

FINISAR CORP  
Form 10-K  
June 26, 2014  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the fiscal year ended April 27, 2014

OR  
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the transition period from        to

000-27999

(Commission File No.)

Finisar Corporation

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or  
organization)

1389 Moffett Park Drive, Sunnyvale, California

(Address of principal executive offices)

Registrant's telephone number, including area code: 408-548-1000

94-3038428

(I.R.S. Employer Identification No.)

94089

(Zip Code)

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, \$.001 par value	NASDAQ Stock Market (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large  
accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting  
company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 27, 2013, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$2.2 billion based on the closing sales price of the registrant's common stock as reported on the NASDAQ Stock Market on October 25, 2013 of \$23.35 per share. Shares of common stock held by officers, directors and holders of more than ten percent of the outstanding common stock have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of May 30, 2014, there were 97,311,368 shares of the registrant's common stock, \$.001 par value, issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its 2014 annual meeting of stockholders are incorporated by reference in Part III hereof.

Table of ContentsINDEX TO ANNUAL REPORT ON FORM 10-K  
FOR THE FISCAL YEAR ENDED APRIL 27, 2014

<u>Forward Looking Statements</u>	Page
	<u>1</u>
 <u>PART I</u>	
<u>Item 1. Business</u>	<u>2</u>
<u>Item 1A. Risk Factors</u>	<u>9</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>20</u>
<u>Item 2. Properties</u>	<u>21</u>
<u>Item 3. Legal Proceedings</u>	<u>21</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>21</u>
 <u>PART II</u>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>23</u>
<u>Item 6. Selected Financial Data</u>	<u>24</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	<u>24</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>38</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>71</u>
<u>Item 9A. Controls and Procedures</u>	<u>71</u>
<u>Item 9B. Other Information</u>	<u>73</u>
 <u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>73</u>
<u>Item 11. Executive Compensation</u>	<u>73</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>73</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>73</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>73</u>
 <u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>73</u>
<u>Signatures</u>	<u>75</u>

Table of Contents

**FORWARD LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We use words like “anticipates,” “believes,” “plans,” “expects,” “future,” “intends” and similar expressions to identify the forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events; however, our business and operations are subject to a variety of risks and uncertainties, and, consequently, actual results may materially differ from those projected by any forward-looking statements. As a result, you should not place undue reliance on these forward-looking statements since they may not occur.

Certain factors that could cause actual results to differ from those projected are discussed in “Item 1A. Risk Factors.” We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events.

## Table of Contents

### PART I

#### Item 1. Business

##### Overview

We are a leading provider of optical subsystems and components that are used in data communication and telecommunication applications. Our optical subsystems consist primarily of transmitters, receivers, transceivers, transponders and active optical cables that provide the fundamental optical-electrical, or optoelectronic, interface for interconnecting the electronic equipment used in building communication networks, including the switches, routers and servers used in wireline networks as well as the antennas and base stations for wireless networks. These products rely on the use of semiconductor lasers and photodetectors in conjunction with integrated circuits and novel optoelectronic packaging to provide a cost-effective means for transmitting and receiving digital signals over fiber optic cable at speeds ranging from less than 1 gigabit per second, or Gbps, to more than 100 Gbps, over distances of less than 10 meters to more than 2,000 kilometers, using a wide range of network protocols and physical configurations. We supply optical transceivers and transponders that allow point-to-point communications on a fiber using a single specified wavelength that, bundled with multiplexing technologies, can be used to supply multi-Gbps bandwidth over several wavelengths on the same fiber.

We also provide products known as wavelength selective switches, or WSS. In long-haul and metro networks, each fiber may carry 50 to 100 different high-speed optical channels, each with its own specific optical wavelength. WSS are switches that are used to dynamically switch network traffic from one optical fiber to multiple other fibers without first converting the optical signal to an electronic signal. The wavelength selective feature means that WSS enable any wavelength or combination of wavelengths to be switched from the input fiber to the output fibers. WSS products are sometimes combined with other components and sold as linecards that plug into a system chassis referred to as a reconfigurable optical add/drop multiplexer, or ROADM.

Our line of optical components consists primarily of packaged lasers, receivers and photodetectors for data communication and telecommunication applications and passive optical components used in telecommunication applications.

Demand for our products is largely driven by the continually growing need for additional network bandwidth created by the ongoing proliferation of data and video traffic driven by video downloads, Internet protocol TV, social networking, on-line gaming, file sharing, enterprise IP/Internet traffic, cloud computing, and data center virtualization that must be handled by both wireline and wireless networks. Mobile traffic is increasing as the result of proliferation of smartphones, tablet computers, and other mobile devices.

Our manufacturing operations are vertically integrated and we utilize internal sources for many of the key components used in making our products including lasers, photodetectors and integrated circuits, or ICs, designed by our internal IC engineering teams. We also have internal assembly and test capabilities that make use of internally designed equipment for the automated testing of our optical subsystems and components.

We sell our optical products primarily to original equipment manufacturers ("OEMs") of storage systems, networking equipment and telecommunication equipment, such as Alcatel-Lucent, Brocade, Ciena, Cisco Systems, EMC, Emulex, Ericsson, Fujitsu, Hewlett-Packard Company, Huawei, IBM, Juniper, Nokia-Siemens and Qlogic, and to their contract manufacturers. These customers, in turn, sell their systems to businesses and to wireline and wireless telecommunication service providers and cable TV operators, collectively referred to as carriers.

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We were incorporated in California in April 1987 and reincorporated in Delaware in November 1999. Our principal executive offices are located at 1389 Moffett Park Drive, Sunnyvale, California 94089, and our telephone number at that location is +1-408-548-1000.

All references to “Finisar,” “the Company,” “we,” “us” or “our” are references to Finisar Corporation and its consolidated subsidiaries, collectively, except as otherwise indicated or where the context otherwise requires.

## Table of Contents

### Business Strategy

In order to maintain our position as a leading supplier of fiber optic subsystems and components, we are continuing to pursue the following business strategies:

**Continue to Invest in or Acquire Critical Technologies to Further Our Vertical Integration Strategy.** Our years of engineering experience, our multi-disciplinary technical expertise and our participation in the development of industry standards have enabled us to become a leader in the design and development of optical subsystems and components. We have developed and acquired critical skills that we believe are essential to maintaining a technological lead in our markets including high speed semiconductor laser design and wafer fabrication, complex logic and mixed signal integrated circuit design, optical subassembly design, software coding, system design, and manufacturing test design. In the process of investing in and/or acquiring critical technologies, we have obtained a number of U.S. and foreign patents with other patents pending. We intend to maintain our technological leadership through continual enhancement of our existing products and the development or acquisition of new products. Of special interest are technologies that enable smaller, more efficient, and lower cost transceivers capable of transmitting data at higher speeds, over longer distances, or at greater capacity per fiber.

**Expand Our Broad Product Line of Optical Subsystems.** We offer one of the broadest portfolios of optical subsystems that support a wide range of speeds, fiber types, wavelengths, distances and functionality and are available in a variety of industry standard packaging configurations, or form factors. Our optical subsystems are designed to comply with key networking protocols such as Fibre Channel, Gigabit Ethernet, Optical Transport Network, or OTN, and Synchronous Optical Networking/Synchronous Digital Hierarchy, or SONET/SDH, and plug directly into standard port configurations used in our customers' products. The breadth of our optical subsystems product line is important to many of our customers who are seeking to consolidate their supply sources for a wide range of networking products for diverse applications. We are focused on the ongoing expansion of our product line to add key products to meet our customers' needs. Where time-to-market considerations are especially important in order to secure or enhance our supplier relationships with key customers, we may elect to acquire additional product lines.

**Leverage Core Competencies Across Multiple, High-Growth Markets.** We believe that fiber optic technology will remain the transmission technology of choice for Fibre Channel and Ethernet data communication applications, including 1 Gigabit Ethernet and 10 Gbps, 40 Gbps and 100 Gbps Ethernet-based networks, and OTN- and SONET/SDH-based telecommunication applications. We also believe that wavelength management and switching technologies, such as those found in WSS, optical channel monitors and linecards will be increasingly important in optical transmission networks. These markets are characterized by differentiated applications with unique design criteria such as product function, performance, reliability, cost, in-system monitoring, size, power dissipation and software. We intend to target opportunities where our core competencies in high-speed data transmission protocols can be leveraged into leadership positions as these technologies are extended across multiple data communication and telecommunication applications and into other markets and industries such as high performance computing, military, medical and consumer electronics products.

**Strengthen and Expand Customer Relationships.** Over more than 20 years, we have established valuable relationships and a loyal base of customers by providing high-quality products and superior service. Our service-oriented approach has allowed us to work closely with leading data communication and telecommunication system manufacturers to understand and address their current needs and anticipate their future requirements.

- **Continue to Strengthen Our Lower-Cost Manufacturing Capabilities.** We believe that new markets can be created by the introduction of new, lower-cost, high value-added products. We achieve lower product costs through the introduction of new technologies, product design and market presence. Our in-house lower-cost manufacturing resources are also a key factor in our ability to offer a lower-cost product solution. We have

established our own manufacturing facilities in Ipoh, Malaysia and in Shanghai and Wuxi, China in order to take advantage of lower-cost labor while protecting access to our intellectual property and know-how. In addition, access to critical underlying component technologies, such as our laser, detector, and IC design and development capabilities, enables us to accelerate our product development efforts to be able to introduce new low cost products more quickly. We continue to seek ways to lower our production costs through improved product design, improved manufacturing and testing processes and increased vertical integration.



## Table of Contents

### Products

Our optical subsystems and components are integrated into our customers' systems and used for fiber optics-based data communication and telecommunication networks.

Our family of optical subsystem products consists of transmitters, receivers, transceivers, transponders and active optical cables principally based on the Gigabit Ethernet, Fibre Channel, OTN and SONET/SDH protocols. A transmitter uses a laser plus direct or indirect modulation to convert electrical signals into optical signals for transmission over fiber optics. Receivers incorporating photo detectors convert incoming optical signals into electrical signals. A transceiver combines both transmitter and receiver functions in a single device. A transponder includes an IC to provide the data serializer-deserializer function that would otherwise reside in the customer's equipment if a transceiver is used. An active optical cable combines two transceivers and a fiber optic cable that are built into an integrated, connectorized cable assembly that is sold in various cable lengths. Our optical subsystem products perform these functions with high reliability and data integrity and support a wide range of protocols, transmission speeds, fiber types, wavelengths, transmission distances, physical configurations and software enhancements.

Our high-speed optical subsystems are engineered to deliver value-added functionality and intelligence. Our optical subsystem products typically include a microprocessor with proprietary embedded software that provides customers real-time monitoring of transmitted and received optical power, temperature, drive current and other link parameters for each port in their systems.

For data communication applications that rely on the Fibre Channel standard, we currently provide a wide range of optical subsystems for transmission applications at 1 to 16 Gbps. For data communication applications that rely on the Ethernet standard, we provide a broad range of optical subsystems for transmitting signals at 1 to 100 Gbps using the SFP, SFP+, XFP, X2, QSFP, CXP, CFP, CFP2, CFP4, and proprietary form factors. For OTN and SONET/SDH-based telecommunication applications, we supply optical subsystems that are capable of transmitting at 0.155, 0.622, 2.5, 10, 40 and 100 Gbps.

We also offer a full line of optical subsystems for telecommunication applications using wavelength division multiplexing, or WDM technologies. Our products include coarse wavelength division multiplexing, or CWDM, transceivers in the SFP form factor and dense wavelength division multiplexing, or DWDM, transceivers in the SFP, SFP+, XFP, and CFP form factors. These products include both fixed wavelength transceivers and tunable transceivers that are capable of dynamically tuning across a range of wavelengths in the C- and L-Bands.

As a result of several acquisitions, we have gained access to leading-edge technology for the manufacture of a number of active and passive optical components including vertical cavity surface emitting lasers, or VCSELs; Fabry-Perot, or FP, lasers; distributed feedback, or DFB, lasers; tunable lasers; positive intrinsic negative, or PIN, detectors; high-speed integrated waveguide detectors; Mach Zehnder Modulators; fused fiber couplers; isolators; filters; polarization beam combiners; interleavers; and amplifiers. Most of these optical components are used internally in the manufacture of our optical subsystems. We currently sell some of these components in the so-called "merchant market" to other subsystems manufacturers.

We also offer products used in building fiber-to-the-home/curb networks and for parallel optics applications such as backplanes for switches and routers.

We offer WSS and ROADM linecard products for wavelength management in DWDM telecommunication networks. These capabilities are made possible in part through the use of our unique liquid crystal on silicon, or LCoS, technology, similar to that used in miniature projectors. This technology provides a highly flexible WSS capable of operating on both 50 and 100 GHz International Telecommunications Union, or ITU, grids, based on our patented

Flexgrid™ technology. In addition, this LCoS-based architecture offers the capability for in-service upgrades of functionality and integration of additional system functionality, including route and select, drop and continue, channel monitoring and channel contouring features. Our WSS and ROADM linecard product offering ranges from 1x2, 1x4 and 1x9 products up to higher output fiber port counts in our latest 1x23 and 2x1x20 products.

#### Customers

Our revenues are principally derived from sales of optical subsystems and components to a broad base of original equipment manufacturers, or OEMs, distributors and system integrators. Sales of products for data communication applications represented 71%, 63% and 56% of our total revenues in fiscal 2014, 2013 and 2012, respectively. Sales of products for telecommunication applications represented 29%, 37% and 44% of our total revenues in fiscal 2014, 2013 and 2012, respectively.

## Table of Contents

Sales to our ten largest customers represented 58%, 54% and 59% of our total revenues during fiscal 2014, 2013 and 2012, respectively. One customer, Cisco Systems, represented more than 10% of our total revenues during fiscal 2014 and 2013. Two customers, Cisco Systems and Huawei, each represented more than 10% of our total revenues during fiscal 2012. No other customer accounted for more than 10% of our total revenues in any of these years.

## Technology

The development of high quality optical subsystems and components for high-speed communications requires multidisciplinary expertise in the following technology areas:

**High Frequency Integrated Circuit Design.** Our optical subsystems development efforts are supported by an engineering team that specializes in analog/digital IC design. This group utilizes semiconductor technologies such as silicon complementary-metal-oxide-semiconductor, or Si CMOS, and silicon germanium bipolar CMOS, or SiGe BiCMOS, to design high-speed, high performance, proprietary ICs such as laser drivers, receiver pre-and post-amplifiers and microprocessors. These proprietary ICs are incorporated across our transceiver and transponder product portfolio at data rates from 1 to 100 Gbps. We are designing advanced LCoS controller ICs for our WSS and ROADM linecard products. Our internally developed ICs provide significant cost and performance advantages throughout our current product portfolio. Our in-house IC design capabilities are critical to our ongoing development of future products with even faster data rates, higher performance, and lower cost.

**Optical Subassembly and Mechanical Design.** We established ourselves as a low-cost design leader beginning with our initial optical subsystems in 1992. From that base we have developed single-mode laser alignment approaches and low-cost, all-metal packaging techniques for improved electromagnetic interference, or EMI, performance and environmental tolerance. We develop our own component and packaging designs and integrate these designs with proprietary manufacturing processes that allow our products to be manufactured in high volume.

**System Design.** The design of all of our products requires a combination of sophisticated technical competencies, including optical engineering, high-speed electrical design, digital and analog application specific IC, or ASIC, design and firmware and software engineering. We have built a substantial organization of engineers and scientists with skills in all of these areas. It is the integration and combination of these technical competencies that enables us to design and manufacture optical subsystem and component products that meet the needs of our customers.

**Manufacturing System Design.** Hardware, firmware and software design skills are utilized to provide specialized manufacturing test systems for our internal use. These test systems are optimized for test capacity and broad test coverage. We use automated, software-controlled testing to enhance the field reliability of all Finisar products and to reduce the level of capital expenditures that would otherwise be required to purchase these test systems.

**Optoelectronic Device Design and Wafer Fabrication.** The ability to manufacture our own optical components provides significant cost savings as well as the ability to create unique, high performance components that are not commercially available. This enhances our competitive position in terms of performance, time-to-market and intellectual property. Most significantly, we design and manufacture a number of active components that are used in our optical subsystems. Our acquisition of Honeywell's VCSEL Optical Products business unit in March 2004 provided us with wafer fabrication capability for designing and manufacturing all of the 850 nm VCSEL components used in our shorter distance transceivers for data communication applications. The acquisition of Genoa Corporation in April 2003 provided us with a state-of-the-art foundry for the manufacture of PIN detectors and 1310 nm FP and DFB lasers used in our longer distance transceivers, although we continue to rely on third-party suppliers for a portion of our DFB laser requirements. The acquisition of Ignis AS in May 2011 provided us, through Ignis' wholly owned subsidiary Syntune AB located in Sweden, with access to an internal source of tunable lasers for use in our tunable

XFP and SFP+ transceivers for telecommunication applications.

#### Competition

The market for optical subsystems and components for use in data communication and telecommunication applications remains highly competitive. We believe the principal competitive factors in these markets are:

- product performance, features, functionality and reliability;
- price/performance characteristics;
- timeliness of new product introductions;
- breadth of product line;

## Table of Contents

• adoption of emerging industry standards;  
• service and support;  
• size and scope of distribution network;  
• brand name;  
• access to customers; and  
• size of installed customer base.

Competition in the market for optical subsystems and components varies by market segment. Our principal competitors for optical transceivers sold for data communication applications include Avago Technologies, JDS Uniphase, Oclaro and Sumitomo. Our principal competitors for optical transceivers sold for telecommunication applications include JDS Uniphase, Oclaro and Sumitomo. Our principal competitors for WSS ROADM products include CoAdna, JDS Uniphase and Oplink. We believe we compete favorably with our competitors with respect to most of the foregoing factors based, in part, upon our broad product line, our sizeable installed base, our significant vertical integration and our lower-cost manufacturing facilities in Ipoh, Malaysia and in Shanghai and Wuxi, China.

### Sales, Marketing and Technical Support

For sales of our optical subsystems and components, we utilize a direct sales force augmented by three world-wide distributors, 17 international distributors, four domestic distributors, 20 domestic manufacturers' representatives and four international manufacturers' representatives. Our direct sales force maintains close contact with our customers and provides technical support to our manufacturers' representatives. In our international markets, our direct sales force works with local resellers who assist us in providing support and maintenance in the territories they cover.

Our marketing efforts are focused on increasing awareness of our product offerings for optical subsystems and our brand name. Key components of our marketing efforts include:

• continuing our active participation in industry associations and standards committees to promote and further enhance Gigabit Ethernet, Fibre Channel and SONET/SDH/OTN technologies, promote standardization in the data communication and telecommunication markets, and increase our visibility as industry experts; and

• leveraging major trade show events and conferences to promote our broad product lines.

In addition, our marketing group focuses on product management and product strategy and also provides marketing support services for our direct sales force and our manufacturers' representatives and resellers. Through our marketing activities, we provide technical and strategic sales support to our direct sales personnel and resellers, including in-depth product presentations, technical manuals, sales tools, pricing, marketing communications, marketing research, trademark administration and other support functions.

A high level of continuing service and support is critical to our objective of developing long-term customer relationships. We emphasize customer service and technical support in order to provide our customers and their end users with the knowledge and resources necessary to successfully utilize our product line. Our customer service organization utilizes a technical team of field and factory applications engineers, technical marketing personnel and, when required, product design engineers. We provide extensive customer support throughout the qualification and sale process. In addition, we provide many resources through our World Wide Web site, including product documentation and technical information. We intend to continue to provide our customers with comprehensive product support and believe it is critical to remaining competitive.

### Backlog

A substantial portion of our revenues is derived from sales to OEMs and system integrators through hub arrangements where revenue is generated as inventory that resides at these customers or their contract manufacturers is drawn down. Visibility as to future customer demand is limited in these situations. Most of our other revenues are derived from sales pursuant to individual purchase orders that remain subject to negotiation with respect to delivery schedules and are generally cancelable without significant penalties. Manufacturing capacity and availability of key components can also impact the timing and amount of revenue ultimately recognized under such sale arrangements. Accordingly, we do not believe that the backlog of undelivered product under these purchase orders at a particular time is a meaningful indicator of our future financial performance.

## Table of Contents

### Manufacturing

We manufacture most of our optical subsystems at our production facility in Ipoh, Malaysia. This facility consists of 640,000 square feet, of which 240,000 square feet is suitable for clean room operations. We also conduct a portion of our new product introduction operations at our Ipoh facility. We manufacture short wavelength parallel optical transceiver products and certain passive optical components used in our long wavelength transceiver products as well as ROADM linecards products and WSS assemblies, at our 210,000 square foot facility in Shanghai, China. In 2012, we entered into a 50 year lease for 550,000 square feet of land in Wuxi, China, where we built a 442,000 square feet facility, and are in the process of building an additional facility, which will focus on the manufacture of tunable and parallel transceivers, WSS modules, ROADM line cards, passive components and high-end optical subassemblies used in VCSELs and detectors. We manufacture WSS products in our 117,000 square foot facility in Sydney, Australia and certain telecommunication products in our 63,000 square foot facility in Horsham, Pennsylvania. We continue to conduct a substantial portion of our new product introduction activities at our Sunnyvale, California, Horsham, Pennsylvania, and Sydney, Australia facilities. In Sunnyvale, we also conduct supply chain management for certain components as well as quality assurance and documentation control operations. We maintain an international purchasing office in Shenzhen, China. We conduct wafer fabrication operations for the manufacture of VCSELs used in short wavelength transceiver products at our facility in Allen, Texas. We conduct wafer fabrication operations for the manufacture of long wavelength FP and DFB lasers at our facility in Fremont, California. We conduct wafer fabrication operations for the manufacturing of tunable lasers and photonic integrated circuits, or PICs, in our facility in Jarfalla, Sweden. We expect to continue to use contract manufacturers for a portion of our manufacturing needs, primarily printed circuit board assemblies.

We design and develop a number of the key components of our products, including photodetectors, lasers, ASICs, printed circuit boards and software. In addition, our manufacturing team works closely with our engineers to manage the supply chain. To assure the quality and reliability of our products, we conduct product testing and burn-in at our facilities in conjunction with inspection and the use of testing and statistical process controls. In addition, most of our optical subsystems have an intelligent interface that allows us to monitor product quality during the manufacturing process. Our facilities in Sunnyvale and Fremont, California; Allen, Texas; Horsham, Pennsylvania; Shanghai, China; Ipoh, Malaysia; and Sydney, Australia are qualified under ISO 9001-9002.

Although we use standard parts and components for our products wherever possible, we currently purchase several key components from single or limited sources. Our principal single source components purchased from external suppliers include ASICs and certain DFB lasers that we do not manufacture internally. Generally, purchase commitments with our single or limited source suppliers are on a purchase order basis. We generally try to maintain a buffer inventory of key components. However, any interruption or delay in the supply of any of these components, or the inability to procure these components from alternate sources at acceptable prices and within a reasonable time, would substantially harm our business. In addition, qualifying additional suppliers can be time-consuming and expensive and may increase the likelihood of errors.

We use a rolling 12-month forecast of anticipated product orders to determine our material requirements. Lead times for materials and components we order vary significantly and depend on factors such as the demand for such components in relation to each supplier's manufacturing capacity, internal manufacturing capacity, contract terms and demand for a component at a given time.

### Research and Development

In fiscal 2014, 2013 and 2012, our research and development expenses were \$183.4 million, \$158.8 million and \$146.0 million, respectively. We believe that our future success depends on our ability to continue to enhance and

reduce the cost of our existing products and to develop new products that maintain technological and business competitiveness. We focus our product development activities on addressing the evolving needs of our customers within the data communication and telecommunication markets. We also seek opportunities to leverage the technical and product competencies created for our core markets to develop products for other applications, especially products using active optical components that we design and manufacture. We work closely with our OEM and system integrator customers to monitor changes in the marketplace. We design our products around current industry standards and will continue to support emerging standards that are consistent with our product strategy. Our research and development groups are aligned with our various product lines, and we also have specific groups devoted to ASIC design and test, subsystem design, and software design. Our product development operations include the active involvement of our manufacturing engineers who examine each product for its manufacturability, predicted reliability, expected lifetime and manufacturing costs.



## Table of Contents

We believe that our research and development efforts are key to our ability to maintain technical and business competitiveness and to deliver innovative products that address the needs of the market. However, there can be no assurance that our product development efforts will result in commercially successful products, or that our products will not be rendered obsolete by changing technology or new product announcements by other companies.

### Intellectual Property

Our success and ability to compete is dependent in part on our proprietary technology. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. We currently own approximately 2,000 issued U.S. and foreign patents and have approximately 350 pending U.S. and foreign patent applications. We cannot assure that any patents will issue as a result of pending patent applications or that our issued patents will be upheld. Any infringement of our proprietary rights could result in significant litigation costs, and any failure to adequately protect our proprietary rights could result in our competitors offering similar products, potentially resulting in loss of a competitive advantage and decreased revenues. Despite our efforts to protect our proprietary rights, existing patent, copyright, trademark and trade secret laws afford only limited protection. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States. Attempts may be made to copy or reverse engineer aspects of our products or to obtain and use information that we regard as proprietary. Accordingly, we may not be able to prevent misappropriation of our technology or to deter others from developing similar technology. Furthermore, policing the unauthorized use of our products is difficult. We have been involved in extensive litigation to enforce certain of our patents and are currently engaged in such litigation. Additional litigation may be necessary in the future to enforce our intellectual property rights. This litigation could result in substantial costs and diversion of resources and could significantly harm our business.

The optical networking and communications industry is characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. We have been involved in extensive litigation to protect our products against accusations of infringement. See "Item 3. Legal Proceedings." From time to time, other parties may assert patent, copyright, trademark and other intellectual property rights to technologies in various jurisdictions that are important to our business, and such claims could result in additional litigation. Any claims asserting that our products infringe or may infringe proprietary rights of third parties, if determined adversely to us, could significantly harm our business. Any such claims, with or without merit, could be time-consuming, result in costly litigation, divert the efforts of our technical and management personnel, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could significantly harm our business. Royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all. In addition, our agreements with our customers typically require us to indemnify our customers from any expense or liability resulting from claimed infringement of third party intellectual property rights. In the event a claim against us was successful and we could not obtain a license to the relevant technology on acceptable terms or license a substitute technology or redesign our products to avoid infringement, our business would be significantly harmed.

### Employees

As of April 27, 2014, we employed approximately 13,000 full-time employees and contractors, approximately 900 of whom were located in the United States and approximately 11,300 of whom were located at our production facilities in Ipoh, Malaysia, and in Shanghai and Wuxi, China. We also, from time to time, employ part-time employees. Our employees are not represented by any union, and we have never experienced a work stoppage. Certain of our employees in our Sydney, Australia facility are subject to a collective agreement not involving a union. In addition, we have a works council in our Berlin, Germany facility. We believe that there is a positive employee relations environment within our company.

## Segment and Geography Information

The material set forth in Note 16 of Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K is incorporated herein by reference.

## Available Information

Our website is located at [www.finisar.com](http://www.finisar.com). Electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available, free of charge, on our website as soon as practicable after we electronically file such material with the Securities and Exchange Commission. The contents of our website are not incorporated by reference in this Annual Report on Form 10-K.

