OCLARO, INC.
Form 10-Q
November 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 28, 2013

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 000-30684

OCLARO, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-1303994**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

2560 Junction Avenue, San Jose, California 95134

(Address of principal executive offices, zip code)

(408) 383-1400

(Registrant s telephone number, including area code)

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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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	x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)		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 x

93,163,442 shares of common stock outstanding as of November 1, 2013

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

OCLARO, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 28, 2013	June 29, 2013
	(Thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 91,987	$ 84,635
Restricted cash	2,571	2,719
Short-term investments	170	200
Accounts receivable, net, including $3,644 and $2,975 due from related parties at September 28, 2013 and June 29, 2013, respectively	105,925	100,774
Inventories	88,291	86,112
Prepaid expenses and other current assets	46,483	33,307
Assets of discontinued operations held for sale	14,233	55,627
Total current assets	349,660	363,374
Property and equipment, net	65,882	71,842
Other intangible assets, net	9,907	10,233
Other non-current assets	10,418	4,445
Total assets	$ 435,867	$ 449,894
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable, including $2,107 and $2,246 due to related parties at September 28, 2013 and June 29, 2013, respectively	$ 114,138	$ 94,157
Accrued expenses and other liabilities	62,438	53,227
Capital lease obligations, current	8,300	8,281
Term loan payable		24,647
Credit line payable		39,964
Liabilities of discontinued operations held for sale		16,253
Total current liabilities	184,876	236,529
Deferred gain on sale-leasebacks	10,823	10,477
Convertible notes payable	23,091	22,990

Capital lease obligations, non-current	8,383	9,914
Other non-current liabilities	17,375	15,852
Total liabilities	244,548	295,762
Commitments and contingencies (Note 9)		
Stockholders equity:		
Preferred stock: 1,000 shares authorized; none issued and outstanding		
Common stock: $0.01 par value per share; 175,000 shares authorized and 93,032 shares issued and outstanding at September 28, 2013; 175,000 shares authorized and 92,766 shares issued and outstanding at June 29, 2013	931	928
Additional paid-in capital	1,430,161	1,429,155
Accumulated other comprehensive income	42,268	39,368
Accumulated deficit	(1,282,041)	(1,315,319)
Total stockholders equity	191,319	154,132
Total liabilities and stockholders equity	$ 435,867	$ 449,894

The accompanying notes form an integral part of these condensed consolidated financial statements.

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OCLARO, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended	
	September 28, 2013	**September 29, 2012**
	(Thousands, except per share amounts)	
Revenues, including $1,311 and $2,982 from related parties for the three months ended September 28, 2013 and September 29, 2012, respectively	$ 96,648	$ 95,635
Cost of revenues	85,430	91,173
Gross profit	11,218	4,462
Operating expenses:		
Research and development	18,102	20,527
Selling, general and administrative	21,051	21,603
Amortization of other intangible assets	424	1,232
Restructuring, acquisition and related expense, net	2,877	11,594
Flood-related expense		264
Impairment of other intangibles		864
(Gain) loss on sale of property and equipment	452	(18)
Total operating expenses	42,906	56,066
Operating loss	(31,688)	(51,604)
Other income (expense):		
Interest income (expense), net	(553)	(478)
Gain (loss) on foreign currency transactions, net	1,777	38
Other income (expense), net	521	
Gain on bargain purchase		24,866
Total other income (expense)	1,745	24,426
Loss from continuing operations before income taxes	(29,943)	(27,178)
Income tax provision	302	918
Loss from continuing operations	(30,245)	(28,096)
Income from discontinued operations, net of tax	63,523	2,988
Net income (loss)	$ 33,278	$ (25,108)
Basic and diluted net income (loss) per share:		
Loss per share from continuing operations	$ (0.33)	$ (0.35)
Income per share from discontinued operations	0.70	0.04

Basic net income (loss) per share	$	0.37	$	(0.31)
Shares used in computing net income (loss) per share:				
Basic		90,966		80,219
Diluted		90,966		80,219

The accompanying notes form an integral part of these condensed consolidated financial statements.

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OCLARO, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended	
	September 28, 2013	September 29, 2012
	(Thousands)	
Net income (loss)	$ 33,278	$ (25,108)
Other comprehensive income:		
Unrealized loss on hedging transactions		(7)
Unrealized gain (loss) on marketable securities	(30)	20
Currency translation adjustments	(2,887)	876
Pension adjustment, net of tax benefits	5,817	93
Total comprehensive income (loss)	$ 36,178	$ (24,126)

The accompanying notes form an integral part of these condensed consolidated financial statements.

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OCLARO, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended	
	September 28, 2013	**September 29, 2012**
	(Thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 33,278	$ (25,108)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Amortization of deferred gain on sale-leasebacks	(526)	(331)
Amortization and writeoff of issuance costs in connection with term loan	4,293	
Gain on sale of Zurich Business	(62,812)	
Depreciation and amortization	8,838	12,244
Impairment of other intangibles		864
Gain on bargain purchase		(24,866)
Stock-based compensation expense	1,151	1,600
Other adjustments	344	(18)
Changes in operating assets and liabilities:		
Accounts receivable, net	(847)	21,356
Inventories	403	(6,990)
Prepaid expenses and other current assets	(15,707)	3,794
Other non-current assets	251	78
Accounts payable	16,009	3,179
Accrued expenses and other liabilities	(2,226)	(2,969)
Net cash used in operating activities	(17,551)	(17,167)
Cash flows from investing activities:		
Purchases of property and equipment	(1,416)	(5,973)
Proceeds from sale of option to purchase Amplifier Business	5,000	
Proceeds from sale of Zurich Business	90,618	
Transfer from restricted cash, net of acquired businesses	175	93
Cash acquired from business combinations		36,123
Net cash provided by investing activities	94,377	30,243
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	8	738
Proceeds from borrowings under credit line		11,500
Payments on capital lease obligations	(1,321)	(2,316)
Repayments on borrowings under credit line and term loan	(64,964)	(386)

Cash paid under earnout obligations		(8,628)
Net cash (used in) provided by financing activities	(66,277)	908
Effect of exchange rate on cash and cash equivalents	(3,197)	(2,061)
Net increase in cash and cash equivalents	7,352	11,923
Cash and cash equivalents at beginning of period	84,635	61,760
Cash and cash equivalents at end of period	$ 91,987	$ 73,683
Supplemental disclosures of non-cash transactions:		
Issuance of common stock, stock options and stock appreciation rights related to the acquisition of Opnext	$	$ 89,842
Capital lease obligations incurred for purchases of property and equipment		1,228

The accompanying notes form an integral part of these condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. BASIS OF PREPARATION

Basis of Presentation

Oclaro, Inc., a Delaware corporation, is sometimes referred to in this Quarterly Report on Form 10-Q as Oclaro, we, us or our.

On November 1, 2013, we sold our optical amplifier and micro-optics business (the Amplifier Business) to II-VI Incorporated (II-VI). The sale is more fully discussed in Note 5, *Business Combinations and Dispositions* and Note 16, *Subsequent Events*.

On September 12, 2013, we sold our Oclaro Switzerland GmbH subsidiary and associated laser diodes and pump business (the Zurich Business) to II-VI. The sale is more fully discussed in Note 5, *Business Combinations and Dispositions*.

These sales are reported as discontinued operations, which require retrospective restatement of prior periods to classify the assets, liabilities and results of operations as discontinued operations. We have classified the assets and liabilities to be sold as assets of discontinued operations held for sale and liabilities of discontinued operations held for sale within current assets and current liabilities, respectively, on the condensed consolidated balance sheet. The notes to our condensed consolidated financial statements relate to our continuing operations only, unless otherwise indicated.

For presentation purposes, certain prior period amounts have been reclassified to conform to the current period financial statement presentation. These reclassifications do not affect our consolidated net loss, cash flows, cash and cash equivalents or stockholders equity, as previously reported.

On July 23, 2012, we completed a merger by and among Opnext, Inc. (Opnext). The acquisition is more fully discussed in Note 5, *Business Combinations and Dispositions*. The condensed consolidated balance sheets as of September 28, 2013 and June 29, 2013, include the assets and liabilities assumed in the Opnext acquisition. The condensed consolidated statements of operations, comprehensive loss and cash flows for the three months ended September 29, 2012 include the results of operations of the combined entities from July 23, 2012, the date of the acquisition.

The accompanying unaudited condensed consolidated financial statements of Oclaro as of September 28, 2013 and for the three months ended September 28, 2013 and September 29, 2012 have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Article 10 of Securities and Exchange Commission (SEC) Regulation S-X, and include the accounts of Oclaro and all of our subsidiaries. Accordingly, they do not include all of the information and footnotes required by such accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our consolidated financial position and results of operations have been included. The condensed consolidated results of operations for the three months ended September 28, 2013 are not necessarily indicative of results that may be

expected for any other interim period or for the full fiscal year ending June 28, 2014.

The condensed consolidated balance sheet as of June 29, 2013 has been derived from our audited financial statements as of such date, but does not include all disclosures required by U.S. GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with our audited financial statements included in our Annual Report on Form 10-K for the year ended June 29, 2013 (2013 Form 10-K).

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Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reported periods. These judgments can be subjective and complex, and consequently, actual results could differ materially from those estimates and assumptions. Descriptions of some of the key estimates and assumptions are included in our 2013 Form 10-K.

Fiscal Years

We operate on a 52/53 week year ending on the Saturday closest to June 30. Our fiscal year ending June 28, 2014 will be a 52 week year, with the quarter ended September 28, 2013 being a 13 week quarterly period. Our fiscal year ended June 29, 2013 was a 52 week year, with the quarter ended September 29, 2012 being a 13 week quarterly period.

NOTE 2. RECENT ACCOUNTING STANDARDS

In March 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-05, *Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.* This guidance amends a parent company s accounting for the cumulative translation adjustment recorded in accumulated other comprehensive income associated with a foreign entity. The amendment requires a parent to release into net income the cumulative translation adjustment related to its investment in a foreign entity when it either sells a part or all of its investment, or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. We elected to early adopt this guidance during our first quarter of fiscal year 2014. Accordingly, we treated our sale of our Zurich Business in the first quarter of fiscal year 2014 in accordance with this guidance and recorded $3.1 million in income from discontinued operations within the condensed consolidated statement of operations related to the cumulative translation adjustment from deconsolidating our Swiss subsidiary. This guidance will continue to impact our financial position and results of operations prospectively in the instance of an event or transaction described above.

In July 2013, the FASB issued amended guidance that resolves the diversity in practice for the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This new accounting guidance requires the netting of unrecognized tax benefits (UTBs) against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, UTBs will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs. The new standard requires prospective adoption but allows retrospective adoption for all periods presented. We will adopt the FASB s amended guidance for our second quarter of fiscal year 2014. We do not expect the adoption of the guidance to have a significant impact on our financial position, results of operations or cash flows.

NOTE 3. BALANCE SHEET DETAILS

The following table provides details regarding our cash and cash equivalents at the dates indicated:

	September 28, 2013	June 29, 2013

	(Thousands)	
Cash and cash equivalents:		
Cash-in-bank	$ 90,773	$ 82,634
Money market funds	1,214	2,001
	$ 91,987	$ 84,635

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The following table provides details regarding our inventories at the dates indicated:

	September 28, 2013	June 29, 2013
	(Thousands)	
Inventories:		
Raw materials	$ 29,916	$ 32,729
Work-in-process	23,845	26,760
Finished goods	34,530	26,623
	$ 88,291	$ 86,112

The following table provides details regarding our property and equipment, net at the dates indicated:

	September 28, 2013	June 29, 2013
	(Thousands)	
Property and equipment, net:		
Buildings and improvements	$ 10,990	$ 10,334
Plant and machinery	74,902	71,487
Fixtures, fittings and equipment	4,568	4,295
Computer equipment	14,916	13,978
	105,376	100,094
Less: Accumulated depreciation	(39,494)	(28,252)
	$ 65,882	$ 71,842

Property and equipment includes assets under capital leases of $16.7 million at September 28, 2013 and $18.2 million at June 29, 2013, respectively. Amortization associated with assets under capital leases is recorded in depreciation expense.

The following table presents details regarding our accrued expenses and other liabilities at the dates indicated:

	September 28, 2013	June 29, 2013
	(Thousands)	
Accrued expenses and other liabilities:		
Trade payables	$ 18,351	$ 10,391
Compensation and benefits related accruals	15,408	13,117
Warranty accrual	5,970	5,887
Accrued restructuring charges, current	4,419	5,363
Deferred gain related to option on Amplifier Business	5,000	
Other accruals	13,290	18,469

	$ 62,438	$ 53,227

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The following table summarizes the activity related to our accrued restructuring charges for the three months ended September 28, 2013:

	Lease Cancellations, Commitments and Other Charges	Termination Payments to Employees and Related Costs	Total Accrued Restructuring Charges
		(Thousands)	
Balance at June 29, 2013	$ 230	$ 7,036	$ 7,266
Charged to restructuring costs		2,141	2,141
Paid or written-off	(168)	(2,521)	(2,689)
Balance at September 28, 2013	$ 62	$ 6,656	$ 6,718
Current portion	62	4,357	4,419
Non-current portion		2,299	2,299

During the first quarter of fiscal year 2014, we initiated a restructuring plan to simplify our operating footprint, reduce our cost structure and focus our research and development investment in the optical communications market where we can leverage our core competencies. During the three months ended September 28, 2013, we recorded restructuring charges and paid $0.2 million related to workforce reductions in our research and development facility in Israel. We expect to incur an additional $20.0 million to $25.0 million in restructuring charges over the course of the next year in connection with the ongoing activities related to this restructuring plan.

