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Finisar Announces First Fiscal Quarter 2016 Financial Results

SUNNYVALE, CA -- (Marketwired) -- 09/10/15 --

Finisar Corporation (NASDAQ: FNSR), a global technology leader for subsystems and components for fiber optic communications, today announced financial results for its first quarter of fiscal 2016, ended August 2, 2015.

COMMENTARY

"Revenues for our first fiscal quarter were \$314.0 million compared to \$320.0 million in the prior quarter; however, the prior quarter had the benefit of an additional week. Taking that into consideration, the first fiscal quarter had a higher average weekly revenue relative to the prior quarter," said Jerry Rawls, Finisar's executive Chairman of the Board. "Strength in revenue was primarily driven by 40 gigabit transceivers for datacom applications".

FINANCIAL HIGHLIGHTS - First Quarter Ended August 2, 2015

Summary GAAP Results

	First Quarter Ended August 2, 2015	Fourth Quarter Ended May 3, 2015
	<i>(in thousands, except per share amounts)</i>	
Revenues	\$ 314,030	\$ 320,042
Gross margin	27.8%	27.9%
Operating expenses	\$ 80,316	\$ 78,933
Operating income (loss)	\$ 7,061	\$ 10,284
Operating margin	2.2%	3.2%
Net income (loss)	\$ 3,393	\$ 7,327
Income per share-basic	\$ 0.03	\$ 0.07
Income per share-diluted	\$ 0.03	\$ 0.07
Basic shares	105,286	104,005
Diluted shares	108,107	107,535

Summary Non-GAAP Results (a)

	First Quarter Ended August 2, 2015	Fourth Quarter Ended May 3, 2015
	<i>(in thousands, except per share amounts)</i>	
Revenues	\$ 314,030	\$ 320,042
Gross margin	30.2%	30.3%
Operating expenses	\$ 68,406	\$ 68,167
Operating income	\$ 26,511	\$ 28,831
Operating margin	8.4%	9.0%
Net income	\$ 24,532	\$ 26,873
Income per share-basic	\$ 0.23	\$ 0.26
Income per share-diluted	\$ 0.23	\$ 0.25
Basic shares	105,286	104,005
Diluted shares	108,107	107,535

(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 First Quarter of Fiscal 2016:

- Revenues decreased to \$314.0 million, a decrease of \$6.0 million, or (1.9)%, from \$320.0 million in the preceding quarter, as the result of the impact of one fewer week than the prior quarter.
- Sales of products for datacom applications decreased by \$8.7 million, or (3.6)%, compared to the preceding quarter, primarily as the result of the impact of one fewer week than the prior quarter.
- Sales of products for telecom applications increased by \$2.7 million, or 3.4%, compared to the preceding quarter.
- GAAP gross margin was 27.8% compared to 27.9% in the preceding quarter.
- Non-GAAP gross margin was 30.2% compared to 30.3% in the prior quarter.
- GAAP operating expenses were \$80.3 million compared to \$78.9 million in the prior quarter.
- Non-GAAP operating expenses were \$68.4 million compared to \$68.2 million in the prior quarter.
- GAAP operating income decreased by \$3.2 million, to \$7.1 million or 2.2% of revenues, compared to \$10.3 million or 3.2% of revenues in the preceding quarter, primarily due to the lower revenue level.
- Non-GAAP operating income decreased by \$2.3 million to \$26.5 million, or 8.4% of revenues, compared to \$28.8 million, or 9.0% of revenues, in the preceding quarter.
- Cash, cash equivalents and short term investments increased \$5.5 million to \$495.7 million at the end of the first quarter, compared to \$490.2 million at the end of the preceding quarter.

OUTLOOK

The Company indicated that for the second quarter of fiscal 2016 it currently expects revenues in the range of \$304 to \$324 million, non-GAAP gross margin of approximately 30%, non-GAAP operating margin of approximately 8% to 9%, and non-GAAP earnings per diluted share in the range of approximately \$0.20 to \$0.26.

CONFERENCE CALL

Finisar will discuss its financial results for the first quarter and current business outlook during its regular quarterly conference call scheduled for Thursday, September 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 877-741-4244 (domestic) or +719-325-4849 (international) and enter conference ID 8055566.

