

Finisar Announces 7% Revenue Growth Over Prior Quarter

SUNNYVALE, CA -- (Marketwired) -- 09/04/14 -- 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 2015, ended July 27, 2014.

COMMENTARY

"I am pleased to report that first quarter revenues were \$327.6 million, a new all-time record for Finisar. Quarterly revenues increased by \$21.6 million, or 7.1%, over the fourth fiscal quarter of fiscal 2014. Quarterly revenues grew for the eighth consecutive quarter," said Jerry Rawls, Finisar's executive Chairman of the Board.

"While demand for our transceivers that address wireless applications was very strong in the first quarter, demand for these products is now expected to decrease in the second quarter. We expect the demand to return and revenues to increase sequentially for these products in the third quarter. As a result of this decrease in demand for wireless transceivers, as well as a decrease in demand for telecom products due to soft carrier spending and a decrease in demand from several datacom customers with lumpy order patterns, we expect our overall revenues to decline in the second fiscal quarter," said Eitan Gertel, Finisar's Chief Executive Officer.

FINANCIAL HIGHLIGHTS - FIRST QUARTER ENDED JULY 27, 2014

Summary GAAP Results

	<i>First Quarter Ended July 27, 2014</i>		<i>Fourth Quarter Ended April 27, 2014</i>	
	<i>(in thousands, except per share amounts)</i>			
Revenues	\$	327,638	\$	306,025
Gross margin		30.2 %		31.6 %
Operating expenses	\$	78,451	\$	75,457
Operating income	\$	20,368	\$	21,107
Operating margin		6.2 %		6.9 %
Net income	\$	14,243	\$	28,750
Income per share-basic	\$	0.14	\$	0.30
Income per share-diluted	\$	0.14	\$	0.28
Basic shares		98,241		96,965
Diluted shares		106,036		105,418

Summary Non-GAAP Results (a)

	<i>First Quarter Ended July 27, 2014</i>		<i>Fourth Quarter Ended April 27, 2014</i>	
	<i>(in thousands, except per share amounts)</i>			
Revenues	\$	327,638	\$	306,025
Gross margin		32.0 %		34.2 %
Operating expenses	\$	69,439	\$	65,931
Operating income	\$	35,404	\$	38,882
Operating margin		10.8 %		12.7 %
Net income	\$	33,332	\$	36,992
Income per share-basic	\$	0.34	\$	0.38
Income per share-diluted	\$	0.32	\$	0.36
Basic shares		98,241		96,965
Diluted shares		106,036		105,418

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- (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 2015:

- Revenues increased to \$327.6 million, up \$21.6 million, or 7.1%, from \$306.0 million in the preceding quarter.
- The sale of products for datacom applications increased by \$18.2 million, or 8.2%, compared to the preceding quarter, primarily as the result of strong demand for our transceivers that address wireless applications.
- The sale of products for telecom applications increased by \$3.4 million, or 4.1%, compared to the preceding quarter.
- GAAP gross margin decreased to 30.2% from 31.6% in the preceding quarter, primarily driven by less favorable product mix, primarily the result of increased sales of transceivers that address wireless applications and lower sales of our 100G ethernet transceivers, as well as an increase in depreciation as a result of an increased level of capital expenditures.
- Non-GAAP gross margin decreased to 32.0% from 34.2% in the preceding quarter.
- GAAP operating expenses increased to \$78.5 million from \$75.5 million in the preceding quarter, primarily from the impact of the full quarter operating expenses associated with the acquisition of u2t Photonics AG which closed during our fiscal fourth quarter, the acquisition of LightSmyth which occurred during the fiscal first quarter, the employer portion of payroll taxes associated with the annual vesting of RSUs which occurs every June and higher legal expenses associated with multiple current ongoing patent litigations.
- Non-GAAP operating expenses increased to \$69.4 million from \$65.9 million in the preceding quarter.
- GAAP operating income decreased \$0.7 million to \$20.4 million or 6.2% of revenues, compared to \$21.1 million or 6.9% of revenues in the preceding quarter, primarily as the result of lower gross margins and higher operating expenses.
- Non-GAAP operating income decreased \$3.5 million to \$35.4 million, or 10.8% of revenues, compared to \$38.9 million, or 12.7% of revenues, in the preceding quarter.
- Cash, cash equivalents and short term investments decreased \$15.6 million to \$497.4 million at the end of the first quarter, compared to \$513.0 million at the end of the preceding quarter, primarily as the result of capital expenditures of \$44.2 million, increased inventory of \$10.4 million, increased accounts receivables of \$6.3 million and a reduction in accrued compensation of \$10.3 million primarily due to the payment of fiscal year end cash bonuses.
- During the quarter, Finisar completed the acquisition of LightSmyth Technologies, Inc. of Eugene Oregon, a pioneer in the use of semiconductor manufacturing tools to produce differentiated, high performance and cost-effective grating products. LightSmyth previously was a supplier of grating products for Finisar's WSS and ROADM products. This acquisition further advances Finisar's vertical integration strategy.