## Table of Contents

### Item 1A. Risk Factors

OUR FUTURE PERFORMANCE IS SUBJECT TO A VARIETY OF RISKS, INCLUDING THOSE DESCRIBED BELOW. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS COULD BE HARMED AND THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE. YOU SHOULD ALSO REFER TO THE OTHER INFORMATION CONTAINED IN THIS REPORT, INCLUDING OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES.

Our quarterly revenues and operating results fluctuate due to a variety of factors, which may result in volatility or a decline in the price of our stock.

Our quarterly operating results have varied significantly due to a number of factors, including:

- fluctuation in demand for our products;
- the timing of new product introductions or enhancements by us and our competitors;
- the level of market acceptance of new and enhanced versions of our products;
- the timing of acquisitions that we have undertaken;
- the timing or cancellation of large customer orders;
- the length and variability of the sales cycle for our products;
- pricing policy changes by us and our competitors and suppliers;
- the availability of development funding and the timing of development revenue;
- changes in the mix of products sold;
- increased competition in product lines, and competitive pricing pressures; and
- the evolving and unpredictable nature of the markets for products incorporating our optical components and subsystems.

We expect that our operating results will continue to fluctuate in the future as a result of these factors and a variety of other factors, including:

- fluctuations in manufacturing yields;
- the emergence of new industry standards;
- failure to anticipate changing customer product requirements;
- the loss or gain of important customers;
- product obsolescence; and
- the amount of research and development expenses associated with new product introductions.

Our operating results could also be harmed by:

- adverse changes in economic conditions in various geographic areas where we or our customers do business;
- acts of terrorism and international conflicts or domestic crises;
- other conditions affecting the timing of customer orders; or
- a downturn in the markets for our customers' products, particularly the data storage and networking and telecommunication components markets.

We may experience a delay in generating or recognizing revenues for a number of reasons. Orders at the beginning of each quarter are typically lower than expected revenues for that quarter and are generally cancelable with minimal notice. Accordingly, we depend on obtaining orders during each quarter for shipment in that quarter to achieve our revenue objectives. Failure to ship these products by the end of a quarter may adversely affect our operating results. Furthermore, our customer agreements typically provide that the customer may delay scheduled delivery dates and

cancel orders within specified timeframes without significant penalty. Because we base our operating expenses on anticipated revenue trends and a high percentage of our expenses are fixed in the short term, any delay in generating or recognizing forecasted revenues could significantly harm our business. It is likely that in some future quarters our operating results will again decrease from the previous quarter or fall below the expectations of securities analysts and investors.

As a result of these factors, our operating results may vary significantly from quarter to quarter. Accordingly, we believe that period-to-period comparisons of our results of operations should not be relied upon as indications of future performance. Any shortfall in revenues or net income from the previous quarter or from levels expected by the investment community could cause a decline in the trading price of our stock.

## Table of Contents

We may lose sales if our suppliers or independent contract manufacturers fail to meet our needs or go out of business.

We currently purchase a number of key components used in the manufacture of our products from single or limited sources, and we rely on several independent contract manufacturers to supply us with certain key components and subassemblies, including lasers, modulators, and printed circuit boards. We depend on these sources to meet our production needs. Moreover, we depend on the quality of the components and subassemblies that they supply to us, over which we have limited control. Several of our suppliers are or may become financially unstable as the result of current global market conditions. In addition, from time to time we have encountered shortages and delays in obtaining components, and we may encounter additional shortages and delays in the future. If we cannot supply products due to a lack of components, or are unable to redesign products with other components in a timely manner, our business will be significantly harmed. We generally have no long-term contracts with any of our component suppliers or contract manufacturers. As a result, a supplier or contract manufacturer can discontinue supplying components or subassemblies to us without penalty. If a supplier were to discontinue supplying a key component or cease operations, the resulting product manufacturing and delivery delays could be lengthy, and our business could be substantially harmed. We are also subject to potential delays in the development by our suppliers of key components which may affect our ability to introduce new products. Similarly, disruptions in the operations of our key suppliers or in the services provided by our contract manufacturers, including disruptions due to natural disasters, or the transition to other suppliers of these key components or services could lead to supply chain problems or delays in the delivery of our products. These problems or delays could damage our relationships with our customers and adversely affect our business.

We use rolling forecasts based on anticipated product orders to determine our component and subassembly requirements. Lead times for materials and components that we order vary significantly and depend on factors such as specific supplier requirements, contract terms and current market demand for particular components. If we overestimate our component requirements, we may have excess inventory, which would increase our costs. If we underestimate our component requirements, we may have inadequate inventory, which could interrupt our manufacturing and delay delivery of our products to our customers. Any of these occurrences could significantly harm our business.

If we are unable to realize anticipated cost savings from the transfer of certain manufacturing operations to our overseas locations and increased use of internally-manufactured components our results of operations could be harmed.

As part of our ongoing initiatives to reduce the cost of revenues, we expect to realize significant cost savings through (i) the transfer of certain product manufacturing operations to lower cost off-shore locations and (ii) product engineering changes to enable the broader use of internally-manufactured components. The transfer of production to overseas locations may be more difficult and costly than we currently anticipate which could result in increased transfer costs and time delays. Further, following transfer, we may experience lower manufacturing yields than those historically achieved in our U.S. manufacturing locations. In addition, the engineering changes required for the use of internally-manufactured components may be more technically-challenging than we anticipate and customer acceptance of such changes could be delayed. If we fail to achieve the planned product manufacturing transfer and increase in internally-manufactured component use within our currently anticipated timeframe, or if our manufacturing yields decrease as a result, we may be unsuccessful in achieving cost savings or such savings will be less than anticipated, and our results of operations could be harmed.

Continued competition in our markets may lead to an accelerated reduction in our prices, revenues and market share.

The end markets for optical products have experienced significant industry consolidation during the past few years while the industry that supplies these customers has experienced less consolidation. As a result, the markets for optical

subsystems and components are highly competitive. Our current competitors include a number of domestic and international companies, many of which have substantially greater financial, technical, marketing and distribution resources and brand name recognition than we have. Increased consolidation in our industry, should it occur, will reduce the number of our competitors but would be likely to further strengthen surviving industry participants. We may not be able to compete successfully against either current or future competitors. Companies competing with us may introduce products that are competitively priced, have increased performance or functionality, or incorporate technological advances and may be able to react quicker to changing customer requirements and expectations. There is also the risk that network systems vendors may re-enter the subsystem market and begin to manufacture the optical subsystems incorporated in their network systems. Increased competition could result in significant price erosion, reduced revenue, lower margins or loss of market share, any of which would significantly harm our business. Our principal competitors for data communication applications include Avago Technologies, JDS Uniphase and Oclaro. Our principal competitors for telecommunication applications include JDS Uniphase, Oclaro and Sumitomo. Our competitors continue to introduce improved products and we will have to do the same to remain competitive.

## Table of Contents

Decreases in average selling prices of our products may reduce our gross margins.

The market for optical subsystems is characterized by declining average selling prices resulting from factors such as increased competition, overcapacity, the introduction of new products and increased unit volumes as manufacturers continue to deploy network and storage systems. We have in the past experienced, and in the future may experience, substantial period-to-period fluctuations in operating results due to declining average selling prices. We anticipate that average selling prices will decrease in the future in response to product introductions by competitors or us, or by other factors, including pricing pressures from significant customers. In particular, we typically conduct pricing negotiations for our existing products with some of our largest telecommunication OEM customers in the last several months of the calendar year. Decreases in our average selling prices resulting from these negotiations typically become effective at the beginning of the next calendar year and generally have an adverse impact on our gross margins in future quarters. This impact is typically most pronounced in our fourth fiscal quarter ending in April, when the impact of the new pricing is first felt over a full quarter. In order to sustain profitable operations, we must continue to develop and introduce on a timely basis new products that incorporate features that can be sold at higher average selling prices. Failure to do so could cause our revenues and gross margins to decline, which would result in additional operating losses and significantly harm our business.

We may be unable to reduce the cost of our products sufficiently to enable us to compete with others. Our cost reduction efforts may not allow us to keep pace with competitive pricing pressures and could adversely affect our margins. In order to remain competitive, we must continually reduce the cost of manufacturing our products through design and engineering changes. We may not be successful in redesigning our products or delivering our products to market in a timely manner. We cannot assure you that any redesign will result in sufficient cost reductions to allow us to reduce the price of our products to remain competitive or improve our gross margins.

Shifts in our product mix may result in declines in gross margins.

Gross margins on individual products fluctuate over the product's life cycle. Our overall gross margins have fluctuated from period to period as a result of shifts in product mix, the introduction of new products, decreases in average selling prices for older products and our ability to reduce product costs, and these fluctuations are expected to continue in the future.

Failure to accurately forecast our revenues could result in additional charges for obsolete or excess inventories or non-cancelable purchase commitments.

We base many of our operating decisions, and enter into purchase commitments, on the basis of anticipated revenue trends which are highly unpredictable. Some of our purchase commitments are not cancelable, and in some cases we are required to recognize a charge representing the amount of material or capital equipment purchased or ordered which exceeds our actual requirements. In the past, we have periodically experienced significant growth followed by a significant decrease in customer demand such as occurred in fiscal 2001, when revenues increased by 181% followed by a decrease of 22% in fiscal 2002. Based on projected revenue trends during these periods, we acquired inventories and entered into purchase commitments in order to meet anticipated increases in demand for our products which did not materialize. As a result, we recorded significant charges for obsolete and excess inventories and non-cancelable purchase commitments which contributed to substantial operating losses in fiscal 2002. Should revenues in future periods again fall substantially below our expectations, or should we fail again to accurately forecast changes in demand mix, we could again be required to record substantial charges for obsolete or excess inventories or non-cancelable purchase commitments.

If we encounter sustained yield problems or other delays in the production or delivery of our internally-manufactured components or in the final assembly and test of our products, we may lose sales and damage our customer relationships.

Our manufacturing operations are highly vertically integrated. In order to reduce our manufacturing costs, we have acquired a number of companies, and business units of other companies that manufacture optical components incorporated in our optical subsystem products and have developed our own facilities for the final assembly and testing of our products. For example, we design and manufacture many critical components incorporated in transceivers used for data communication and telecommunication applications, including all of the short wavelength VCSEL lasers, at our wafer fabrication facility in Allen, Texas and manufacture a portion of our internal requirements for longer wavelength lasers at our wafer fabrication facility in Fremont, California. We assemble and test most of our transceiver products at our facility in Ipoh, Malaysia. As a result of this vertical integration, we have become increasingly dependent on our internal production capabilities. The manufacture of critical components, including the fabrication of wafers, and the assembly and testing of our products, involve highly complex processes. For example, minute levels of contaminants in the manufacturing environment, difficulties in the fabrication process or other factors can cause a substantial portion of the components on a wafer to be nonfunctional. These problems may be



## Table of Contents

difficult to detect at an early stage of the manufacturing process and often are time-consuming and expensive to correct. From time to time, we have experienced problems achieving acceptable yields at our wafer fabrication facilities, resulting in delays in the availability of components. Moreover, an increase in the rejection rate of products during the quality control process before, during or after manufacture, results in lower yields and margins. In addition, changes in manufacturing processes required as a result of changes in product specifications, changing customer needs and the introduction of new product lines have historically significantly reduced our manufacturing yields, resulting in low or negative margins on those products. Poor manufacturing yields over a prolonged period of time could adversely affect our ability to deliver our subsystem products to our customers and could also affect our sale of components to customers in the merchant market. Our inability to supply components to meet our internal needs could harm our relationships with customers and have an adverse effect on our business.

The markets for our products are subject to rapid technological change, and to compete effectively we must continually introduce new products that achieve market acceptance.

The markets for our products are characterized by rapid technological change, frequent new product introductions, substantial capital investment, changes in customer requirements and evolving industry standards with respect to the protocols used in data communication and telecommunication networks. Our future performance will depend on the successful development, introduction and market acceptance of new and enhanced products that address these changes as well as current and potential customer requirements. For example, the market for optical subsystems is currently characterized by a trend toward the adoption of “pluggable” modules and subsystems that do not require customized interconnections and by the development of more complex and integrated optical subsystems. We expect that new technologies will emerge as competition and the need for higher and more cost-effective bandwidth increases. The introduction of new and enhanced products may cause our customers to defer or cancel orders for existing products. In addition, a slowdown in demand for existing products ahead of a new product introduction could result in a write-down in the value of inventory on hand related to existing products and/or a charge for the impairment of long-lived assets related to such products. We have in the past experienced a slowdown in demand for existing products and delays in new product development and such delays may occur in the future. To the extent customers defer or cancel orders for existing products due to a slowdown in demand or in the expectation of a new product release or if there is any delay in development or introduction of our new products or enhancements of our products, our operating results would suffer. We also may not be able to develop the underlying core technologies necessary to create new products and enhancements, or to license these technologies from third parties. Product development delays may result from numerous factors, including:

- changing product specifications and customer requirements;
- unanticipated engineering complexities;
- expense reduction measures we have implemented, and others we may implement, to conserve our cash and attempt to achieve and sustain profitability;
- difficulties in hiring and retaining necessary technical personnel;
- difficulties in reallocating engineering resources and overcoming resource limitations; and
- changing market or competitive product requirements.

The development of new, technologically advanced products is a complex and uncertain process requiring high levels of innovation and highly skilled engineering and development personnel, as well as the accurate anticipation of technological and market trends. The introduction of new products also requires significant investment to ramp up production capacity, for which benefit will not be realized if customer demand does not develop as expected. Ramping of production capacity also entails risks of delays which can limit our ability to realize the full benefit of the new product introduction. We cannot assure you that we will be able to identify, develop, manufacture, market or support new or enhanced products successfully, if at all, or on a timely basis. Further, we cannot assure you that our new products will gain market acceptance or that we will be able to respond effectively to product announcements by

competitors, technological changes or emerging industry standards. Any failure to respond to technological change would significantly harm our business.

Our future success ultimately depends on the continued growth of the communications industry and, in particular, the continued expansion of global information networks, particularly those directly or indirectly dependent upon a fiber optics infrastructure.

We are relying on increasing demand for voice, video and other data delivered over high-bandwidth network systems as well as commitments by network systems vendors to invest in the expansion of the global information network. As network usage and bandwidth demand increase, so does the need for advanced optical networks to provide the required bandwidth. Without network and bandwidth growth, the need for optical subsystems and components, and hence our future growth as a manufacturer of these products, will be jeopardized, and our business would be significantly harmed.

## Table of Contents

Many of these factors are beyond our control. In addition, in order to achieve widespread market acceptance, we must differentiate ourselves from our competition through product offerings and brand name recognition. We cannot assure you that we will be successful in making this differentiation or achieving widespread acceptance of our products. Failure of our existing or future products to maintain and achieve widespread levels of market acceptance will significantly impair our revenue growth.

We depend on large purchases from a few significant customers, and any loss, cancellation, reduction or delay in purchases by these customers could harm our business.

A small number of customers have consistently accounted for a significant portion of our revenues. Our success will depend on our continued ability to develop and manage relationships with our major customers. Although we are attempting to expand our customer base, we expect that significant customer concentration will continue for the foreseeable future. We may not be able to offset any decline in revenues from our existing major customers with revenues from new customers, and our quarterly results may be volatile because we are dependent on large orders from these customers that may be reduced or delayed.

The markets in which we have historically sold our optical subsystems and components products are dominated by a relatively small number of systems manufacturers, thereby limiting the number of our potential customers. Recent consolidation of portions of our customer base, including telecommunication systems manufacturers, and potential future consolidation, may have a material adverse impact on our business. Our dependence on large orders from a relatively small number of customers makes our relationship with each customer critically important to our business. We cannot assure you that we will be able to retain our largest customers, that we will be able to attract additional customers or that our customers will be successful in selling their products that incorporate our products. We have in the past experienced delays and reductions in orders from some of our major customers. In addition, our customers have in the past sought price concessions from us, and we expect that they will continue to do so in the future. Expense reduction measures that we have implemented over the past several years, and additional action we are taking to reduce costs, may adversely affect our ability to introduce new and improved products which may, in turn, adversely affect our relationships with some of our key customers. Further, some of our customers may in the future shift their purchases of products from us to our competitors or to joint ventures between these customers and our competitors. The loss of one or more of our largest customers, any reduction or delay in sales to these customers, our inability to successfully develop relationships with additional customers or future price concessions that we may make could significantly harm our business.

Because we do not have long-term contracts with our customers, our customers may cease purchasing our products at any time if we fail to meet our customers' needs.

Typically, we do not have long-term contracts with our customers. As a result, our agreements with our customers do not provide any assurance of future sales. Accordingly:

- our customers can stop purchasing our products at any time without penalty;
- our customers are free to purchase products from our competitors; and
- our customers are not required to make minimum purchases.

Sales are typically made pursuant to inventory hub arrangements under which customers may draw down inventory to satisfy their demand as needed or pursuant to individual purchase orders, often with extremely short lead times. If we are unable to fulfill these orders in a timely manner, it is likely that we will lose sales and customers. If our major customers stop purchasing our products for any reason, our business and results of operations would be harmed.

Our customers often evaluate our products for long and variable periods, which causes the timing of our revenues and results of operations to be unpredictable.

The period of time between our initial contact with a customer and the receipt of an actual purchase order typically spans over a year. During this time, customers may perform, or require us to perform, extensive and lengthy evaluation and testing of our products before purchasing and using the products in their equipment. These products often take substantial time to develop because of their complexity and because customer specifications sometimes change during the development cycle. Our customers do not typically share information on the duration or magnitude of these qualification procedures. The length of these qualification processes also may vary substantially by product and customer, and, thus, cause our results of operations to be unpredictable. While our potential customers are qualifying our products and before they place an order with us, we may incur substantial research and development and sales and marketing expenses and expend significant management effort. Even after incurring such costs we ultimately may not sell any products to such potential customers. In addition, these qualification processes often make it difficult to obtain new customers, as customers are reluctant to expend the resources necessary to

## Table of Contents

qualify a new supplier if they have one or more existing qualified sources. Once our products have been qualified, the agreements that we enter into with our customers typically contain no minimum purchase commitments. Failure of our customers to incorporate our products into their systems would significantly harm our business.

We may not be able to obtain additional capital in the future, and failure to do so may harm our business.

We believe that our existing balances of cash and cash equivalents, together with the cash expected to be generated from future operations, will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 12 months. We may, however, require additional financing to fund our operations in the future, to finance future acquisitions that we may propose to undertake or to repay or otherwise retire our outstanding 2029 Notes, in the aggregate principal amount of \$40 million, which are subject to redemption by the holders in October 2014, 2016, 2019 and 2024, or our 2033 Notes, in the aggregate principal amount of \$258.8 million, which are subject to redemption by the holders in December 2018, 2023 and 2028. Due to the unpredictable nature of the capital markets, particularly in the technology sector, we cannot assure you that we will be able to raise additional capital if and when it is required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, or is not available on favorable terms, we could be required to significantly reduce or restructure our business operations. If we do raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our existing stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders.

Our international business and operations expose us to additional risks.

Products shipped to customers located outside the United States account for a majority of our revenues. In addition, we have significant tangible assets located outside the United States. Our principal manufacturing facilities are located in Malaysia and China. We currently operate smaller facilities in Australia, Israel, Korea, Sweden and Germany, and we are further expanding one of our manufacturing facilities in China. We also rely on several contract manufacturers located in Asia for our supply of key subassemblies. Conducting business outside the United States subjects us to a number of additional risks and challenges, including:

- periodic changes in a specific country's or region's economic conditions, such as recession;
- compliance with a wide variety of domestic and foreign laws and regulations and unexpected changes in those laws and regulatory requirements, including uncertainties regarding taxes, tariffs, quotas, export controls, export licenses and other trade barriers;
- certification requirements;
- environmental regulations;
- fluctuations in foreign currency exchange rates;
- inadequate protection of intellectual property rights in some countries;
- potential political, legal and economic instability, foreign conflicts, and the impact of regional and global infectious illnesses in the countries in which we and our customers, suppliers and contract manufacturers are located;
- preferences of certain customers for locally produced products;
- difficulties and costs of staffing and managing international operations across different geographic areas and cultures, including assuring compliance with the U.S. Foreign Corrupt Practices Act and other U. S. and foreign anticorruption laws;
- seasonal reductions in business activities in certain countries or regions; and
- fluctuations in freight rates and transportation disruptions.

These factors, individually or in combination, could impair our ability to effectively operate one or more of our foreign facilities or deliver our products, result in unexpected and material expenses, or cause an unexpected decline in the demand for our products in certain countries or regions. Our failure to manage the risks and challenges

associated with our international business and operations could have a material adverse effect on our business. Our future operating results may be subject to volatility as a result of exposure to foreign exchange risks.

We are exposed to foreign exchange risks. Foreign currency fluctuations may affect both our revenues and our costs and expenses and significantly affect our operating results. Prices for our products are currently denominated in U.S. dollars for sales to our customers throughout the world. If there is a significant devaluation of the currency in a specific country relative to the dollar, the prices of our products will increase relative to that country's currency, our products may be less competitive in that country and our revenues may be adversely affected.

## Table of Contents

Although we price our products in U.S. dollars, portions of both our cost of revenues and operating expenses are incurred in foreign currencies, principally the Malaysian ringgit, the Chinese yuan, the Australian dollar, the Israeli shekel, the Swedish krona, and the Euro. As a result, we bear the risk that the rate of inflation in one or more countries will exceed the rate of the devaluation of that country's currency in relation to the U.S. dollar, which would increase our costs as expressed in U.S. dollars. To date, we have not engaged in currency hedging transactions to decrease the risk of financial exposure from fluctuations in foreign exchange rates.

Our failure to protect our intellectual property may significantly harm our business.

Our success and ability to compete is dependent in part on our proprietary technology. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements to establish and protect our proprietary rights. We license certain of our proprietary technology, including our digital diagnostics technology, to customers who include current and potential competitors, and we rely largely on provisions of our licensing agreements to protect our intellectual property rights in this technology. Although a number of patents have been issued to us, we have obtained a number of other patents as a result of our acquisitions, and we have filed applications for additional patents, we cannot assure you that any patents will issue as a result of pending patent applications or that our issued patents will be upheld. Additionally, significant technology used in our product lines is not the subject of any patent protection, and we may be unable to obtain patent protection on such technology in the future. Any infringement of our proprietary rights could result in significant litigation costs, and any failure to adequately protect our proprietary rights could result in our competitors offering similar products, potentially resulting in loss of a competitive advantage and decreased revenues.

Despite our efforts to protect our proprietary rights, existing patent, copyright, trademark and trade secret laws afford only limited protection. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States. Attempts may be made to copy or reverse engineer aspects of our products or to obtain and use information that we regard as proprietary. Accordingly, we may not be able to prevent misappropriation of our technology or deter others from developing similar technology. Furthermore, policing the unauthorized use of our products is difficult and expensive. We are currently engaged in pending litigation to enforce certain of our patents, and additional litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. In connection with the pending litigation, substantial management time has been, and will continue to be, expended. In addition, we have incurred, and we expect to continue to incur, substantial legal expenses in connection with these pending lawsuits. These costs and this diversion of resources could significantly harm our business.

Claims that we or any user of our products infringe third-party intellectual property rights could result in significant expenses or restrictions on our ability to sell our products.

Our industry is characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. We are currently involved as a defendant in patent infringement litigation and have been involved in the past as a defendant in such lawsuits. From time to time, we have also been accused of patent infringement that is not subject to current lawsuit, some of which accusations are unresolved. In the future we may be subject to additional litigation alleging infringement of patent, copyright, trademark and other intellectual property rights to technologies and in various jurisdictions that are important to our business. Any claims asserting that our products infringe or may infringe proprietary rights of third parties, if determined adversely to us, could significantly harm our business. Further, claims against a customer and/or end user of our products that the re-sale or use of our products, either alone or in combination with other products, infringes proprietary rights of third parties could cause customer or users to choose to not or be required to not utilize our products alone or in such combination, which could harm our sales of such products. Any claims, against us or any customer or user of our products, with or without merit, could be time-consuming, result in costly litigation, divert the efforts of our technical and management

personnel, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could significantly harm our business. In addition, our agreements with our customers typically require us to indemnify our customers from any expense or liability resulting from claimed infringement of third party intellectual property rights. In the event a claim against us was successful and we could not obtain a license to the relevant technology on acceptable terms or license a substitute technology or redesign our products to avoid infringement, our business would be significantly harmed.

Numerous patents in our industry are held by others, including academic institutions, competitors and non-practicing entities. Optical subsystem suppliers may seek to gain a competitive advantage or other third parties may seek an economic return on their intellectual property portfolios by making infringement claims against us. In the future, we may need to obtain license rights to patents or other intellectual property held by others to the extent necessary for our business. Unless we are able to obtain those licenses on commercially reasonable terms, patents or other intellectual property held by others could inhibit our development of new products. Licenses granting us the right to use third party technology may not be available on



## Table of Contents

commercially reasonable terms, if at all. Generally, a license, if granted, would include payments of up-front fees, ongoing royalties or both. These payments or other terms could have a significant adverse impact on our operating results.

Our products may contain defects that may cause us to incur significant costs, divert our attention from product development efforts and result in a loss of customers.

Our products are complex and defects may be found from time to time. Networking products frequently contain undetected software or hardware defects when first introduced or as new versions are released. In addition, our products are often embedded in or deployed in conjunction with our customers' products which incorporate a variety of components produced by third parties. As a result, when problems occur, it may be difficult to identify the source of the problem. These problems may cause us to incur significant damages or warranty and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relation problems or loss of customers, all of which would harm our business.

If we are unable to retain our key management and technical personnel and attract and retain additional key personnel as required, our business could be significantly harmed.

Our future success is substantially dependent upon the continued contributions of the members of our senior management team, many of whom have years of management, engineering, sales, marketing and manufacturing experience that would be difficult to replace. We also believe our future success will depend in large part upon our ability to attract and retain additional highly skilled managerial, technical, sales and marketing, finance and manufacturing personnel. In particular, we will need to increase the number of our technical staff members with experience in high-speed networking applications as we further develop our product lines. Competition for these highly skilled employees in our industry is intense. In making employment decisions, particularly in the high-technology industries, job candidates often consider the value of the equity they are to receive in connection with their employment. Therefore, significant volatility in the price of our common stock may adversely affect our ability to attract or retain key management and technical personnel. The loss of service of any of our key management or technical employees, our inability to attract or retain qualified personnel in the future or delays in hiring key personnel, as required, could significantly harm our business. In addition, employees may leave our company and subsequently compete against us. Moreover, companies in our industry whose employees accept positions with competitors frequently claim that their competitors have engaged in unfair hiring practices. We have been subject to claims of this type and may be subject to such claims in the future as we seek to hire qualified personnel. Some of these claims may result in material litigation. We could incur substantial costs in defending ourselves against these claims, regardless of their merits.

Our business and future operating results are subject to a wide range of uncertainties arising out of the continuing threat of terrorist attacks and ongoing military actions in the Middle East.

Like other U.S. companies, our business and operating results are subject to uncertainties arising out of the continuing threat of terrorist attacks on the United States and ongoing military actions in the Middle East, including the economic consequences of the war in Afghanistan or additional terrorist activities and associated political instability, and the impact of heightened security concerns on domestic and international travel and commerce. In particular, due to these uncertainties we are subject to:

- increased risks related to the operations of our manufacturing facilities in Malaysia;
- greater risks of disruption in the operations of our China, Singapore and Israeli facilities and our Asian contract manufacturers, including contract manufacturers located in Thailand, and more frequent instances of shipping delays;
- and

the risk that future tightening of immigration controls may adversely affect the residence status of non-U.S. engineers and other key technical employees in our U.S. facilities or our ability to hire new non-U.S. employees in such facilities.

