current performance and planning our future business activities. In particular, management finds it useful to exclude non-cash charges in order to better correlate our operating activities with our ability to generate cash from operations and to exclude certain cash charges as a means of more accurately predicting our liquidity requirements. We believe that these non-GAAP measures, when used in conjunction with our GAAP financial information, also allow investors to better evaluate our financial performance in comparison to other periods and to other companies in our industry.

In calculating non-GAAP gross profit in this release, we have excluded the following items from cost of revenues in applicable periods in this release:

- Changes in excess and obsolete inventory reserve (predominantly non-cash charges or non-cash benefits);

- Amortization of acquired technology (non-cash charges related to technology obtained in acquisitions);
- Duplicate facilities costs during facilities move (non-recurring cash charges)
- Stock-based compensation expense (non-cash charges);
- Impairment of long-lived assets (non-recurring non-cash charges);
- Reduction in force costs (non-recurring cash charges); and
- Acquisition related retention payments (non-recurring cash charges).

In calculating non-GAAP operating income in this release, we have excluded the same items to the extent they are classified as operating expenses, and have also excluded the following items in applicable periods in this release:

- Gain or loss on litigation settlements and resolutions and related costs (non-recurring cash charges or benefits);
- Employee and employer tax liabilities related to the 2006 special investigation into our historical stock option granting practices (non-recurring cash charges);
- Acquisition related costs (non-recurring cash charges);
- Amortization of purchased intangibles (non-cash charges); and
- Impairment of long-lived assets (non-recurring non-cash charges).

In calculating non-GAAP income and non-GAAP income per share in this release, we have also excluded the following items in applicable periods in this release:

- Imputed interest expenses on convertible debt (non-cash charges);
- Imputed interest related to restructuring (non-cash charges);
- Gains and losses on sales of assets (non-recurring and/or non-cash losses and cash gains related to the periodic disposal of assets no longer required for current activities);
- Other miscellaneous expenses (income) (non-recurring charges or benefits);
- Dollar denominated foreign exchange transaction losses (gains) (non-cash charges or benefits);
- Amortization of debt issuance costs (non-cash charges); and
- Differences between cash payable for income taxes and the provision for income taxes in accordance with GAAP, less discrete items.

A reconciliation of this non-GAAP financial information to the corresponding GAAP information is set forth below:

Finisar Corporation
Reconciliation of Results of Operations under GAAP and non-GAAP
(Unaudited, in thousands, except per share data)

Three Months Ended		Six Months Ended		Three Months Ended
Nov 01, 2015	October 26, 2014	Nov 01, 2015	October 26, 2014	Aug 02, 2015

**GAAP to non-GAAP
reconciliation of gross
profit:**

Gross profit - GAAP	\$ 89,091	\$ 84,921	\$176,468	\$183,740	\$ 87,377
Gross margin - GAAP	27.7%	28.6%	27.8%	29.4%	27.8%
Adjustments:					
Cost of revenues					
Change in excess and obsolete inventory valuation adjustments	2,402	2,048	3,832	3,769	1,430
Amortization of acquired technology	1,435	1,435	2,870	2,869	1,435
Duplicate facility costs during facility move	4	766	86	766	82
Stock compensation	2,922	2,588	5,614	4,864	2,692
Impairment of long- lived assets	-	124	1,282	124	1,282
Reduction in force costs	417	319	971	794	554
Acquisition related retention payment	28	89	93	207	65
Total cost of revenue adjustments	<u>7,208</u>	<u>7,369</u>	<u>14,748</u>	<u>13,393</u>	<u>7,540</u>
Gross profit - non-GAAP	<u>96,299</u>	<u>92,290</u>	<u>191,216</u>	<u>197,133</u>	<u>94,917</u>
Gross margin - non- GAAP	30.0%	31.1%	30.1%	31.6%	30.2%

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

Operating income (loss) - GAAP	9,368	(7,259)	16,429	13,109	7,061
Operating margin - GAAP	2.9%	-2.4%	2.6%	2.1%	2.2%
Adjustments:					
Total cost of revenue adjustments	7,208	7,369	14,748	13,393	7,540
Research and development					
Reduction in force costs	-	353	288	685	288
Duplicate facility costs during facility move	49	767	270	767	221
Acquisition related retention payment	67	166	158	359	91
Stock compensation	4,970	4,727	9,808	9,163	4,838
Impairment of long- lived assets	-	-	287	-	287
Sales and marketing					
Reduction in force costs	117	-	180	-	63
Acquisition related retention payment	3	9	13	29	10