In connection with the acquisition of Opnext, we initiated a restructuring plan to integrate the businesses in the first quarter of fiscal year 2013. We recorded $0.9 million and $8.3 million in restructuring charges during the three months ended September 28, 2013 and September 29, 2012, respectively. The restructuring charges for the three months ended September 28, 2013, included $0.9 million related to external consulting charges and professional fees associated with reorganizing the infrastructure. The restructuring charges for the three months ended September 29, 2012, included $7.0 million related to workforce reductions, $0.9 million related to the impairment of certain technology that was considered redundant following the acquisition and $0.4 million related to the write-off of net book value inventory that supported this technology. During the three months ended September 28, 2013 we made scheduled payments of $2.0 million to settle a portion of these restructuring liabilities. As of September 28, 2013, we had $0.1 million in accrued restructuring liabilities related to this restructuring plan.

During fiscal year 2012, we initiated a restructuring plan in connection with the transfer of our Shenzhen, China manufacturing operations to Venture Corporation Limited (Venture). In connection with this transition, we recorded restructuring charges related to employee separation charges of $1.0 million and $1.6 million during the three months ended September 28, 2013 and September 29, 2012, respectively. During the three months ended September 28, 2013, we made scheduled payments of $0.5 million to settle a portion of these restructuring liabilities. As of September 28, 2013, we had $4.8 million in accrued restructuring liabilities related to this restructuring plan. We expect to incur between $4.0 million and $6.0 million in additional restructuring costs in connection with the transition of our Shenzhen manufacturing operations to Venture over the next year and a half.

At September 28, 2013, we also had $1.9 million in accrued restructuring liabilities relating to the separation agreement with our former Chief Executive Officer.

The current portion of accrued restructuring liabilities is included in the caption accrued expenses and other liabilities and the non-current portion is included in the caption other non-current liabilities in the condensed consolidated balance sheet.

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The following table presents the components of accumulated other comprehensive income at the dates indicated:

	September 28, 2013	June 29, 2013
	(Thousands)	
Accumulated other comprehensive income:		
Currency translation adjustments	$ 42,832	$ 45,719
Unrealized loss on marketable securities	(135)	(105)
Switzerland and Japan defined benefit plans	(429)	(6,246)
	$ 42,268	$ 39,368

In connection with the sale of the Zurich Business in the first quarter of fiscal year 2014, II-VI assumed the pension plan covering employees of the Swiss subsidiary.

NOTE 4. FAIR VALUE

We define fair value as the estimated price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value measurements for assets and liabilities which are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk. We apply the following fair value hierarchy, which ranks the quality and reliability of the information used to determine fair values:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices of identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Our cash equivalents and marketable securities are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include most marketable securities and money market securities. Such instruments are generally classified within Level 1 of the fair value hierarchy.

The contingent obligation related to the make-whole premium on our convertible notes was valued using a valuation model which estimates the value based on the probability and timing of conversion. We have classified the contingent obligation within Level 3 of the fair value hierarchy.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are shown in the table below by their corresponding balance sheet caption and consisted of the following types of instruments at September 28, 2013:

	Fair Value Measurement at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
	(Thousands)			
Assets:				
Cash and cash equivalents: (1)				
Money market funds	$ 1,214	$	$	$ 1,214
Short-term investments:				
Equity securities	170			170
Total assets measured at fair value	$ 1,384	$	$	$ 1,384
Liabilities:				
Other non-current liabilities:				
Contingent obligation for make-whole premium	$	$	$ 699	$ 699
Total liabilities measured at fair value	$	$	$ 699	$ 699

(1) Excludes $90.8 million in cash held in our bank accounts at September 28, 2013.

The following table provides details regarding the changes in assets and liabilities classified within Level 3 from June 29, 2013 to September 28, 2013:

	Accrued Expenses and Other Liabilities
	(Thousands)
Balance at June 29, 2013	$ 99
Current period adjustments to the contingent obligation for make-whole premium	600

Balance at September 28, 2013	$	699

NOTE 5. BUSINESS COMBINATIONS AND DISPOSITIONS

Sale of Zurich Business

On September 12, 2013, we completed a share and asset purchase agreement with II-VI, pursuant to which we sold our Oclaro Switzerland GmbH subsidiary and associated laser diodes and pump business to II-VI. We received proceeds of $90.6 million in cash on September 12, 2013. We will also receive $6.0 million subject to hold-back by II-VI until December 31, 2014 to address any post-closing adjustments or claims, and $2.0 million subject to a potential post-closing working capital adjustment, which will be calculated based on the level of working capital in the Oclaro Switzerland GmbH subsidiary at the September 12, 2013 close versus a target based on working capital at June 29, 2013. In addition, we retained approximately $14.7 million in accounts receivable related to the Zurich Business and approximately $9.6 million of supplier and employee related payables related to the Zurich Business which were not included in the Zurich subsidiary.

As part of the agreement, II-VI purchased our Switzerland subsidiary, which includes its GaAs fabrication facility, and also the corresponding high power laser diodes, VCSEL and 980 nm pump laser product lines, including intellectual property, inventory, equipment and a related research and development facility in Tucson, all of which are associated with the business.

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We will continue the back-end manufacturing of the 980 nm pump and some high power laser diode products at our Shenzhen, China manufacturing facility and supply them to II-VI under a manufacturing services agreement. The employees of Shenzhen, China will continue to be employed by us. In addition, various supply and transition service agreements have been established between the companies to ensure a smooth transition.

We have classified the sale of our Zurich Business as a discontinued operation. In connection with this transaction, we transferred $32.5 million in net assets to II-VI. We also incurred approximately $4.9 million in legal fees, commissions and other administrative costs related to this transaction. We recognized a gain of $62.8 million on the sale of the Zurich Business, which is recorded within discontinued operations in the condensed consolidated statements of operations for the three months ended September 28, 2013. We also recorded $3.1 million in income from discontinued operations within the condensed consolidated statement of operations related to the cumulative translation adjustment from deconsolidating our Swiss subsidiary. As of September 28, 2013, we recorded a $2.0 million receivable in prepaid expenses and other current assets and a $6.0 million receivable in other non-current assets from II-VI related to the holdback for potential post-closing working capital adjustments and other adjustments or claims.

The assets and liabilities of the discontinued operation are presented as current assets and current liabilities, separately under the captions assets of discontinued operations held for sale and liabilities of discontinued operations held for sale in the accompanying condensed consolidated balance sheets at September 28, 2013 and June 29, 2013, and consist of the following:

	September 28, 2013	June 29, 2013
	(Thousands)	
Assets of Discontinued Operations Held for Sale		
Accounts receivable, net		79
Inventories		23,762
Prepaid expenses and other current assets		1,294
Property and equipment, net		12,749
Deferred tax asset, non-current		2,283
	$	$ 40,167

	September 28, 2013	June 29, 2013
	(Thousands)	
Liabilities Held for Sale		
Accounts payable		2,315
Accrued expenses and other liabilities		5,571
Other non-current liabilities		8,367
	$	$ 16,253

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The following table presents the statements of operations for the discontinued operations of the Zurich Business for the three months ended September 28, 2013 and September 29, 2012:

	Three Months Ended	
	September 28, 2013	September 29, 2012
	(Thousands)	
Revenues	$ 13,896	$ 25,285
Cost of revenues	11,593	20,154
Gross profit	2,303	5,131
Operating expenses	3,416	4,351
Other income (expense), net	61,150	158
Income from discontinued operations before income taxes	60,037	938
Income tax provision	163	265
Income from discontinued operations	$ 59,874	$ 673

Sale of Amplifier Business

In connection with the sale of the Zurich Business on September 12, 2013, II-VI acquired an exclusive option for $5.0 million to purchase our Amplifier Business, which was to be credited against the purchase price of the business, if the sale occurred. We received the $5.0 million in cash proceeds on September 12, 2013. As of September 28, 2013, we recorded the $5.0 million as a deferred gain in accrued expenses and other liabilities in our condensed consolidated balance sheet.

On October 10, 2013, II-VI exercised the option and purchased our Amplifier Business for $88.6 million. On November 1, 2013, the sale was completed. The sale is more fully discussed in Note 16, *Subsequent Events*.

We have classified the sale of our Amplifier Business as a discontinued operation as of September 12, 2013, the date management committed to sell the business. The assets of the discontinued operation are presented as current assets under the caption assets of discontinued operations held for sale in the accompanying condensed consolidated balance sheets at September 28, 2013 and June 29, 2013, and consist of the following:

	September 28, 2013	June 29, 2013
	(Thousands)	
Assets of Discontinued Operations Held for Sale		
Inventories	$ 6,792	$ 8,225
Prepaid expenses and other current assets	407	494
Property and equipment, net	7,034	6,741

	$ 14,233	$ 15,460

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The following table presents the statements of operations for the discontinued operations of the Amplifier Business for the three months ended September 28, 2013 and September 29, 2012:

	Three Months Ended	
	September 28, 2013	September 29, 2012
	(Thousands)	
Revenues	$ 28,316	$ 27,893
Cost of revenues	20,715	21,448
Gross profit	7,601	6,445
Operating expenses	3,936	4,130
Other income (expense), net		
Income from discontinued operations before income taxes	3,665	2,315
Income tax provision		
Income from discontinued operations	$ 3,665	$ 2,315

Acquisition of Opnext

On March 26, 2012, we entered into an Agreement and Plan of Merger and Reorganization, by and among Opnext, Tahoe Acquisition Sub, Inc., a newly formed wholly-owned subsidiary of Oclaro (Merger Sub), and Oclaro, pursuant to which we acquired Opnext through a merger of Merger Sub with and into Opnext. On July 23, 2012, we consummated the acquisition following approval by the stockholders of both companies.

Any excess of the fair value of assets acquired and liabilities assumed over the aggregate consideration given for such acquisition results in a gain on bargain purchase. In the first quarter of fiscal year 2013, we initially recorded a gain on bargain purchase of $39.5 million in connection with the acquisition of Opnext, which was subsequently adjusted to $24.9 million, upon completing our purchase price allocation and finalizing our fair value estimates of assets acquired and liabilities assumed in the fourth quarter of fiscal year 2013.

This acquisition is more fully discussed in Note 3, *Business Combinations and Asset Dispositions*, to our consolidated financial statements included in our 2013 Form 10-K.

Acquisition of Mintera

In July 2010, we acquired Mintera Corporation (Mintera). Under the terms of this acquisition, we agreed to pay certain revenue-based consideration, whereby former security holders of Mintera were entitled to receive earnouts up to $20.0 million, determined based on revenue from Mintera products following the acquisition. In the first quarter of fiscal year 2013, we settled the remaining earnout obligations of $8.6 million in cash.

This acquisition is more fully discussed in Note 3, *Business Combinations and Asset Dispositions*, to our consolidated financial statements included in our 2013 Annual Report on Form 10-K.

NOTE 6. OTHER INTANGIBLE ASSETS

In connection with our sale of the Zurich Business during the first quarter of fiscal year 2014, we transferred certain of our other intangible assets to II-VI. As of September 12, 2013, the date of the sale, and June 29, 2013, these other intangible assets had no carrying value. For the three months ended September 29, 2012, we recorded $0.1 million in amortization related to these intangible assets, which has been reclassified to discontinued operations in the condensed consolidated statements of operations.

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In connection with our acquisition of Opnext on July 23, 2012, we recorded $16.4 million in other intangible assets as our estimate of the fair value of acquired intangible assets. The intangible assets acquired from Opnext consist of $8.7 million of developed technology with an estimated weighted average useful life of 6 years, $0.2 million of contract backlog with an estimated weighted average useful life of 1 year, $4.9 million of customer relationships with an estimated weighted average useful life of 11 years, and $2.7 million of trademarks and other with an estimated weighted average useful life of 6 years.

During the first quarter of fiscal year 2013, we determined that a portion of the technology we acquired in connection with our acquisition of Mintera in July 2010 was redundant, following the acquisition of Opnext and its product lines. We recorded $0.9 million for the impairment loss related to these intangibles in our condensed consolidated statements of operations for the three months ended September 29, 2012.

The following table summarizes the activity related to our intangible assets for the three months ended September 28, 2013:

	Core and Current Technology	Development and Supply Agreements	Customer Relationships	Patent Portfolio	Other Intangibles	Amortization	Total
				(Thousands)			
Balance at June 29, 2013	$ 8,333	$ 4,556	$ 5,198	$ 915	$ 3,338	$ (12,107)	$ 10,233
Amortization						(422)	(422)
Translations and adjustments	38	58					96
Balance at September 28, 2013	$ 8,371	$ 4,614	$ 5,198	$ 915	$ 3,338	$ (12,529)	$ 9,907

NOTE 7. CREDIT LINE AND NOTES

Credit Line and Term Loan

On August 2, 2006, Oclaro, Inc., as the (Parent), along with Oclaro Technology Limited, (Borrower), Oclaro Photonics, Inc. and Oclaro Technology, Inc., each a wholly-owned subsidiary, entered into a Credit Agreement with Wells Fargo Capital Finance, Inc. (Wells Fargo) and certain other lenders. From time to time, we amended and restated the Credit Agreement, which is more fully discussed in Note 7, *Credit Line and Notes*, to our consolidated financial statements included in our 2013 Annual Report on
Form 10-K.