Future acquisitions could be difficult to integrate, disrupt our business, dilute stockholder value and harm our operating results.

In addition to our combination with Optium in August 2008 and our acquisitions of Ignis in May 2011, Red-C in July 2012 and u<sup>2</sup>t in January 2014, we have completed the acquisition of ten privately-held companies and certain businesses and assets from seven other companies since October 2000. We continue to review opportunities to acquire other businesses, product lines or technologies that would complement our current products, expand the breadth of our markets or enhance our technical capabilities, or that may otherwise offer growth opportunities, and we from time to time make proposals and offers, and take other steps, to acquire businesses, products and technologies.

## Table of Contents

The Optium merger and several of our other past acquisitions have been material, and acquisitions that we may complete in the future may be material. In 13 of our 21 acquisitions, we issued common stock or notes convertible into common stock as all or a portion of the consideration. The issuance of common stock or other equity securities by us in connection with any future acquisition would dilute our stockholders' percentage ownership.

Other risks associated with acquiring the operations of other companies include:

- problems assimilating the purchased operations, technologies or products;
- unanticipated costs associated with the acquisition;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience; and
- potential loss of key employees of purchased organizations.

Not all of our past acquisitions have been successful. In the past, we have subsequently sold some of the assets acquired in prior acquisitions, discontinued product lines and closed acquired facilities. As a result of these activities, we incurred significant restructuring charges and charges for the write-down of assets associated with those acquisitions. Through fiscal 2014, we have written off all of the goodwill associated with our past acquisitions with the exception of the recently completed acquisitions of Ignis, Red-C and u<sup>2</sup>t. We cannot assure you that we will be successful in overcoming problems encountered in connection with the recent Ignis acquisition or potential future acquisitions, and our inability to do so could significantly harm our business. In addition, to the extent that the economic benefits associated with the Ignis acquisition or any of our future acquisitions diminish in the future, we may be required to record additional write downs of goodwill, intangible assets or other assets associated with such acquisitions, which would adversely affect our operating results.

We have made and may continue to make strategic investments which may not be successful, may result in the loss of all or part of our invested capital and may adversely affect our operating results.

Since inception we have made minority equity investments in a number of early-stage technology companies, totaling approximately \$61.9 million. Our investments in these early stage companies were primarily motivated by our desire to gain early access to new technology. We intend to review additional opportunities to make strategic equity investments in pre-public companies where we believe such investments will provide us with opportunities to gain access to important technologies or otherwise enhance important commercial relationships. We have little or no influence over the early-stage companies in which we have made or may make these strategic, minority equity investments. Each of these investments in pre-public companies involves a high degree of risk. We may not be successful in achieving the financial, technological or commercial advantage upon which any given investment is premised, and failure by the early-stage company to achieve its own business objectives or to raise capital needed on acceptable economic terms could result in a loss of all or part of our invested capital. Between fiscal 2003 and 2014, we wrote off an aggregate of \$26.2 million in seven investments which became impaired and reclassified \$4.2 million of another investment to goodwill as the investment was deemed to have no value. We may be required to write off all or a portion of the \$2.1 million in such equity investments remaining on our balance sheet as of April 27, 2014 in future periods.

Our ability to utilize certain net operating loss carryforwards and tax credit carryforwards may be limited under Sections 382 and 383 of the Internal Revenue Code.

As of April 27, 2014, we had net operating loss, or NOL, carryforward amounts of approximately \$344.1 million, \$93.3 million and \$14.8 million for U.S. federal, state and foreign income tax purposes, respectively, and tax credit carryforward amounts of approximately \$25.1 million and \$17.0 million for U.S. federal and state income tax

purposes, respectively. The federal and state tax credit carryforwards will expire at various dates beginning in 2015 through 2033, and \$640,000 of such carryforwards will expire in the next five years. The federal and state NOL carryforwards will expire at various dates beginning in 2015 through 2033, and \$64.3 million of such carryforwards will expire in the next five years. Utilization of these NOL and tax credit carryforward amounts may be subject to a substantial annual limitation if the ownership change limitations under Sections 382 and 383 of the Internal Revenue Code and similar state provisions are triggered by changes in the ownership of our capital stock. Such an annual limitation could result in the expiration of the NOL and tax credit carryforward amounts before utilization.

## Table of Contents

Changes in the application of tax policies may harm our results of operations.

A number of factors may negatively impact the manner in which our existing NOLs are applied as well as our future effective tax rates including, but not limited to:

- the jurisdictions in which profits are determined to be earned and taxed;
- changes in valuation of our deferred tax assets and liabilities;
- increases in expenses not deductible for tax purposes;
- changes in available tax credits;
- changes in stock-based compensation; and
- changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles in the United States or other countries in which we operate.

An adverse change that impacts our tax position could negatively impact our operating results. In addition, we are eligible for tax incentives that provide that certain income earned by our subsidiaries in Malaysia and China is subject to a tax holiday and/or reduced tax rates for a limited period of time under the laws of those countries. Our ability to realize benefits from these initiatives could be materially affected if, among other things, applicable requirements are not met, the incentives are substantially modified, or if we incur losses for which we cannot take a deduction. In addition, although we have successfully received extensions of such status in the past, there can be no assurance that future extensions will be granted.

We will lose sales if we are unable to obtain government authorization to export certain of our products, and we would be subject to legal and regulatory consequences if we do not comply with applicable export control laws and regulations.

Exports of certain of our products are subject to export controls imposed by the U.S. Government and administered by the United States Departments of State and Commerce. In certain instances, these regulations may require pre-shipment authorization from the administering department. For products subject to the Export Administration Regulations, or EAR, administered by the Department of Commerce's Bureau of Industry and Security, the requirement for a license is dependent on the type and end use of the product, the final destination, the identity of the end user and whether a license exception might apply. Virtually all exports of products subject to the International Traffic in Arms Regulations, or ITAR, administered by the Department of State's Directorate of Defense Trade Controls, require a license. Certain of our fiber optics products are subject to EAR and certain of our RF-over-fiber products, as well as certain products developed with government funding, are currently subject to ITAR. Products developed and manufactured in our foreign locations are subject to export controls of the applicable foreign nation.

Given the current global political climate, obtaining export licenses can be difficult and time-consuming. Failure to obtain export licenses for these shipments could significantly reduce our revenue and materially adversely affect our business, financial condition and results of operations. Compliance with U.S. Government regulations also subjects us to additional fees and costs. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position.

We have previously been the subject of inquiries from the Department of State and the Department of Justice regarding compliance with ITAR. Although these inquiries were closed with no action being taken, we expended significant time and resources to resolve them, and future inquiries of this type could also be costly to resolve.

We are subject to pending securities class action and shareholder derivative legal proceedings.

Several securities class action lawsuits were filed against us and our Chairman of the Board, Chief Executive Officer and Chief Financial Officer following our March 8, 2011 announcement of unaudited financial results for the third quarter of fiscal 2011 and our financial outlook for the fourth quarter of fiscal 2011. We also have been named as a nominal defendant in several shareholder derivative lawsuits filed in 2011 concerning our March 8, 2011 earnings announcement. No specific amounts of damages have been alleged in the class action lawsuits and, by the nature of the lawsuits, no damages will be alleged against Finisar in the derivative lawsuits.

We will continue to incur legal fees in connection with these pending cases, including expenses for the reimbursement of legal fees of present and former officers and directors under indemnification obligations. The expense of continuing to defend such litigation may be significant. We intend to defend these lawsuits vigorously, however there can be no assurance that we will be successful in any defense. If any of the lawsuits related to our earnings announcement are adversely decided, we may be liable for significant damages directly or under our indemnification obligations, which could adversely affect our business,

## Table of Contents

results of operations and cash flows. Further, the amount of time that will be required to resolve these lawsuits is unpredictable and these actions may divert management's attention from the day-to-day operations of our business, which could adversely affect our business, results of operations and cash flows.

Our business and future operating results may be adversely affected by events outside our control.

Our business and operating results are vulnerable to events outside of our control, such as earthquakes, floods, fire, power loss, telecommunication failures and uncertainties arising out of terrorist attacks in the United States and overseas. Our corporate headquarters and a portion of our manufacturing operations are located in California, and our principal manufacturing operations and those of most of our key suppliers and contract manufacturers are located in Asia. These areas have been vulnerable to natural disasters, such as earthquakes, floods and fires, and other risks which at times have disrupted the local economy and posed physical risks to our property. We are also dependent on communications links with our overseas manufacturing locations and would be significantly harmed if these links were interrupted for any significant length of time. We presently do not have adequate redundant, multiple site capacity if any of these events were to occur, nor can we be certain that the insurance we maintain against these events would be adequate.

The conversion of our outstanding convertible subordinated notes would result in substantial dilution to our current stockholders.

As of April 27, 2014, we had outstanding an aggregate principal amount of \$40.0 million of our 2029 Notes and an aggregate principal amount of \$258.8 million of our 2033 Notes. The 2029 Notes are convertible, at the option of the holder, at any time on or prior to maturity into shares of our common stock at a conversion price of \$10.68 per share, and the 2033 Notes are convertible at the option of the holder, under certain circumstances, into shares of our common stock at an initial conversion price of \$30.18 per share, subject to adjustments. An aggregate of approximately 3,748,478 shares of common stock would be issued upon the conversion of all outstanding 2029 Notes and an aggregate of approximately 8,572,413 shares of common stock would be issued upon the conversion of all outstanding 2033 Notes at these conversion prices, which would dilute the voting power and ownership percentage of our existing stockholders. We have previously entered into privately negotiated transactions with certain holders of our convertible notes for the repurchase of notes in exchange for a greater number of shares of our common stock than would have been issued had the principal amount of the notes been converted at the original conversion rate specified in the notes, thus resulting in more dilution. We may enter into similar transactions in the future and, if we do so, there will be additional dilution to the voting power and percentage ownership of our existing stockholders.

Delaware law, our charter documents and our stockholder rights plan contain provisions that could discourage or prevent a potential takeover, even if such a transaction would be beneficial to our stockholders.

Some provisions of our certificate of incorporation and bylaws, as well as provisions of Delaware law, may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable. These include provisions:

- authorizing the board of directors to issue additional preferred stock;
- prohibiting cumulative voting in the election of directors;
- limiting the persons who may call special meetings of stockholders;
- prohibiting stockholder actions by written consent;
- creating a classified board of directors pursuant to which our directors are elected for staggered three-year terms;
- permitting the board of directors to increase the size of the board and to fill vacancies;
- requiring a super-majority vote of our stockholders to amend our bylaws and certain provisions of our certificate of incorporation; and

establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law which limit the right of a corporation to engage in a business combination with a holder of 15% or more of the corporation's outstanding voting securities, or certain affiliated persons.

Although we believe that these charter and bylaw provisions and provisions of Delaware law provide an opportunity for the board to assure that our stockholders realize full value for their investment, they could have the effect of delaying or preventing a change of control, even under circumstances that some stockholders may consider beneficial.



Table of Contents

We do not currently intend to pay dividends on Finisar common stock and, consequently, a stockholder's ability to achieve a return on such stockholder's investment will depend on appreciation in the price of the common stock.

We have never declared or paid any cash dividends on Finisar common stock and we do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, a stockholder is not likely to receive any dividends on such stockholder's common stock for the foreseeable future.

Our stock price has been and is likely to continue to be volatile.

The trading price of our common stock has been and is likely to continue to be subject to large fluctuations. Our stock price may increase or decrease in response to a number of events and factors, including:

- trends in our industry and the markets in which we operate;
- changes in the market price of the products we sell;
- changes in financial estimates and recommendations by securities analysts;
- acquisitions and financings;
- quarterly variations in our operating results;
- the operating and stock price performance of other companies that investors in our common stock may deem comparable; and
- purchases or sales of blocks of our common stock.

Part of this volatility is attributable to the current state of the stock market, in which wide price swings are common. This volatility may adversely affect the prices of our common stock regardless of our operating performance. If any of the foregoing occurs, our stock price could fall and we may be exposed to class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

## Item 2. Properties

Our principal facilities are located in California, Pennsylvania, Texas, Malaysia and China.

Information regarding our properties as of April 27, 2014 is as follows:

Location	Use	Size (Square Feet)
Owned		
Ipoh, Malaysia	Manufacturing operations	640,000
Wuxi, China	Manufacturing operations	442,000
Daejeon, Korea	Research and development	12,800
Leased		
Wuxi, China	Manufacturing operations	589,000
Shanghai, China	Manufacturing and general administrative operations	210,000
Allen, Texas	Wafer fabrication operations. A portion of this facility is currently subleased.	160,000
Sydney, Australia	Manufacturing, research and development and administrative operations	117,000
Sunnyvale, California	Corporate headquarters, research and development, sales and marketing, general and administrative and limited manufacturing operations	92,000
Fremont, California	Wafer fabrication operations	68,000
Horsham, Pennsylvania	Manufacturing, research and development, sales and administration, executive offices	63,000
Holon, Israel	Research and development and manufacturing operations	34,000
Jarfalla, Sweden	Wafer fabrication operations and research and development	26,000
Tel Aviv, Israel	Research and development and manufacturing operations	22,400
Berlin, Germany	Research and development and manufacturing operations	22,000
Shenzhen, China	Administrative operations	16,000
Singapore	Research and development	14,000
Hyderabad, India	Information technology support center	6,000
Champaign, Illinois	Research and development	3,000

The leased property in Wuxi, China, includes 550,000 square feet of land leased for 50 years where we built a 442,000 square feet manufacturing operations facility and are building an additional manufacturing operations facility. The owned property in Daejeon, Korea, includes 4,200 square feet of land owned by our subsidiary, Finisar Daejeon Co. Ltd. We believe our properties are in good condition and are suitable for their present uses. We also believe that our existing facilities and the facility that is currently under construction in Wuxi, China, will be adequate to accommodate our needs for the foreseeable future.

## Item 3. Legal Proceedings

The material set forth in Note 17 of Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K is incorporated herein by reference.

## Item 4. Mine Safety Disclosures

Not applicable.



Table of Contents

## Executive Officers of the Registrant

Information concerning our current executive officers as of May 30, 2014 is as follows:

Name	Position(s)	Age
Jerry S. Rawls	Chairman of the Board	69
Eitan Gertel	Chief Executive Officer	52
Kurt Adzema	Executive Vice President, Finance and Chief Financial Officer	45
Christopher E. Brown	Executive Vice President, General Counsel and Secretary	46
John H. Clark	Executive Vice President, Technology and Global Research and Development	64
Todd Swanson	Executive Vice President, Sales and Marketing	42
Joseph A. Young	Executive Vice President, Global Operations	57
Mark Colyar	Senior Vice President and General Manager	50

Jerry S. Rawls has served as a member of our board of directors since March 1989 and as our Chairman of the Board since January 2006. Mr. Rawls served as our Chief Executive Officer from August 1999 until the completion of the Optium Corporation merger in August 2008. Mr. Rawls also served as our President from April 2003 until the completion of the Optium merger and previously held that title from April 1989 to September 2002. From September 1968 to February 1989, Mr. Rawls was employed by Raychem Corporation, a materials science and engineering company, where he held various management positions including Division General Manager of the Aerospace Products Division and Interconnection Systems Division. Mr. Rawls holds a B.S. in Mechanical Engineering from Texas Tech University and an M.S. in Industrial Administration from Purdue University.

Eitan Gertel has served as our Chief Executive Officer and as a director since the completion of the Optium merger in August 2008. Mr. Gertel served as Optium's President and as a director from March 2001 and as Chief Executive Officer and Chairman of the Board of Optium from February 2004 through the completion of the Optium merger. Mr. Gertel worked as President and General Manager of the former transmission systems division of JDS Uniphase Corporation from 1995 to 2001. JDS Uniphase is a provider of broadband test and management solutions and optical products. Mr. Gertel holds a B.S.E.E. from Drexel University.

Kurt Adzema has served as the Company's Executive Vice President, Finance and Chief Financial Officer since January 2011. Mr. Adzema joined the Company in January 2005 and served as the Company's Vice President of Strategy and Corporate Development until March 2010, when he was appointed Senior Vice President, Finance and Chief Financial Officer. Prior to joining the Company, he held various positions at SVB Alliant, a subsidiary of Silicon Valley Bank which advised technology companies on merger and acquisition transactions, at Montgomery Securities/Banc of America Securities, an investment banking firm, and in the financial restructuring group of Smith Barney. Mr. Adzema holds a B.A. in Mathematics from the University of Michigan and an M.B.A. from the Wharton School at the University of Pennsylvania.

Christopher E. Brown has served as our Vice President, General Counsel and Secretary since the completion of the Optium merger in August 2008 and as Executive Vice President since January 2011. Mr. Brown served as Optium's General Counsel and Vice President of Corporate Development from August 2006 through the completion of the merger. Prior to that, Mr. Brown was a partner at the law firm of Goodwin Procter LLP from January 2005 to August 2006, a partner at the law firm of McDermott, Will & Emery from January 2003 to January 2005 and an associate at McDermott, Will & Emery from March 2000 to January 2003. Mr. Brown holds a B.A. in Economics and a B.A. in Political Science from the University of Massachusetts at Amherst and a J.D. from Boston College Law School.

John H. Clark joined Finisar as our Executive Vice President, Technology and Global Research and Development in January 2011. Prior to joining Finisar, Dr. Clark served at Cogo Optronics, Inc., a manufacturer of optical components, as a Director from March 2008 to January 2011, as Chief Strategy Officer from May 2009 to October

2009, and as Executive Chairman from October 2009 to January 2011; at Seagate Corporation, a manufacturer of magnetic and solid state disk drives, as Executive Consultant from March 2006 to March 2008 and as Vice President of SSD Development from March 2008 to May 2009; and at Iolon, Inc., a manufacturer of tunable lasers, as President and Chairman from November 2000 to March 2006. Dr. Clark served at Scientific-Atlanta, Inc., a manufacturer of CATV network equipment, as Chief Operating Officer of its wholly-owned subsidiary ATx Telecom Systems, Inc. from 1996 to 1998 and as Vice President and General Manager of the Optoelectronics Business Unit from 1996 to 2000. Dr. Clark co-founded Amoco Laser Company in 1986 and rose through a series of technical and general management positions to Chief Operating Officer at the time of its sale by Amoco Corporation to Scientific-Atlanta in 1996. Dr. Clark started his career with a joint appointment as Senior Staff Scientist at the Lawrence

## Table of Contents

Berkeley National Laboratory and Assistant Professor of Chemistry at the University of California (UC) Berkeley. Dr. Clark holds a B.A. in Physics and a B.A. in Chemistry from UC Santa Barbara and a Ph.D. in Physical Chemistry from UC Berkeley, and carried out his postdoctoral studies as the Oppenheimer Research Fellow at the Los Alamos National Laboratory.

Todd Swanson has served as our Executive Vice President, Sales and Marketing since January 2011. Mr. Swanson joined us in 2002 and served as Product Line Manager, Director of Marketing and Vice President, Sales and Marketing for our Optics Division prior to his appointment as Senior Vice President, Sales and Marketing in August 2008. Mr. Swanson served as Product Line Manager for Princeton Lightwave, a laser company, from June 2001 until he joined Finisar. Mr. Swanson served as Director of Marketing (on a part-time basis while he was studying for his M.B.A.) for Aegis Semiconductor, a manufacturer of optical semiconductor devices, from December 2000 through June 2001. From July 1995 to August 1999, Mr. Swanson was employed by Hewlett-Packard Company as project leader and project manager in the Automotive Lighting Group of the Optoelectronics Division. Mr. Swanson holds a B.S. in Mechanical Engineering from the University of Wisconsin and an M.B.A. from the Massachusetts Institute of Technology.

Joseph A. Young has served as our Executive Vice President, Global Operations since January 2011. Mr. Young served as our Senior Vice President and General Manager, Optics Division from June 2005 to August 2008 when he was appointed Senior Vice President, Operations and Engineering. Mr. Young joined us in October 2004 as our Senior Vice President, Operations. Prior to joining the Company, Mr. Young served as Director of Enterprise Products, Optical Platform Division of Intel Corporation from May 2001 to October 2004. Mr. Young served as Vice President of Operations of LightLogic, Inc. from September 2000 to May 2001, when it was acquired by Intel, and as Vice President of Operations of Lexar Media, Inc. from December 1999 to September 2000. Mr. Young was employed from March 1983 to December 1999 by Tyco/ Raychem, where he served in various positions, including his last position as Director of Worldwide Operations for the OEM Electronics Division of Raychem Corporation. Mr. Young holds a B.S. in Industrial Engineering from Rensselaer Polytechnic Institute, an M.S. in Operations Research from the University of New Haven and an M.B.A. from the Wharton School at the University of Pennsylvania.

Mark Colyar has served as our Senior Vice President, Operations and Engineering since the completion of the Optium merger in August 2008. Mr. Colyar served as Optium's Senior Vice President of Engineering from April 2001 through the completion of the merger and also served as General Manager of Optium's U.S. operations from February 2004 through the completion of the merger. Mr. Colyar served in various positions at JDS Uniphase's former TSD division from November 1995 to April 2001, including Director of Sales and Marketing, Vice President of Engineering and Vice President of Operations. Mr. Colyar holds a B.S.E.E. from Drexel University.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Since our initial public offering on November 11, 1999, our common stock has traded on the NASDAQ Stock Market under the symbol "FNSR." The following table sets forth the range of high and low closing sales prices of our common stock for the periods indicated:

	High	Low
Fiscal 2014 Quarter Ended:		
April 27, 2014	\$28.45	\$21.66
January 26, 2014	\$24.75	\$19.62
October 27, 2013	\$26.36	\$19.06

July 28, 2013	\$18.94	\$12.26
Fiscal 2013 Quarter Ended:		
April 28, 2013	\$16.95	\$12.61
January 27, 2013	\$16.38	\$11.22
October 28, 2012	\$16.86	\$11.54
July 29, 2012	\$16.65	\$11.38

According to records of our transfer agent, we had 300 stockholders of record as of May 30, 2014 and we believe there is a substantially greater number of beneficial holders. We have never declared or paid dividends on our common stock and

Table of Contents

currently do not intend to pay dividends in the foreseeable future so that we may reinvest our earnings in the development of our business. The payment of dividends in the future will be at the discretion of the Board of Directors.

## Item 6. Selected Financial Data

You should read the following selected financial data in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation” and our consolidated financial statements and the notes thereto included elsewhere in this report. The statement of operations data set forth below for the fiscal years ended April 27, 2014, April 28, 2013 and April 30, 2012 and the balance sheet data as of April 27, 2014 and April 28, 2013 are derived from, and are qualified by reference to, our audited consolidated financial statements included elsewhere in this report. The statement of operations data set forth below for the fiscal years ended April 30, 2011 and 2010 and the balance sheet data as of April 30, 2012, 2011 and 2010 are derived from audited financial statements not included in this report.

	Fiscal Years Ended				
	April 27, 2014	April 28, 2013	April 30, 2012	April 30, 2011	April 30, 2010
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenues	\$1,156,833	\$934,335	\$952,579	\$948,787	\$629,880
Consolidated net income (loss)	\$111,537	\$(8,065)	\$43,014	\$88,379	\$(22,806)
Net income (loss) per share attributable to Finisar Corporation common stockholders:					
Basic	\$1.16	\$(0.06)	\$0.47	\$1.10	\$(0.35)
Diluted	\$1.09	\$(0.06)	\$0.46	\$1.00	\$(0.35)
Balance Sheet Data:					
Total assets	\$1,497,546	\$1,007,847	\$969,427	\$885,149	\$626,730
Long-term debt	\$—	\$—	\$—	\$—	\$19,250
Long-term portion of convertible notes	\$252,268	\$40,015	\$40,015	\$40,015	\$128,839

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation

Management’s discussion and analysis of financial condition and results of operation, or MD&A, is provided as a supplement to the accompanying consolidated financial statements and footnotes to help provide an understanding of our financial condition, changes in our financial condition and results of operations. The MD&A is organized as follows:

**Forward-looking statements.** This section discusses how forward-looking statements made by us in the MD&A and elsewhere in this report are based on management’s present expectations about future events and are inherently susceptible to uncertainty and changes in circumstances.

**Business Overview.** This section provides an introductory overview and context for the discussion and analysis that follows in MD&A.

**Recent Developments.** This section summarizes recent developments that affect our financial condition and operating results.

**Critical Accounting Policies and Estimates.** This section discusses those accounting policies that are both considered important to our financial condition and operating results and require significant judgment and estimates on the part of management in their application.



**Results of Operations.** This section provides analysis of the Company's results of operations for the three fiscal years ended April 27, 2014. A brief description is provided of transactions and events that impact comparability of the results being analyzed.

**Financial Condition and Liquidity.** This section provides an analysis of our cash position and cash flows, as well as a discussion of our financing arrangements and financial commitments.

## Table of Contents

### Forward Looking Statements

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ substantially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under “Item 1A. Risk Factors.” The following discussion should be read together with our consolidated financial statements and related notes thereto included elsewhere in this report.

### Business Overview

We are a leading provider of optical subsystems and components that are used in data communication and telecommunication applications. Our optical subsystems consist primarily of transmitters, receivers, transceivers, transponders and active optical cables, which provide the fundamental optical-electrical, or optoelectronic interface for interconnecting the electronic equipment used in building these networks, including the switches, routers and servers used in wireline networks as well as the antennas and base stations for wireless networks. These products rely on the use of semiconductor lasers and photodetectors in conjunction with integrated circuits and novel optoelectronic packaging to provide a cost-effective means for transmitting and receiving digital signals over fiber optic cable at speeds ranging from less than 1 gigabit per second, or Gbps, to more than 100 Gbps, over distances of less than 10 meters to more than 2,000 kilometers, using a wide range of network protocols and physical configurations. We supply optical transceivers and transponders that allow point-to-point communications on a fiber using a single specified wavelength or, bundled with multiplexing technologies, can be used to supply multi-Gbps bandwidth over several wavelengths on the same fiber.

We also provide products known as wavelength selective switches, or WSS. In long-haul and metro networks, each fiber may carry 50 to 100 different high-speed optical wavelengths. WSS are switches that are used to dynamically switch network traffic from one optical fiber to multiple other fibers without first converting to an electronic signal. The wavelength selective feature means that WSS enable any wavelength or combination of wavelengths to be switched from the input fiber to the output fibers. WSS products are sometimes combined with other components and sold as linecards that plug into a system chassis referred to as a reconfigurable optical add/drop multiplexers, or ROADM.

Our line of optical components consists primarily of packaged lasers and photodetectors for data communication and telecommunication applications.

Demand for our products is largely driven by the continually growing need for additional network bandwidth created by the ongoing proliferation of data and video traffic driven by video downloads, Internet protocol TV, social networking, on-line gaming, file sharing, enterprise IP/Internet traffic, cloud computing, and data center virtualization that must be handled by both wireline and wireless networks. Mobile traffic is increasing as the result of proliferation of smartphones, tablet computers, and other mobile devices.