OUTLOOK

The Company indicated that for the second quarter of fiscal 2015 it currently expects revenues in the range of \$305 to \$320 million, non-GAAP gross margin of approximately 31% to 32%, non-GAAP operating margin of approximately 8.5% to 9.5%, and non-GAAP earnings per diluted share in the range of approximately \$0.23 to \$0.27.

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 4, 2014, 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 1-888-299-7205 (domestic) or +1-719-325-3210 (international) and enter conference ID 7685228.

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 7685228 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; intensive competition; and the uncertainty of achieving anticipated cost savings and synergies in connection with the recently completed u2t acquisition. 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 26, 2014) 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 Balance Sheets
(in thousands)

	July 27, 2014	April 27, 2014
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 287,455	\$ 303,101
Short-term held-to-maturity investments	209,927	209,922
Accounts receivable, net	231,312	225,020
Accounts receivable, other	41,595	33,749
Inventories	270,122	259,759
Prepaid expenses and other assets	38,582	33,022
Total current assets	1,078,993	1,064,573
Property, equipment and improvements, net	301,020	273,328
Purchased intangible assets, net	33,680	34,141
Goodwill	106,735	106,115
Minority investments	2,317	2,117
Other assets	20,907	17,272
Total assets	\$ 1,543,652	\$ 1,497,546
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 143,224	\$ 119,439
Accrued compensation	28,215	38,541
Other accrued liabilities	27,568	31,533
Deferred revenue	16,872	16,659

Short term debt	247	243
Current portion of convertible notes	40,015	40,015
Total current liabilities	256,141	246,430
Long-term liabilities:		
Convertible notes, net of current portion	214,496	212,253
Other non-current liabilities	24,042	22,804
Total liabilities	494,679	481,487
Stockholders' equity:		
Common stock	100	97
Additional paid-in capital	2,469,687	2,456,110
Accumulated other comprehensive income	25,116	20,025
Accumulated deficit	(1,445,930)	(1,460,173)
Total stockholders' equity	1,048,973	1,016,059
Total liabilities and stockholders' equity	<u>\$ 1,543,652</u>	<u>\$ 1,497,546</u>

Note - Balance sheet amounts as of April 27, 2014 are derived from the audited consolidated financial statements as of the date.

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

	Three Months Ended		
	<u>July 27, 2014</u>	<u>July 28, 2013</u>	<u>April 27, 2014</u>
Revenues	\$ 327,638	\$ 266,068	\$ 306,025
Cost of revenues	227,385	173,102	208,135
Amortization of acquired developed technology	1,434	1,593	1,326
Gross profit	98,819	91,373	96,564
Gross margin	30.2 %	34.3 %	31.6 %
Operating expenses:			
Research and development	51,006	43,530	48,132
Sales and marketing	11,965	11,805	11,509
General and administrative	14,719	8,340	15,133
Amortization of purchased intangibles	761	595	683
Total operating expenses	78,451	64,270	75,457
Income from operations	20,368	27,103	21,107
Interest income	612	217	485
Interest expense	(3,134)	(552)	(2,965)
Other income (expenses), net	(2,026)	488	8,124
Income before income taxes and non-controlling interest	15,820	27,256	26,751
Provision (benefits) for income taxes	1,577	1,421	(1,932)
Income before non-controlling interest	14,243	25,835	28,683
Adjust for net loss attributable to non-controlling interest	-	176	67
Net income attributable to Finisar Corporation	<u>\$ 14,243</u>	<u>\$ 26,011</u>	<u>\$ 28,750</u>
Net income per share attributable to Finisar Corporation common stockholders:			
Basic	\$ 0.14	\$ 0.27	\$ 0.30
Diluted	\$ 0.14	\$ 0.26	\$ 0.28
Shares used in computing net income per share - basic	98,241	94,609	96,965
Shares used in computing net income per share - diluted	106,036	101,125	105,418