On May 6, 2013, Parent, Borrower, the Lenders (collectively, Wells Fargo and Silicon Valley Bank), Wells Fargo (Agent) and PECM Strategic Funding LP and Providence TMT Debt Opportunity Fund II LP (the Term Lenders) entered into Amendment Number Two to the Credit Agreement and the associated guaranties and security agreements (the Amendment), which amended the Credit Agreement in pertinent part by: (i) adding a $25.0 million term loan (the Term Loan) to be provided by the Term Lenders; (ii) reducing the revolving credit facility from $80 million to $50 million (to be further reduced on a dollar-for-dollar basis by an amount equal to the net proceeds of certain asset sale transactions that the Parent may undertake in the future), eliminating the Borrower s option to increase the revolving

credit facility to $100.0 million and implementing an availability block under the revolving credit facility of at least $10.0 million; (iii) removing the financial covenants so that Borrower is not required to maintain a minimum of $15.0 million of availability under the revolving credit facility or $15.0 million in qualified cash balances; (iv) adding an affirmative covenant that Borrower shall have consummated one or more asset sales by July 15, 2013 and with a minimum threshold of net proceeds, and (v) providing for payments and proceeds of asset sales to be applied to repay the credit facility and the Term Loan (with the first $20.0 million of such proceeds being applied to repay Wells Fargo Capital Finance, Inc. and Silicon Valley Bank and the next $25.0 being applied to repay Providence and the remaining proceeds being used to repay Wells Fargo Capital Finance, Inc. and Silicon Valley Bank all amounts outstanding under the credit facility). In connection with the Term Loan, we also issued certain warrants.

On August 21, 2013, Parent, Borrower, Agent, and Wells Fargo and Silicon Valley Bank (collectively, the Lenders) entered into Waiver and Amendment Number Three to the Credit Agreement, which amended the Credit Agreement in pertinent part by: (i) extending the date by which the Borrower shall have consummated one or more asset sales with a minimum threshold of net proceeds to September 2, 2013; (ii) eliminating the mandatory reduction of the revolving credit facility upon the consummation of the asset sales described in (i) above; and (iii) adding a covenant that the Borrower is required to maintain a minimum liquidity of at least $45.0 million at all times (liquidity being the sum of the Borrower s excess availability under the revolving credit facility plus the lesser of $25.0 million and qualified cash balances). The Borrower paid the lenders an amendment fee of $650,000.

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Under the Credit Agreement, as amended, we were required to complete certain asset sales on or by September 2, 2013. We completed the sale of the Zurich Business on September 12, 2013 and applied the net proceeds to repay the entire credit line and Term Loan. At September 28, 2013, there are no amounts outstanding under the credit line or the Term Loan. At June 29, 2013, we had $40.0 million outstanding under the credit line and $25.0 million outstanding related to the Term Loan. Upon repaying the credit line and the Term Loan during the first quarter of fiscal year 2014, we recorded the remaining balance of $4.3 million of unamortized debt discount and issuance costs related to this loan in interest (income) expense, net within the condensed consolidated statement of operations for the three months ended September 28, 2013.

The event of default resulting from not completing the transaction on September 2, 2013, was waived on September 26, 2013. This waiver eliminated the requirement for the Agent and Lenders to make any advances, issue any letters of credit or provide any other extension of credit until the Agent and Lenders agree otherwise and prevents us from exercising any right or action set forth in the applicable loan documents that is conditioned on the absence of any event of default. If the Agent and Lenders do not agree to make amounts under the Credit Agreement available to us, then the Agent and Lenders will have the option to immediately terminate the Credit Agreement. As of September 28, 2013, no amounts were available to us under the Credit Agreement. We are currently in discussions with the Agent and Lenders regarding an amendment to the Credit Agreement.

7.50 % Exchangeable Senior Secured Second Lien Notes (Convertible Notes)

On December 14, 2012, we and our indirect, wholly owned subsidiary, Oclaro Luxembourg S.A., closed the private placement of $25.0 million aggregate principal amount 7.50% Exchangeable Senior Secured Second Lien Notes due 2018 (Convertible Notes). The sale of the Convertible Notes resulted in net proceeds of approximately $22.8 million. The private placement was completed pursuant to a purchase agreement, dated December 14, 2012 entered into by us, certain of our domestic and foreign subsidiaries (the Guarantors) and Morgan Stanley & Co. LLC, which is more fully discussed in Note 7, *Credit Line and Notes*, to our consolidated financial statements included in our 2013 Annual Report on Form 10-K.

Any holder that exchanges its Convertible Notes after such holder s Convertible Notes have been called for redemption by us will, in addition to receiving shares of common stock deliverable upon such exchange and cash in lieu of fractional shares, receive a payment (the redemption exchange make-whole payment) in cash equal to the sum of the remaining scheduled payments of interest that would have been made on the Convertible Notes to be exchanged had such Convertible Notes remained outstanding from the applicable exchange date to the maturity date. If the redemption exchange make-whole payment is payable upon exchange of a holder s Convertible Notes, then such holder will not receive the make-whole premium payment described above.

In connection with the issuance of the Convertible Notes, our contingent obligation to make a make-whole premium payment in the event of an early conversion by the holders of the Convertible Notes is considered an embedded derivative. As of September 28, 2013 and June 29, 2013, the fair value of this contingent obligation is estimated at $0.7 million and $0.1 million, respectively, and recorded within other non-current liabilities in the condensed consolidated balance sheet. The estimated fair value of the make-whole premium was determined by using a valuation model to predict the probability and timing of a conversion.

In connection with the private placement of the Convertible Notes, we incurred approximately $1.3 million in debt discount and $0.9 million in issuance costs. The debt discount and the issuance costs are recorded in convertible notes payable in the consolidated balance sheet as of September 28, 2013 and June 29, 2013. During the three months ended September 28, 2013, we recorded $0.2 million in debt discount and issuance costs in our condensed consolidated statement of operations.

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The following table sets forth balance sheet information related to the Convertible Notes at September 28, 2013:

	September 28, 2013
	(Thousands)
Principal value of the liability component	$ 25,000
Unamortized value of the debt discount and issuance costs	(1,909)
Net carrying value of the liability component	$ 23,091

NOTE 8. POST-RETIREMENT BENEFITS

Switzerland Defined Benefit Plan

During the first quarter of fiscal year 2014, we sold our Zurich Business, and as part of the sale transferred our pension plan covering employees of our Swiss subsidiary (the Swiss Plan) to II-VI. At September 28, 2013, we had no remaining obligations under the Swiss Plan.

Net periodic pension costs associated with our Swiss Plan are recorded in discontinued operations for the three months ended September 28, 2013 and September 29, 2012, and included the following:

	Three Months Ended	
	September 28, 2013	September 29, 2012
	(Thousands)	
Service cost	$ 703	$ 809
Interest cost	169	183
Expected return on plan assets	(279)	(306)
Net amortization	76	93
Net periodic pension costs	$ 669	$ 779

During the three months ended September 28, 2013 and September 29, 2012, we contributed $0.5 million and $0.6 million, respectively, to our Swiss Plan.

Japan Defined Contribution and Benefit Plan

In connection with our acquisition of Opnext, we assumed a defined contribution plan and a defined benefit plan that provides retirement benefits to our employees in Japan.

Under the defined contribution plan, contributions are provided based on grade level and totaled $0.2 million for the three months ended September 28, 2013 and $0.3 million for the period from July 23, 2012, the acquisition date, to September 29, 2012, the end of our first quarter of fiscal year 2013. Employees can elect to receive the benefit as

additional salary or contribute the benefit to the plan on a tax-deferred basis.

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Under the defined benefit plan in Japan (the Japan Plan), we calculate benefits based on an employee s individual grade level and years of service. Employees are entitled to a lump sum benefit upon retirement or upon certain instances of termination. As of September 28, 2013, there were no plan assets. Net periodic pension costs for the Japan Plan for the three months ended September 28, 2013 and September 29, 2012 included the following:

	Three Months Ended	
	September 28, 2013	September 29, 2012
	(Thousands)	
Service cost	$ 248	$ 294
Interest cost	24	37
Net amortization	16	22
Net periodic pension costs	$ 288	$ 353

In connection with the Japan Plan, we have $0.2 million in accrued expenses and other liabilities and $8.0 million in other non-current liabilities in our condensed consolidated balance sheet as of September 28, 2013, to account for the projected benefit obligations.

We made benefit payments of $0.1 million and less than $0.1 million, respectively, under the Japan plan during the three months ended September 28, 2013 and September 29, 2012.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Loss Contingencies

We are involved in various lawsuits, claims, and proceedings that arise in the ordinary course of business. We record a loss provision when we believe it is both probable that a liability has been incurred and the amount can be reasonably estimated.

Guarantees

We indemnify our directors and certain employees as permitted by law, and have entered into indemnification agreements with our directors and executive officers. We have not recorded a liability associated with these indemnification arrangements, as we historically have not incurred any material costs associated with such indemnification obligations. Costs associated with such indemnification obligations may be mitigated by insurance coverage that we maintain, however, such insurance may not cover any, or may cover only a portion of, the amounts we may be required to pay. In addition, we may not be able to maintain such insurance coverage in the future.

We also have indemnification clauses in various contracts that we enter into in the normal course of business, such as indemnifications in favor of customers in respect of liabilities they may incur as a result of purchasing our products should such products infringe the intellectual property rights of a third party. We have not historically paid out any material amounts related to these indemnifications; therefore, no accrual has been made for these indemnifications.

Warranty accrual

We generally provide a warranty for our products for twelve to thirty-six months from the date of sale, although warranties for certain of our products may be longer. We accrue for the estimated costs to provide warranty services at the time revenue is recognized. Our estimate of costs to service our warranty obligations is based on historical experience and expectation of future conditions. To the extent we experience increased warranty claim activity or increased costs associated with servicing those claims, our warranty costs would increase, resulting in a decrease in gross profit.

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The following table summarizes movements in the warranty accrual for the periods indicated:

	Three Months Ended	
	September 28, 2013	September 29, 2012
	(Thousands)	
Warranty provision beginning of period	$ 5,887	$ 2,599
Warranties assumed in acquisitions		4,867
Warranties issued	972	691
Warranties utilized or expired	(983)	(972)
Currency translation adjustment	94	85
Warranty provision end of period	$ 5,970	$ 7,270

Capital Leases

In connection with our acquisition of Opnext, we assumed certain capital leases with Hitachi Capital Corporation for certain equipment. The following table shows the future minimum lease payments due under non-cancelable capital leases with Hitachi Capital Corporation:

	Capital Leases
	(Thousands)
Fiscal Year Ending:	
2014 (remaining)	$ 7,671
2015	4,803
2016	3,150
2017	1,494
2018	56
Thereafter	100
Total minimum lease payments	17,274
Less amount representing interest	(591)
Present value of capitalized payments	16,683
Less: current portion	(8,300)
Long-term portion	$ 8,383

Litigation

In the ordinary course of business, we are involved in various legal proceedings, and we anticipate that additional actions will be brought against us in the future. The most significant of these proceedings are described below. The following supplements and amends the discussion set forth in our Annual Report on Form 10-K for the year ended June 29, 2013. These legal proceedings, as well as other matters, involve various aspects of our business and a variety

of claims in various jurisdictions. Complex legal proceedings frequently extend for several years, and a number of the matters pending against us are at very early stages of the legal process. As a result, some pending matters have not yet progressed sufficiently through discovery and/or development of important factual information and legal issues to enable us to determine whether the proceeding is material to us or to estimate a range of possible loss, if any. Unless otherwise disclosed, we are unable to estimate the possible loss or range of loss for the legal proceedings described below. While it is not possible to accurately predict or determine the eventual outcomes of these items, an adverse determination in one or more of these items currently pending could have a material adverse effect on our results of operations, financial position or cash flows.

On October 23, 2013, Xi an Raysung Photonics Inc. filed a civil suit against our wholly-owned subsidiary, Oclaro Technology (Shenzhen) Co., Ltd. (formerly known as Bookham Technology (Shenzhen) Co., Ltd.) in the Xi an Intermediate People s Court in Shaanxi Province of the People s Republic of China. The complaint filed by Xi an Raysung Photonics Inc. alleges that Oclaro Technology (Shenzhen) Co., Ltd. terminated its purchase order pursuant to which Xi an Raysung Photonics Inc. had supplied certain products and was to supply certain products to Oclaro Technology (Shenzhen) Co., Ltd.

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Xi an Raysung Photonics Inc. has requested the court award damages of approximately $0.8 million (equivalent to RMB 4,796,531.81), and requested that Oclaro Technology (Shenzhen) Co., Ltd. take the finished products that are now stored in Xi an Raysung Photonics Inc. s warehouse (the value of the finished product is approximately, $2.2 million, (equivalent to RMB 13,505,162.34) and requested that Oclaro Technology (Shenzen) Co., Ltd. pay its court fees in connection with this suit.

The Xi an Intermediate People s Court delivered an Asset Preservation Order which was served on Oclaro Technology (Shenzhen) Co., Ltd. and the local Customs office. According to the Asset Preservation Order, Oclaro Technology (Shenzhen) Co., Ltd. was ordered to maintain approximately $2.5 million (equivalent to RMB 15,000,000.00) or assets equivalent to the said amount during the litigation process, and the Customs office was ordered that before the Asset Preservation Order is lifted, Oclaro Technology (Shenzhen) Co., Ltd. s equipment is restricted from being exported. Oclaro Technology (Shenzhen) Co., Ltd. believes it has meritorious defenses to the claims made by Xi an Raysung Photonics Inc.