Our manufacturing operations are vertically integrated and we produce many of the key components used in making our products including lasers, photo-detectors and integrated circuits, or ICs, designed by our internal IC engineering teams. We also have internal assembly and test capabilities that make use of internally designed equipment for the automated testing of our optical subsystems and components.

We sell our optical products to manufacturers of storage systems, networking equipment and telecommunication equipment such as Alcatel-Lucent, Brocade, Ciena, Cisco Systems, EMC, Emulex, Ericsson, Fujitsu, Hewlett-Packard Company, Huawei, IBM, Juniper, Nokia-Siemens and Qlogic, and to their contract manufacturers. These customers, in turn, sell their systems to businesses and to wireline and wireless telecommunication service providers and CATV operators, collectively referred to as carriers.

Our cost of revenues consists of materials, salaries and related expenses for manufacturing personnel, manufacturing overhead, warranty expense, inventory adjustments for obsolete and excess inventory and the amortization of acquired developed technology associated with acquisitions that we have made. As a result of building a vertically integrated business model, our manufacturing cost structure has become more fixed. While this can be beneficial during periods when demand is strong, it can be more difficult to reduce costs during periods when demand for our products is weak, product mix is unfavorable or selling prices are generally lower. While we have undertaken measures to reduce our operating costs there can be no assurance that we will be able to reduce our cost of revenues enough to achieve or sustain profitability.

Since October 2000, we have completed the acquisition of two publicly-held companies. We have also completed the acquisition of 12 privately-held companies and certain businesses and assets from seven other companies in order to broaden our product offerings and provide new sources of revenue, production capabilities and access to advanced technologies that we

## Table of Contents

believe will enable us to reduce our product costs and develop innovative and more highly integrated product platforms while accelerating the timeframe required to develop such products.

### Recent Developments

#### Acquisition of u<sup>2</sup>t Photonics AG

On January 31, 2014, the Company acquired all outstanding equity interests in u<sup>2</sup>t Photonics AG ("u<sup>2</sup>t"), a German company engaged in research, development and marketing of optical components for high-speed telecom applications. With this transaction, the Company added u<sup>2</sup>t's Indium-Phosphide ("InP") -based 100 Gbps high speed receivers and photodetectors to its existing portfolio of high speed optics technologies. In addition, this acquisition consolidated the Company's previously announced partnership with u<sup>2</sup>t on InP-based IQ Mach-Zehnder modulators for 100 Gbps coherent applications. These receiver, photodetector and modulator technologies and products, when combined with the Company's narrow-line width tunable lasers, will enable the Company to offer its customers vertically integrated modules for the 100 Gbps coherent metro and long haul markets. For additional information regarding this acquisition, see "Part II, Item 8, Financial Statements and Supplementary Data - Note 4. Acquisition and Divestiture."

### Critical Accounting Policies

The preparation of our financial statements and related disclosures require that we make estimates, assumptions and judgments that can have a significant impact on our revenue and operating results, as well as on the value of certain assets and contingent liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements and, therefore, consider these to be our critical accounting policies. See below for more information about these critical accounting policies. We believe there have been no material changes to our critical accounting policies during the fiscal year ended April 27, 2014 compared to prior years.

#### Revenue Recognition, Warranty and Sales Returns

We recognize revenue when persuasive evidence of an arrangement exists, title and risk of loss have passed to the customer, generally upon shipment, the price is fixed or determinable and collectability is reasonably assured. At the time revenue is recognized, we establish an accrual for estimated warranty expenses associated with our sales, recorded as a component of cost of revenues. Our standard warranty period usually extends 12 months from the date of sale although it can extend for longer periods of three to five years for certain products sold to certain customers. Our warranty accrual represents our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. While we believe that our warranty accrual is adequate and that the judgment applied is appropriate, such amounts estimated to be incurred could differ materially from what actually transpire in the future. If our actual warranty costs are greater than the accrual, costs of revenue will increase in the future. We also provide an allowance for estimated customer returns, which is netted against revenue. This provision is based on our historical returns, analysis of credit memo data and our return policies. If the historical data used by us to calculate the estimated sales returns does not properly reflect future returns, revenue could be reduced in the future.

#### Allowance for Doubtful Accounts

We evaluate the collectability of our accounts receivable based on a combination of factors. In circumstances where, subsequent to delivery, we become aware of a customer's potential inability to meet its obligations, we record a specific allowance for the doubtful account to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize an allowance for doubtful accounts based on the length of time the receivables are past due and historical actual bad debt history. A material adverse change in a major

customer's ability to meet its financial obligations to us could result in a material reduction in the estimated amount of accounts receivable that can ultimately be collected and an increase in our general and administrative expenses for the shortfall.

#### Slow Moving and Obsolete Inventories

We make inventory commitment and purchase decisions based upon sales forecasts. To mitigate the component supply constraints that have existed in the past and to fill orders with non-standard configurations, we build inventory levels for certain items with long lead times and enter into certain longer-term commitments for certain items. We permanently write off 100% of the cost of inventory that we specifically identify and consider obsolete or excessive to fulfill future sales estimates. We define obsolete inventory as inventory that will no longer be used in the manufacturing process. We periodically discard obsolete

## Table of Contents

inventory. Excess inventory is generally defined as inventory in excess of projected usage, and is determined using our best estimate of future demand at the time, based upon information then available to us. In making these assessments, we are required to make judgments as to the future unit demand for current or committed inventory levels. In addition to the future unit demand, we also consider:

- parts and subassemblies that can be used in alternative finished products;
- parts and subassemblies that are unlikely to be engineered out of our products; and
- known design changes which would reduce our ability to use the inventory as planned.

Significant differences between our estimates and judgments regarding future timing of product transitions, volume and mix of customer demand for our products and actual timing, volume and demand mix may result in additional write-offs in the future, or additional usage of previously written-off inventory in future periods for which we would benefit from a reduced cost of revenues in those future periods.

## Business Combinations

We apply the provisions of the Financial Accounting Standards Board's Accounting Standards Codification Topic 805, Business Combinations ("ASC 805"), in the accounting for our acquisitions. Under ASC 805, the purchase price is equivalent to the fair value of consideration transferred on the date of the business combination, tangible and identifiable intangible assets acquired and liabilities assumed as of the acquisition date are recorded at the acquisition date fair value, and goodwill is recognized for any excess of purchase price over the net fair value of assets acquired and liabilities assumed.

Accounting for business combinations requires our management to make significant estimates and assumptions, especially at the acquisition date including our estimates for intangible assets, contractual obligations assumed, restructuring liabilities, pre-acquisition contingencies and contingent consideration, where applicable. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

Because of this uncertainty, our estimates are subject to refinement. As a result, during the measurement period, which may be up to one year following the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

## Goodwill, Intangibles and Other Long-Lived Assets

Goodwill, purchased technology, and other intangible assets resulting from acquisitions are accounted for under the acquisition method. Intangible assets with finite lives are amortized over their estimated useful lives. Amortization of purchased technology and other intangibles has been provided on a straight-line basis over periods ranging from three to ten years.

Goodwill is assessed for impairment annually or more frequently when an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value. Goodwill is tested for impairment at the reporting unit level at adoption and at least annually thereafter, utilizing a two-step methodology. The initial step requires us to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such unit. If the fair value of the reporting unit exceeds the

carrying value, no impairment loss would be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount, if any, of the impairment is then measured in the second step in which we determine the implied value of goodwill based on the allocation of the estimated fair value determined in the initial step to all assets and liabilities of the reporting unit.

We are required to make judgments about the recoverability of our long-lived assets, other than goodwill, whenever events or changes in circumstances indicate that the carrying value of these assets may be impaired or not recoverable. In order to make such judgments, we are required to make assumptions about the value of these assets in the future including future prospects for earnings and cash flows. If impairment is indicated, we write those assets down to their fair value which is generally determined based on discounted cash flows. Judgments and assumptions about the future are complex, subjective and can be affected by a variety of factors including industry and economic trends, our market position and the competitive environment of the businesses in which we operate.

## Table of Contents

### Share-Based Compensation Expense

Compensation cost for all share-based payment awards made to employees and directors including employee stock options, restricted stock units and employee stock purchases under our Employee Stock Purchase Plan is measured at the grant date based on the fair value of the award. We measure the fair value of restricted stock units using the market value of our common stock on the grant date. We estimate the fair value of employee stock options and stock purchases under our Employee Stock Purchase Plan on the date of grant using the Black-Scholes option pricing model.

The determination of the fair value of stock-based awards on the date of grant using an option pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the expected term of the awards, actual and projected employee stock option exercise behaviors, the risk-free interest rate, estimated forfeitures and expected dividends.

We estimate the expected term of options granted by calculating the average term from our historical stock option exercise experience. We calculate the volatility factor based on our historical stock prices. We base the risk-free interest rate on zero-coupon yields implied from U.S. Treasury issues with remaining terms similar to the expected term on the options. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

Compensation cost of expected-to-vest awards is valued under the single-option approach and recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period.

If we use different assumptions for estimating stock-based compensation expense in future periods or if actual forfeitures differ materially from our estimated forfeitures, the change in our stock-based compensation expense could materially affect our operating income, net income and net income per share.

### Accounting for Income Taxes

We apply the liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. Deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities and their reported amounts, along with net operating loss carryforwards and credit carryforwards. We reduce the deferred tax assets by recording a valuation allowance that is calculated in accordance with the provisions of ASC 740, "Income Taxes," which requires an assessment of both positive and negative evidence regarding the realizability of these deferred tax assets, when measuring the need for a valuation allowance. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In determining net deferred tax assets and valuation allowances, management is required to make judgments and estimates related to projections of profitability, the timing and extent of the utilization of net operating loss carry-forwards, applicable tax rates and tax planning strategies. We review the valuation allowance quarterly and will maintain it until sufficient positive evidence exists to support a reversal.

We provide for income taxes based upon the geographic composition of worldwide earnings and tax regulations governing each region. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Also, our current effective tax rate assumes that United States



income taxes are not provided for the undistributed earnings of non-United States subsidiaries. We intend to indefinitely reinvest the earnings of all foreign corporate subsidiaries accumulated in fiscal 2008 and subsequent years.

Our assumptions, judgments and estimates relative to the current provision for income taxes take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. We have established reserves for income taxes to address potential exposures involving tax positions that could be challenged by tax authorities. Although we believe our assumptions, judgments and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

Our assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations or capital gains income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and

Table of Contents

estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, thus materially impacting our financial position and results of operations.

## Recent Accounting Pronouncements

For a description of recently issued accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see "Part II, Item 8, Financial Statements and Supplementary Data - Note 2. Summary of Significant Accounting Policies."

## Results of Operations

## Comparison of Fiscal Years Ended April 27, 2014 and April 28, 2013

## Revenues

The following table sets forth the changes in revenues by market application:

(in thousands, except percentages)	Fiscal Years Ended		Change	% Change	
	April 27, 2014	April 28, 2013			
Datacom revenue	\$822,048	\$590,908	\$231,140	39.1	%
Telecom revenue	334,785	343,427	(8,642)	(2.5)	)%
Total revenues	\$1,156,833	\$934,335	\$222,498	23.8	%

The increase in datacom revenue was primarily due to an increase in market demand for our 10 Gbps and higher Ethernet transceivers as enterprises upgraded their technology infrastructure driving demand for our products. The decrease in telecom revenue was primarily due to a decline in average selling prices.

## Amortization of Acquired Developed Technology

(in thousands, except percentage)	Fiscal Years Ended		Change	% Change	
	April 27, 2014	April 28, 2013			
Amortization of acquired developed technology	\$5,061	\$7,044	\$(1,983)	(28.2)	)%

The decrease was primarily due to acquired developed technology impairment recognized in the fourth quarter of fiscal 2013.

## Impairment of Long-lived Assets

(in thousands, except percentage)	Fiscal Years Ended		Change	% Change	
	April 27, 2014	April 28, 2013			
Impairment of long-lived assets	\$—	\$8,156	\$(8,156)	(100.0)	)%

During the fourth quarter of fiscal 2013, we recorded an \$8.2 million charge, including \$4.9 million related to acquired intangible assets and \$3.3 million related to fixed assets, due to the projected cash flows associated with these assets not supporting the carrying values of these assets. No impairment charges were recorded during fiscal 2014.

## Gross Profit

(in thousands, except percentages)	Fiscal Years Ended		Change	% Change	
	April 27, 2014	April 28, 2013			
Gross profit	\$396,999	\$257,041	\$139,958	54.4	%
As a percentage of revenues	34.3	% 27.5	%		

The increase in gross margin primarily reflected a more favorable product mix in fiscal 2014 compared to fiscal 2013.



Table of Contents

## Research and Development Expenses

	Fiscal Years Ended				
(in thousands, except percentage)	April 27, 2014	April 28, 2013	Change	% Change	
Research and development expenses	\$183,355	\$158,784	\$24,571	15.5	%

The increase was due primarily to increases in employee compensation related expenses, principally as a result of additional hiring related to new product development activities.

## Sales and Marketing Expenses

	Fiscal Years Ended				
(in thousands, except percentage)	April 27, 2014	April 28, 2013	Change	% Change	
Sales and marketing expenses	\$46,547	\$42,347	\$4,200	9.9	%

The increase was primarily due to increase in employee compensation related expenses, principally as the result of additional activities required as we expand our product offering and customer base.

## General and Administrative Expenses

	Fiscal Years Ended				
(in thousands, except percentage)	April 27, 2014	April 28, 2013	Change	% Change	
General and administrative expenses	\$53,214	\$45,337	\$7,877	17.4	%

The increase was primarily due to a \$7.1 million non-recurring gain recognized during the fourth quarter of fiscal 2013 related to the fair value remeasurement of the contingent consideration liability related to the Red-C acquisition.

## Amortization of Purchased Intangibles

	Fiscal Years Ended				
(in thousands, except percentage)	April 27, 2014	April 28, 2013	Change	% Change	
Amortization of purchased intangibles	\$2,468	\$3,640	\$(1,172)	(32.2)	%

The decrease was primarily due to purchased intangible asset's impairment recognized in the fourth quarter of fiscal 2013.

## Impairment of Long-lived Assets

	Fiscal Years Ended				
(in thousands, except percentage)	April 27, 2014	April 28, 2013	Change	% Change	
Impairment of long-lived assets	\$—	\$12,488	\$(12,488)	(100.0)	%

During fiscal 2013, we recorded a \$12.5 million charge for the impairment of long-lived assets, including \$6.4 million related to acquired intangible assets and \$150,000 related to fixed assets due to the projected cash flows associated with these assets not supporting the carrying values of these assets, and \$5.9 million related to the adjustment of the carrying value of certain purchased intangible assets to their estimated fair values based on their expected sale in the future. No impairment charges were recorded during fiscal 2014.

## Interest Income

	Fiscal Years Ended				
(in thousands, except percentage)	April 27, 2014	April 28, 2013	Change	% Change	
Interest income	\$1,319	\$755	\$564	74.7	%

The increase was primarily due to higher cash balances during fiscal 2014 compared to fiscal 2013.

Table of Contents

## Interest Expense

	Fiscal Years Ended			
(in thousands, except percentage)	April 27, 2014	April 28, 2013	Change	% Change
Interest expense	\$ (5,547	) \$ (2,589	) \$ (2,958	) 114.3 %

The increase was primarily due to the issuance of the 2033 Notes during the third quarter of fiscal 2014.

## Other Income (Expense), Net

	Fiscal Years Ended			
(in thousands, except percentage)	April 27, 2014	April 28, 2013	Change	% Change
Other income (expense), net	\$ 7,234	\$ (449	) \$ 7,683	(1,711.1 )%

The increase in other income in fiscal 2014 compared to fiscal 2013 was primarily due to an \$8.2 million gain on divestiture of our majority-owned subsidiary, Finisar Korea, in the fourth quarter of fiscal 2014.

## Provision for Income Taxes.

	Fiscal Years Ended			
(in thousands, except percentage)	April 27, 2014	April 28, 2013	Change	% Change
Provision for income taxes	\$ 2,884	\$ 227	\$ 2,657	1,170.5 %

The income tax provisions for fiscal 2014 and 2013 primarily represent current state and foreign income taxes arising in certain jurisdictions in which we conduct business.

Due to the uncertainty regarding the timing and extent of our future profitability, we continue to record a valuation allowance to offset our U.S. deferred tax assets which represent future income tax benefits associated with our operating losses because we do not currently believe it is more likely than not these assets will be realized. If we conclude that sufficient positive evidence exists to support a reversal of all or a portion of the valuation allowance, we expect that a significant portion of any release of the valuation allowance will be recorded as an income tax benefit at the time of release.

## Non-controlling interest

	Fiscal Years Ended			
(in thousands, except percentage)	April 27, 2014	April 28, 2013	Change	% Change
Non-controlling interest	\$ 250	\$ 2,611	\$ (2,361	) (90.4 )%

Non-controlling interest for fiscal 2014 and 2013 represents minority shareholders' proportionate share of the net loss of our majority-owned subsidiary, Finisar Korea, prior to its divestiture in the fourth quarter of fiscal 2014.

## Comparison of Fiscal Years Ended April 28, 2013 and April 30, 2012

## Revenues

The following table sets forth the changes in revenues by market application:

	Fiscal Years Ended			
(in thousands, except percentages)	April 28, 2013	April 30, 2012	Change	% Change
Datacom revenue	\$ 590,908	\$ 537,331	\$ 53,577	10.0 %
Telecom revenue	343,427	415,248	(71,821	) (17.3 )%
Total revenues	\$ 934,335	\$ 952,579	\$ (18,244	) (1.9 )%

The increase in datacom revenue was primarily due to an increase in market demand for our datacom products as enterprises upgraded their technology infrastructure driving demand for the products of our OEM system customers

and thus higher demand for our datacom module products. The decrease in telecom revenue was primarily due to a decline in market demand for our telecom products due to sluggish spending by telecom service providers worldwide.

Table of Contents

## Amortization of Acquired Developed Technology

	Fiscal Years Ended				
(in thousands, except percentage)	April 28, 2013	April 30, 2012	Change	% Change	
Amortization of acquired developed technology	\$7,044	\$6,311	\$733	11.6	%

The increase was primarily due to the amortization of the acquired developed technology related to the Red-C acquisition.

## Impairment of Long-lived Assets

	Fiscal Years Ended				
(in thousands, except percentage)	April 28, 2013	April 30, 2012	Change	% Change	
Impairment of long-lived assets	\$8,156	\$—	\$8,156	100.0	%

During the fourth quarter of fiscal 2013, we recorded an \$8.2 million charge, including \$4.9 million related to acquired intangible assets and \$3.3 million related to fixed assets, due to the projected cash flows associated with these assets not supporting the carrying values of these assets. No impairment charges were recorded during fiscal 2012.

## Gross Profit

	Fiscal Years Ended				
(in thousands, except percentages)	April 28, 2013	April 30, 2012	Change	% Change	
Gross profit	\$257,041	\$273,344	\$(16,303)	(6.0)	%)
As a percentage of revenues	27.5	% 28.7	%		

The decrease in gross margin primarily reflects a decline in average selling prices.

## Research and Development Expenses

	Fiscal Years Ended				
(in thousands, except percentage)	April 28, 2013	April 30, 2012	Change	% Change	
Research and development expenses	158,784	146,003	\$12,781	8.8	%

The increase was due primarily to increases in employee compensation related expenses, including stock-based compensation expenses, principally as a result of additional hiring related to new product development activities.

## Sales and Marketing Expenses

	Fiscal Years Ended				
(in thousands, except percentage)	April 28, 2013	April 30, 2012	Change	% Change	
Sales and marketing expenses	\$42,347	\$40,424	\$1,923	4.8	%

The increase was primarily due to increases in employee compensation related expenses, including stock-based compensation expenses.

## General and Administrative Expenses

	Fiscal Years Ended				
(in thousands, except percentage)	April 28, 2013	April 30, 2012	Change	% Change	
General and administrative expenses	\$45,337	\$39,566	\$5,771	14.6	%



General and administrative expenses in fiscal 2013 included a non-recurring gain of \$7.1 million related to the fair value remeasurement of the contingent consideration liability related to the Red-C acquisition. General and administrative expenses in fiscal 2012 included a non-recurring gain of \$7.4 million related to a favorable decision by an arbitrator in an intellectual property dispute and a non-recurring gain of \$4.9 million related to the fair value remeasurement of the contingent

Table of Contents

consideration liability related to the Ignis acquisition. The remaining increase was primarily due to an increase in stock-based compensation expenses in fiscal 2013.

## Restructuring Recoveries

(in thousands, except percentage)	Fiscal Years Ended			
	April 28, 2013	April 30, 2012	Change	% Change
Restructuring recoveries	\$—	\$(322)	) \$322	(100.0)%

During the first quarter of fiscal 2012, we entered into a sublease agreement with a third party for a portion of our abandoned and unused facility in Allen, Texas. As a result of this sublease agreement, we recorded a recovery of \$322,000 to reflect an adjustment to reduce our future net liability related to this facility.

## Amortization of Purchased Intangibles

(in thousands, except percentage)	Fiscal Years Ended			
	April 28, 2013	April 30, 2012	Change	% Change
Amortization of purchased intangibles	\$3,640	\$3,494	\$146	4.2%

The increase was primarily due to the amortization of the intangibles related to the Red-C acquisition.

## Impairment of Long-lived Assets

(in thousands, except percentage)	Fiscal Years Ended			
	April 28, 2013	April 30, 2012	Change	% Change
Impairment of long-lived assets	\$12,488	\$—	\$12,488	100.0%

During fiscal 2013, we recorded a \$12.5 million charge for the impairment of long-lived assets, including \$6.4 million related to acquired intangible assets and \$150,000 related to fixed assets due to the projected cash flows associated with these assets not supporting the carrying values of these assets, and \$5.9 million related to the adjustment of the carrying value of certain purchased intangible assets to their estimated fair values based on their expected sale in the future. No impairment charges were recorded during fiscal 2012.

## Interest Income

(in thousands, except percentage)	Fiscal Years Ended			
	April 28, 2013	April 30, 2012	Change	% Change
Interest income	\$755	\$1,073	\$(318)	(29.6)%

The decrease was primarily due to interest earned on the funds associated with the favorable decision by an arbitrator in the intellectual property dispute noted above for the period between the date of decision and actual payment date in fiscal 2012.

## Interest Expense

(in thousands, except percentage)	Fiscal Years Ended			
	April 28, 2013	April 30, 2012	Change	% Change
Interest expense	\$(2,589)	\$(3,716)	) \$1,127	(30.3)%

The decrease was primarily due to repayments of bank loans to our Ignis subsidiary during fiscal 2012 and the first quarter of fiscal 2013.

## Loss on Debt Extinguishment

Fiscal Years Ended

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(in thousands, except percentage)	April 28, 2013	April 30, 2012	Change	% Change
Loss on debt extinguishment	\$—	\$(419)	) \$419	(100.0)%

Table of Contents

During the first quarter of fiscal 2012, we repaid certain bank loans that we assumed as part of the Ignis acquisition. The repayment of these loans resulted in a loss of \$419,000 which we recognized in our consolidated statement of operations for fiscal 2012.

## Other Income (Expense), Net

(in thousands, except percentage)	Fiscal Years Ended			
	April 28, 2013	April 30, 2012	Change	% Change
Other income (expense), net	\$(449	) \$3,902	\$(4,351	) (111.5 )%

Other expense, net, in fiscal 2013 primarily consisted of \$1.2 million of foreign currency exchange losses, \$457,000 of amortization of debt issuance costs and \$573,000 of accelerated amortization of debt issuance costs related to a revolving credit facility which we terminated, partially offset by a gain of \$1.3 million related to the disposition of an asset disposal group. Other income, net, in fiscal 2012 primarily consisted of a gain of \$5.4 million related to the fair value measurement of our equity interest in Ignis upon obtaining a controlling interest in May 2011. This income was partially offset by \$756,000 of amortization of debt issuance costs related to our convertible notes and \$619,000 of our proportionate share of the net losses of Ignis during the period prior to our acquisition of a controlling interest, during which period we accounted for our investment using the equity method.

## Provision for Income Taxes

(in thousands, except percentage)	Fiscal Years Ended			
	April 28, 2013	April 30, 2012	Change	% Change
Provision for income taxes	\$227	\$2,005	\$(1,778	) (88.7 )%

The income tax provisions for fiscal 2013 and 2012 primarily represent current state and foreign income taxes arising in certain jurisdictions in which we conduct business.

## Non-controlling interest

(in thousands, except percentage)	Fiscal Years Ended			
	April 28, 2013	April 30, 2012	Change	% Change
Non-controlling interest	\$2,611	\$(21	) \$2,632	(12,533.3 )%

Non-controlling interest for fiscal 2013 and 2012 represents minority shareholders' proportionate share of the net loss (income) of our majority-owned subsidiary, Finisar Korea.

## Liquidity and Capital Resources

(in thousands)	Fiscal Years Ended		
	April 27, 2014	April 28, 2013	April 28, 2012
Net cash provided by operating activities	99,115	148,290	74,011
Net cash used in investing activities	(359,785	) (99,175	) (148,602
Net cash provided by (used in) financing activities	274,695	5,417	(5,630

## Cash Flows from Operating Activities

Net cash provided by operating activities in fiscal 2014 consisted of our net income, as adjusted to exclude depreciation, amortization and other non-cash items totaling \$104.4 million, and a \$116.8 million increase in working capital primarily related to increases in accounts receivable, inventory, offset by an increase in accounts payable.

Accounts receivable increased by \$74.2 million primarily due to the increase in revenues during the year. Inventory increased by \$62.9 million due to increased purchases to support the increased sales level.

Net cash provided by operating activities in fiscal 2013 consisted of our net loss, as adjusted to exclude depreciation, amortization and other non-cash items totaling \$109.9 million, and a \$46.5 million decrease in working capital

primarily related to decreases in accounts receivable and inventory. Accounts receivable decreased by \$22.0 million primarily due to strong collections during fiscal 2013. Inventory decreased by \$19.4 million due to usage in the manufacturing process.

Table of Contents

Net cash provided by operating activities in fiscal 2012 consisted of our net income, as adjusted to exclude depreciation, amortization and other non-cash items totaling \$73.2 million, and cash used for working capital requirements primarily related to increases in inventory and decreases in accounts payable offset by decreases in accounts receivables. Accounts receivable decreased by \$11.9 million primarily due to strong collections during fiscal 2012. Inventory increased by \$21.3 million due to increased purchases to support projected increased levels of sales. Accounts payables decreased due to higher payments made near the end of the year.

**Cash Flows from Investing Activities**

Net cash used in investing activities in fiscal 2014 primarily consisted of expenditures of \$130.2 million for capital equipment, \$209.9 million related to purchases of short-term marketable securities and \$21.2 million related to the acquisitions of businesses.

Net cash used in investing activities in fiscal 2013 primarily consisted of expenditures of \$90.6 million for capital equipment and \$21.5 million related to the acquisition of Red-C, partially offset by \$10.5 million in proceeds from the sale of a minority investment.

Net cash used in investing activities in fiscal 2012 primarily consisted of \$71.2 million related to the acquisition of Ignis and expenditures of \$77.0 million for capital equipment.

**Cash Flows from Financing Activities**

Net cash provided by financing activities in fiscal 2014 primarily reflected \$255.0 million of proceeds, net of issuance costs, from issuance of the 2033 Convertible Senior Notes and proceeds from the exercise of stock options and share purchases under our employee stock purchase plan totaling \$19.1 million.