Stock compensation	1,718	1,625	3,425	3,154	1,707
General and administrative					
Reduction in force costs	963	59	1,315	54	352
Duplicate facility costs	8	116	17	116	9
Acquisition related retention payment	-	(55)	(5)	(39)	(5)
Stock compensation	2,757	2,617	5,517	5,429	2,760
Payroll taxes related to options investigation	-	17	-	17	-
Acquisition related costs	378	8	396	238	18
Litigation settlements and resolutions and related costs	-	13,728	16	12,416	16
Amortization of purchased intangibles	668	737	1,336	1,498	668
Impairment of long-lived assets	-	-	587	-	587
Total cost of revenue and operating expense adjustments	<u>18,906</u>	<u>32,243</u>	<u>38,356</u>	<u>47,279</u>	<u>19,450</u>
Operating income - non-GAAP	<u>28,274</u>	<u>24,984</u>	<u>54,785</u>	<u>60,388</u>	<u>26,511</u>
Operating margin - non-GAAP	8.8%	8.4%	8.6%	9.7%	8.4%

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

Net income (loss) attributable to Finisar Corporation - GAAP	6,644	(11,361)	10,037	2,882	3,393
Adjustments:					
Total cost of revenue and operating expense adjustments	18,906	32,243	38,356	47,279	19,450
Non-cash imputed interest expenses on convertible debt	2,391	2,279	4,745	4,522	2,354
Imputed interest related to restructuring	44	50	89	101	45
Other (income) expense, net					
Loss (gain) on sale of assets	85	(27)	(100)	211	(185)
Other miscellaneous income	(120)	(10)	(137)	(11)	(17)
Foreign exchange	51	327	(642)	2,318	(693)

transaction (gain) or loss					
Amortization of debt issuance cost	154	154	308	308	154
Provision for income taxes					
Income tax provision adjustments	(1,298)	(190)	(1,267)	(813)	31
Total adjustments	<u>20,213</u>	<u>34,826</u>	<u>41,352</u>	<u>53,915</u>	<u>21,139</u>
Net income attributable to Finisar Corporation - non-GAAP	<u>\$ 26,857</u>	<u>\$ 23,465</u>	<u>\$ 51,389</u>	<u>\$ 56,797</u>	<u>\$ 24,532</u>
Non-GAAP income attributable to Finisar Corporation	\$ 26,857	\$ 23,465	\$ 51,389	\$ 56,797	\$ 24,532
Add: interest expense for dilutive convertible notes	<u>-</u>	<u>533</u>	<u>-</u>	<u>1,072</u>	<u>-</u>
Adjusted non-GAAP income attributable to Finisar Corporation	<u>\$ 26,857</u>	<u>\$ 23,998</u>	<u>\$ 51,389</u>	<u>\$ 57,869</u>	<u>\$ 24,532</u>
Non-GAAP income per share attributable to Finisar Corporation common stockholders					
Basic	\$ 0.25	\$ 0.24	\$ 0.48	\$ 0.57	\$ 0.23
Diluted	\$ 0.25	\$ 0.23	\$ 0.47	\$ 0.55	\$ 0.23
Shares used in computing non-GAAP income per share attributable to Finisar Corporation common stockholders					
Basic	106,635	99,621	105,961	98,931	105,286
Diluted	107,493	105,340	108,238	106,133	108,107
Non-GAAP EBITDA					
Non-GAAP income attributable to Finisar Corporation	26,857	23,465	51,389	56,797	24,532
Depreciation expense	20,989	20,915	42,354	40,563	21,365
Amortization	-	33	-	72	-
Interest expense	(141)	196	(176)	424	(35)
Income tax expense	2,019	1,800	4,019	4,000	2,000
Non-GAAP EBITDA	<u>\$ 49,724</u>	<u>\$ 46,409</u>	<u>\$ 97,586</u>	<u>\$101,856</u>	<u>\$ 47,862</u>

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