On August 29, 2013, the Secured Lender Trustee of the Secured Lender Trust established under the Second Amended Chapter 11 Plan of Liquidation of Dewey & LeBoeuf LLP (the Trustee) filed a complaint against Oclaro, Inc. in the United States Bankruptcy Court, Southern District of New York. The complaint alleges that we were formerly a client of Dewey & LeBoeuf LLP (Dewey) and engaged it to provide services for the period through June 5, 2012. The Trustee claims that there are unpaid invoices outstanding totaling approximately $0.5 million. We intend to defend this litigation vigorously.

On December 21, 2012, Labyrinth Optical Technologies LLC filed a complaint against us in United States District Court for the Central District of California alleging that certain coherent transponder modules, coherent receivers and DQPSK transceivers sold by us infringe Labyrinth Optical U.S. patent Nos. 7,599,627 and 8,103,173. The parties executed a settlement agreement on September 13, 2013 and subsequently filed a motion to dismiss the case with prejudice. The settlement amount was not significant.

On May 19, 2011, Curtis and Charlotte Westley filed a purported class action complaint in the United States District Court for the Northern District of California, against us and certain of our officers and directors. The Court subsequently appointed the Connecticut Laborers Pension Fund (Pension Fund) as lead plaintiff for the putative class. On April 26, 2012, the Pension Fund filed a second amended complaint, captioned as Westley v. Oclaro, Inc., No. 11 Civ. 2448 EMC, allegedly on behalf of persons who purchased our common stock between May 6 and October 28, 2010, alleging that we and certain of our officers and directors issued materially false and misleading statements during this time period regarding our current business and financial condition, including projections for demand for our products, as well as our revenues, earnings, and gross margins, for the first quarter of fiscal year 2011 as well as the full fiscal year. The complaint alleges violations of section 10(b) of the Securities Exchange Act and Securities and Exchange Commission Rule 10b-5, as well as section 20(a) of the Securities Exchange Act. The complaint seeks damages and costs of an unspecified amount. On September 21, 2012, the Court dismissed the second amended complaint with leave to amend. After the Pension Fund moved for reconsideration, on January 10, 2013, the Court allowed plaintiffs to take discovery regarding statements made in May and June 2010. On March 1, 2013 the Pension Fund filed a third amended complaint, attempting to cure pleading deficiencies with regard to statements allegedly made in July and August 2010. On April 1, 2013, defendants moved to dismiss the third amended complaint with respect to the statements made in July and August 2010. On May 30, 2013, the Court granted Defendants motion to dismiss the complaint s claims based on statements made in July and August 2010. Discovery has commenced, and no trial has been scheduled in this action. We intend to defend this litigation vigorously.

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On June 10, 2011, a purported shareholder, Stanley Moskal, filed a purported derivative action in the Superior Court for the State of California, County of Santa Clara, against us, as nominal defendant, and certain of our current and former officers and directors, as defendants. The case is styled Moskal v. Couder, No. 1:11 CV 202880 (Santa Clara County Super. Ct. filed June 10, 2011). Four other purported shareholders, Matteo Guindani, Jermaine Coney, Jefferson Braman and Toby Aguilar, separately filed substantially similar lawsuits in the United States District Court for the Northern District of California on June 27, June 28, July 7 and July 26, 2011, respectively. By Order dated September 14, 2011, the Guindani, Coney, and Braman actions were consolidated under In re Oclaro, Inc. Derivative Litigation, Lead Case No. 11 Civ. 3176 EMC. On October 5, 2011, the Aguilar action was voluntarily dismissed. Each remaining purported derivative complaint alleges that Oclaro has been, or will be, damaged by the actions alleged in the Westley complaint, and the litigation of the Westley action, and any damages or settlement paid in the Westley action. Each purported derivative complaint alleges counts for breaches of fiduciary duty, waste, and unjust enrichment. Each purported derivative complaint seeks damages and costs of an unspecified amount, as well as injunctive relief. By Order dated March 6, 2012, the parties in the Moskal action agreed that defendants shall not be required to respond to the original complaint. By Order dated February 27, 2013, the parties in the Moskal action agreed that plaintiff would serve an amended complaint no later than 30 days after the Court in the Westley action rules on defendants motion to dismiss the third amended complaint in the Westley action and the stay of discovery would remain in effect until further order of the Court or agreement by the parties, provided, however, that they obtain discovery produced in the Westley Action. By Order dated March 12, 2013, the parties to In re Oclaro, Inc. Derivative Litigation agreed to stay all proceedings until such time as (a) the defendants file an answer to any complaint in the Westley action; or (b) the Westley action is dismissed in its entirety with prejudice, provided, however, that they obtain discovery produced in the Westley Action. No trial has been scheduled in any of these actions.

On September 3, 2013, the parties agreed to settle the Westley, Moskal, and In re Oclaro Derivative matters for a total of $3.95 million, plus certain corporate governance changes. The money will be paid entirely by our directors and officers liability insurance carriers. Any fees awarded to the plaintiffs in these actions, or their respective counsel, will be included in this amount. The settlement is subject to final documentation and court approval.

On May 27, 2011, Opnext Japan filed a complaint against Furukawa in the Tokyo District Court alleging that certain laser diode modules sold by Furukawa infringe Opnext Japan s Japanese patent No. 3,887,174. Opnext Japan is seeking an injunction as well as damages in the amount of 100.0 million Japanese yen.

On August 5, 2011, Opnext Japan filed a complaint against Furukawa in the Tokyo District Court alleging that certain integratable tunable laser assemblies sold by Furukawa infringe Opnext Japan s Japanese patent No. 4,124,845. Opnext Japan is seeking an injunction as well as damages in the amount of 200.0 million Japanese yen.

NOTE 10. EMPLOYEE STOCK PLANS

Stock Incentive Plans

We currently maintain the Amended and Restated 2004 Stock Incentive Plan (Plan). Under the Plan, there are a total of 7.8 million shares of common stock authorized for issuance, with full value awards being counted as 1.25 shares of common stock for purposes of the share limit. The Plan expires in October 2020.

In connection with our acquisition of Opnext, we assumed Opnext s Amended and Restated 2001 Long-Term Stock Incentive Plan (Opnext Plan) and the shares reserved for issuance thereunder. After giving effect to the exchange ratio, the unused and converted share reserve thereunder consisted of 6,306,977 shares of common stock as of the acquisition date. Subject to compliance with applicable NASDAQ listing requirements, we may grant new stock awards under the assumed Opnext Plan using such share reserve (including any shares returned to such share reserve

as a result of the forfeiture or expiration of the stock awards assumed and converted by us) to our employees who are former Opnext employees and to new employees hired after the date of the acquisition.

As of September 28, 2013, there were 7.5 million shares of our common stock available for grant under both plans.

We generally grant stock options that vest over a four year service period, and restricted stock awards and units that vest over a one to four year service period, and in certain cases each may vest earlier based upon the achievement of specific performance-based objectives as set by our board of directors.

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In July 2011, our board of directors approved the grant of 0.2 million performance stock units (PSUs) to certain executive officers with an aggregate estimated grant date fair value of $0.9 million. These PSUs vest, up to 150 percent of the target PSUs, upon the achievement of certain revenue growth targets through June 30, 2013, relative to certain comparable companies. Vesting is also contingent upon service conditions being met through August 2015. In October 2013, it was determined that achievement of the performance conditions was reached at the 150 percent target level. As of September 28, 2013, there were 0.2 million PSUs outstanding, after adjustments for forfeitures due to terminations, related to this grant, with an aggregate estimated grant date fair value of $0.8 million.

In July 2012, our board of directors approved an additional grant of 0.6 million PSUs to certain executive officers, subject to shareholder approval of an amendment to our current Plan. These PSUs are not included in the awards outstanding or granted disclosures or in stock-based compensation expense as they are not deemed granted for accounting purposes until the foregoing shareholder approval is obtained. Approximately 0.2 million of the PSUs were forfeited as a result of certain executive officer departures. We will record a cumulative adjustment for stock-based compensation expense based on the fair value of these awards at the date of approval. These PSUs vest upon the achievement of certain adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) targets through June 30, 2014. Vesting is also contingent upon service conditions being met through August 2016. If the performance conditions are not achieved, then the corresponding PSUs will be forfeited in the first quarter of fiscal year 2015.

The following table summarizes the combined activity under all of our equity incentive plans for the three months ended September 28, 2013:

	Shares Available For Grant (Thousands)	Stock Options /SARs Outstanding (Thousands)	Weighted-Average Exercise Price	Restricted Stock Awards / Units Outstanding (Thousands)	Weighted-Average Grant Date Fair Value
Balances at June 29, 2013	7,578	6,475	$ 9.36	2,850	$ 3.17
Granted	(499)			400	1.12
Exercised or released		(8)	0.97	(468)	2.73
Cancelled or forfeited	392	(281)	12.36	(141)	2.95
Balances at September 28, 2013	7,471	6,186	9.25	2,641	2.95

Supplemental disclosure information about our stock options outstanding as of September 28, 2013 is as follows:

	Shares (Thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (Thousands)
Options and SARs exercisable at September 28, 2013	5,407	$ 9.79	4.5	$ 180
Options and SARs outstanding at September 28, 2013	6,186	9.25	5.0	184

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value, based on the closing price of our common stock of $1.80 on September 27, 2013, which would have been received by the option holders had all option holders exercised their options as of that date. There were approximately 0.2 million shares of common stock subject to in-the-money options which were exercisable as of September 28, 2013. We settle employee stock option exercises with newly issued shares of common stock.

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NOTE 11. STOCK-BASED COMPENSATION

We recognize compensation expense in our statement of operations related to all share-based awards, including grants of stock options, based on the grant date fair value of such share-based awards. Estimating the grant date fair value of such share-based awards requires us to make judgments in the determination of inputs into the Black-Scholes stock option pricing model which we use to arrive at an estimate of the grant date fair value for such awards. The assumptions used in this model to value stock option grants for the three months ended September 28, 2013 and September 29, 2012 were as follows:

	Three Months Ended	
	September 28, 2013	September 29, 2012
Stock options:		
Expected life		5.1 years
Risk-free interest rate		0.7%
Volatility		82.9%
Dividend yield		

The amounts included in cost of revenues and operating expenses for stock-based compensation for the three months ended September 28, 2013 and September 29, 2012 were as follows:

	Three Months Ended	
	September 28, 2013	September 29, 2012
	(Thousands)	
Stock-based compensation by category of expense:		
Cost of revenues	$ 252	$ 274
Research and development	246	319
Selling, general and administrative	465	780
	$ 963	$ 1,373
Stock-based compensation by type of award:		
Stock options	$ 331	$ 746
Restricted stock awards	658	517
Purchase rights under ESPP		180
Inventory adjustment to cost of revenues	(26)	(70)
	$ 963	$ 1,373

As of September 28, 2013 and June 29, 2013, we had capitalized approximately $0.3 million and $0.4 million, respectively, of stock-based compensation as inventory.

NOTE 12. INCOME TAXES

The income tax provision of $0.3 million and $0.9 million for the three months ended September 28, 2013 and September 29, 2012, respectively, related primarily to our foreign operations.

The total amounts of our unrecognized tax benefits as of September 28, 2013 and June 29, 2013 were approximately $8.2 million and $8.0 million, respectively. For the three months ended September 28, 2013 and September 29, 2012, we had $3.5 million and $4.8 million, respectively in unrecognized tax benefits that, if recognized, would affect our effective tax rate. While it is often difficult to predict the final outcome of any particular uncertain tax position, we believe that unrecognized tax benefits could decrease by approximately $1.5 million in the next twelve months. We are currently under tax audit in China, and we believe that our tax returns are supportable as filed. However, we cannot predict the outcome of the examination, and the ultimate outcome could result in a material adjustment to our tax liability.

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NOTE 13. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using only the weighted-average number of shares of common stock outstanding for the applicable period, while diluted net income per share is computed assuming conversion of all potentially dilutive securities, such as stock options, unvested restricted stock awards, warrants and convertible notes during such period.

For the three months ended September 28, 2013 and September 29, 2012, we excluded 24.7 million and 7.8 million, respectively, of outstanding stock options, stock appreciation rights, warrants, shares issuable in connection with convertible notes, and unvested restricted stock awards from the calculation of diluted net income per share because their effect would have been anti-dilutive.

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NOTE 14. GEOGRAPHIC INFORMATION, PRODUCT GROUPS AND CUSTOMER CONCENTRATION INFORMATION

Geographic Information

The following table shows revenues by geographic area based on the delivery locations of our products:

	Three Months Ended	
	September 28, 2013	September 29, 2012
	(Thousands)	
Hong Kong	$ 16,981	$ 14,875
Germany	14,395	10,084
Mexico	12,854	4,292
Japan	12,488	12,893
Malaysia	9,511	10,160
United States	7,390	13,850
Italy	6,387	5,848
China, excluding Hong Kong	5,836	10,467
Thailand	3,307	3,812
Rest of world	7,499	9,354
	$ 96,648	$ 95,635

Product Groups

The following table sets forth revenues by product group:

	Three Months Ended	
	September 28, 2013	September 29, 2012
	(Thousands)	
40 Gb/s and 100 Gb/s transmission	$ 38,892	$ 31,445
10 Gb/s and lower transmission	50,540	58,548
Industrial and consumer	7,216	5,642
	$ 96,648	$ 95,635

Significant Customers and Concentration of Credit Risk

For the three months ended September 28, 2013, Cisco Systems, Inc. (Cisco) accounted for 15 percent and Coriant accounted for 11 percent of our revenues. For the three months ended September 29, 2012, Cisco accounted for 16 percent of our revenues.