Net cash provided by financing activities in fiscal 2013 primarily consisted of proceeds from the exercise of stock options and share purchases under our employee stock purchase plan totaling \$8.6 million, partially offset by the repayment of borrowings related to the Ignis acquisition of \$3.2 million.

Net cash used in financing activities in fiscal 2012 primarily reflected repayments of borrowings related to the Ignis acquisition totaling \$15.6 million, partially offset by additional borrowings of \$1.8 million by Finisar Korea and proceeds from the exercise of stock options and share purchases under our stock purchase plan totaling \$8.1 million.

**Contractual Obligations and Commercial Commitments**

Our contractual obligations at April 27, 2014 were as follows (in thousands):

	Total	Payments Due by Period			
		Less than 1 year	1-3 Years	4-5 Years	After 5 Years
Contractual Obligations					
5.0% Convertible Senior Notes due 2029	\$40,015	\$40,015	\$—	\$—	\$—
0.5% Convertible Senior Notes due 2033	258,750	—	—	258,750	—
Interest on 2029 Notes (a)	1,000	1,000	—	—	—
Interest on 2033 Notes (b)	5,984	1,294	2,588	2,102	—
Other debt	836	243	289	221	83
Interest on other debt	185	74	70	31	10
Operating leases (c)	56,441	11,667	19,985	15,489	9,300
Facility construction	8,588	8,588	—	—	—
Purchase obligations (d)	139,250	139,250	—	—	—
Total contractual obligations	\$511,049	\$202,131	\$22,932	\$276,593	\$9,393

(a) Includes interest on our 5.0% Convertible Senior Notes due October 2029 through October 2014 as we have the right to redeem the notes in whole or in part at any time on or after October 22, 2014.

(b) Includes interest on our 0.50% Convertible Senior Notes due 2033 through December 2018 as we have to right to redeem the notes in whole or in part at any time on or after December 22, 2018.

(c) Includes operating lease obligations that have been accrued as restructuring charges.

(d) Includes open purchase orders with terms that generally allow us the option to cancel or reschedule the order, subject to various restrictions and limitations.



## Table of Contents

The 2029 Notes are convertible by the holders at any time prior to maturity into shares of our common stock at specified conversion prices. These notes are redeemable by us, in whole or in part at any time on or after October 22, 2014 if the last reported sale price per share of our common stock exceeds 130% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days ending within five trading days of the date on which we provide the notice of redemption. These notes are also subject to redemption by the holders in October 2014, 2016, 2019 and 2024.

The 2033 Notes are convertible into shares of our common stock at specified conversion prices by the holders prior to June 15, 2033 only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on January 26, 2014 (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period ("measurement period"), in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after June 15, 2033 until the maturity, holders may convert their notes at any time, regardless of whether any of the foregoing circumstances have occurred. The 2033 Notes are also subject to redemption by the holders in December 2018, 2023 and 2028. These notes are redeemable by us, in whole or in part, at any time on or after December 22, 2018.

Other debt consists of loan obligations of our German subsidiary to three German financial institutions with interest ranging from 2.7% to 15.3% per annum. Interest is payable monthly and principal is payable at various dates through December 2019.

Operating lease obligations consist primarily of base rents for facilities we occupy at various locations.

Facility construction obligations consist primarily of our ongoing commitments related to the construction of a manufacturing operations facility in Wuxi, China.

Purchase obligations represent all open purchase orders and contractual obligations in the ordinary course of business for which we have not received the goods or services. Although open purchase orders are considered enforceable and legally binding, their terms generally allow us the option to cancel, reschedule and adjust our requirements based on our business needs prior to the delivery of goods or performance of services.

### Sources of Liquidity and Capital Resource Requirements

At April 27, 2014, our principal sources of liquidity consisted of approximately \$513 million of cash and cash equivalents and short-term investments, of which approximately \$153 million was held by our foreign subsidiaries.

We believe that our existing balances of cash and cash equivalents, together with the cash expected to be generated from future operations, will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 12 months. We may, however, require additional financing to fund our operations in the future, to finance future acquisitions that we may propose to undertake or to repay or otherwise retire all of our outstanding 2029 Notes, in the aggregate principal amount of \$40.0 million, which are subject to redemption by the holders in October 2014, 2016, 2019 and 2024, or our 2033 Notes, in the aggregate principal amount of \$258.8 million, which are subject to redemption by the holders in December 2018, 2033 and 2028. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if and when it is required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition and results of operations will be



adversely affected.

#### Off-Balance-Sheet Arrangements

At April 27, 2014 and April 28, 2013, we did not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

#### Related Party Transactions

The material set forth in the first paragraph of Note 20 of Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K is incorporated herein by reference.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As of April 27, 2014, we had \$40.0 million of convertible notes with a fixed interest rate of 5% and \$258.8 million of convertible notes with a fixed interest rate of 0.5% outstanding. The fair value of this debt as of April 27, 2014 was approximately \$409.4 million, based on the market price of the notes in the open market as of or close to April 27, 2014. The difference between the carrying value and the fair value is primarily due to the spread between the conversion price and the market value of the shares underlying the conversion. We are subject to significant fluctuations in fair market value of the debt due to the volatility of the stock market. We had no variable interest rate debt outstanding which would expose us to interest rate risk.

We invest in equity instruments of privately-held companies for business and strategic purposes. These investments are included in other long-term assets and are accounted for under the cost method when our ownership interest is less than 20% and we do not have the ability to exercise significant influence. At April 27, 2014, we had an investment in one privately-held company in the amount of \$884,000 accounted for under the cost method and one privately-held company in the amount of \$1.2 million accounted for under the equity method. For such non-quoted investments, our policy is to regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values. We identify and record impairment losses when events and circumstances indicate that such assets are impaired. We concluded that there were sufficient indicators during the fourth quarter of 2012 to require an impairment analysis of our investment in one of these companies. Among these indicators was the completion of a new round of equity financing by the investee at a rate per share lower than the value at which the investment was then being carried. We determined that the value of our minority equity investment was impaired and thus recorded a \$616,000 impairment loss. No such impairment was recorded in fiscal 2014 and 2013. If our investment in a privately-held company becomes readily marketable upon the company's completion of an initial public offering or its acquisition by another company, our investment would be subject to significant fluctuations in fair market value due to the volatility of the stock market.

We have subsidiaries located in China, Malaysia, Israel, Australia, Korea, Sweden, Germany, India and Singapore. Due to the relative volume of transactions through these subsidiaries, we do not believe that we have significant exposure to foreign currency exchange risks. We currently do not use derivative financial instruments to mitigate this exposure. We continue to review this issue and may consider hedging certain foreign exchange risks through the use of currency forwards or options in future years.

Table of Contents

Item 8. Financial Statements and Supplementary Data

FINISAR CORPORATION CONSOLIDATED FINANCIAL STATEMENTS INDEX

<u>Report of Independent Registered Public Accounting Firm</u>	<u>39</u>
<u>Consolidated Balance Sheets</u>	<u>40</u>
<u>Consolidated Statements of Operations</u>	<u>41</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>42</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>43</u>
<u>Consolidated Statements of Cash Flows</u>	<u>44</u>
<u>Notes to Consolidated Financial Statements</u>	<u>45</u>

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Finisar Corporation

We have audited the accompanying consolidated balance sheets of Finisar Corporation as of April 27, 2014 and April 28, 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended April 27, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Finisar Corporation at April 27, 2014 and April 28, 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended April 27, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Finisar Corporation's internal control over financial reporting as of April 27, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated June 26, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California

June 26, 2014

Table of ContentsFINISAR CORPORATION  
CONSOLIDATED BALANCE SHEETS

	April 27, 2014	April 28, 2013
	(In thousands, except share and per share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 303,101	\$ 289,076
Short-term investments	209,922	—
Accounts receivable, net of allowance for doubtful accounts of \$929 at April 27, 2014 and \$958 at April 28, 2013	225,020	149,612
Accounts receivable, other	33,749	16,538
Inventories	259,759	200,670
Prepaid expenses and other current assets	33,022	18,402
Total current assets	1,064,573	674,298
Property, equipment and improvements, net	273,328	201,442
Purchased intangible assets, net	34,140	30,457
Goodwill	106,114	90,986
Minority investments	2,117	884
Other assets	17,274	9,780
Total assets	\$ 1,497,546	\$ 1,007,847
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 119,439	\$ 77,630
Accrued compensation	38,541	31,492
Other current liabilities	31,776	23,533
Deferred revenue	16,659	9,182
Current portion of convertible debt	40,015	—
Total current liabilities	246,430	141,837
Long-term liabilities:		
Convertible debt, net of current portion	212,253	40,015
Other non-current liabilities	22,804	13,480
Total liabilities	481,487	195,332
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding at April 27, 2014 and April 28, 2013	—	—
Common stock, \$0.001 par value, 750,000,000 shares authorized, 97,281,665 shares issued and outstanding at April 27, 2014 and 93,778,620 shares issued and outstanding at April 28, 2013	97	94
Additional paid-in capital	2,456,110	2,350,146
Accumulated other comprehensive income	20,025	28,525
Accumulated deficit	(1,460,173)	(1,571,960)
Finisar Corporation stockholders' equity	1,016,059	806,805
Non-controlling interest	—	5,710
Total stockholders' equity	1,016,059	812,515
Total liabilities and stockholders' equity	\$ 1,497,546	\$ 1,007,847

See accompanying notes.



Table of ContentsFINISAR CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years Ended		
	April 27, 2014	April 28, 2013	April 30, 2012
	(In thousands, except per share data)		
Revenues	\$1,156,833	\$934,335	\$952,579
Cost of revenues	754,773	662,094	672,924
Amortization of acquired developed technology	5,061	7,044	6,311
Impairment of long-lived assets	—	8,156	—
Gross profit	396,999	257,041	273,344
Operating expenses:			
Research and development	183,355	158,784	146,003
Sales and marketing	46,547	42,347	40,424
General and administrative	53,214	45,337	39,566
Restructuring recoveries	—	—	(322)
Amortization of purchased intangibles	2,468	3,640	3,494
Impairment of long-lived assets	—	12,488	—
Total operating expenses	285,584	262,596	229,165
Income (loss) from operations	111,415	(5,555)	44,179
Interest income	1,319	755	1,073
Interest expense	(5,547)	(2,589)	(3,716)
Loss on debt extinguishment	—	—	(419)
Other income (expense), net	7,234	(449)	3,902
Income (loss) before income taxes and non-controlling interest	114,421	(7,838)	45,019
Provision for income taxes	2,884	227	2,005
Consolidated net income (loss)	111,537	(8,065)	43,014
Adjust for net (income) loss attributable to non-controlling interest	250	2,611	(21)
Net income (loss) attributable to Finisar Corporation	\$111,787	\$(5,454)	\$42,993
Net income (loss) per share attributable to Finisar Corporation common stockholders:			
Basic	\$1.16	\$(0.06)	\$0.47
Diluted	\$1.09	\$(0.06)	\$0.46
Shares used in computing net income (loss) per share:			
Basic	95,979	92,860	90,823
Diluted	104,112	92,860	94,186

See accompanying notes.

Table of Contents

## FINISAR CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Fiscal Years Ended		
	April 27, 2014	April 28, 2013	April 30, 2012
Consolidated net income (loss)	\$ 111,537	\$(8,065)	) \$43,014
Other comprehensive income (loss), net of tax:			
Change in cumulative foreign currency translation adjustment	(8,500)	) (195	) (4,246 )
Total other comprehensive income (loss), net of tax	(8,500)	) (195	) (4,246 )
Total comprehensive income (loss)	103,037	(8,260)	) 38,768
Adjust for comprehensive (income) loss attributable to non-controlling interest, net of tax	250	2,611	(21 )
Comprehensive income (loss) attributable to Finisar Corporation	\$ 103,287	\$(5,649)	) \$38,747

See accompanying notes.



Table of Contents

## FINISAR CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Finisar Stockholders' Equity	Non-controlling Interest	Total Stockholders' Equity
(In thousands, except share data)								
Balance at April 30, 2011	89,903,095	\$ 90	\$ 2,275,600	\$ 32,966	\$(1,609,499)	\$ 699,157	\$ —	\$ 699,157
Net income	—	—	—	—	42,993	42,993	21	43,014
Other comprehensive loss, net	—	—	—	(4,246)	—	(4,246)	—	(4,246)
Non-controlling interest at acquisition	—	—	—	—	—	—	8,300	8,300
Issuance of shares pursuant to equity plans, net of tax withholdings	1,118,169	1	2,358	—	—	2,359	—	2,359
Issuance of shares pursuant to employee stock purchase plan	334,464	—	4,744	—	—	4,744	—	4,744
Share-based compensation expense	—	—	24,225	—	—	24,225	—	24,225
Employer contribution to defined contribution retirement plan	95,887	—	2,292	—	—	2,292	—	2,292
Balance at April 30, 2012	91,451,615	91	2,309,219	28,720	(1,566,506)	771,524	8,321	779,845
Net loss	—	—	—	—	(5,454)	(5,454)	(2,611)	(8,065)
Other comprehensive loss, net	—	—	—	(195)	—	(195)	—	(195)
Issuance of shares pursuant to equity plans, net of tax withholdings	1,591,907	2	389	—	—	391	—	391
Issuance of shares pursuant to employee stock purchase plan	577,136	1	6,640	—	—	6,641	—	6,641
Issuance of shares for exercise of warrants	37,582	—	30	—	—	30	—	30
Share-based compensation expense	—	—	31,961	—	—	31,961	—	31,961
Employer contribution to defined contribution retirement plan	120,380	—	1,907	—	—	1,907	—	1,907
Balance at April 28, 2013	93,778,620	94	2,350,146	28,525	(1,571,960)	806,805	5,710	812,515

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Net income (loss)	—	—	—	—	111,787	111,787	(250 )	111,537
Other comprehensive loss, net	—	—	—	(8,500 )	—	(8,500 )	—	(8,500 )
Issuance of shares pursuant to equity plans, net of tax withholdings	2,805,276	3	9,290	—	—	9,293	—	9,293
Issuance of shares pursuant to employee stock purchase plan	608,946	—	7,563	—	—	7,563	—	7,563
Share-based compensation expense	—	—	37,966	—	—	37,966	—	37,966
Employer contribution to defined contribution retirement plan	88,823	—	2,228	—	—	2,228	—	2,228
Equity component of senior convertible notes, net of allocated issuance costs	—	—	48,917	—	—	48,917	—	48,917
Sale of controlling interest	—	—	—	—	—	—	(5,460)	(5,460 )
Balance at April 27, 2014	97,281,665	\$ 97	\$2,456,110	\$ 20,025	\$(1,460,173)	\$1,016,059	\$ —	\$1,016,059
See accompanying notes.								

Table of ContentsFINISAR CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended			
	April 27, 2014	April 28, 2013	April 30, 2012	
	(In thousands)			
Operating activities				
Net income (loss) attributable to Finisar Corporation	\$ 111,787	\$ (5,454	) \$ 42,993	
Adjust for net income (loss) attributable to non-controlling interest	(250	) (2,611	) 21	
Consolidated net income (loss)	111,537	(8,065	) 43,014	
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	62,013	52,804	45,560	
Amortization	8,136	11,336	10,654	
Stock-based compensation expense	39,955	33,594	25,974	
Equity in (earnings) losses of equity method investment	(585	) —	619	
Net gain on sale of minority investments	—	—	(619	)
Impairment of minority investments	—	—	616	
(Gain) loss on sale or retirement of assets and asset disposal groups	(8,313	) (1,350	) 233	
Impairment of long-lived assets	—	20,643	—	
Gain on fair value measurement of minority equity-method investment	—	—	(5,429	)
Gain on fair value remeasurement of contingent consideration related to acquisitions	—	(7,130	) (4,853	)
Loss on debt extinguishment	—	—	419	
Amortization of discount on 0.50% Convertible Senior Notes due 2033	3,151	—	—	
Changes in operating assets and liabilities:				
Accounts receivable	(74,238	) 21,971	11,893	
Inventories	(62,864	) 19,362	(21,323	)
Other assets	(33,436	) 1,848	(7,198	)
Accounts payable	33,965	3,015	(11,990	)
Accrued compensation	4,580	2,390	2,094	
Deferred revenue	5,505	(1,760	) (2,383	)
Other liabilities	9,709	(368	) (13,270	)
Net cash provided by operating activities	99,115	148,290	74,011	
Investing activities				
Additions to property, equipment and improvements	(130,191	) (90,622	) (77,039	)
Purchases of short-term investments	(209,922	) —	—	
Proceeds from sale of property and equipment and asset disposal groups	1,483	2,698	32	
Acquisitions, net of cash acquired	(21,155	) (21,525	) (71,232	)
Proceeds from sale of minority investments	—	10,495	913	
Purchase of intangible assets	—	(221	) (1,276	)
Net cash used in investing activities	(359,785	) (99,175	) (148,602	)
Financing activities				
Proceeds from term loans	4,230	—	1,800	
Repayments of term loans	(3,676	) (3,150	) (15,576	)
Proceeds from issuance of 0.50% Convertible Senior Notes due 2033, net of issuance costs	255,000	—	—	
Proceeds from the issuance of shares under equity plans and employee stock purchase plan	19,141	8,567	8,146	

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Net cash provided by (used in) financing activities	274,695	5,417	(5,630 )
Net increase (decrease) in cash and cash equivalents	14,025	54,532	(80,221 )
Cash and cash equivalents at beginning of year	289,076	234,544	314,765
Cash and cash equivalents at end of year	\$303,101	\$289,076	\$234,544
Supplemental disclosure of cash flow information			
Cash paid for interest	\$2,067	\$2,011	\$2,540
Cash paid for taxes	\$3,660	\$2,073	\$7,757
See accompanying notes			

## Table of Contents

### FINISAR CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Description of Business and Basis of Presentation

##### Description of Business

Finisar Corporation (the “Company”) was incorporated in California in April 1987 and reincorporated in Delaware in November 1999. The Company is a leading provider of optical subsystems and components that are used in data-communication and telecommunication applications. The Company's optical subsystems consist primarily of transmitters, receivers, transceivers, transponders and active optical cables which provide the fundamental optical-electrical or optoelectronic interface for interconnecting the electronic equipment used in building these networks, including the switches, routers and servers used in wireline networks as well as the antennas and base stations for wireless networks. These products rely on the use of digital and analog RF semiconductor lasers in conjunction with integrated circuits and novel optoelectronic packaging to provide a cost-effective means for transmitting and receiving digital signals over fiber optic cable at speeds ranging from less than 1 gigabit per second, or Gbps, to more than 100 Gbps, over distances of less than 10 meters to more than 2,000 kilometers, using a wide range of network protocols and physical configurations. The Company supplies optical transceivers and transponders that allow point-to-point communications on a fiber using a single specified wavelength or, bundled with multiplexing technologies, can be used to supply multi-Gbps bandwidth over several wavelengths on the same fiber. The Company also provides products known as wavelength selective switches, or WSS. In long-haul and metro networks, each fiber may carry 50 to 100 different high-speed optical channels, each with its own specific optical wavelength. WSS are switches that are used to dynamically switch network traffic from one optical fiber to multiple other fibers without first converting the optical signal to an electronic signal. The wavelength selective feature means that WSS enable any wavelength or combination of wavelengths to be switched from the input fiber to the output fibers. WSS products are sometimes combined with other components and sold as linecards that plug into a system chassis referred to as a reconfigurable optical add/drop multiplexer, or ROADM. The Company's line of optical components consists primarily of packaged lasers and photodetectors for data communication and telecommunication applications, and passive optical components used in telecommunication applications. Demand for the Company's products is largely driven by the continually growing need for additional network bandwidth created by the ongoing proliferation of data and video traffic driven by video downloads, Internet protocol TV, social networking, on-line gaming, file sharing, enterprise IP/Internet traffic, cloud computing, and data center virtualization that must be handled by both wireline and wireless networks. Mobile traffic is increasing as a result of proliferation of smartphones, tablet computers, and other mobile devices.

The Company's manufacturing operations are vertically integrated and include internal production, assembly and test capabilities for the Company's optical subsystem products, as well as key components used in those subsystems. The Company produces many of the key components used in making its products including lasers, photodetectors and integrated circuits, or ICs, designed by its internal IC engineering teams. The Company also has internal assembly and test capabilities that make use of internally designed equipment for the automated testing of the optical subsystems and components.

The Company sells its optical subsystem and component products primarily to manufacturers of storage systems, networking equipment and telecommunication equipment such as Alcatel-Lucent, Brocade, Ciena, Cisco Systems, EMC, Emulex, Ericsson, Fujitsu, Hewlett-Packard Company, Huawei, IBM, Juniper, Nokia-Siemens and Qlogic, as well as their contract manufacturers. These customers in turn sell their systems to businesses and to wireline and wireless telecommunication service providers and cable TV operators, collectively referred to as carriers.

##### Basis of Presentation

The consolidated financial statements include the accounts of Finisar Corporation and its controlled subsidiaries (collectively “Finisar” or the “Company”). Non-controlling interest represents the minority shareholders' proportionate share of the net assets and results of operations of the Company's majority-owned subsidiary, Finisar Korea, prior to its sale in the fourth quarter of fiscal 2014. Intercompany accounts and transactions have been eliminated in

consolidation.

**Fiscal Periods**

On March 6, 2013, the Company's Board of Directors determined to change the fiscal year of the Company from a year ending on April 30 of each year to a year ending on the Sunday closest to the last day of April in each year. This change was effective with the fiscal year ended April 28, 2013. Both fiscal 2014 and 2013 had 52 weeks and fiscal 2015 will have 53 weeks. Prior to this change, the Company maintained its financial records on the basis of a fiscal year ending on April 30, with fiscal quarters ending on the Sunday closest to the end of the period (thirteen-week periods). The first three quarters of fiscal

FINISAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2014 ended on July 28, 2013, October 27, 2013 and January 26, 2014, respectively. The first three quarters of fiscal 2013 ended on July 29, 2012, October 28, 2012 and January 27, 2013, respectively. The first three quarters of fiscal 2012 ended on July 31, 2011, October 30, 2011, and January 29, 2012, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

2. Summary of Significant Accounting Policies

Revenue Recognition

The Company's revenue transactions consist predominately of sales of products to customers. Product revenues are generally recognized in the period in which persuasive evidence of an arrangement exists, title and risk of loss have passed to the customer, generally upon shipment, the price is fixed or determinable, and collectability is reasonably assured.

At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with sales, recorded as a component of cost of revenues. The Company's customers and distributors generally do not have return rights. However, the Company has established an allowance for estimated customer returns, based on historical experience, which is netted against revenue.

Sales to certain distributors are made under agreements providing distributor price adjustments and rights of return under certain circumstances. Revenue and costs relating to sales to distributors with price protection and rights of return are deferred until products are sold by the distributors to end customers. Revenue recognition depends on notification from the distributor that product has been sold to the end customer. Also reported by the distributor are product resale price, quantity and end customer shipment information, as well as inventory on hand. Deferred revenue on shipments to distributors reflects the effects of distributor price adjustments and the amount of gross margin expected to be realized when distributors sell-through products purchased from us. Accounts receivable from distributors are recognized and inventory is relieved when title to inventories transfers, typically upon shipment from us at which point we have a legally enforceable right to collection under normal payment terms.

Segment Reporting

The Financial Accounting Standards Board's (FASB) authoritative guidance regarding segment reporting establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company has determined that it operates in one reportable segment comprising optical subsystems and components. Optical subsystems consist primarily of transceivers sold to manufacturers of storage and networking equipment for data communication and telecommunication applications. Optical subsystems also include multiplexers, de-multiplexers and optical add/drop modules for use in telecommunication applications. Optical components consist primarily of packaged lasers and photo-detectors which are incorporated in transceivers for data communication and telecommunication applications.

Concentrations of Risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash and cash equivalents, short-term investment and accounts receivable. The Company invests only in high-quality credit instruments and maintains its cash, cash equivalents and short-term investments with several high-quality credit financial institutions. Deposits held with banks, including those held in foreign branches of global banks, may exceed the amount of insurance provided on such deposits.

Concentrations of credit risk, with respect to accounts receivable, exist to the extent of amounts presented in the financial statements. Generally, the Company does not require collateral or other security to support customer receivables. The Company performs periodic credit evaluations of its customers and maintains an allowance for

potential credit losses based on historical experience and other information available to management. Losses to date have not been material. The Company's ten largest



FINISAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

customers represented 55% and 40% of total accounts receivable at April 27, 2014 and April 28, 2013, respectively. Two customers accounted for 12% and 11%, respectively, of total accounts receivable as of April 27, 2014. Two customers accounted for 13% and 10%, respectively, of total accounts receivable as of April 28, 2013.

Sales to the Company's ten largest customers represented 58%, 54% and 59% of total revenues during fiscal 2014, 2013 and 2012 respectively. One customer, Cisco Systems, represented 17% of total revenue during both fiscal 2014 and 2013. Two customers, Cisco Systems and Huawei, represented 19% and 10%, respectively, of total revenues during fiscal 2012.

The Company relies on single and limited suppliers for a number of key components. The Company relies primarily on a limited number of significant independent contract manufacturers for the production of certain key components and subassemblies, including lasers, modulators, and printed circuit boards.

Included in the Company's consolidated balance sheet at April 27, 2014 are the net assets of the Company's operations located at its overseas facilities totaling approximately \$485.9 million.

Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is the local currency. Assets and liabilities denominated in foreign currencies are translated using the exchange rate on the balance sheet date. Revenues and expenses are translated using average exchange rates prevailing during the year. Any translation adjustments resulting from this process are shown separately as a component of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are included in the determination of net income (loss). Included in the determination of net income (loss) were a loss of \$2.5 million, a loss of \$861,000 and a gain of \$368,000 on foreign exchange transactions for the fiscal years ended April 27, 2014, April 28, 2013 and April 30, 2012, respectively.

Research and Development

Research and development expenditures are charged to operations as incurred.

Shipping and Handling Costs

The Company records costs related to shipping and handling in cost of sales for all periods presented.

Cash and Cash Equivalents

Finisar's cash equivalents consist of money market funds and highly liquid short-term investments with qualified financial institutions. Finisar considers all highly liquid investments with an original maturity from the date of purchase of three months or less to be cash equivalents.

Minority Investments

The Company uses the cost method of accounting for investments in companies that do not have a readily determinable fair value in which it holds an interest of less than 20% and over which it does not have the ability to exercise significant influence. For entities in which the Company holds an interest of greater than 20% or in which the Company does have the ability to exercise significant influence, the Company uses the equity method. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and the Company's proportionate share of earnings or losses and distributions. In determining if and when a decline in the market value of these investments below their carrying value is other-than-temporary, the Company evaluates the market conditions, offering prices, trends of earnings and cash flows, price multiples, prospects for liquidity and other key measures of performance. The Company's policy is to recognize an impairment in the value of its minority equity investments when clear evidence of an impairment exists. Factors considered in this assessment include (a) the completion of a new equity financing that may indicate a new value for the investment, (b) the failure to complete a new equity financing arrangement after seeking to raise additional funds or (c) the commencement of proceedings under which the assets of the business may be placed in receivership or liquidated to satisfy the claims of debt and equity stakeholders. The Company's minority investments in private companies are generally made in exchange for preferred stock with a liquidation preference that is intended to help protect the underlying value of its investment.