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 8055566 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)

	Three Months Ended		
	Aug 02, 2015	July 27, 2014	May 03, 2015
Revenues	\$ 314,030	\$ 327,638	\$ 320,042
Cost of revenues	224,147	227,385	229,390
Impairment of long-lived assets	1,071	-	-
Amortization of acquired developed technology	1,435	1,434	1,435
Gross profit	<u>87,377</u>	<u>98,819</u>	<u>89,217</u>
Gross margin	27.8%	30.2%	27.9%
Operating expenses:			
Research and development	52,408	51,006	51,117
Sales and marketing	11,202	11,965	11,800
General and administrative	15,208	14,719	15,303
Impairment of long-lived assets	830	-	-
Amortization of purchased intangibles	668	761	713
Total operating expenses	<u>80,316</u>	<u>78,451</u>	<u>78,933</u>
Income from operations	7,061	20,368	10,284
Interest income	365	612	536
Interest expense	(2,883)	(3,134)	(3,335)
Other income (expenses), net	881	(2,026)	4,041
Income before income taxes	<u>5,424</u>	<u>15,820</u>	<u>11,526</u>
Provision for income taxes	2,031	1,577	4,199
Net income	<u>\$ 3,393</u>	<u>\$ 14,243</u>	<u>\$ 7,327</u>

Net income per share attributable to Finisar Corporation common stockholders:

Basic	\$ 0.03	\$ 0.14	\$ 0.07
Diluted	\$ 0.03	\$ 0.14	\$ 0.07
Shares used in computing net income per share - basic	105,286	98,241	104,005
Shares used in computing net income per share - diluted	108,107	102,287	107,535

Finisar Corporation
Consolidated Balance Sheets
(in thousands)

	Aug 02, 2015	May 03, 2015
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 232,997	\$ 197,443
Short-term held-to-maturity investments	262,695	292,748
Accounts receivable, net	234,798	213,234
Accounts receivable, other	40,807	40,650
Inventories	282,093	283,670
Prepaid expenses and other assets	22,649	36,518
Total current assets	<u>1,076,039</u>	<u>1,064,263</u>
Property, equipment and improvements, net	322,043	315,777
Purchased intangible assets, net	25,086	27,188
Goodwill	106,735	106,735
Minority investments	2,997	2,847
Other assets	34,960	35,072
Total assets	<u>\$ 1,567,860</u>	<u>\$ 1,551,882</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 139,600	\$ 131,510
Accrued compensation	26,392	24,918
Other accrued liabilities	39,753	39,238
Deferred revenue	11,480	9,850
Total current liabilities	<u>217,225</u>	<u>205,516</u>
Long-term liabilities:		
Convertible notes, net of current portion	223,760	221,406

Other non-current liabilities	21,545	21,167
Total liabilities	<u>462,530</u>	<u>448,089</u>
Stockholders' equity:		
Common stock	107	104
Additional paid-in capital	2,564,506	2,551,114
Accumulated other comprehensive income	(14,390)	861
Accumulated deficit	<u>(1,444,893)</u>	<u>(1,448,286)</u>
Total stockholders' equity	<u>1,105,330</u>	<u>1,103,793</u>
Total liabilities and stockholders' equity	<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 and non-GAAP income per share. 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. 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 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);
- Abandonment of fixed assets (non-recurring non-cash charges);
- Impairment of long-lived assets (non-recurring non-cash charges);
- Acquisition method accounting adjustment for sale of acquired inventory (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);
- Shareholder class action and derivative litigation costs (non-recurring cash charges 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);
- Impairment of acquired R&D reimbursement receivable (non-recurring non-cash charges);
- Amortization of purchased intangibles (non-cash charges);
- Abandonment of fixed assets (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);

- 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);
- Amortization of debt issuance costs (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.