As of September 28, 2013, Flextronics International Ltd. accounted for 14 percent and Coriant accounted for 10 percent of our accounts receivable. As of June 29, 2013, Huawei Technologies Co., Ltd. (Huawei) accounted for 15 percent of our accounts receivable.

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NOTE 15. RELATED PARTY TRANSACTIONS

As a result of our acquisition of Opnext on July 23, 2012, Hitachi, Ltd. (Hitachi) holds approximately 13 percent of our outstanding common stock as of September 28, 2013 based on Hitachi s most recent Schedule 13G filed with the Securities and Exchange Commission on July 27, 2012.

We continue to enter into transactions with Hitachi in the normal course of business. Sales to Hitachi were $1.3 million and $3.0 million, respectively for the three months ended September 28, 2013 and September 29, 2012. Purchases from Hitachi were $2.7 million and $6.4 million, respectively, for the three months ended September 28, 2013 and September 29, 2012. At September 28, 2013 we had $3.6 million accounts receivable due from Hitachi and $2.1 million accounts payable due to Hitachi. At June 29, 2013 we had $3.0 million accounts receivable due from Hitachi and $2.2 million accounts payable due to Hitachi. We also have certain capital equipment leases with Hitachi Capital Corporation as described in Note 9, *Commitments and Contingencies*.

We are now party to the following material agreements with Hitachi:

Intellectual Property License Agreements

We are party to two intellectual property license agreements pursuant to which Hitachi licenses certain intellectual property rights to us on the terms and subject to the conditions stated therein on a fully paid, nonexclusive basis and we license certain intellectual property rights to Hitachi on a fully paid, nonexclusive basis. Hitachi has also agreed to sublicense certain intellectual property to us to the extent that Hitachi has the right to make available such rights to us in accordance with the terms and subject to the conditions stated therein.

We are also party to an intellectual property license agreement with Hitachi Communication Technologies, Ltd., a wholly owned subsidiary of Hitachi, whereby Hitachi Communication Technologies, Ltd. licenses certain intellectual property rights to us on a fully paid, nonexclusive basis, and we license certain intellectual property rights to Hitachi Communication Technologies, Ltd. on a fully paid, nonexclusive basis.

Research and Development Agreement

We are party to a Research and Development Agreement pursuant to which Hitachi provides certain research and development support to us in accordance with the terms and conditions of the agreement. Intellectual property resulting from certain research and development projects is owned by us and licensed to Hitachi on a fully paid, nonexclusive basis. Intellectual property resulting from certain other research and development projects is owned by Hitachi and licensed to us on a fully paid, nonexclusive basis. Certain other intellectual property is jointly owned.

NOTE 16. SUBSEQUENT EVENTS

On October 10, 2013, Oclaro Technologies entered into an Asset Purchase Agreement with II-VI, whereby Oclaro Technologies agreed to sell to II-VI and certain of its affiliates the Amplifier Business for $88.6 million in cash. The transaction closed on November 1, 2013.

Consideration, valued at $88.6 million, consists of $79.6 million in cash, which was received on November 1, 2013, $4.0 million subject to hold-back by II-VI until December 31, 2014 to address any post-closing claim and $5.0 million related to the exclusive option, which was received on September 12, 2013 and will be credited against the purchase

price.

We entered into certain transition service and manufacturing service agreements to allow the Amplifier Business to continue operations during the ownership transition.

Both parties provided customary and reciprocal representations, warranties and covenants in the Asset Purchase Agreement.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, about our future expectations, plans or prospects and our business. You can identify these statements by the fact that they do not relate strictly to historical or current events, and contain words such as anticipate, estimate, expect, project, intend, will, plan, believe, should, outlook, could, other words of similar meaning in connection with discussion of future operating or financial performance. We have based our forward looking statements on our management s beliefs and assumptions based on information available to our management at the time the statements are made. There are a number of important factors that could cause our actual results or events to differ materially from those indicated by such forward-looking statements, including (i) the effect of receiving a going concern statement in our auditors report on our 2013 consolidated financial statements, (ii) the sale of businesses which may or may not arise in connection with executing our restructuring plans, (iii) the future performance of Oclaro and our ability to effectively integrate the operations of acquired companies following the closing of acquisitions and mergers, including our merger with Opnext, (iv) our ability to support the carve out of processes, assets and product lines sold in connection with the sale of our Zurich Business and the Amplifier Business, to serve as a supplier to the buyers of such businesses during the transition of manufacturing activities, (v) our ability to effectively restructure our operations and business following the sale of our Zurich Business and the Amplifier Business in accordance with our business plan, (vi) the potential inability to realize the expected and ongoing benefits and synergies of acquisitions and mergers and from the utilization of capital from our asset dispositions, (vii) the impact of continued uncertainty in world financial markets and any resulting reduction in demand for our products, (viii) our ability to meet or exceed our gross margin expectations, (ix) the effects of fluctuating product mix on our results, (x) our ability to timely develop and commercialize new products, (xi) our ability to reduce costs and operating expenses, (xii) our ability to respond to evolving technologies and customer requirements and demands, (xiii) our dependence on a limited number of customers for a significant percentage of our revenues, (xiv) our ability to maintain strong relationships with certain customers, (xv) our ability to effectively compete with companies that have greater name recognition, broader customer relationships and substantially greater financial, technical and marketing resources than we do, (xvi) our ability to effectively and efficiently transition to an outsourced back-end assembly and test model, (xvii) our ability to timely capitalize on any increase in market demand, (xviii) increased costs related to downsizing and compliance with regulatory and legal requirements in connection with such downsizing, (xix) competition and pricing pressure, (xx) the risks associated with our international operations, (xxi) our ability to service and repay our outstanding indebtedness pursuant to the terms of the applicable agreements, (xxii) the outcome of tax audits or similar proceedings, (xxiii) the outcome of pending or potential litigation against us, (xxiv) our ability to maintain or increase our cash reserves and obtain debt or equity-based financing on terms acceptable to us or at all, and (xxv) other factors described in other documents we periodically file with the SEC. We cannot guarantee any future results, levels of activity, performance or achievements. You should not place undue reliance on forward-looking statements. Moreover, we assume no obligation to update forward-looking statements or update the reasons actual results could differ materially from those anticipated in forward-looking statements. Several of the important factors that may cause our actual results to differ materially from the expectations we describe in forward-looking statements are identified in the sections captioned Management s Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors in this Quarterly Report on Form 10-Q and the documents incorporated herein by reference.

As used herein, Oclaro, we, our, and similar terms include Oclaro, Inc. and its subsidiaries, unless the context indicates otherwise.

OVERVIEW

We are one of the largest providers of optical components, modules and subsystems for the optical communications market. We are a global leader dedicated to photonics innovation, with research and development (R&D) and chip fabrication facilities in the U.K., Italy, Korea and Japan. We have in-house and contract manufacturing sites in the U.S., China, Malaysia and Thailand, with design, sales and service organizations in most of the major regions around the world.

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Our customers include ADVA Optical Networking; Alcatel-Lucent; Ciena; Cisco; Coriant; Ericsson; Fiberhome Technologies Group; Fujitsu; Huawei; and Tellabs, Inc.

RECENT DEVELOPMENTS

On October 10, 2013, Oclaro Technologies entered into an Asset Purchase Agreement with II-VI, whereby Oclaro Technologies agreed to sell its optical amplifier and micro-optics business (the Amplifier Business) to II-VI and certain of its affiliates for $88.6 million in cash. The transaction closed on November 1, 2013.

Consideration, valued at $88.6 million, consists of $79.6 million in cash, which was received on November 1, 2013, $4.0 million subject to hold-back by II-VI until December 31, 2014 to address any post-closing claim and $5.0 million related to the exclusive option, which was received by us on September 12, 2013, and was credited against the purchase price.

We entered into certain transition service and manufacturing service agreements to allow the Amplifier Business to continue operations during the ownership transition.

On September 12, 2013, we also sold our Oclaro Switzerland GmbH subsidiary and associated laser diodes and pump business (the Zurich Business) to II-VI Incorporated (II-VI). We received proceeds of $90.6 million in cash on September 12, 2013. We will also receive $6.0 million subject to hold-back by II-VI until December 31, 2014 to address any post-closing adjustments or claims, and $2.0 million subject to a potential post-closing working capital adjustment, which will be calculated based on the level of working capital in the Oclaro Switzerland GmbH subsidiary at the September 12, 2013 close versus a target based on working capital at June 29, 2013. In addition, we retained approximately $14.7 million in accounts receivable related to the Zurich Business and approximately $9.6 million of supplier and employee related payables related to the Zurich Business which were not included in the Oclaro Switzerland GmbH subsidiary.

As part of the agreement, II-VI has purchased our Switzerland subsidiary, which includes its GaAs fabrication facility, and also the corresponding high power laser diodes, VCSEL and 980 nm pump laser product lines, including intellectual property, inventory, equipment and a related research and development facility in Tucson, Arizona, all of which are associated with this business.

We will continue the back-end manufacturing of the 980 nm pump and certain high power laser diode products at our Shenzhen, China manufacturing facility and supply them to II-VI under a manufacturing services agreement. The employees of Shenzhen, China will continue to be employed by us. In addition, various supply and transition service agreements have been established between the companies to ensure a smooth transition.

We have used a portion of the proceeds from the sale of the Zurich and Amplifier Businesses to repay our term loan, repay our entire outstanding balance under our credit line and will use a portion of the remaining proceeds to begin restructuring Oclaro for the future. We intend to further simplify our operating footprint, reduce our cost structure and focus our research and development investment in the optical communications market where we can leverage our core competencies.

RESULTS OF OPERATIONS

On September 12, 2013 we announced the sale of our Zurich Business to II-VI, along with an exclusive option to purchase our Amplifier Business. On October 10, 2013, we entered into an Asset Purchase Agreement with II-VI for the sale of our Amplifier Business, which subsequently closed on November 1, 2013. We have classified the financial

results of the Zurich and Amplifier Businesses as discontinued operations for all periods presented. The following presentations relate to continuing operations only, unless otherwise indicated.

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On July 23, 2012, we completed a merger by and among Opnext, Inc. (Opnext). The acquisition is more fully discussed in Note 5, *Business Combinations and Dispositions* to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. The condensed consolidated statements of operations for the three months ended September 29, 2012 include the results of operations of the combined entities from July 23, 2012, the date of the acquisition.

The following tables set forth our condensed consolidated results of operations for the three month periods indicated, along with amounts expressed as a percentage of revenues, and comparative information regarding the absolute and percentage changes in these amounts:

	Three Months Ended					Increase
	September 28, 2013		September 29, 2012		Change	(Decrease)
	(Thousands)	%	(Thousands)	%	(Thousands)	%
Revenues	$ 96,648	100.0	$ 95,635	100.0	$ 1,013	1.1
Cost of revenues	85,430	88.4	91,173	95.3	(5,743)	(6.3)
Gross profit	11,218	11.6	4,462	4.7	6,756	151.4
Operating expenses:						
Research and development	18,102	18.7	20,527	21.4	(2,425)	(11.8)
Selling, general and administrative	21,051	21.8	21,603	22.6	(552)	(2.6)
Amortization of intangible assets	424	0.4	1,232	1.3	(808)	(65.6)
Restructuring, acquisition and related costs	2,877	3.0	11,594	12.1	(8,717)	(75.2)
Flood-related expense			264	0.3	(264)	(100.0)
Impairment of other intangibles			864	0.9	(864)	(100.0)
(Gain) loss on sale of property and equipment	452	0.5	(18)		470	n/m (1)
Total operating expenses	42,906	44.4	56,066	58.6	(13,160)	(23.5)
Operating loss	(31,688)	(32.8)	(51,604)	(53.9)	19,916	(38.6)
Other income (expense):						
Interest income (expense), net	(553)	(0.6)	(478)	(0.5)	(75)	15.7
Gain on foreign currency translation	1,777	1.8	38		1,739	4,576.3
Other income (expense), net	521	0.6			521	n/m (1)
Gain on bargain purchase			24,866	26.0	(24,866)	(100.0)
Total other income (expense)	1,745	1.8	24,426	25.5	(22,681)	(92.9)
Loss before income taxes	(29,943)	(31.0)	(27,178)	(28.4)	(2,765)	10.2
Income tax provision	302	0.3	918	1.0	(616)	(67.1)
Loss from continuing operations	(30,245)	(31.3)	(28,096)	(29.4)	(2,149)	7.6
Income from discontinued operations, net of tax	63,523	65.7	2,988	3.1	60,535	2,025.9

Net income (loss)	$ 33,278	34.4	$ (25,108)	(26.3)	$ 58,386	n/m [1]

(1) Not meaningful.

Revenues

Revenues for the three months ended September 28, 2013 increased by $1.0 million, or 1 percent, compared to the three months ended September 29, 2012. Compared to the three months ended September 29, 2012, revenues from sales of our 40 Gb/s and 100 Gb/s transmission modules increased by $7.4 million, or 24 percent; revenues from sales of our 10 Gb/s transmission modules decreased by $8.0 million, or 14 percent; and revenues from sales of our industrial and consumer products increased by $1.6 million, or 28 percent.

For the three months ended September 28, 2013, Cisco Systems, Inc. (Cisco) accounted for 15 percent and Coriant accounted for 11 percent of our revenues. For the three months ended September 29, 2012, Cisco accounted for 16 percent of our revenues.