Fair Value Accounting

The FASB authoritative guidance regarding fair valuation defines fair value and establishes a framework for measuring fair value and expands the related disclosure requirements. The guidance requires or permits fair value measurements with certain exclusions. It provides that a fair value measurement assumes that the transaction to sell an asset or transfer a liability

FINISAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value.

Valuation techniques used to measure fair value under this guidance must maximize the use of observable inputs and minimize the use of unobservable inputs. It describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument; and

Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company's Level 1 assets include instruments valued based on quoted market prices in active markets, which generally include money market funds. The Company classifies items in Level 2 if the investments are valued using observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. These investments include commercial papers and certificates of deposit. See Note 12 for additional details regarding the fair value of the Company's investments.

#### Allowance for Doubtful Accounts

The Company evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances where, subsequent to delivery, the Company becomes aware of a customer's potential inability to meet its obligations, it records a specific allowance for the doubtful account to reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes an allowance for doubtful accounts based on the length of time the receivables are past due and historical actual bad debt history. A material adverse change in a major customer's ability to meet its financial obligations to the Company could result in a material reduction in the estimated amount of accounts receivable that can ultimately be collected and an increase in the Company's general and administrative expenses for the shortfall. Accounts receivable are charged against the allowance for doubtful accounts when identified as fully uncollectable.

#### Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

The Company permanently writes down to its estimated net realizable value the cost of inventory that the Company specifically identifies and considers obsolete or excessive to fulfill future sales estimates. The Company defines obsolete inventory as inventory that will no longer be used in the manufacturing process. Excess inventory is generally defined as inventory in excess of projected usage and is determined using management's best estimate of future demand, based upon information then available to the Company. The Company also considers: (1) parts and subassemblies that can be used in alternative finished products, (2) parts and subassemblies that are unlikely to be engineered out of the Company's products, and (3) known design changes which would reduce the Company's ability to use the inventory as planned. Inventory on hand that is in excess of future demand is written down to its estimated net realizable value. Obligations to purchase inventory acquired by subcontractors based on forecasts provided by the Company are recognized at the time such obligations arise.

#### Property, Equipment and Improvements

Property, equipment and improvements are stated at cost, net of accumulated depreciation and amortization. Property, equipment and improvements are depreciated on a straight-line basis over the estimated useful lives of the assets, generally three years to seven years, except for buildings which are depreciated over 25 years. Land is carried at acquisition cost and not depreciated. Leased land is depreciated over the life of the lease.

#### Goodwill and Other Intangible Assets

Goodwill, purchased technology and other intangible assets resulting from acquisitions are accounted for under the acquisition method. Intangible assets with finite lives are amortized over their estimated useful lives. Amortization of purchased technology and other intangibles has been recorded on a straight-line basis over periods ranging from three to 15

FINISAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

years. Goodwill is assessed for impairment annually or more frequently when an event occurs or circumstances change between annual impairment tests that would more likely than not reduce the fair value of the reporting unit holding the goodwill below its carrying value.

Accounting for the Impairment of Long-Lived Assets

The Company periodically evaluates whether changes have occurred to long-lived assets that would require revision of the remaining estimated useful life of the property, improvements and finite-lived intangible assets or render them not recoverable. If such circumstances arise, the Company uses an estimate of the undiscounted value of expected future operating cash flows to determine whether the long-lived assets are impaired. If the aggregate undiscounted cash flows are less than the carrying amount of the assets, the resulting impairment charge to be recorded is calculated based on the excess of the carrying value of the assets over the fair value of such assets, with the fair value determined based on an estimate of discounted future cash flows.

Restructuring Costs

The Company recognizes liability for exit and disposal activities when the liability is incurred. Facilities consolidation charges are calculated using estimates and are based upon the remaining future lease commitments for vacated facilities from the date of facility consolidation, net of estimated future sublease income. The estimated costs of vacating these leased facilities are based on market information and trend analysis, including information obtained from third party real estate sources.

Stock-Based Compensation Expense

The Company measures and recognizes compensation expense for all stock-based payment awards made to employees and directors including employee stock options, restricted stock units and employee stock purchases under the Company's Employee Stock Purchase Plan based on estimated fair values. The Company uses the grant-date fair value of its common stock to determine the fair value of restricted stock units. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and employee stock purchases. The fair value of the portion of the awards that is ultimately expected to vest is recognized as expense in the consolidated statements of operations under the single-option approach on a straight-line basis over the requisite service periods.

Income Taxes

The Company uses the liability method to account for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. Deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities and their reported amounts, along with net operating loss carryforwards and credit carryforwards. This method also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized.

The Company provides for income taxes based upon the geographic composition of worldwide earnings and tax regulations governing each region. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Also, the Company's current effective tax rate assumes that United States income taxes are not provided for the undistributed earnings of non-United States subsidiaries. The Company intends to indefinitely reinvest the earnings of all foreign corporate subsidiaries for past and subsequent accumulated earnings.

Recent and Pending Adoption of New Accounting Standards

In May 2014, the FASB, jointly with the International Accounting Standards Board, issued a comprehensive new standard on revenue recognition from contracts with customers. The standard's core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying this new guidance to contracts within its scope, an entity will: (1) identify the contract(s) with a customer, (2) identify the performance obligation in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. Additionally, this new guidance would require significantly expanded disclosures about revenue

recognition. Provisions of this new standard are effective for annual reporting periods (including interim reporting periods within those annual periods) beginning after December 15, 2016. Early application is not permitted. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt this new guidance. The Company is currently evaluating the potential effect on its consolidated financial position, results of operations and cash flows from adoption of this standard.

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes the impact of recently issued standards that are not yet effective will not have a material impact on its consolidated financial position, results of operations and cash flows upon adoption.

## 3. Net Income (Loss) Per Share

Basic net income (loss) per share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per share has been computed using the weighted-average number of shares of common stock and dilutive potential common shares from stock options and restricted stock units (under the treasury stock method), 5.0% Convertible Senior Notes due 2029 (on an as-if-converted basis), and 0.50% Convertible Senior Notes due 2033 (under the treasury stock method) outstanding during the period.

The following table presents the calculation of basic and diluted net income (loss) per share:

(in thousands, except per share amounts)	Fiscal Years Ended		
	April 27, 2014	April 28, 2013	April 30, 2012
Numerator:			
Net income (loss) attributable to Finisar Corporation	\$111,787	\$(5,454)	) \$42,993
Numerator for basic income (loss) per share	\$111,787	\$(5,454)	) \$42,993
Effect of dilutive securities:			
Interest expense on 5.0% Convertible Senior Notes due 2029	2,157	—	—
Numerator for diluted income (loss) per share	\$113,944	\$(5,454)	) \$42,993
Denominator:			
Denominator for basic income (loss) per share - weighted average shares	95,979	92,860	90,823
Effect of dilutive securities:			
Stock options and restricted stock units	4,385	—	3,327
Warrants	—	—	36
5.0% Convertible Senior Notes due 2029	3,748	—	—
Dilutive potential common shares	8,133	—	3,363
Denominator for diluted income (loss) per share	104,112	92,860	94,186
Net income (loss) per share attributable to Finisar Corporation common stockholders:			
Basic	\$1.16	\$(0.06)	) \$0.47
Diluted	\$1.09	\$(0.06)	) \$0.46

The following table presents common shares related to potentially dilutive securities excluded from the calculation of diluted net income (loss) per share as their effect would have been anti-dilutive:

(in thousands)	Fiscal Years Ended		
	April 27, 2014	April 28, 2013	April 30, 2012
Stock options and restricted stock units	1,057	4,599	1,189
Conversion of 5.0% Convertible Senior Notes due 2029	—	3,748	3,748
Conversion of 0.50% Convertible Senior Notes due 2033 <sup>(1)</sup>	—	—	—
	1,057	8,347	4,937

(1) 0.50% Convertible Senior Notes due 2033 were excluded from the calculation of diluted earnings per share under the treasury stock method since the conversion price exceeded the average market price for the Company's common stock.





## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 4. Acquisition and Divestiture

Acquisition of u<sup>2</sup>t Photonics AG

On January 31, 2014, the Company acquired all outstanding equity interests in u<sup>2</sup>t Photonics AG ("u<sup>2</sup>t"), a German company engaged in research, development and marketing of optical components for high-speed telecom applications. The results of u<sup>2</sup>t's operations have been included in the Company's consolidated financial statements since that date. With this transaction, the Company added u<sup>2</sup>t's Indium-Phosphide ("InP") -based 100 Gbps high speed receivers and photodetectors to its existing portfolio of high speed optics technologies. In addition, this acquisition consolidated the Company's previously announced partnership with u<sup>2</sup>t on InP-based IQ Mach-Zehnder modulators for 100 Gbps coherent applications. These receiver, photodetector and modulator technologies and products, when combined with the Company's narrow-line width tunable lasers, will enable the Company to offer its customers vertically integrated modules for the 100 Gbps coherent metro and long haul markets.

The provisional acquisition-date fair value of the consideration transferred is \$19.2 million, consisting of an upfront cash payment, and is subject to working capital adjustments, which are expected to be finalized during the first quarter of fiscal 2015.

The following table summarizes the provisional estimated acquisition-date fair values of the assets acquired and liabilities assumed (in thousands):

Cash and cash equivalents	\$ 164	
Accounts receivable	4,102	
Inventory	7,396	
Other current assets	3,240	
Property, equipment and improvements	4,736	
Intangible assets	13,480	
Total identifiable assets acquired	33,118	
Current liabilities	(24,815	)
Deferred tax liabilities	(4,315	)
Total liabilities assumed	(29,130	)
Net identifiable assets acquired	3,988	
Goodwill	15,252	
Net assets acquired	\$ 19,240	

The Company is in the process of obtaining a third-party valuation of acquired intangible assets; thus, provisional measurements of intangible assets, goodwill and deferred taxes are subject to change.

Of the \$13.5 million of acquired intangible assets, \$3.9 million was assigned to in-process research and development assets that were recognized at fair value on the acquisition date. The remaining \$9.6 million of acquired intangibles are subject to a weighted-average useful life of approximately six years. The definite-lived intangible assets include developed technology of \$7.9 million (approximately six-year weighted average useful life), customer relationships of \$1.6 million (six-year useful life), and order backlog of \$20,000 (three-month useful life).

The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of u<sup>2</sup>t. None of the goodwill is expected to be deductible for income tax purposes.

The acquisition-date fair value of acquired accounts receivable was the same as their contractual amount.

The Company recognized \$755,000 of acquisition related costs that were expensed in the year ended April 27, 2014. These costs are included in general and administrative operating expenses in the consolidated statement of operations.

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Unaudited pro forma and other supplemental financial statement disclosures otherwise required by ASC 805 for material business combinations have not been presented herein because management does not believe the acquisition of u<sup>2</sup>t is significant to the Company's consolidated financial statements.

## Divestiture of Finisar Korea

During the fourth quarter of fiscal 2014, the Company divested all of its interest in Finisar Korea to a third party and recorded a \$8.2 million gain which is included in other income (loss), net in the Company's consolidated statement of operations for the year ended April 27, 2014. Other financial statement disclosures otherwise required by ASC 205 for material discontinued operations have not been presented herein because management does not believe this transaction is significant to the Company's consolidated financial statements.

## 5. Intangible Assets Including Goodwill

The following tables reflect intangible assets as of April 27, 2014 and April 28, 2013:

(in thousands)	April 27, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	\$102,124	\$(85,007)	) \$17,117
Purchased trade name	1,172	(1,172)	) —
Purchased customer relationships	21,344	(11,344)	) 10,000
Purchased internal use software and backlog	2,816	(1,666)	) 1,150
Purchased patents	2,620	(647)	) 1,973
Total intangible assets subject to amortization	130,076	(99,836)	) 30,240
In-process research and development	3,900	—	3,900
Total	\$133,976	\$(99,836)	) \$34,140
(in thousands)	April 28, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	\$101,884	\$(86,991)	) \$14,893
Purchased trade name	2,072	(2,072)	) —
Purchased customer relationships	34,894	(22,249)	) 12,645
Purchased internal use software and backlog	3,146	(1,670)	) 1,476
Purchased patents	1,872	(429)	) 1,443
Total intangible assets subject to amortization	143,868	(113,411)	) 30,457
In-process research and development	250	(250)	) —
Total	\$144,118	\$(113,661)	) \$30,457

The amortization expense on intangible assets was \$7.5 million, \$10.9 million and \$9.9 million for fiscal 2014, 2013 and 2012, respectively.

Estimated amortization expense for each of the next five fiscal years and thereafter as of April 27, 2014 is as follows:

Year	Amount (in thousands)
2015	\$8,155
2016	7,890
2017	5,805
2018	3,707

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2019	2,650
2020 and beyond	2,033
Total	\$30,240

52

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## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table reflects the changes to the carrying amount of goodwill (in thousands):

Balance at April 30, 2012	\$81,431	
Addition related to an acquisition	10,055	
Goodwill allocated to asset disposal groups	(500)	)
Balance at April 28, 2013	90,986	
Addition related to u <sup>2</sup> t acquisition (Note 4)	15,252	
Goodwill allocated to asset disposal group	(124)	)
Balance at April 27, 2014	\$106,114	

## 6. Investments

## Fixed Income Securities

The Company's portfolio of fixed income securities consists of commercial paper notes and term bank certificates of deposit. All of the Company's investments in fixed income securities have original maturity (maturity at the purchase date) of less than 12 months. Investments with original maturities of three months or less are classified as cash equivalents. All of the Company's investments in fixed income securities are classified as held-to-maturity since the Company has the positive intent and ability to hold these investments until maturity. These investments are carried at amortized cost.

The Company's investments in fixed income securities as of April 27, 2014 and April 28, 2013 were as follows:

(in thousands)	April 27, 2014				April 28, 2013			
	Amortized Cost	Gross Unrealized		Fair Value	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses			Gains	Losses	
Commercial paper	\$89,922	\$—	\$—	\$89,922	\$—	\$—	\$—	\$—
Certificates of deposit	120,000	—	—	120,000	—	—	—	—
Total	\$209,922	\$—	\$—	\$209,922	\$—	\$—	\$—	\$—
Reported as:								
Short-term investments	\$209,922	\$—	\$—	\$209,922	\$—	\$—	\$—	\$—

The Company monitors its investment portfolio for impairment on a periodic basis. In order to determine whether a decline in fair value is other-than-temporary, the Company evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value; the Company's financial condition and business outlook, including key operational and cash flow metrics, current market conditions and future trends in its industry; the Company's relative competitive position within the industry; and the Company's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. A decline in the fair value of the security below amortized cost that is deemed other-than-temporary is charged to earnings, resulting in the establishment of a new cost basis for the affected securities. During fiscal 2014, 2013 and 2012 there were no realized gains or losses, and the Company did not recognize any other-than-temporary impairments.

## Minority Investments

Included in minority investments at both April 27, 2014 and April 28, 2013 was \$884,000 representing the carrying value of the Company's minority investment in one privately held company accounted for under the cost method. Additionally, included in minority investments is \$1.2 million and \$0 at April 27, 2014 and April 28, 2013, respectively, representing the carrying value of the Company's minority investment in one privately held company accounted for under the equity method. At April 27, 2014, the Company had a 19.9% ownership interest in this company. For the year ended April 27, 2014, the Company recorded income of \$585,000 representing its share of the

net income of this minority investee, which was included in other income (expense), net in the consolidated statements of operations.

The Company's investments in these early stage companies were primarily motivated by its desire to gain early access to new technology. The Company's investments are passive in nature in that the Company generally does not obtain representation on the board of directors of the companies in which it invests.

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 7. Inventories

Inventories consist of the following (in thousands):

	As of April 27, 2014	April 28, 2013
Raw materials	\$52,594	\$44,705
Work-in-process	126,181	95,937
Finished goods	80,984	60,028
Total inventories	\$259,759	\$200,670
Including: inventory consigned to others	\$31,998	\$37,300

## 8. Property, Equipment and Improvements

Property, equipment and improvements consist of the following (in thousands):

	As of April 27, 2014	April 28, 2013
Land and buildings	\$49,995	\$29,834
Computer equipment	55,611	54,868
Office equipment, furniture and fixtures	5,213	5,373
Machinery and equipment	435,262	352,032
Leasehold property and improvements	37,353	32,665
Total	583,434	474,772
Accumulated depreciation and amortization	(310,106)	(273,330)
Property, equipment and improvements (net)	\$273,328	\$201,442

## 9. Other Current Liabilities

Other current liabilities consist of the following (in thousands):

	As of April 27, 2014	April 28, 2013
Warranty accrual (Note 19)	\$5,744	\$4,155
Other liabilities	26,032	19,378
Total	\$31,776	\$23,533

## 10. Debt

The Company's convertible debt as of April 27, 2014 and April 28, 2013 is summarized as follows (in thousands):

Description	Carrying amount	Interest rate	Due in fiscal year
As of April 27, 2014			
Convertible Senior Notes due October 2029	\$40,015	5.00%	2030
Convertible Senior Notes due December 2033	\$212,253	0.50%	2034
Total	\$252,268		
As of April 28, 2013			
Convertible Senior Notes due October 2029	\$40,015	5.00%	2030
Total	\$40,015		

## 0.50% Convertible Senior Notes Due 2033

In December 2013, the Company issued and sold \$258.8 million in aggregate principal amount of 0.50% Convertible Senior Notes due 2033 (the "2033 Notes") at par. The terms of the 2033 Notes are governed by an indenture by and between the Company and Wells Fargo Bank, National Association, as Trustee. The 2033 Notes will mature on

December 15, 2033, unless earlier repurchased, redeemed or converted. The 2033 Notes are senior unsecured and unsubordinated obligations of the Company, and are effectively subordinated to the Company's secured indebtedness and the indebtedness and other liabilities of



## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the Company's subsidiaries. The 2033 Notes bear interest at a rate of 0.5% per year, payable semi-annually in arrears on June 15 and December 15 each year.

Holders of the 2033 Notes may convert their 2033 Notes at their option prior to the close of business on the business day immediately preceding June 15, 2033 only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on January 26, 2014 (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period ("measurement period"), in which the trading price per \$1,000 principal amount of the 2033 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after June 15, 2033 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2033 Notes at any time, regardless of whether any of the foregoing circumstances have occurred. The conversion rate will initially equal 33.1301 shares of common stock per \$1,000 principal amount of the 2033 Notes (which is equivalent to an initial conversion price of approximately \$30.18 per share of common stock), subject to adjustment. Upon conversion of a note, the Company will pay or deliver, as the case may be, either cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election, as provided in the indenture. If holders elect to convert their 2033 Notes in connection with a "fundamental change" (as defined in the indenture) that occurs on or before December 22, 2018, the Company will, to the extent provided in the indenture, increase the conversion rate applicable to such 2033 Notes ("make-whole feature").

In the event of a fundamental change, holders will have the option to require the Company to redeem for cash any 2033 Notes held by them at a purchase price equal to 100% of the principal amount of the 2033 Notes plus accrued and unpaid interest to, but excluding, the redemption date. Holders also have the option to require the Company to redeem for cash any 2033 Notes held by them on December 15, 2018, December 15, 2023 and December 15, 2028 at a redemption price equal to 100% of the principal amount of the 2033 Notes plus accrued and unpaid interest to, but excluding, the redemption date. The Company may redeem the 2033 Notes in whole or in part at any time on or after December 22, 2018 at 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date.

The Company considered the features embedded in the 2033 Notes, that is, the conversion feature, the holders' put feature, the Company's call feature, and the make-whole feature, and concluded that they are not required to be bifurcated and accounted for separately from the host debt instrument.

Because of its option to settle conversion of the 2033 Notes in cash, the Company separated the liability and equity components of the 2033 Notes. The carrying amount of the liability component at issuance date of \$209.1 million was calculated by estimating the fair value of similar liabilities without a conversion feature. The residual principal amount of the 2033 Notes of \$49.6 million was allocated to the equity component. The resulting debt discount is amortized as interest expense. As of April 27, 2014, the remaining debt discount amortization period was 55 months.

The 2033 Notes consisted of the following:

	As of April 27, 2014
(in thousands)	
Liability component:	
Principal	\$258,750
Unamortized debt discount	(46,497 )
Net carrying amount of the liability component	\$212,253
Carrying amount of the equity component	\$49,648

The Company incurred approximately \$3.8 million in transaction costs in connection with the issuance of the 2033 Notes. These costs were allocated to the liability and equity components in proportion to the allocation of proceeds. Transaction costs of \$3.1 million, allocated to the liability component, were recognized as a non-current asset and are amortized. Transaction costs of \$725,000, allocated to the equity component, were recognized as a reduction of additional paid-in capital.

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth interest expense information related to the 2033 Notes:

	Fiscal Year Ended	
(in thousands, except percentages)	April 27, 2014	
Contractual interest expense	\$458	
Amortization of the debt discount	3,151	
Amortization of issuance costs	231	
Total interest cost	\$3,840	
Effective interest rate on the liability component	4.87	%

The Company applies the treasury stock method to determine the potential dilutive effect of the 2033 Notes on net income per share as a result of the Company's intent and stated policy to settle the principal amount of the 2033 Notes in cash.

#### 5.0% Convertible Senior Notes Due 2029

In October, 2009, the Company issued and sold \$100 million in aggregate principal amount of 5.0% Convertible Senior Notes due 2029 (the "2029 Notes"). The terms of the 2033 Notes are governed by an indenture by and between the Company and Wells Fargo Bank, National Association, as Trustee. The 2029 Notes will mature on October 15, 2029, unless earlier repurchased, redeemed or converted. Interest on the 2029 Notes is payable semi-annually in arrears at a rate of 5.0% per annum on each April 15 and October 15, beginning on April 15, 2010. The 2029 Notes are senior unsecured and unsubordinated obligations of the Company, and rank equally in right of payment with the Company's other unsecured and unsubordinated indebtedness, but are effectively subordinated to the Company's secured indebtedness and liabilities to the extent of the value of the collateral securing those obligations, and structurally subordinated to the indebtedness and other liabilities of the Company's subsidiaries. Holders may convert the 2029 Notes into shares of the Company's common stock, at their option, at any time prior to the close of business on the trading day before the stated maturity date. The initial conversion rate is 93.6768 shares of Common Stock per \$1,000 principal amount of the 2029 Notes (equivalent to an initial conversion price of approximately \$10.68 per share of common stock), subject to adjustment upon the occurrence of certain events. Upon conversion of the 2029 Notes, holders will receive shares of common stock unless the Company obtains consent from a majority of the holders to deliver cash or a combination of cash and shares of common stock in satisfaction of its conversion obligation. If a holder elects to convert the 2029 Notes in connection with a "fundamental change" (as defined in the indenture) that occurs prior to October 15, 2014, the conversion rate applicable to the 2029 Notes will be increased as provided in the indenture.

Holders may require the Company to redeem, for cash, all or part of their 2029 Notes upon a "fundamental change" at a redemption price equal to 100% of the principal amount of the 2029 Notes being redeemed plus accrued and unpaid interest up to, but excluding, the redemption date. Holders may also require the Company to redeem, for cash, any of their 2029 Notes on October 15, 2014, October 15, 2016, October 15, 2019 and October 15, 2024 at a redemption price equal to 100% of the principal amount of the 2029 Notes being redeemed plus accrued and unpaid interest up to, but excluding, the redemption date.

The Company has the right to redeem the 2029 Notes in whole or in part at a redemption price equal to 100% of the principal amount of the 2029 Notes being redeemed, plus accrued and unpaid interest to, but excluding, the redemption date, at any time on or after October 22, 2014 if the last reported sale price per share of the Company's common stock exceeds 130% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days ending within five trading days of the date on which the Company provides the notice of redemption. The Company considered the embedded derivative in the 2029 Notes, that is, the conversion feature, and concluded that it is indexed to the Company's common stock and would be classified as equity, were it to be accounted for separately and thus is not required to be bifurcated and accounted for separately from the debt.

The Company also considered the Company's call feature and the holders' put feature in the event of a change in control under the provisions of FASB authoritative guidance, and concluded that they need not be accounted for

separately from the debt.

In fiscal 2011, the Company entered into privately-negotiated agreements with existing holders of the 2029 Notes to exchange an aggregate of approximately \$60.0 million principal amount of the 2029 Notes. Following these exchanges, \$40.0 million principal amount of the 2029 Notes remained outstanding.

As explained above, the terms of the 2029 Notes include a provision that allows the holders to require the Company to redeem any of their notes on October 15, 2014. Accordingly, all \$40.0 million of the principal amount of the 2029 Notes outstanding as of April 27, 2014 was classified as a current liability as of that date.

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Germany Loans

As a result of the acquisition of u<sup>2</sup>t, the Company's consolidated liabilities included loan obligations to eight German financing institutions under which an acquisition-date aggregate principal balance of approximately \$4.5 million was outstanding, with interest rates ranging from 2.70% to 15.31% per annum. The Company repaid approximately \$3.7 million of these loans during the fourth quarter of fiscal 2014, and the remaining principal outstanding under these loans as of April 27, 2014 was \$836,000, of which \$243,000 was included in other current liabilities and \$593,000 was included in other non-current liabilities on the consolidated balance sheet as of April 27, 2014. These loans mature at various dates through December 2019.

## 11. Commitments

The Company's future commitments at April 27, 2014 included minimum payments under non-cancelable operating lease agreements as follows (in thousands):

	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating leases (a)	\$56,441	\$11,667	\$19,985	\$15,489	\$9,300

(a) Includes operating lease obligations that have been accrued as restructuring charges.

Rent expense under the non-cancelable operating leases was approximately \$10.0 million, \$9.7 million and \$8.5 million for the years ended April 27, 2014, April 28, 2013 and April 30, 2012, respectively. The Company subleases a portion of its facilities that it considers to be in excess of its requirements. Sublease income was \$266,000, \$250,000 and \$380,000 for the years ended April 27, 2014, April 28, 2013 and April 30, 2012, respectively. Certain leases have scheduled rent increases which have been included in the above table. Other leases contain provisions to adjust rental rates for inflation during their terms, most of which are based on to-be-published indices. Rents subject to these adjustments are included in the above table based on current rates.

## 12. Fair Value of Financial Instruments

The Company's financial instruments measured at fair value on a recurring basis as of April 27, 2014 and April 28, 2013 were as follows:

	April 27, 2014					April 28, 2013				
	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
(in thousands)										
Money market funds	\$30,169	\$30,169	\$—	\$—	\$30,169	\$—	\$—	\$—	\$—	\$—
Commercial paper	89,922	—	89,922	—	89,922	—	—	—	—	—
Certificates of deposit	120,000	—	120,000	—	120,000	—	—	—	—	—
Total	\$240,091	\$30,169	\$209,922	\$—	\$240,091	\$—	\$—	\$—	\$—	\$—

The Company's Level 2 financial instruments in the table above are valued using quoted market prices for similar instruments or non-binding market prices that are corroborated by observable market data.

The Company has not estimated the fair value of its minority investments in two privately held companies as it is not practicable to estimate the fair value of these investments because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs. As of April 27, 2014, the carrying value of the Company's

minority investments in these privately held companies was \$2.1 million, which management believes is not impaired.