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 Commissions: 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:

- 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);
- Impairment of acquired developed technology and other long-lived assets (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);
- Gain on fair value re-measurement of contingent consideration (non-cash benefit);
- 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:

- 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 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		
	July 27, 2014	July 28, 2013	April 27, 2014
GAAP to non-GAAP reconciliation of gross profit:			
Gross profit - GAAP	\$ 98,819	\$ 91,373	\$ 96,564

Gross margin - GAAP	30.2 %	34.3 %	31.6 %
Adjustments:			
Cost of revenues			
Change in excess and obsolete inventory reserve	1,721	(1,528)	3,384
Amortization of acquired technology	1,434	1,593	1,326
Stock compensation	2,276	1,777	2,531
Acquisition method accounting adjustment for sale of acquired inventory	-	-	822
Reduction in force costs	475	23	124
Acquisition related retention payment	118	62	62
Total cost of revenue adjustments	<u>6,024</u>	<u>1,927</u>	<u>8,249</u>
Gross profit - non-GAAP	<u>104,843</u>	<u>93,300</u>	<u>104,813</u>
Gross margin - non-GAAP	32.0 %	35.1 %	34.2 %

GAAP to non-GAAP reconciliation of operating income:

Operating income - GAAP	20,368	27,103	21,107
Operating margin - GAAP	6.2 %	10.2 %	6.9 %
Adjustments:			
Total cost of revenue adjustments	6,024	1,927	8,249
Research and development			
Reduction in force costs	332	12	-
Acquisition related retention payment	193	191	190
Stock compensation	4,436	3,525	4,056
Sales and marketing			
Acquisition related retention payment	20	17	17
Stock compensation	1,529	1,184	1,406
General and administrative			
Reduction in force costs	(5)	67	69
Acquisition related retention payment	16	217	8
Stock compensation	2,812	2,423	2,525
Acquisition related costs	230	225	567
Litigation settlements and resolutions and related costs	(1,312)	5	5
Gain on fair value remeasurement of contingent consideration liability	-	(5,094)	-
Amortization of purchased intangibles	<u>761</u>	<u>595</u>	<u>683</u>
Total cost of revenue and operating expense adjustments	<u>15,036</u>	<u>5,294</u>	<u>17,775</u>
Operating income - non-GAAP	<u>35,404</u>	<u>32,397</u>	<u>38,882</u>
Operating margin - non-GAAP	10.8 %	12.2 %	12.7 %

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

Net income attributable to Finisar Corporation - GAAP	14,243	26,011	28,750
Adjustments:			
Total cost of revenue and operating expense adjustments	15,036	5,294	17,775
Non-cash imputed interest expenses on convertible debt	2,243	-	2,225
Imputed interest related to restructuring	51	57	53
Other (income) expense, net			
Loss (gain) on sale of assets	238	(110)	(8,156)
Gain related to minority investments	-	(743)	-
Other miscellaneous income	(1)	-	-
Foreign exchange transaction (gain) or loss	1,991	567	(69)
Amortization of debt issuance cost	154	-	155
Provision for income taxes			

Income tax provision adjustments	(623)	126	(3,737)
Non-controlling interest non-GAAP adjustment	-	67	(4)
Total adjustments	19,089	5,258	8,242
Net income attributable to Finisar Corporation - non-GAAP	\$ 33,332	\$ 31,269	\$ 36,992
Non-GAAP income attributable to Finisar Corporation	\$ 33,332	\$ 31,269	\$ 36,992
Add: interest expense for dilutive convertible notes	539	539	539
Adjusted non-GAAP income attributable to Finisar Corporation	\$ 33,871	\$ 31,808	\$ 37,531
Non-GAAP income per share attributable to Finisar Corporation common stockholders			
Basic	\$ 0.34	\$ 0.33	\$ 0.38
Diluted	\$ 0.32	\$ 0.31	\$ 0.36
Shares used in computing non-GAAP income per share attributable to Finisar Corporation common stockholders			
Basic	98,241	94,609	96,965
Diluted	106,036	101,125	105,418
Non-GAAP EBITDA			
Non-GAAP income attributable to Finisar Corporation	\$ 33,332	\$ 31,269	\$ 36,992
Depreciation expense	19,648	13,927	17,518
Amortization	39	94	94
Interest expense	228	278	202
Income tax expense	2,200	1,295	1,805
Non-GAAP EBITDA	\$ 55,447	\$ 46,863	\$ 56,611

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