In fiscal year 2014, we expect our revenues to decrease significantly as a result of the sale of our Zurich and Amplifier Businesses. The Zurich Business and Amplifier Business accounted for approximately 15 percent and 16 percent, respectively, of our fiscal year 2013 revenue.

Cost of Revenues

Our cost of revenues consists of the costs associated with manufacturing our products, and includes the purchase of raw materials, labor costs and related overhead, including stock-based compensation charges and the costs charged by our contract manufacturers for the products they manufacture for us. Charges for excess and obsolete inventory are also included in cost of revenues. Costs and expenses related to our manufacturing resources incurred in connection with the development of new products are included in research and development expenses.

Our cost of revenues for the three months ended September 28, 2013 decreased by $5.7 million, or 6 percent, from the three months ended September 29, 2012. The decrease was primarily related to merger related synergies and realizing the benefits of previous cost reduction efforts.

Gross Profit

Gross profit is calculated as revenues less cost of revenues. Gross margin rate is gross profit reflected as a percentage of revenues.

Our gross margin rate increased to 12 percent for the three months ended September 28, 2013, compared to 5 percent for the three months ended September 29, 2012. Of the 7 percentage points improvement in gross margin rate, the primary sources were improvement in manufacturing overhead as redundancies from the Opnext acquisition were eliminated, manufacturing overhead in other sites was reduced for cost cutting purposes, the sale of our Santa Rosa facility and a higher level of reserves in 2012 versus 2013.

Research and Development Expenses

Research and development expenses consist primarily of salaries and related costs of employees engaged in research and design activities, including stock-based compensation charges related to those employees, costs of design tools and computer hardware, costs related to prototyping and facilities costs for certain research and development focused sites.

Research and development expenses decreased to $18.1 million for the three months ended September 28, 2013 from $20.5 million for the three months ended September 29, 2012. The decrease was primarily related to synergies from aligning and reducing combined research and development resources of Oclaro and Opnext in association with the merger, and other cost reduction efforts in response to softening market conditions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of personnel-related expenses, including stock-based compensation charges related to employees engaged in sales, general and administrative functions, legal and professional fees, facilities expenses, insurance expenses and certain information technology costs.

Selling, general and administrative expenses decreased to $21.1 million for the three months ended September 28, 2013, from $21.6 million for the three months ended September 29, 2012. The decrease was primarily related to synergies from aligning and reducing combined selling, general and administrative resources of Oclaro and Opnext in association with the merger, and other cost reduction efforts in response to softening market conditions.

Amortization of Intangible Assets

Amortization of intangible assets decreased to $0.4 million for the three months ended September 28, 2013 from $1.2 million for the three months ended September 29, 2012. The decrease in our amortization is a result of recording $14.2 million in impairment losses during the fourth quarter of fiscal year 2013, including $6.4 million related to intangibles acquired in connection with our acquisition of Mintera, $2.6 million related to intangibles acquired in connection with our acquisition of Opnext, and $5.2 million related to intangibles acquired in connection with other earlier acquisitions. As a result of these impairments, we expect the amortization of intangible assets to decrease from $5.3 million in fiscal year 2013 to $1.7 million for fiscal years 2014 through 2018 based on the current level of our intangible assets.

Restructuring, Acquisition and Related Costs

During the first quarter of fiscal year 2014, we initiated a restructuring plan to simplify our operating footprint, reduce our cost structure and focus our research and development investment in the optical communications market where we can leverage our core competencies. During the three months ended September 28, 2013, we recorded restructuring charges and paid $0.2 million related to workforce reductions in our research and development facility in Israel. We expect to incur an additional $20.0 million to $25.0 million in restructuring charges over the course of the next year in connection with the ongoing activities related to this restructuring plan.

In connection with the acquisition of Opnext, we initiated a restructuring plan to integrate the businesses in the first quarter of fiscal year 2013. We recorded $0.9 million and $8.3 million in restructuring charges during the three months ended September 28, 2013 and September 29, 2012, respectively. The restructuring charges for the three months ended September 28, 2013, included $0.9 million related to external consulting charges and professional fees associated with reorganizing the infrastructure. The restructuring charges for the three months ended September 29, 2012, included $7.0 million related to workforce reductions, $0.9 million related to the impairment of certain technology that was considered redundant following the acquisition and $0.4 million related to the write-off of net book value inventory that supported this technology.

During fiscal year 2012, we initiated a restructuring plan in connection with the transfer of our Shenzhen, China manufacturing operations to Venture Corporation Limited (Venture). In connection with this transition, we recorded restructuring charges related to employee separation charges of $1.0 million and $1.6 million during the three months ended September 28, 2013 and September 29, 2012, respectively. We expect to incur between $4.0 million and $6.0 million in additional restructuring costs in connection with the transition of our Shenzhen manufacturing operations to Venture over the next year and a half.

Impairment of Other Intangible Assets

During the first quarter of fiscal year 2013, we determined that a portion of the technology we acquired in connection with our acquisition of Mintera in July 2010 was considered redundant, following the acquisition of Opnext and its product lines. We recorded $0.9 million for the impairment loss related to these intangibles in our condensed consolidated statement of operations for the three months ended September 29, 2012.

Other Income (Expense)

Other income (expense) decreased to $1.7 million in income for the three months ended September 28, 2013 from $24.4 million in income for the three months ended September 29, 2012. This decrease was primarily due to a $24.9 million gain on bargain purchase in connection with our acquisition of Opnext in the first quarter of fiscal year 2013.

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Income Tax Provision

For the three months ended September 28, 2013 and September 29, 2012, our income tax provisions of $0.3 million and $0.9 million, respectively, primarily related to our foreign operations.

Income from Discontinued Operations, Net of Tax

During the three months ended September 28, 2013, we recorded a gain on the sale of the Zurich Business of $62.8 million and income from discontinued operations of the Zurich and Amplifier Businesses of $63.5 million. For the three months ended September 29, 2012, we recorded a gain of $3.0 million related to the operations of the Zurich and Amplifier Businesses during that period.

The following table sets forth the results of the discontinued operations of our Zurich and Amplifier Businesses for the three months ended September 28, 2013 and September 29, 2012 and the year-over-year increases (decreases) in our results:

	Three Months Ended		
	September 28, 2013	September 29, 2012	Change
	(Thousands)	(Thousands)	(Thousands)
Revenues	$ 42,212	$ 53,178	$ (10,966)
Cost of revenues	32,308	41,602	(9,294)
Gross profit	9,904	11,576	(1,672)
Gross margin rate	23%	22%	
Operating expenses	7,352	8,481	(1,129)
Other income (expense), net	61,150	158	60,976
Income from discontinued operations before income taxes	63,702	3,253	60,433
Income tax provision	163	265	(102)
Income from discontinued operations	$ 63,539	$ 2,988	$ 60,535

Revenues. Revenues of the Zurich and Amplifier Businesses decreased $11.0 million, or 21 percent, during the three months ended September 28, 2013 compared to the three months ended September 29, 2012, primarily as a result of decreased sales to our customers due to weaker market conditions, and as a result of completing the sale of the Zurich Business during the quarter ended September 28, 2013.

Cost of Revenues. Cost of revenues of the Zurich and Amplifier Businesses decreased $9.3 million, or 22 percent, during the three months ended September 28, 2013 compared to the three months ended September 29, 2012 due to the net effect of a decrease in direct product costs, based on lower revenues.

Gross Margin Rate. The gross margin rate of the Zurich and Amplifier Businesses increased to 23 percent for the three months ended September 28, 2013 compared to the three months ended September 29, 2012, as a result of lower inventory reserves in the three months ended September 28, 2013.

Operating Expenses. Operating expenses of the Zurich and Amplifier Businesses decreased $1.1 million, or 13 percent, during the three months ended September 28, 2013 compared to the three months ended September 29, 2012, primarily as a result of lower research and development expenses in the three months ended September 28, 2013.

Other Income (Expense). Other income (expense) for the Zurich and Amplifier Businesses increased $61.0 million during the three months ended September 28, 2013 compared to the three months ended September 29, 2012, primarily as a result of $62.8 million gain on the sale of the Zurich Business.

Income Tax Provision. Our income tax provision related to discontinued operations is negligible in each period presented.

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RECENT ACCOUNTING STANDARDS

See Note 2, *Recent Accounting Standards*, to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for information regarding the effect of new accounting pronouncements on our condensed consolidated financial statements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements contained elsewhere in this Quarterly Report on Form 10-Q, which have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of our financial statements requires us to make estimates and judgments that affect our reported assets and liabilities, revenues and expenses and other financial information. Actual results may differ significantly from those based on our estimates and judgments or could be materially different if we used different assumptions, estimates or conditions. In addition, our financial condition and results of operations could vary due to a change in the application of a particular accounting policy.

We identified our critical accounting policies in our Annual Report on Form 10-K for the year ended June 29, 2013 (2013 Form 10-K) related to revenue recognition and sales returns, inventory valuation, business combinations, impairment of goodwill and other intangible assets, accounting for stock-based compensation and income taxes. It is important that the discussion of our operating results be read in conjunction with the critical accounting policies discussed in our 2013 Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

The condensed consolidated statement of cash flows and the discussion below on cash flows from operating, investing and financing activities have not been adjusted for the effects of the discontinued operations.

Cash Flows from Operating Activities

Net cash used by operating activities for the three months ended September 28, 2013 was $17.6 million, primarily resulting from a net income of $33.3 million adjusted for non-cash adjustments of $48.7 million and a $2.1 million decrease in cash due to changes in operating assets and liabilities. The $2.1 million decrease in cash due to changes in operating assets and liabilities was comprised of a $16.0 million increase in accounts payable, a $0.4 million decrease in inventories and a $0.3 million decrease in other non-current assets, partially offset by a $15.7 million increase in prepaid expenses and other current assets, a $2.2 million decrease in accrued expenses and other liabilities and a $0.8 million increase in accounts receivable. The $48.7 million decrease in cash resulting from non-cash adjustments primarily consisted of a $62.8 million gain on the sale of the Zurich Business, $0.5 million from the amortization of deferred gain from sales-leaseback transactions, partially offset by $8.8 million in depreciation and amortization, $4.2 million related to the amortization and writeoff of the issuance costs of the term loan, and $1.2 million of expense related to stock-based compensation.

Net cash used by operating activities for the three months ended September 29, 2012 was $17.2 million, primarily resulting from a net loss of $25.1 million adjusted for non-cash adjustments of $10.5 million and a $18.4 million increase in cash due to changes in operating assets and liabilities. The $18.4 million increase in cash due to changes in operating assets and liabilities was comprised of a $21.4 million decrease in accounts receivable, a $7.0 million increase in inventories, a $3.8 million increase in prepaid expenses and other current assets, a $3.2 million increase in accounts payable, a $3.0 million decrease in accrued expenses and other liabilities, and a $0.1 million decrease in

other non-current assets. The $10.5 million decrease in cash resulting from non-cash adjustments primarily consisted of $24.9 million bargain purchase gain related to the acquisition of Opnext and $0.3 million from the amortization of deferred gain from sales-leaseback transactions, partially offset by $12.2 million in depreciation and amortization, $1.6 million of expense related to stock-based compensation and $0.9 million related to the impairment of certain intangibles.

Cash Flows from Investing Activities

Net cash provided by investing activities for the three months ended September 28, 2013 was $94.4 million, primarily consisting of $90.6 million proceeds from the sale of Zurich Business, $5.0 million from the sale of an exclusive option to purchase the Amplifier Business and a $0.2 million reduction in restricted cash, which were partially offset by $1.4 million used in capital expenditures.

Net cash provided by investing activities for the three months ended September 29, 2012 was $30.2 million, primarily consisting of $36.1 million cash acquired in the acquisition of Opnext, partially offset by $6.0 million used in capital expenditures.

Cash Flows from Financing Activities

Net cash used in financing activities for the three months ended September 28, 2013 was $66.3 million, primarily consisting of $65.0 million in repayments on a term loan and our revolving credit facility and $1.3 million in payments on capital lease obligations.

Net cash provided by financing activities for the three months ended September 29, 2012 was $0.9 million, primarily consisting of $11.5 million in borrowings under our revolving credit facility and $0.7 million received from the issuance of common stock through stock option exercises and our employee stock purchase plan, partially offset by $8.6 million in payments in connection with the remaining earnout obligations related to our acquisition of Mintera, $2.3 million in payments on capital lease obligations and $0.4 million repayments on a note payable.

Credit Line and Notes

As of September 28, 2013, no amounts were available to us under our senior secured revolving credit facility with Wells Fargo Capital Finance, Inc. and other lenders (the Credit Agreement). We are currently in discussions with the Agent and Lenders regarding an amendment to the Credit Agreement.

As of September 28, 2013, there were no amounts outstanding under the credit facility and no amounts owed in connection with the Term Loan. As of September 28, 2013, the net carrying value of the liability component of our Convertible Notes was $23.1 million and the estimated fair value of the contingent obligation for the make-whole premium was valued at $0.7 million. As of June 29, 2013, there was $40.0 million outstanding under the credit facility and $25.0 million owed in connection with the term loan. As of June 29, 2013, the net carrying value of the liability component of our Convertible Notes was $22.8 million and the estimated fair value of the contingent obligation for the make-whole premium was valued at $0.1 million. During the first quarter of fiscal year 2014, we used part of the proceeds from the sale of the Zurich Business to fully repay our outstanding balance under the credit facility and the Term Loan.

At September 28, 2013 and June 29, 2013, there was $30,000 in outstanding standby letters of credit secured under the Credit Agreement. These letters of credit expire in June 2015.