The Company's financial instruments not measured at fair value on a recurring basis as of April 27, 2014 and April 28, 2013 were as follows:

57

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## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(in thousands)	April 27, 2014					April 28, 2013				
	Carrying Amount	Fair Value		Level 3	Total	Carrying Amount	Fair Value		Level 2	Total
2029 Notes	\$40,015	\$104,105	\$—	\$—	\$104,105	\$40,015	\$59,931	\$—	\$—	\$59,931
2033 Notes	212,253	305,307	—	—	305,307	—	—	—	—	—
Total	\$252,268	\$409,412	\$—	\$—	\$409,412	\$40,015	\$59,931	\$—	\$—	\$59,931

The fair values of the 2029 Notes and 2033 Notes are based on the price in the open market as of or close to the respective balance sheet dates. The difference between the carrying value and the fair value is primarily due to the spread between the conversion price and the market value of the shares underlying the conversion as of each respective balance sheet date.

### 13. Stockholders' Equity

#### Accumulated Other Comprehensive Income

Cumulative foreign currency translation adjustment was the only component of the accumulated other comprehensive income as of April 27, 2014 and April 28, 2013.

#### Common Stock and Preferred Stock

As of April 27, 2014, Finisar is authorized to issue 750,000,000 shares of \$0.001 par value common stock and 5,000,000 shares of \$0.001 par value preferred stock. The holder of each share of common stock has the right to one vote and is entitled to receive dividends when and as declared by the Company's Board of Directors. The Company has never declared or paid dividends on its common stock. The Company has authority to issue up to 5,000,000 shares of preferred stock, \$0.001 par value. The preferred stock may be issued in one or more series having such rights, preferences and privileges as may be designated by the Company's board of directors.

Common stock subject to future issuance as of April 27, 2014 is as follows:

Conversion of convertible notes	3,748,478
Exercise of outstanding options	2,621,844
Vesting of restricted stock awards	6,516,317
Available for grant under employee stock incentive plan	14,984,092
Available for grant under employee stock purchase plan	774,997
Total	28,645,728

#### Employee Stock Purchase Plan

In September 2009, the Company's board of directors adopted the 2009 Employee Stock Purchase Plan, which includes its sub-plan, the International Employee Stock Purchase Plan (together the "ESPP"), under which 2,500,000 shares of the Company's common stock have been reserved for issuance. The ESPP was approved by the Company's stockholders in November 2009. The ESPP permits eligible employees to purchase Finisar common stock through payroll deductions, which may not exceed 20% of the employee's total compensation. Stock may be purchased under the plan at a price equal to 85% of the fair market value of Finisar common stock on either the first or the last day of the offering period, whichever is lower. 608,946, 577,136 and 334,464 shares were issued under the ESPP during fiscal 2014, 2013 and 2012, respectively.

#### Employee Stock Plans

In September 1999, Finisar's 1999 Stock Option Plan was adopted by the board of directors and approved by the stockholders. An amendment and restatement of the 1999 Stock Option Plan, including renaming it the 2005 Stock Incentive Plan (the "2005 Plan"), was approved by the board of directors in September 2005 and by the stockholders in October 2005. A total of 2,625,000 shares of common stock were initially reserved for issuance under the 2005 Plan. The share reserve automatically increases on May 1 of each calendar year by a number of shares equal to 5% of the

number of shares of Finisar's common stock issued and outstanding as of the immediately preceding April 30, subject to certain restrictions on the aggregate maximum number of shares that may be issued pursuant to incentive stock options. The types of stock-based awards available under the 2005 Plan includes stock options, stock appreciation rights, restricted stock units ("RSUs") and other stock-based awards which vest upon the attainment of designated performance goals or the satisfaction of specified service requirements or, in the case of certain RSUs or other stock-based awards, become payable upon the expiration of a designated time period



## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

following such vesting events. Options generally vest over five years and have a maximum term of 10 years. As of April 27, 2014 and April 28, 2013, no shares were subject to repurchase.

## Stock Options

A summary of the changes in stock options outstanding under the Company's employee stock plans is as follows:

	Options Outstanding		Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (\$000's)	
	Number of Shares	Weighted-Average Exercise Price			
Balance at April 30, 2011	5,162,077	\$ 12.53			
Options exercised	(444,533)	) \$ 7.65		\$5,383	(1)
Options canceled	(241,938)	) \$ 23.36			
Balance at April 30, 2012	4,475,606	\$ 12.42			
Options exercised	(451,081)	) \$ 4.21		\$4,394	(1)
Options canceled	(218,193)	) \$ 15.61			
Balance at April 28, 2013	3,806,332	\$ 13.22			
Options exercised	(1,115,484)	) \$ 10.38		\$14,227	(1)
Options canceled	(69,004)	) \$ 17.79			
Balance at April 27, 2014	2,621,844	\$ 14.28	3.57	\$36,498	(2)

(1) Represents the difference between the exercise price and the fair value of Finisar common stock at exercise date.

(2) Represents the difference between the exercise price and the fair value of Finisar common stock at April 27, 2014.

The following table summarizes significant ranges of outstanding and exercisable options as of April 27, 2014:

Range of Exercise Prices		Options Outstanding		Options Exercisable	
		Number Outstanding	Weighted-Average Remaining Contractual Life (In years)	Number Exercisable	Weighted-Average Exercise Price
\$1.20	- \$3.04	20,916	4.55	20,916	\$2.64
\$3.36	- \$3.36	619,956	4.63	619,956	\$3.36
\$5.12	- \$8.08	153,259	2.18	153,259	\$7.01
\$8.29	- \$8.29	471,547	5.62	471,547	\$8.29
\$8.32	- \$14.24	280,689	2.18	280,689	\$11.80
\$14.32	- \$21.68	450,650	2.59	450,650	\$19.58
\$22.32	- \$26.64	382,552	2.67	382,552	\$25.76
\$27.12	- \$39.12	241,646	2.50	241,646	\$34.30
\$42.56	- \$42.56	624	2.02	624	\$42.56
\$419.84	- \$419.84	5	3.02	5	\$419.84
		2,621,844	3.57	2,621,844	\$14.28

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's vested and expected-to-vest stock options and exercisable stock options as of April 27, 2014 are summarized in the following table:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (\$000's)
Vested and expected-to-vest options	2,621,844	\$ 14.28	3.57	\$36,497
Exercisable options	2,621,844	\$ 14.28	3.57	\$36,497

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, which would have been received by the option holders had all option holders exercised their options as of that date, based on the Company's closing stock price of \$27.57 as of April 25, 2014. The total number of shares underlying in-the-money options exercisable as of April 27, 2014 was approximately 2.4 million.

## Restricted Stock Units

A summary of the changes in RSUs outstanding under the Company's 2005 Plan is as follows:

	Shares	Weighted- Average Grant Date Fair Value
Unvested at April 30, 2011	2,477,554	\$15.09
Granted	2,478,406	\$15.20
Vested	(733,085)	) \$18.51
Forfeited	(209,178)	) \$15.34
Unvested at April 30, 2012	4,013,697	\$15.03
Granted	2,858,150	\$13.03
Vested	(1,247,302)	) \$14.17
Forfeited	(248,761)	) \$14.73
Unvested at April 28, 2013	5,375,784	\$14.13
Granted	3,190,116	\$16.91
Vested	(1,833,294)	) \$17.33
Forfeited	(216,289)	) \$14.97
Unvested at April 27, 2014	6,516,317	\$15.44

The aggregate intrinsic value of RSUs outstanding at April 27, 2014 was \$179.7 million. The grant-date fair value of RSUs vested during fiscal 2014, 2013 and 2012 was \$30.4 million, \$17.7 million and \$12.9 million, respectively. As of April 27, 2014, the Company had \$66.7 million of unrecognized compensation expense, net of estimated forfeitures, related to RSUs grants. These expenses are expected to be recognized over a weighted-average period of 29 months.

## Share-Based Compensation Cost

The following table sets forth the detailed allocation of the share-based compensation expense for the fiscal years ended April 27, 2014, April 28, 2013 and April 30, 2012 which was reflected in the Company's operating results (in thousands):

	Fiscal Years Ended		
Share-based compensation expense by caption:	April 27, 2014	April 28, 2013	April 30, 2012
Cost of revenues	\$8,261	\$6,915	\$5,755
Research and development	14,660	10,970	8,375
Sales and marketing	5,083	3,743	2,906
General and administrative	9,962	10,333	7,221
Total	\$37,966	\$31,961	\$24,257



## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Share-based compensation expense by type of award:	Fiscal Years Ended		
	April 27, 2014	April 28, 2013	April 30, 2012
Stock options	\$693	\$1,892	\$5,862
RSUs	34,506	26,794	15,232
Employee stock purchase rights under ESPP	2,767	3,275	3,163
Total	\$37,966	\$31,961	\$24,257

Total share-based compensation cost capitalized as part of inventory was \$1.7 million and \$1.5 million as of April 27, 2014 and April 28, 2013, respectively.

The fair value of employee stock purchase rights granted under the ESPP in fiscal 2014, 2013 and 2012 was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Fiscal Years Ended		
	April 27, 2014	April 28, 2013	April 30, 2012
Expected term (in years)	0.75	0.75	0.75
Volatility	40% - 47%	50% - 53%	82% - 87%
Risk-free interest rate	0.01 - 0.13%	0.10 - 0.15%	0.04 - 0.11%
Dividend yield	—	% —	% —

The expected term of employee stock purchase rights is the average of the remaining purchase periods under each offering period.

The Company calculated the volatility factor based on the Company's historical stock prices.

The Company bases the risk-free interest rate used in the Black-Scholes option-pricing model on constant maturity bonds from the Federal Reserve in which the maturity approximates the expected term.

The Black-Scholes option-pricing model calls for a single expected dividend yield as an input. The Company has not issued and does not expect to issue any dividends.

As share-based compensation expense recognized in the consolidated statement of operations for fiscal 2014, 2013 and 2012 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

The weighted-average estimated per share fair value of purchase rights granted under the 2009 Purchase Plan in fiscal 2014 and 2013 and 2012 was \$3.69, \$2.81 and \$4.89, respectively.

The Black-Scholes option-pricing model requires the input of highly subjective assumptions, including the expected life of the stock-based award and the stock price volatility. The assumptions listed above represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, recorded share-based compensation expense could have been materially different from that depicted above. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If the actual forfeiture rate is materially different from this estimate, the share-based compensation expense could be materially different.

#### 14. Employee Benefit Plan

The Company maintains a defined contribution retirement plan under the provisions of Section 401(k) of the Internal Revenue Code which covers all eligible employees. Employees are eligible to participate in the plan on the first day of the calendar year quarter immediately following completion of eligibility requirements as required by the plan.

Under the plan, each participant may contribute up to 20% of his or her pre-tax gross compensation up to a statutory limit, which is \$17,500, \$17,500 and \$17,000 for calendar year 2014, 2013 and 2012, respectively. All amounts contributed by participants and earnings on participant contributions are fully vested at all times. The Company may

contribute an amount equal to one-half of the first 6% of each participant's contribution. The Company may make the matching contribution in shares

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

of Finisar common stock in lieu of cash. Contributions made in shares will be allocated to each participant's account using the share price on the date the Company matching contribution is made to the plan.

The Company made a discretionary matching contribution of 88,823 shares for a total contribution of \$2.1 million during the year ended April 27, 2014. The Company's expenses related to this plan were \$2.1 million, \$1.9 million and \$1.7 million for the fiscal years ended April 27, 2014, April 28, 2013 and April 30, 2012, respectively.

## 15. Income Taxes

The components of income tax expense (benefit) consist of the following (in thousands):

	Fiscal Years Ended		
	April 27, 2014	April 28, 2013	April 30, 2012
Current:			
Federal	\$(385	) \$—	\$—
State	523	(45	) 199
Foreign	5,691	3,896	3,608
	5,829	3,851	3,807
Deferred:			
Foreign	(2,945	) (3,624	) (1,802
	(2,945	) (3,624	) (1,802
Provision for income taxes	\$2,884	\$227	\$2,005

Income (loss) before income taxes and non-controlling interest consists of the following (in thousands):

	Fiscal Years Ended		
	April 27, 2014	April 28, 2013	April 30, 2012
U.S.	\$46,314	\$(21,863	) \$10,504
Foreign	68,107	14,025	34,515
	\$114,421	\$(7,838	) \$45,019

A reconciliation of the income tax provision at the federal statutory rate and the effective rate is as follows:

	Fiscal Years Ended					
	April 27, 2014		April 28, 2013		April 30, 2012	
Expected income tax provision (benefit) at U.S. federal statutory rate	35.0	%	35.0	%	35.0	%
Foreign rate differential	(18.3	)	38.3		(22.8	)
Share-based compensation expense	2.5		(45.2	)	7.7	
Non-deductible transaction costs	0.4		(5.8	)	0.8	
Non-recurring acquisition-related gain	—		31.1		(3.8	)
Valuation allowance	(21.4	)	(101.0	)	(17.0	)
Intangibles impairment	—		36.8		—	
Research and development credits	(1.8	)	18.7		(1.6	)
Non-deductible acquisition-related charge	—		(6.2	)	3.9	
Other	6.1		(4.6	)	2.3	
	2.5	%	(2.9	)%	4.5	%

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The components of deferred taxes consist of the following (in thousands):

	Fiscal Years Ended		
	April 27, 2014	April 28, 2013	April 30, 2012
Deferred tax assets:			
Inventory adjustments	\$8,905	\$9,170	\$11,640
Accruals and reserves	18,673	14,194	12,782
Tax credits	24,259	21,869	17,982
Net operating loss carryforwards	95,952	155,281	152,384
Gain/loss on investments under equity or cost method	8,843	8,931	8,987
Depreciation and amortization	2,817	1,915	129
Purchase accounting for intangible assets	5,651	190	2,753
Capital loss carryforward	229	563	—
Acquired intangibles	10,142	18,356	18,471
Stock compensation	8,372	7,917	6,052
Total deferred tax assets	183,843	238,386	231,180
Valuation allowance	(153,657)	) (227,889	) (222,919 )
Net deferred tax assets	30,186	10,497	8,261
Deferred tax liabilities:			
Acquired intangibles	(7,252	) (5,128	) (8,001 )
Debt discount	(16,873	) (1,592	) (1,602 )
Inventory reserve	(457	) (1,791	) —
Depreciation and amortization	(5,762	) (774	) (396 )
Total deferred tax liabilities	(30,344	) (9,285	) (9,999 )
Total net deferred tax assets (liabilities)	\$(158	) \$1,212	\$(1,738 )

Realization of deferred tax assets is dependent upon future taxable earnings, the timing and amount of which are uncertain. Due to U.S. operating losses in previous years and continuing U.S. earnings volatility, management has established and maintained a full valuation allowance for the U.S. deferred tax assets, which comprise approximately 94% of total deferred tax assets, for which management believes it is not more likely than not to be realized in future periods. The Company's valuation allowance increased/(decreased) from the prior year by approximately \$(74.2) million, \$5.0 million and \$7.4 million in fiscal 2014, 2013 and 2012, respectively.

As of April 27, 2014, approximately \$39.3 million of deferred tax assets, which is not included in the above table, was attributable to certain employee stock option deductions. When, and if, realized, the benefit of the tax deduction related to these options will be accounted for as a credit to stockholders' equity rather than as a reduction of the income tax provision.

At April 27, 2014, the Company had federal, state and foreign net operating loss carryforwards of approximately \$344.1 million, \$93.3 million and \$14.8 million, respectively, and federal and state credit carryforwards of approximately \$25.1 million and \$17.0 million, respectively. The net operating loss and tax credit carryforwards will expire at various dates beginning in fiscal 2014, if not utilized. Utilization of the Company's U.S. net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations set forth in Internal Revenue Code Section 382 and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss and tax credit carryforwards before utilization.

The Company's manufacturing operations in Malaysia operate under a tax holiday which will expire at the beginning of fiscal 2017. In fiscal 2014, the aggregate dollar and per share effect of the tax holiday was \$8.9 million and \$0.09 per share, respectively. As of April 27, 2014, there was no provision for U.S. income taxes for undistributed earnings of the Company's foreign subsidiaries as it is currently the Company's intention to reinvest these earnings indefinitely in operations outside the United States. The cumulative amount of foreign earnings to be permanently re-invested as of April 27, 2014 was approximately \$143.5 million. The Company believes it is not practicable to determine the Company's tax liability that may arise in the event of a future repatriation. If repatriated, these earnings could result in a tax expense at the current U.S.



## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

federal statutory tax rate of 35%, subject to available net operating losses and other factors. Tax on undistributed earnings may also be reduced by foreign tax credits that may be generated in connection with the repatriation of earnings.

A reconciliation of the beginning and ending amount of the gross unrecognized tax benefits is as follows (in thousands):

Gross unrecognized tax benefits balance at April 30, 2012	\$14,634	
Add:		
Additions based on tax positions related to the current year	757	
Additions for tax positions of prior years	241	
Gross unrecognized tax benefits balance at April 28, 2013	15,632	
Add:		
Additions based on tax positions related to the current year	712	
Lapse of statute of limitations	(2,912)	)
Gross unrecognized tax benefits balance at April 27, 2014	\$13,432	

Excluding the effects of recorded valuation allowances for deferred tax assets, \$11.7 million of the unrecognized tax benefits would favorably impact the effective tax rate in future periods if recognized.

It is the Company's belief that no significant changes in the unrecognized tax benefit positions will occur within 12 months from April 27, 2014.

The Company records interest and penalties, if any, related to unrecognized tax benefits in income tax expense. At April 27, 2014, there was no accrued interest or penalties related to uncertain tax positions.

The Company and its subsidiaries are subject to taxation in various state jurisdictions as well as the U.S. The Company's U.S. federal and state income tax returns are generally not subject to examination by the tax authorities for tax years before fiscal 2008. For all federal and state net operating loss and credit carryovers, the statute of limitations does not begin until the carryover items are utilized. The taxing authorities can examine the validity of the carryover items and if necessary, adjustments may be made to the carryover items. The Company's Malaysia, Singapore, China, Australia, Israel and Sweden income tax returns are generally not subject to examination by the tax authorities for tax years before 2008, 2007, 2008, 2009, 2005 and 2008, respectively. The Company's Israel subsidiary received a tax assessment from Israel Tax Authority (ITA) for tax years ended 2005 to 2007. The Company has filed an appeal and anticipates no material tax liability.

On November 6, 2012, California passed Proposition 39, which mandates most taxpayers to apportion their California income by using single sales factor and requires all taxpayers to use market-based sourcing for sale receipts for tax years beginning or after January 1, 2013. The Company followed provisions of this new tax legislation starting first quarter of fiscal 2014. Adoption of this new tax legislation did not have material impact on the Company's consolidated financial position, results of operations and cash flows.

#### 16. Segments and Geography Information

The Company has one reportable segment consisting of optical subsystems and components. Optical subsystems consist primarily of transmitters, receivers, transceivers, transponders and active optical cables that provide the fundamental optical-electrical, or optoelectronic, interface for interconnecting the electronic equipment used in building communication networks, including the switches, routers and servers used in wireline networks as well as the antennas and base stations for wireless networks. Optical components consists primarily of packaged lasers, receivers

and photodetectors for data communication and telecommunication applications and passive optical components used in telecommunication applications.

The following is a summary of revenues from sales to unaffiliated customers within geographic areas based on the location of the entity purchasing the Company's products:

64

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## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(in thousands)	Fiscal Years Ended		
	April 27, 2014	April 28, 2013	April 30, 2012
United States	\$339,423	\$269,071	\$242,982
Malaysia	185,197	183,299	207,931
China	229,231	171,016	184,945
Rest of the world	402,982	310,949	316,721
Totals	\$1,156,833	\$934,335	\$952,579

Revenues generated in the United States are all from sales to customers located in the United States.

The following is a summary of long-lived assets within geographic areas based on the location of the assets:

(in thousands)	As of	
	April 27, 2014	April 28, 2013
Long-lived assets:		
United States	\$97,546	\$88,790
Malaysia	56,007	38,409
China	127,966	90,126
Rest of the world	32,311	25,238
	\$313,830	\$242,563

The increase in long-lived assets was primarily due to the additions of property and improvements to the Company's manufacturing facilities in China.

## 17. Litigation

The Company is a party to several pending legal proceedings described below. In each of these proceedings in which the Company is a defendant, the Company believes that it has strong defenses and intends to vigorously defend the action. As of the date of this report, the Company does not believe it is reasonably possible that losses related to any of these cases have been incurred in excess of the amounts, if any, that have been accrued as of April 27, 2014.

However, the litigation process is inherently uncertain, and accordingly, the Company cannot predict the outcome of any of these matters with certainty. Future developments in one or more of these matters may cause the Company to revise its estimates and related accruals in future periods.

### Class Action and Shareholder Derivative Litigation

#### March 8, 2011 Earnings Announcement Cases

Several securities class action lawsuits related to the Company's March 8, 2011 earnings announcement alleging claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 have been filed in the United States District Court for the Northern District of California on behalf of a purported class of persons who purchased stock between December 1 or 2, 2010 through March 8, 2011. The named defendants are the Company and its Chairman of the Board, Chief Executive Officer and Chief Financial Officer. To date, no specific amount of damages have been alleged. The cases were consolidated, lead plaintiffs were appointed and a consolidated complaint was filed. The Company filed a motion to dismiss the case. On January 16, 2013, the District Court granted the Company's motion to dismiss and granted the lead plaintiffs leave to amend the consolidated complaint. An amended consolidated complaint was filed on February 6, 2013. Thereafter, the Company filed a renewed motion to dismiss the case. On September 30, 2013, the District Court granted the Company's motion and dismissed the case with prejudice. On October 25, 2013, the lead plaintiffs filed a notice of appeal of the District Court's dismissal ruling, and the appeal is pending.

In addition, two purported shareholder derivative lawsuits related to the Company's March 8, 2011 earnings announcement have been filed in the California Superior Court for the County of Santa Clara, and a third derivative lawsuit has been filed in the United States District Court for the Northern District of California. The complaints assert claims for alleged breach of fiduciary duty, unjust enrichment, and waste on behalf of the Company. Named as defendants are the members of the Company's board of directors, including the Company's Chairman of the Board and Chief Executive Officer, and its Chief

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Financial Officer. No specific amount of damages has been alleged and, by the derivative nature of the lawsuits, no damages will be alleged, against the Company. The state court cases have been consolidated and a lead plaintiff has been appointed to file a consolidated complaint. The derivative cases were stayed pending a ruling in the federal class action case. Following the September 30 ruling dismissing the class action case, the derivative cases remain stayed, subject to the right of the parties to reinstate them.

## Stock Option Cases

On November 30, 2006, the Company announced that it had undertaken a voluntary review of its historical stock option grant practices subsequent to its initial public offering in November 1999. The review was initiated by senior management, and preliminary results of the review were discussed with the Audit Committee of the Company's board of directors. Based on the preliminary results of the review, senior management concluded, and the Audit Committee agreed, that it was likely that the measurement dates for certain stock option grants differed from the recorded grant dates for such awards and that the Company would likely need to restate its historical financial statements to record non-cash charges for compensation expense relating to some past stock option grants. The Audit Committee thereafter conducted a further investigation and engaged independent legal counsel and financial advisors to assist in that investigation. The Audit Committee concluded that measurement dates for certain option grants differed from the recorded grant dates for such awards. The Company's management, in conjunction with the Audit Committee, conducted a further review to finalize revised measurement dates and determine the appropriate accounting adjustments to its historical financial statements. The announcement of the investigation resulted in delays in filing the Company's quarterly reports on Form 10-Q for the quarters ended October 29, 2006, January 28, 2007, and January 27, 2008, and the Company's annual report on Form 10-K for the fiscal year ended April 30, 2007. On December 4, 2007, the Company filed all four of these reports which included revised financial statements.

Following the Company's announcement on November 30, 2006 that the Audit Committee of the board of directors had voluntarily commenced an investigation of the Company's historical stock option grant practices, the Company was named as a nominal defendant in several shareholder derivative cases. These cases were consolidated into two proceedings in federal and state courts in California. The federal court cases were consolidated in the United States District Court for the Northern District of California. The state court cases were consolidated in the Superior Court of California for the County of Santa Clara. The plaintiffs in all cases alleged that certain of the Company's current or former officers and directors caused the Company to grant stock options at less than fair market value, contrary to the Company's public statements (including its financial statements), and that, as a result, those officers and directors were liable to the Company. No specific amount of damages was alleged, and by the nature of the lawsuits, no damages could be alleged against the Company. The state court action was stayed pending resolution of the consolidated federal court action. On June 12, 2007, the plaintiffs in the federal court case filed an amended complaint to reflect the results of the stock option investigation announced by the Audit Committee in June 2007. On August 28, 2007, the Company and the individual defendants filed motions to dismiss the complaint. On January 11, 2008, the Court granted the motions to dismiss, with leave to amend. On May 12, 2008, the plaintiffs filed an amended complaint. The Company and the individual defendants filed motions to dismiss the amended complaint on July 1, 2008. The Court granted the motions to dismiss on September 22, 2009, and entered judgment in favor of the defendants. The plaintiffs appealed the judgment to the United States Court of Appeals for the Ninth Circuit. On April 26, 2011, a panel of the Ninth Circuit reversed the District Court ruling and remanded the case to the District Court for further proceedings. The individual defendants filed additional motions to dismiss the case in the District Court. On July 12, 2012, the District Court issued an order granting the motion as to certain claims and individual defendants, with leave to amend except as to certain defendants, and denying the motion as to other claims and individual defendants.

On June 27, 2013, the parties, through their respective counsel, executed a stipulation of settlement and related documents formalizing a settlement agreement that covers all of the above-referenced federal and state cases. The stipulation of settlement provided that, subject to approval by the District Court, the Company would be entitled to receive payments totaling \$12.5 million from its insurance carriers and \$250,000 from certain individual defendants and would be obligated to make a payment of \$6.3 million to plaintiffs' counsel. In addition, under the terms of the settlement, the insurers would release any rights to recoup approximately \$3.0 million previously advanced for defense costs. On August 9, 2013, the District Court issued an order preliminarily approving the proposed settlement. Following the District Court's preliminary approval, the Company assessed the likelihood of final approval as probable, and accordingly, recognized the recovery of previously incurred direct costs related to the litigation of \$12.75 million as an offset to general and administrative expenses and a charge of \$6.3 million for the payment to plaintiffs' counsel as general and administrative expense in the first quarter of fiscal 2014. On October 18, 2013, the District Court granted final approval of the settlement. Thereafter, the payments to the Company and plaintiffs' counsel were made in accordance with the terms of the stipulation of settlement.

FINISAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Cheetah Omni Litigation

Customer Texas Litigation

On July 29, 2011, Cheetah Omni LLC filed a complaint for patent infringement in the United States District Court for the Eastern District of Texas against Alcatel-Lucent USA Inc., Alcatel-Lucent Holdings, Inc., Ciena Corporation, Ciena Communications, Inc., Fujitsu Network Communications, Inc., Tellabs, Inc., Tellabs Operations, Inc., Tellabs North America, Inc., Nokia Siemens Networks US LLC, Huawei Technologies USA, Inc. and Huawei Device USA, Inc. Finisar was not named as a defendant in the lawsuit. However, the named defendants or entities affiliated with them are Finisar customers. The complaint alleged that certain ROADM products of the named defendants infringe one or more of seven Cheetah Omni patents. With respect to two of the seven patents, the Company understands Cheetah Omni have asserted infringement by the customer defendants making, using, offering for sale, selling, and/or importing into the United States certain ROADM products that include a Finisar wavelength selective switch (WSS). Finisar has no specific information regarding whether the claims of infringement with respect to the remaining five asserted Cheetah Omni patents implicate any Finisar products.