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		
	Aug 02, 2015	July 27, 2014	May 03, 2015
GAAP to non-GAAP reconciliation of gross profit:			
Gross profit - GAAP	\$ 87,377	\$ 98,819	\$ 89,217
Gross margin - GAAP	27.8%	30.2%	27.9%
Adjustments:			
Cost of revenues			
Change in excess and obsolete inventory reserve	1,430	1,721	2,752
Amortization of acquired technology	1,435	1,434	1,435
Duplicate facility costs related to facility move	82	-	4
Stock compensation	2,692	2,276	2,692
Impairment of long-lived assets	1,282	-	420
Reduction in force costs	554	475	406
Acquisition related retention payment	65	118	72
Total cost of revenue adjustments	<u>7,540</u>	<u>6,024</u>	<u>7,781</u>
Gross profit - non-GAAP	<u>94,917</u>	<u>104,843</u>	<u>96,998</u>
Gross margin - non-GAAP	30.2%	32.0%	30.3%
GAAP to non-GAAP reconciliation of operating income:			
Operating income - GAAP	7,061	20,368	10,284
Operating margin - GAAP	2.2%	6.2%	3.2%
Adjustments:			
Total cost of revenue adjustments	7,540	6,024	7,781
Research and development			
Reduction in force costs	288	332	82
Acquisition related retention payment	91	193	104
Stock compensation	4,838	4,436	5,084
Duplicate facility costs related to facility move	221	-	143
Impairment of long-lived assets	287	-	-
Impairment of acquired R&D reimbursement receivable	-	-	87
Sales and marketing			
Reduction in force costs	63	-	-
Acquisition related retention payment	10	20	12
Stock compensation	1,707	1,529	1,749
General and administrative			
Reduction in force costs	352	(5)	-
Duplicate facility costs related to facility move	9	-	-
Acquisition related retention payment	(5)	16	8
Stock compensation	2,760	2,812	2,894
Acquisition related costs	18	230	18
Litigation settlements and resolutions and related costs (benefits)	16	(1,312)	(6)
Shareholder class action and derivative litigation costs (benefits)	-	-	(121)
Amortization of purchased intangibles	668	761	713
Impairment of long-lived assets	587	-	(1)
Total cost of revenue and operating expense adjustments	<u>19,450</u>	<u>15,036</u>	<u>18,547</u>
Operating income - non-GAAP	<u>26,511</u>	<u>35,404</u>	<u>28,831</u>
Operating margin - non-GAAP	8.4%	10.8%	9.0%
GAAP to non-GAAP reconciliation of income:			

Net income - GAAP	3,393	14,243	7,327
Adjustments:			
Total cost of revenue and operating expense adjustments	19,450	15,036	18,547
Non-cash imputed interest expenses on convertible debt	2,354	2,243	2,334
Imputed interest related to restructuring	45	51	47
Other (income) expense, net			
Loss (gain) on sale of assets	(185)	238	(559)
Gain related to minority investments	-	-	(1,470)
Other miscellaneous income	(17)	(1)	(850)
Foreign exchange transaction (gain) or loss	(693)	1,991	(607)
Amortization of debt issuance costs	154	154	154
Provision for income taxes			
Income tax provision (benefits) adjustments	31	(623)	1,950
Total adjustments	21,139	19,089	19,546
Net income - non-GAAP	<u>\$ 24,532</u>	<u>\$ 33,332</u>	<u>\$ 26,873</u>
Non-GAAP income	\$ 24,532	\$ 33,332	\$ 26,873
Add: interest expense for dilutive convertible notes	-	539	-
Adjusted non-GAAP income	<u>\$ 24,532</u>	<u>\$ 33,871</u>	<u>\$ 26,873</u>
Non-GAAP income per share common stockholders			
Basic	\$ 0.23	\$ 0.34	\$ 0.26
Diluted	\$ 0.23	\$ 0.32	\$ 0.25
Shares used in computing non-GAAP income per share common stockholders			
Basic	105,286	98,241	104,005
Diluted	108,107	106,036	107,535
Non-GAAP EBITDA			
Non-GAAP income	\$ 24,532	\$ 33,332	\$ 26,873
Depreciation expense	21,365	19,648	20,488
Amortization	-	39	-
Interest expense (income)	(35)	228	(197)
Income tax expense	2,000	2,200	2,249
Non-GAAP EBITDA	<u>\$ 47,862</u>	<u>\$ 55,447</u>	<u>\$ 49,413</u>

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Investor Contact:

Kurt Adzema

Chief Financial Officer

408-542-5050

Investor.relations@finisar.com

Press contact:

Victoria McDonald

Director, Corporate Communications

408-542-4261

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