See Note 7, *Credit Line and Notes* for additional information regarding the credit facility, term loan and Convertible Notes.

Future Cash Requirements

As of September 28, 2013, we held $94.7 million in cash and short-term investments, comprised of $92.0 million in cash and cash equivalents, $2.6 million in restricted cash and $0.2 million of short-term investments; and we had working capital of $164.8 million. On September 12, 2013, we completed the sale of our Zurich Business under which we expect to receive $6.0 million in additional proceeds which are subject to hold-back by II-VI until December 31, 2014 to address any post-closing adjustments or claims, and $2.0 million subject to a potential post-closing working capital adjustment. On September 12, 2013, we granted II-VI an exclusive option to purchase the Amplifier Business. On October 10, 2013, we entered into an Asset Purchase Agreement to sell the Amplifier Business, and on November 1, 2013, we completed the sale for $88.6 million. The $5.0 million previously received for the option was applied against the sale. We received $79.6 million in proceeds on November 1, 2013 and expect to receive the remaining $4.0 million subject to hold-back by II-VI until December 31, 2014 to address any post-closing claim. With our current cash and cash equivalent balances and the proceeds from the sale of our Amplifier Business, we believe that we have sufficient funds to operate the Company for fiscal 2014, including costs associated with the implementation of our restructuring activities.

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In the event we need additional liquidity beyond our current expectations, such as to fund future growth or strengthen our balance sheet or to fund the cost of restructuring activities, we may find it necessary to lower our operating income break-even level and undertake additional cost cutting measures. We will continue to explore other sources of additional liquidity. These additional sources of liquidity could include one, or a combination, of the following: (i) issuing equity securities, (ii) incurring indebtedness secured by our assets, (iii) issuing debt and/or convertible debt securities, or (iv) selling product lines, other assets and/or portions of our business. There can be no guarantee that we will be able to raise additional funds on terms acceptable to us, or at all. As of September 28, 2013, no amounts were available to us under the Credit Agreement. We are currently in discussions with the Agent and Lenders regarding an amendment to the Credit Agreement.

We have incurred significant operating losses and generated negative cash flows for fiscal year 2013, the first quarter of fiscal year 2014 and anticipate that our net loss for the remaining fiscal year 2014 could be substantial. The continued operation of our business is dependent upon our achieving cash flows expected to be generated from the execution of our current operating plan, including anticipated restructuring plans.

For additional information on the risks we face related to future cash requirements, see Item 1A. Risk Factors under Risks Related to Our Business We have a history of large operating losses and we may not be able to achieve profitability in the future and maintain sufficient levels of liquidity, Note 1, *Business and Summary of Significant Accounting Policies*, and the Report of Independent Registered Public Accounting Firm included in our 2013 Annual Report on Form 10-K.

As of September 28, 2013, $74.0 million of the $92.0 million of our cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the United States, we could be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not include repatriation of these funds.

Off-Balance Sheet Arrangements

We indemnify our directors and certain employees as permitted by law, and have entered into indemnification agreements with our directors and executive officers. We have not recorded a liability associated with these indemnification arrangements, as we historically have not incurred any material costs associated with such indemnification obligations. Costs associated with such indemnification obligations may be mitigated by insurance coverage that we maintain, however, such insurance may not cover any, or may cover only a portion of, the amounts we may be required to pay. In addition, we may not be able to maintain such insurance coverage in the future.

We also have indemnification clauses in various contracts that we enter into in the normal course of business, such as indemnification in favor of customers in respect of liabilities they may incur as a result of purchasing our products should such products infringe the intellectual property rights of a third party. We have not historically paid out any material amounts related to these indemnifications; therefore, no accrual has been made for these indemnifications.

Other than as set forth above, we are not currently party to any material off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk affecting us, see Quantitative and Qualitative Disclosures About Market Risk in Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended June 29, 2013, which is incorporated herein by reference. Our exposure to market risk has not changed materially since June 29, 2013.

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INTEREST RATES

We finance our operations through a mixture of issuances of equity securities, finance leases, working capital and by drawing on our Credit Agreement. We have exposure to interest rate fluctuations on our cash deposits and for amounts borrowed under our Credit Agreement, Convertible Notes and through our capital leases. At September 28, 2013 the carrying value of our Convertible Note was $23.1 million with an average interest rate of 7.5 percent per annum and $16.7 million under capital leases. An increase in our average interest rate by 1.0 percent would increase our annual interest expense by $0.4 million.

We monitor our interest rate risk on cash balances primarily through cash flow forecasting. Cash that is surplus to immediate requirements is invested in short-term deposits with banks accessible with one day s notice and invested in overnight money market accounts. We believe our current interest rate risk is immaterial.

FOREIGN CURRENCY

As our business is multinational in scope, we are subject to fluctuations based upon changes in the exchange rates between the currencies in which we collect revenues and pay expenses. In the future, we expect that a majority of our revenues will continue to be denominated in U.S. dollars, while a significant portion of our expenses will continue to be denominated in U.K. pounds sterling and Japanese yen. Our expenses denominated in the Swiss franc have decreased significantly as a result of our sale of the Zurich Business in the first quarter of fiscal year 2014. Fluctuations in the exchange rate between the U.S. dollar, the U.K. pound sterling, and the Japanese yen and, to a lesser extent, other currencies in which we collect revenues and pay expenses, could affect our operating results. This includes the Chinese yuan, the Korean won and the Euro in which we pay expenses in connection with operating our facilities in Shenzhen and Shanghai, China; Daejeon, South Korea and San Donato, Italy. To the extent the exchange rate between the U.S. dollar and these currencies were to fluctuate more significantly than experienced to date, our exposure would increase.

As of September 28, 2013, our U.K. subsidiary had $33.1 million, net, in U.S. dollar denominated operating intercompany payables, $53.2 million in U.S. dollar denominated accounts receivable and payable, net, related to sales to external customers and purchases from suppliers, and $52.5 million in U.S. dollar denominated cash accounts. It is estimated that a 10 percent fluctuation in the U.S. dollar relative to the U.K. pound sterling would lead to a profit of $7.3 million (U.S. dollar strengthening), or loss of $7.3 million (U.S. dollar weakening) on the translation of these receivables and other cash balances, which would be recorded as gain (loss) on foreign currency transactions, net, in our condensed consolidated statement of operations.

As of September 28, 2013, our Japan subsidiary had $43.3 million, net, in U.S. dollar denominated operating intercompany payables, $16.2 million in U.S. dollar denominated accounts payable, net of accounts receivable, related to sales to external customers and purchases from suppliers, and $0.6 million in U.S. dollar denominated cash and restricted cash accounts. It is estimated that a 10 percent fluctuation in the U.S. dollar relative to the Japanese yen would lead to a profit of $5.9 million (U.S. dollar weakening), or loss of $5.9 million (U.S. dollar strengthening) on the translation of these balances, which would be recorded as gain (loss) on foreign currency transactions, net, in our condensed consolidated statement of operations.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 28, 2013. The term disclosure controls and procedures, as defined in Rules13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or the Exchange

Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 28, 2013, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were not effective at the reasonable assurance level.

As disclosed in our Annual Report on Form 10-K for the year ended June 29, 2013, we identified a material weakness in our internal control over financial reporting such that our disclosure controls and procedures related to accounting for the purchase of the Opnext acquisition were not effective. Over the next several quarters, we will be implementing enhancements to our internal controls over financial reporting, including hiring finance personnel and adding controls over the preparation and oversight of accounting for acquisitions and dispositions. Our remediation efforts, including the testing of these controls, will continue throughout our fiscal year 2014. We expect that the material weakness will be remediated during fiscal year 2014 once these controls have been operational for a sufficient period of time to allow management to conclude that these controls are operating effectively.

Notwithstanding the ineffectiveness of our disclosure controls and procedures as of September 28, 2013 and the material weakness in our internal control over financial reporting that existed as of that date as described above, management believes that (i) this Form 10-Q does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading with respect to the periods covered by this Report and (ii) the condensed consolidated financial statements, and other financial information, included in this Report fairly present in all material respects in accordance with U.S. GAAP our financial condition, results of operations and cash flows as of, and for, the dates and periods presented.

Except as noted in the preceding paragraph, there was no change in our internal control over financial reporting during the three months ended September 28, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Overview

In the ordinary course of business, we are involved in various legal proceedings, and we anticipate that additional actions will be brought against us in the future. The most significant of these proceedings are described below. The following supplements and amends the discussion set forth in our Annual Report on Form 10-K for the year ended June 29, 2013. These legal proceedings, as well as other matters, involve various aspects of our business and a variety of claims in various jurisdictions. Complex legal proceedings frequently extend for several years, and a number of the matters pending against us are at very early stages of the legal process. As a result, some pending matters have not yet progressed sufficiently through discovery and/or development of important factual information and legal issues to enable us to determine whether the proceeding is material to us or to estimate a range of possible loss, if any. Unless otherwise disclosed, we are unable to estimate the possible loss or range of loss for the legal proceedings described below. While it is not possible to accurately predict or determine the eventual outcomes of these items, an adverse determination in one or more of these items currently pending could have a material adverse effect on our results of operations, financial position or cash flows.

Specific Matters

On October 23, 2013, Xi an Raysung Photonics Inc. filed a civil suit against our wholly-owned subsidiary, Oclaro Technology (Shenzhen) Co., Ltd. (formerly known as Bookham Technology (Shenzhen) Co., Ltd.) in the Xi an Intermediate People s Court in Shaanxi Province of the People s Republic of China. The complaint filed by Xi an Raysung Photonics Inc. alleges that Oclaro Technology (Shenzhen) Co., Ltd. terminated its purchase order pursuant to which Xi an Raysung Photonics Inc. had supplied certain products and was to supply certain products to Oclaro Technology (Shenzhen) Co., Ltd.

Xi an Raysung Photonics Inc. has requested the court award damages of approximately $0.8 million (equivalent to RMB 4,796,531.81), and requested that Oclaro Technology (Shenzhen) Co., Ltd. take the finished products that are now stored in Xi an Raysung Photonics Inc. s warehouse (the value of the finished product is approximately, $2.2 million, (equivalent to RMB 13,505,162.34) and requested that Oclaro Technology (Shenzen) Co., Ltd. pay its court fees in connection with this suit.

The Xi an Intermediate People s Court delivered an Asset Preservation Order which was served on Oclaro Technology (Shenzhen) Co., Ltd. and the local Customs office. According to the Asset Preservation Order, Oclaro Technology (Shenzhen) Co., Ltd. was ordered to maintain approximately $2.5 million (equivalent to RMB 15,000,000.00) or assets equivalent to the said amount during the litigation process, and the Customs office was ordered that before the Asset Preservation Order is lifted, Oclaro Technology (Shenzhen) Co., Ltd. s equipment is restricted from being exported. Oclaro Technology (Shenzhen) Co., Ltd. believes it has meritorious defenses to the claims made by Xi an Raysung Photonics Inc.

On August 29, 2013, the Secured Lender Trustee of the Secured Lender Trust established under the Second Amended Chapter 11 Plan of Liquidation of Dewey & LeBoeuf LLP (the Trustee) filed a complaint against Oclaro, Inc. in the United States Bankruptcy Court, Southern District of New York. The complaint alleges that we were formerly a client of Dewey & LeBoeuf LLP (Dewey) and engaged it to provide services for the period through June 5, 2012. The Trustee claims that there are unpaid invoices outstanding totaling approximately $0.5 million. We intend to defend this litigation vigorously.

On December 21, 2012, Labyrinth Optical Technologies LLC filed a complaint against us in United States District Court for the Central District of California alleging that certain coherent transponder modules, coherent receivers and DQPSK transceivers sold by us infringe Labyrinth Optical U.S. patent Nos. 7,599,627 and 8,103,173. The parties executed a settlement agreement on September 13, 2013 and subsequently filed a motion to dismiss the case with prejudice. The settlement amount was not significant.

On May 19, 2011, Curtis and Charlotte Westley filed a purported class action complaint in the United States District Court for the Northern District of California, against us and certain of our officers and directors. The Court subsequently appointed the Connecticut Laborers Pension Fund (Pension Fund) as lead plaintiff for the putative class. On April 26, 2012, the Pension Fund filed a second amended complaint, captioned as Westley v. Oclaro, Inc., No. 11 Civ. 2448 EMC, allegedly on behalf of persons who purchased our common stock between May 6 and October 28, 2010, alleging that we and certain of our officers and directors issued materially false and misleading statements during this time period regarding our current business and financial condition, including projections for demand for our products, as well as our revenues, earnings, and gross margins, for the first quarter of fiscal year 2011 as well as the full fiscal year. The complaint alleges violations of section 10(b) of the Securities Exchange Act and Securities and Exchange Commission Rule 10b-5, as well as section 20(a) of the Securities Exchange Act. The complaint seeks damages and costs of an unspecified amount. On September 21, 2012, the Court dismissed the second amended complaint with leave to amend. After the Pension Fund moved for reconsideration, on January 10, 2013, the Court allowed plaintiffs to take discovery regarding statements made in May and June 2010. On March 1, 2013 the Pension Fund filed a third amended complaint, attempting to cure pleading deficiencies with regard to statements allegedly made in July and August 2010. On April 1, 2013, defendants moved to dismiss the third amended complaint with respect to the statements made in July and August 2010. On May 30, 2013, the Court granted Defendants motion to dismiss the complaint s claims based on statements made in July and August 2010. Discovery has commenced, and no trial has been scheduled in this action. We intend to defend this litigation vigorously.