Finisar received a request for indemnification from all six customer defendants with respect to the two patents mentioned above. The Company believes based on the outcome of the Finisar Michigan litigation described below that such requests are effectively withdrawn. On November 19, 2012, the United States District Court in the Finisar Michigan litigation issued an order enjoining Cheetah Omni from continuing to pursue its claims against Finisar customers in the Texas litigation with respect to the two patents asserted against products containing a Finisar WSS. As a result, these Texas claims were stayed pending the outcome of the Michigan litigation. As a result of the settlement of the Finisar Michigan litigation, these claims have been resolved without Company liability. Furthermore, all the claims and defenses asserted by the parties in the Texas case have now been resolved through settlement or summary judgment, and the case has been dismissed.

Finisar Michigan Litigation

On December 23, 2011, the Company filed a declaratory judgment action in the United States District Court for the Eastern District of Michigan seeking a declaration of invalidity and non-infringement by Finisar and its customers of four Cheetah Omni patents, including the two patents implicating the Company's WSS that are asserted against Finisar customers in the case described above that is currently pending in the Eastern District of Texas. On February 27, 2012, Cheetah Omni filed its answer to the complaint in which it denied the allegations of invalidity with respect to the four patents at issue. However, in its initial answer Cheetah Omni did not deny any of the allegations of non-infringement in the Company's complaint. Cheetah Omni also did not include any counterclaims. Before Cheetah Omni's answer was filed, on February 24, 2012, the Company filed a motion seeking to enjoin Cheetah Omni's pending claims implicating the Company's WSS asserted against the Company's customers in the Eastern District of Texas case described above and for leave to file a motion for summary judgment of non-infringement. This motion with respect to the requested injunction was granted on November 19, 2012 as described above with respect to the customer Michigan litigation. The motion for leave to file a motion for summary judgment has been denied pending completion of claim construction. After Cheetah Omni's answer was filed, the Company filed a motion for judgment on the pleadings in favor of the Company, and Cheetah Omni filed a motion requesting permission to add counterclaims of infringement by the Company's WSS devices. The motion for judgment on the pleadings was denied. The motion for permission to add counterclaims of infringement was granted, and Cheetah Omni thereafter added claims accusing the Company's WSS devices of infringement of the two Cheetah Omni patents. Following a case-dispositive claim construction ruling in the Company's favor, on March 25, 2014, the Company and Cheetah Omni entered into a settlement agreement resolving the litigation without liability to the Company or its customers and any restrictions on current or future activities.

#### Thomas Swan Litigation

On February 26, 2013, Thomas Swan & Co. Ltd. filed a complaint for patent infringement in the United States District Court for the Eastern District of Texas against the Company. The complaint alleges that Finisar's WSS products, ROADM line cards containing a Finisar WSS, and Waveshaper products infringe four related Thomas Swan patents. The Company's customer, Fujitsu Network Communications, has been added as a co-defendant in this lawsuit. The Company has performed a review of the asserted patents and believes that the patent claims are not infringed and/or are invalid. The Company intends to defend this lawsuit vigorously. However, there can be no assurance that the defense will be successful and, if the defense is not successful, Finisar may be liable for substantial damages, including possible indemnification obligations to the Company's customers. Even if the defense is successful, the Company may incur substantial legal fees and other costs in defending the lawsuit. Further, the lawsuit could divert the efforts and attention of the Company's management and technical personnel, which could harm its business. Trial in this case has been scheduled for February 2, 2015.



## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Mears Technologies Litigation

On May 6, 2013, Mears Technologies, Inc. filed a complaint for patent infringement in the United States District Court for the Eastern District of Texas against the Company. The complaint alleges that Finisar's WSS products, ROADM line cards containing a Finisar WSS, and Waveshaper products infringe a Mears Technologies patent. The Company has performed an initial review of the asserted patent and believes that the patent claims are not infringed and/or are invalid. The Company intends to defend this lawsuit vigorously. However, there can be no assurance that the defense will be successful and, if the defense is not successful, Finisar may be liable for substantial damages, including possible indemnification obligations to the Company's customers. Even if the defense is successful, the Company may incur substantial legal fees and other costs in defending the lawsuit. Further, the lawsuit could divert the efforts and attention of the Company's management and technical personnel, which could harm its business. Trial in this case has been scheduled for December 1, 2014.

## Other

In the ordinary course of business, the Company is a party to litigation, claims and assessments in addition to those described above. Based on information currently available, management does not believe the impact of these other matters will have a material adverse effect on its business, financial condition, results of operations or cash flows of the Company.

## 18. Restructuring Charges

During the second quarter of fiscal 2010, the Company recorded restructuring charges of \$4.2 million representing non-cancelable payment obligations under the facility lease relating to the abandoned and unused portion of its facility in Allen, Texas.

The following table summarizes the activities of the restructuring accrual during fiscal 2014 (in thousands):

Balance as of April 28, 2013	\$3,225	
Cash payments, net of sublease income	(314)	)
Balance as of April 27, 2014	\$2,911	

Of the \$2.9 million of remaining accrual, \$351,000 is expected to be paid in fiscal 2015 and \$2.6 million is expected to be paid out from fiscal 2016 through fiscal 2020.

## 19. Warranty

The Company generally offers a one-year limited warranty for its products. The specific terms and conditions of these warranties vary depending upon the product sold. The Company estimates the costs that may be incurred under its basic limited warranty and records a liability for the amount of such costs at the time revenue is recognized. Factors that affect the Company's warranty liability include the historical and anticipated rates of warranty claims and cost to repair. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes in the Company's warranty liability during the following periods were as follows:

(in thousands)	As of April 27, 2014	April 28, 2013
Beginning balance	\$4,155	\$3,926
Additions during the period based on product sold	5,653	4,964
Additions during the period due to acquisitions	515	159
Change in estimates	(2,022)	) (1,378)
Settlements and expirations	(2,557)	) (3,516)

Ending balance	\$5,744	\$4,155
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20. Related Parties

During fiscal 2014, the Company paid \$195,164 in cash compensation to a company owned by Guy Gertel, the brother of the Chief Executive Officer of the Company, for sales and marketing services. In addition, the Company granted to Mr. Gertel, for no additional consideration, 4,164 restricted stock units with a grant-date fair value of \$66,957, which vest as follows: 25%

FINISAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

on June 24, 2014 and an additional 25% on each of the next three anniversaries thereafter, to be fully vested on June 24, 2017, subject to him continuing to provide services to Finisar.

During fiscal 2013, the Company paid \$216,723 in cash compensation to Mr. Gertel's company and granted to Mr. Gertel, for no additional consideration, 3,814 restricted stock units with a grant-date fair value of \$49,086, which vest as follows: 25% on June 18, 2013 and an additional 25% on each of the next three anniversaries thereafter, to be fully vested on June 18, 2016, subject to him continuing to provide services to Finisar.

During fiscal 2012, the Company paid \$251,404 in cash compensation to Mr. Gertel's company and granted to Mr. Gertel, for no additional consideration, 2,000 restricted stock units with a grant-date fair value of \$29,300, which vest as follows: 25% on June 20, 2012 and an additional 25% on each of the next three anniversaries thereafter, to be fully vested on June 20, 2015, subject to him continuing to provide services to Finisar.

Amounts paid to Mr. Gertel represented values considered by management to be fair and reasonable, reflective of an arm's length transaction.

21. Guarantees and Indemnifications

Upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligations it assumes under that guarantee. As permitted under Delaware law and in accordance with the Company's Bylaws, the Company indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The Company may terminate the indemnification agreements with its officers and directors upon 90 days written notice, but termination will not affect claims for indemnification relating to events occurring prior to the effective date of termination. The maximum amount of potential future indemnification is unlimited; however, the Company has a director and officer liability insurance policy that may enable it to recover a portion of any future amounts paid.

The Company enters into indemnification obligations under its agreements with other companies in its ordinary course of business, including agreements with customers, business partners, and insurers. Under these provisions the Company generally indemnifies and holds harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or the use of the Company's products. These indemnification provisions generally survive termination of the underlying agreement. In some cases, the maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited.

The Company believes the fair value of these indemnification agreements is minimal. Accordingly, the Company has not recorded any liabilities for these agreements as of April 27, 2014. To date, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements.

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 22. Financial Information by Quarter (Unaudited)

Summarized quarterly data for fiscal 2014 and 2013 are as follows:

	Three Months Ended							
	April 27, 2014	January 26, 2014	October 27, 2013	July 28, 2013	April 28, 2013 (1)(2)	January 27, 2013 (3)	October 28, 2012	July 29, 2012
	(In thousands, except per share data)							
Revenues	\$306,025	\$294,018	\$290,722	\$266,068	\$243,417	\$238,351	\$232,041	\$220,526
Gross profit	\$96,564	\$105,689	\$103,373	\$91,373	\$67,326	\$68,044	\$63,874	\$57,797
Income (loss) from operations	\$21,107	\$33,096	\$30,109	\$27,103	\$385	\$(797 )	\$54	\$(5,197 )
Income (loss) before non-controlling interest	\$28,683	\$27,068	\$29,951	\$25,835	\$1,404	\$(3,687 )	\$427	\$(6,209 )
Net income (loss) attributable to Finisar Corporation	\$28,750	\$27,061	\$29,965	\$26,011	\$3,879	\$(3,407 )	\$271	\$(6,197 )
Net income (loss) per share attributable to Finisar Corporation common stockholders:								
Basic	\$0.30	\$0.28	\$0.31	\$0.27	\$0.04	\$(0.04 )	\$—	\$(0.07 )
Diluted	\$0.28	\$0.26	\$0.29	\$0.26	\$0.04	\$(0.04 )	\$—	\$(0.07 )
Shares used in computing net income (loss) per share:								
Basic	96,965	96,394	95,941	94,609	93,567	93,097	92,780	91,988
Diluted	105,418	104,361	103,696	101,125	96,192	93,097	94,734	91,988

(1) Net income in the fourth quarter of fiscal 2013 includes a gain of \$7.1 million on the fair value remeasurement of a contingent consideration liability related to the Red-C acquisition.

(2) Net income in the fourth quarter of fiscal 2013 includes a \$16.0 million impairment charge for long-lived assets.

(3) Net loss in the third quarter of fiscal 2013 includes a \$4.9 million impairment charge for long-lived assets.

## Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures  
None.

### Item 9A. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Attached as exhibits to this report are certifications of our Chairman of the Board and our Chief Executive Officer, our co-principal executive officers, and our Chief Financial Officer, which are required in accordance with Rule 13a-14 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This “Controls and Procedures” section includes information concerning the controls and controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of April 27, 2014, our management, with the participation of our Chairman of the Board, Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report for the purpose of ensuring that the information required to be disclosed by us in this report is made known to them by others on a timely basis, and that the information is accumulated and communicated to our management in order to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported by us within the time periods specified in the SEC’s rules.

#### Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chairman of the Board, Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of April 27, 2014. Management based its assessment on the criteria set forth in 1992 Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this assessment, management determined that we maintained effective internal control over financial reporting as of April 27, 2014.

The effectiveness of internal control over financial reporting as of April 27, 2014 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

#### Changes in Internal Control

There were no changes in our internal control over financial reporting during the fiscal quarter ended April 27, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Finisar Corporation

We have audited Finisar Corporation's internal control over financial reporting as of April 27, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Finisar Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Finisar Corporation maintained, in all material respects, effective internal control over financial reporting as of April 27, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Finisar Corporation as of April 27, 2014 and April 28, 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended April 27, 2014 of Finisar Corporation and our report dated June 26, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California

June 26, 2014

Table of Contents

## Item 9B. Other Information

None.

## PART III

The SEC allows us to include information required in this report by referring to other documents or reports we have already filed or will soon be filing. This is called “incorporation by reference.” We intend to file our definitive proxy statement for our 2014 annual meeting of stockholders (the “Proxy Statement”) pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report, and certain information to be contained therein is incorporated in this report by reference.

## Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference from the sections captioned “Proposal No. 1 — Election of Directors,” “Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance” to be contained in the Proxy Statement. The information under the heading “Executive Officers of the Registrant” in Part I of this report is also incorporated by reference in this section.

## Item 11. Executive Compensation

The information required by this item is incorporated by reference from the sections captioned “Director Compensation” and “Executive Compensation and Related Matters” to be contained in the Proxy Statement.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference from the sections captioned “Principal Stockholders and Share Ownership by Management” and “Equity Compensation Plan Information” to be contained in the Proxy Statement.

## Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference from the sections captioned “Corporate Governance” and “Certain Relationships and Related Transactions” to be contained in the Proxy Statement.

## Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference from the section captioned “Proposal No. 2 — Ratification of Appointment of Independent Registered Public Accounting Firm” to be contained in the Proxy Statement.

## PART IV

## Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements: See “Finisar Corporation Consolidated Financial Statements Index” in Part II, Item 8 of this report.

(2) Financial Statement Schedules:

Schedule II — Consolidated Valuation and Qualifying Accounts

Balance at Beginning of Period	Additions Charged to (Recoveries Offset) Costs and Expenses, Net	Write-Offs	Balance at End of Period
(in thousands)			

Allowance for doubtful accounts

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Balance at April 27, 2014	\$958	\$101	\$(130	) \$929
Balance at April 28, 2013	\$1,311	\$(268	) \$(85	) \$958
Balance at April 30, 2012	\$1,324	\$100	\$(113	) \$1,311

73

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Table of Contents

(3) Exhibits:

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this report. Certain of the agreements filed as exhibits to this Form 10-K contain representations and warranties by the parties to the agreements that have been made solely for the benefit of the parties to the agreement. These representations and warranties:

- may have been qualified by disclosures that were made to the other parties in connection with the negotiation of the agreements, which disclosures are not necessarily reflected in the agreements;
- may apply standards of materiality that differ from those of a reasonable investor; and
- were made only as of specified dates contained in the agreements and are subject to subsequent developments and changed circumstances.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date that these representations and warranties were made or at any other time. Investors should not rely on them as statements of fact.

Table of Contents

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sunnyvale, State of California, on this 26<sup>th</sup> day of June, 2014.

## FINISAR CORPORATION

By /s/ Jerry S. Rawls  
 Jerry S. Rawls  
 Chairman of the Board of Directors  
 (Co-Principal Executive Officer)

## POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Jerry S. Rawls, Eitan Gertel and Kurt Adzema, and each of them, as such person's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for such person and in such person's name, place and stead, in any and all capacities, to sign any and all amendments to this report on Form 10-K, and to file same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Jerry S. Rawls Jerry S. Rawls	Chairman of the Board of Directors (Co-Principal Executive Officer)	June 26, 2014
/s/ Eitan Gertel Eitan Gertel	Chief Executive Officer (Co-Principal Executive Officer)	June 26, 2014
/s/ Kurt Adzema Kurt Adzema	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	June 26, 2014
/s/ Michael C. Child Michael C. Child	Director	June 26, 2014
/s/ Roger C. Ferguson Roger C. Ferguson	Director	June 26, 2014
/s/ Thomas E. Pardun Thomas E. Pardun	Director	June 26, 2014
/s/ Robert N. Stephens Robert N. Stephens	Director	June 26, 2014

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Title
2.1	Transaction Agreement, dated March 22, 2011, between Registrant and Ignis ASA(1)
3.1	Amended and Restated Bylaws of Registrant(2)
3.2	Restated Certificate of Incorporation of Registrant(3)
3.3	Certificate of Amendment to Restated Certificate of Incorporation of Registrant, filed with the Delaware Secretary of State on June 19, 2001(4)
3.4	Certificate of Elimination regarding Registrant's Series A Preferred Stock(5)
3.5	Certificate of Designation regarding Registrant's Series RP Preferred Stock(6)
3.6	Certificate of Amendment to Restated Certificate of Incorporation of Registrant, filed with the Delaware Secretary of State on May 11, 2005(7)
3.7	Certificate of Amendment of the Restated Certificate of Incorporation of Registrant(8)
3.8	Amended and Restated Certificate of Incorporation of Registrant (9)
4.1	Specimen certificate representing Registrant's common stock(10)
4.2	Indenture, dated October 15, 2009, between Registrant and Wells Fargo Bank, National Association(11)
4.3	Indenture, dated December 16, 2013, between Registrant and Wells Fargo Bank, National Association (12)
10.1	Form of Indemnity Agreement between Registrant and Registrant's directors and officers(13)
10.2*	1999 Stock Option Plan(14)
10.3	Lease Agreement by and between Finisar (CA-TX) Limited Partnership and Registrant, dated February 4, 2005(15)
10.4*	Registrant's 2005 Stock Incentive Plan, as amended(16)
10.5*	Form of Stock Option Agreement for options granted under the 2005 Stock Incentive Plan(17)
10.6*	Optium Corporation 2000 Stock Incentive Plan(18)
10.7*	Optium Corporation 2006 Stock Option and Incentive Plan and Israeli Addendum to 2006 Stock Option and Incentive Plan(19)
10.8	First Amendment to lease for 200 Precision Road, Horsham, PA by and between Horsham Property Assoc., L.P. and Optium Corporation dated January 4, 2008(20)
10.9*	Form of Stock Option Grant Notice under the Optium Corporation 2006 Stock Option and Incentive Plan(21)
10.10*	Form of Stock Option Grant Notice for Australian Employees under the Optium Corporation 2006 Stock Option and Incentive Plan(22)
10.11*	Form of Employee Incentive Stock Option Agreement under the Optium Corporation 2006 Stock Option and Incentive Plan(23)
10.12*	Form of Employee Non-Qualified Stock Option Agreement under the Optium Corporation 2006 Stock Option and Incentive Plan(24)
10.13*	Form of Non-Employee Non-Qualified Stock Option Agreement under the Optium Corporation 2006 Stock Option and Incentive Plan(25)
10.14*	Form of Australian Employee Non-Qualified Stock Option Agreement under the Optium Corporation 2006 Stock Option and Incentive Plan(26)
10.15*	Form of Deferred Stock Award under Optium Corporation 2006 Stock Option and Incentive Plan(27)
10.16	Lease Agreement, dated December 7, 2007, by and between Charvic Pty Ltd and Optium Australia Pty Limited for premises located at 244 Young Street, Waterloo, NSW, Australia(28)
10.17	Lease Agreement between Optium Corporation and 200 Precision Drive Investors, LLC for the premises located at 200 Precision Drive, Horsham, Pennsylvania, dated September 26, 2006(29)
10.18	

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Unprotected Lease Agreement by and among Kailight Photonics, Ltd., Niber Promotions and Investments, Ltd., Atido Holding Ltd. and Roller Electric Works, Ltd. dated May 11, 2006(30)

10.19\* Stock Option and Grant Notice, dated March 3, 2007, for Eitan Gertel(31)

10.20\* Stock Option and Grant Notice, dated March 3, 2007, for Mark Colyar(32)

10.21\* Stock Option and Grant Notice, dated March 3, 2007, for Christopher Brown(33)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Title
10.22*	Stock Option and Grant Notices, dated March 14, 2006, February 14, 2006, June 23, 2005 and May 1, 2003, for Eitan Gertel(34)
10.23*	Stock Option and Grant Notices, dated August 28, 2006, for Christopher Brown(35)
10.24*	Finisar Executive Retention and Severance Plan, as Amended and Restated Effective January 1, 2009(36)
10.25*	Amended and Restated Executive Employment Agreement between Registrant and Christopher Brown, dated December 31, 2008(37)
10.26*	Amended and Restated Executive Employment Agreement between Registrant and Mark Colyar, dated December 31, 2008(38)
10.27*	Amended and Restated Executive Employment Agreement between Registrant and Eitan Gertel, dated December 31, 2008(39)
10.28*	Form of Restricted Stock Unit Issuance Agreement(40)
10.29*	Form of Restricted Stock Unit Issuance Agreement — Officers(41)
10.30*	Form of Restricted Stock Unit Issuance Agreement — International(42)
10.31*	Form of Restricted Stock Unit Issuance Agreement — Israel(43)
10.32*	Form of Restricted Stock Unit Issuance Agreement — UK
10.33*	Registrant's 2009 Employee Stock Purchase Plan (as amended)(44)
10.34*	Registrant's 2009 International Employee Stock Purchase Plan(45)
10.35	Summary of the principal terms of the lease agreement - Wuxi, China(46)
10.36	Summary of the principal terms of the contract for state-owned construction land use right assignment - Wuxi, China(47)
10.37	Summary of the principal terms of the lease agreement - Jarfalla, Sweden(48)
10.38	Summary of the principal terms of the lease agreement - Tel Aviv, Israel(49)
10.39	Summary of the principal terms of the lease agreement - Shanghai, China(50)
10.40	Lease agreement (as amended) by and between Registrant (as successor in interest to GenOA Corporation) and Northern California Industrial Portfolio, Inc. (as successor in interest to RREEF America REIT II Corp. DDD, successor in interest to Speiker Properties, L.P.) dated January 10, 2000(51)
10.41	Lease agreement, dated October 21, 2013, by and between NMBE Pty Ltd and Finisar Australia Pty Ltd for premises located at 19-21 Rosebery Avenue, Rosebery, NSW, Australia(52)
10.42	Purchase Agreement dated December 10, 2013, by and between Finisar Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated(53)
21	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
24	Power of Attorney (incorporated by reference to the signature page of this Annual Report)
31.1	Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Co-Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Co-Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS^	XBRL Instance Document
101.SCH^	XBRL Taxonomy Extension Schema
101.CAL^	XBRL Taxonomy Extension Calculation Linkbase
101.DEF^	XBRL Taxonomy Extension Definition Linkbase
101.LAB^	XBRL Taxonomy Extension Label Linkbase
101.PRE^	XBRL Taxonomy Extension Presentation Linkbase

Table of Contents

XBRL information is furnished and not filed for the purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

\* Compensatory plan or management contract

- (1) Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed March 28, 2011.
- (2) Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed December 4, 2007.
- (3) Incorporated by reference to Exhibit 3.5 to Registrant's Registration Statement on Form S-1/A filed October 19, 1999 (File No. 333-87017).
- (4) Incorporated by reference to Exhibit 3.6 to Registrant's Annual Report on Form 10-K filed July 18, 2001.
- (5) Incorporated by reference to Exhibit 3.8 to Registrant's Registration Statement on Form S-3 filed December 18, 2001 (File No. 333-75380).
- (6) Incorporated by reference to Exhibit 99.2 to Registrant's Registration Statement on Form 8-A12G filed on September 27, 2002.
- (7) Incorporated by reference to Exhibit 3.3 to Registrant's Registration Statement on Form S-3 filed May 18, 2005 (File No. 333-125034).
- (8) Incorporated by reference to Exhibit 3.8 to Registrant's Current Report on Form 8-K filed September 28, 2009.
- (9) Incorporated by reference to Exhibit 3.8 to Registrant's Annual Report on Form 10-K filed July 1, 2010.
- (10) Incorporated by reference to the same numbered exhibit to Registrant's Quarterly Report on Form 10-Q filed December 10, 2009.
- (11) Incorporated by reference to Exhibit 4.5 to Registrant's Current Report on Form 8-K filed October 15, 2009.
- (12) Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K filed December 16, 2013.
- (13) Incorporated by reference to Exhibit 10.1 to Registrant's Registration Statement on Form S-1/A filed October 19, 1999 (File No. 333-87017).
- (14) Incorporated by reference to Exhibit 10.3 to Registrant's Registration Statement on Form S-1 filed September 13, 1999 (File No. 333-87017).
- (15) Incorporated by reference to Exhibit 10.25 to Registrant's Current Report on Form 8-K filed February 9, 2005.
- (16) Incorporated by reference to Exhibit 99.1 to Registrant's Registration Statement on Form S-8 filed December 14, 2009 (File No. 333-163710).
- (17) Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed June 14, 2005.
- (18) Incorporated by reference to Exhibit 99.1 to Registrant's Registration Statement on Form S-8 filed on September 19, 2008.
- (19) Incorporated by reference to Exhibit 99.2 to Registrant's Registration Statement on Form S-8 filed on September 19, 2008.
- (20) Incorporated by reference to Exhibit 10.6 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 13, 2008.
- (21) Incorporated by reference to Exhibit 10.2 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 12, 2006.
- (22) Incorporated by reference to Exhibit 10.2 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 7, 2007.
- (23) Incorporated by reference to Exhibit 10.3 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 12, 2006.
- (24) Incorporated by reference to Exhibit 10.4 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 12, 2006.
- (25) Incorporated by reference to Exhibit 10.5 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 12, 2006.
- (26) Incorporated by reference to Exhibit 10.3 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 7, 2007.

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- (27) Incorporated by reference to Exhibit 10.1 to Optium Corporation's Current Report on Form 8-K filed on September 28, 2007.
- (28) Incorporated by reference to Exhibit 10.3 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 13, 2007.
- (29) Incorporated by reference to Exhibit 10.23 to Optium Corporation's Registration Statement on Form S-1/A(333-135472) filed on October 11, 2006.
- (30) Incorporated by reference to Exhibit 10.1 to Optium Corporation's Current Report on Form 8-K filed on May 21, 2007.
- (31) Incorporated by reference to Exhibit 10.4 to Optium Corporation's, Quarterly Report on Form 10-Q filed on March 7, 2007.



Table of Contents

- (32) Incorporated by reference to Exhibit 10.5 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 7, 2007.
- (33) Incorporated by reference to Exhibit 10.6 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 7, 2007.
- (34) Incorporated by reference to Exhibit 10.36 to Optium Corporation's Annual Report on Form 10-K filed on October 24, 2007.
- (35) Incorporated by reference to Exhibit 10.38 to Optium Corporation's Annual Report on Form 10-K filed on October 24, 2007.
- (36) Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed on January 7, 2009.
- (37) Incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K filed on January 7, 2009.
- (38) Incorporated by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K filed on January 7, 2009.
- (39) Incorporated by reference to Exhibit 99.4 to Registrant's Current Report on Form 8-K filed on January 7, 2009.
- (40) Incorporated by reference to Exhibit 10.61 to Registrant's Quarterly Report on Form 10-Q filed March 12, 2009.
- (41) Incorporated by reference to Exhibit 10.62 to Registrant's Quarterly Report on Form 10-Q filed March 12, 2009.
- (42) Incorporated by reference to Exhibit 10.63 to Registrant's Quarterly Report on Form 10-Q filed March 12, 2009.
- (43) Incorporated by reference to Exhibit 10.64 to Registrant's Quarterly Report on Form 10-Q filed March 12, 2009.
- (44) Incorporated by reference to Exhibit 10.36 to Registrant's Annual Report on Form 10-K filed June 24, 2013.
- (45) Incorporated by reference to Exhibit 99.4 to Registrant's Registration Statement on Form S-8 filed December 14, 2009 (File No. 333-163710).
- (46) Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed March 8, 2013.
- (47) Incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q filed March 8, 2013.
- (48) Incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q filed March 8, 2013.
- (49) Incorporated by reference to Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q filed March 8, 2013.
- (50) Incorporated by reference to Exhibit 10.36 to Registrant's Annual Report on Form 10-K filed June 24, 2013.
- (51) Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed September 5, 2013.
- (52) Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed December 5, 2013.
- (53) Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed March 6, 2014.