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On June 10, 2011, a purported shareholder, Stanley Moskal, filed a purported derivative action in the Superior Court for the State of California, County of Santa Clara, against us, as nominal defendant, and certain of our current and former officers and directors, as defendants. The case is styled Moskal v. Couder, No. 1:11 CV 202880 (Santa Clara County Super. Ct. filed June 10, 2011). Four other purported shareholders, Matteo Guindani, Jermaine Coney, Jefferson Braman and Toby Aguilar, separately filed substantially similar lawsuits in the United States District Court for the Northern District of California on June 27, June 28, July 7 and July 26, 2011, respectively. By Order dated September 14, 2011, the Guindani, Coney, and Braman actions were consolidated under In re Oclaro, Inc. Derivative Litigation, Lead Case No. 11 Civ. 3176 EMC. On October 5, 2011, the Aguilar action was voluntarily dismissed. Each remaining purported derivative complaint alleges that Oclaro has been, or will be, damaged by the actions alleged in the Westley complaint, and the litigation of the Westley action, and any damages or settlement paid in the Westley action. Each purported derivative complaint alleges counts for breaches of fiduciary duty, waste, and unjust enrichment. Each purported derivative complaint seeks damages and costs of an unspecified amount, as well as injunctive relief. By Order dated March 6, 2012, the parties in the Moskal action agreed that defendants shall not be required to respond to the original complaint. By Order dated February 27, 2013, the parties in the Moskal action agreed that plaintiff would serve an amended complaint no later than 30 days after the Court in the Westley action rules on defendants motion to dismiss the third amended complaint in the Westley action and the stay of discovery would remain in effect until further order of the Court or agreement by the parties, provided, however, that they obtain discovery produced in the Westley Action. By Order dated March 12, 2013, the parties to In re Oclaro, Inc. Derivative Litigation agreed to stay all proceedings until such time as (a) the defendants file an answer to any complaint in the Westley action; or (b) the Westley action is dismissed in its entirety with prejudice, provided, however, that they obtain discovery produced in the Westley Action. No trial has been scheduled in any of these actions.

On September 3, 2013, the parties agreed to settle the Westley, Moskal, and In re Oclaro Derivative matters for a total of $3.95 million, plus certain corporate governance changes. The money will be paid entirely by our directors and officers liability insurance carriers. Any fees awarded to the plaintiffs in these actions, or their respective counsel, will be included in this amount. The settlement is subject to final documentation and court approval.

On May 27, 2011, Opnext Japan filed a complaint against Furukawa in the Tokyo District Court alleging that certain laser diode modules sold by Furukawa infringe Opnext Japan s Japanese patent No. 3,887,174. Opnext Japan is seeking an injunction as well as damages in the amount of 100.0 million Japanese yen.

On August 5, 2011, Opnext Japan filed a complaint against Furukawa in the Tokyo District Court alleging that certain integratable tunable laser assemblies sold by Furukawa infringe Opnext Japan s Japanese patent No. 4,124,845. Opnext Japan is seeking an injunction as well as damages in the amount of 200.0 million Japanese yen.

ITEM 1A. RISK FACTORS

Investing in our securities involves a high degree of risk. The risks described below are not the only ones facing us. Additional risks not currently known to us or that we currently believe are immaterial also may impair our business, operations, liquidity and stock price materially and adversely. You should carefully consider the risks and uncertainties described below in addition to the other information included or incorporated by reference in this Quarterly Report on Form 10-Q. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. In that case, the trading price of our common stock could fall and you could lose all or part of your investment.

We have recently announced significant changes at Oclaro relating to our operations, strategic plan and management team.

Beginning in June 2013, we have announced a series of events, transactions and restructuring plans, which have had a significant impact on our business. Among other things, we have announced the appointment of a new Chief Executive Officer, a new Chief Financial Officer, the sale of our Zurich and Amplifier Businesses and a restructuring plan to focus our business on our core competencies. While we believe these events, transactions and plans will have a positive impact on our financial condition and results of operations, these changes will result in at least a significant near-term reduction in our revenue, could lead to a disruption in our operations and employee morale, could lead to unplanned attrition of employees, and adversely affect our ability to attract highly skilled employees. If we experience these or other adverse consequences or are otherwise unable to realize the expected benefits of our restructuring plan, our business, results of operations and financial condition would be materially and adversely affected and we may not be able to continue as a going concern over the long term.

There is risk in executing the transition of our Shenzhen assembly and test operations, and in executing to the corresponding long term supply agreement, with Venture, and we may not realize any anticipated benefits from either.

In March 2012, we entered into a definitive agreement with Venture Corporation Limited (Venture) to transfer our Shenzhen final assembly and test operations to Venture s Malaysia facility in a phased and gradual transfer of products over a period of three years. In conjunction with this agreement, we entered into a five-year supply agreement with Venture to manufacture and supply us with certain products that were previously manufactured at our Shenzhen facility. There can be no assurance that the transition of our Shenzhen assembly and test operations and the corresponding long term supply agreement with Venture will result in the benefits that we expect, or that revenues will not be adversely impacted during the transition period. There can be no assurance that we will realize our initial estimate of $35 million in lower working capital requirements, net of related costs incurred, due to the outsourcing of these activities.

In addition, there is significant risk in our ability to execute stages of this transfer without negative impacts on production output, delivery to customer requests, quality and customer service in general. Revenues could be adversely impacted if production output falls short of expectations during the transfer or if customer service is perceived to be inadequate.

On March 28, 2012, shortly after announcing this agreement, certain of our employees in Shenzhen initiated a work stoppage up to and including April 4, 2012. Although we negotiated a resolution to this work stoppage, there can be no assurance that work stoppages will not arise in the future having a material adverse impact on our production output and/or the levels and gross margins of the corresponding product revenues supported by the production output, and/or increasing the net costs of executing the transfer to Venture. Any such work stoppage may adversely impact our revenues and our ability to deliver products to our customers. In addition, our recent sale of the Zurich and Amplifier Businesses, and our commitment to provide manufacturing services for the buyer using our Shenzhen facility and personnel, could potentially have an impact on corresponding employee relations in Shenzhen.

The markets in which we operate are highly competitive, which could result in lost sales and lower revenues.

The market for optical components and modules is highly competitive and this competition could result in our existing customers moving their orders to our competitors. We are aware of a number of companies that have developed or are developing optical component products, including tunable lasers, pluggables, wavelength selective switches and thin film filter products, among others, that compete directly with our current and proposed product offerings.

Certain of our competitors may be able to more quickly and effectively:

- develop or respond to new technologies or technical standards;
- react to changing customer requirements and expectations;
- devote needed resources to the development, production, promotion and sale of products; and

deliver competitive products at lower prices.

Some of our current competitors, as well as some of our potential competitors, have longer operating histories, greater name recognition, broader customer relationships and industry alliances and substantially greater financial, technical and marketing resources than we do. In addition, market leaders in industries such as semiconductor and data communications, who may also have significantly more resources than we do, may in the future enter our market with competing products. Our competitors and new Chinese companies are establishing manufacturing operations in China to take advantage of comparatively low manufacturing costs. All of these risks may be increased if the market were to further consolidate through mergers or other business combinations between competitors.

Certain of our competitors may not have been impacted by the flooding in Thailand and this may place competitive pressures on our ability to recover our flood-affected revenue losses.

We may not be able to compete successfully with our competitors and aggressive competition in the market may result in lower prices for our products and/or decreased gross margins. Any such development could have a material adverse effect on our business, financial condition and results of operations.

We depend on a limited number of suppliers and key contract manufacturers who could disrupt our business if they stopped, decreased, delayed or were unable to meet our demand for shipments of their products or manufacturing of our products.

We depend on a limited number of suppliers of raw materials and equipment used to manufacture our products. We currently also depend on a limited number of contract manufacturers, principally Fabrinet in Thailand, to manufacture certain of our products. We will also increasingly depend on Venture as we transfer our Shenzhen assembly and test operations in a phased and gradual transfer of products to Venture. Some of these suppliers are sole sources. We typically have not entered into long-term agreements with our suppliers other than Fabrinet and Venture, therefore, these suppliers generally may stop supplying us materials and equipment at any time. Our reliance on a sole supplier or limited number of suppliers could result in delivery problems, reduced control over product pricing and quality, and an inability to identify and qualify another supplier in a timely manner. Some of our suppliers that may be small or undercapitalized may experience financial difficulties that could prevent them from supplying us materials and equipment. In addition, our suppliers, including our sole source suppliers, may experience manufacturing delays or shut downs due to circumstances beyond their control such as earthquakes, floods, fires, political unrest or other natural disasters.

Fabrinet s manufacturing operations are located in Thailand. In October 2011, due to flooding in Thailand, Fabrinet suspended operations at both of their factories that supply us with finished goods. Thailand has also been subject to political unrest in the recent past, including the temporary interruption of service at one of its international airports, and may again experience such political unrest in the future. If Fabrinet is unable to supply us with materials or equipment, or if they are unable to ship our materials or equipment out of Thailand due to future flooding or political unrest, this could materially adversely affect our ability to fulfill customer orders and our results of operations.

Any supply deficiencies relating to the quality or quantities of materials or equipment we use to manufacture our products could materially adversely affect our ability to fulfill customer orders and our results of operations. Lead times for the purchase of certain materials and equipment from suppliers have increased and in some cases have limited our ability to rapidly respond to increased demand, and may continue to do so in the future. To the extent we introduce additional contract manufacturing partners, introduce new products with new partners and/or move existing internal or external production lines to new partners, we could experience supply disruptions during the transition process. In addition, due to our customers requirements relating to the qualification of our suppliers and contract manufacturing facilities and operations, we cannot quickly enter into alternative supplier relationships, which prevents us from being able to respond immediately to adverse events affecting our suppliers.

Uncertainties associated with the sale of the Zurich and Amplifier Businesses may cause us to lose employees, customers and business partners.

Our current and prospective employees, customers and business partners may be uncertain about their future roles and relationships with us following the completion of the sale of the Zurich and Amplifier Businesses. This uncertainty may adversely affect our ability to attract and retain key management and employees, customers and business partners.

We relocated our operations formerly located in Totsuka, Japan. Our business may experience disruption due to this relocation.

We relocated our manufacturing and research and development facilities, as well as our administrative offices from Totsuka, Japan to a facility we leased from Yokogawa Electric Corporation in Sagamihara-shi, Kanagawa Prefecture, Japan. While we completed this transition, there can be no assurance that the relocation activities will not adversely impact our production capacity or manufacturing yields or divert management s attention from the day-to-day operations of our business, any of which could adversely affect our business, results of operations and cash flows.

We have a history of large operating losses. We may not be able to achieve profitability in the future and as a result we may not be able to maintain sufficient levels of liquidity.

We have historically incurred losses and negative cash flows from operations since our inception. As of September 28, 2013, we had an accumulated deficit of $1,282.0 million. We incurred a loss from continuing operations of $30.2 million and negative cash flows from operations of $17.2 million during the three months ended September 28, 2013, and we incurred net losses for the years ended June 29, 2013, June 30, 2012 and July 2, 2011 of $122.7 million, $66.5 million and $46.4 million, respectively.

As of September 28, 2013, we held $94.7 million in cash and short-term investments, comprised of $92.0 million in cash and cash equivalents, $2.6 million in restricted cash and $0.2 million of short-term investments; and we had working capital of $164.8 million. At September 28, 2013, we had debt of $39.8 million, consisting of $23.1 million outstanding pursuant to the issuance of 7.50% Exchangeable Senior Secured Second Lien Notes due 2018 (the Convertible Notes) by our indirect, wholly owned subsidiary, Oclaro Luxembourg S.A., and guaranteed by us and $16.7 million related to capital leases. During fiscal year 2013 and 2014, we executed a number of financing transactions in order to generate funds to help sustain our operations: we sold our interleaver and thin film filter business, we expanded our line of credit, we executed a convertible debt transaction and in the third quarter of fiscal year 2013, we began to evaluate and execute sales of product lines in order to generate additional capital. On May 6, 2013, we secured a short term loan from Providence Equity of $25.0 million (with net proceeds to us of $20.5 million after discounts and expenses) as a bridge to the conclusion of certain asset sales. In order to obtain the short term loan, we amended our Credit Agreement to add Providence as a term lender. In connection with this amendment, we agreed

to complete certain asset sales and use the proceeds to repay amounts we have borrowed under the Credit Agreement by July 15, 2013. On August 21, 2013, we amended our Credit Agreement to extend the time frame within which we must complete such asset sales to make such repayments to September 2, 2013. The corresponding sale of our Zurich Business to II-VI was closed on September 12, 2013. We received proceeds of $90.6 million in cash on September 12, 2013. We will also receive $6.0 million subject to hold-back by II-VI until December 31, 2014 to address any post-closing adjustments or claims, and $2.0 million subject to a potential post-closing working capital adjustment, which will be calculated based on the level of working capital in the Oclaro Switzerland GmbH subsidiary at the September 12, 2013 close versus a target based on working capital at June 29, 2013. We also received $5.0 million for a 30 day option to sell our Amplifier Business for $88.0 million inclusive of the option amount. On November 1, 2013, we sold our Amplifier Business to II-VI and certain of its affiliates for $88.6 million in cash, consisting of $79.6 million in cash, subject to inventory valuation adjustments after closing, and $4.0 million, subject to hold-back by II-VI until December 31, 2014 to address any post-closing claims. In accordance with the option agreement we entered into with II-VI, the $5.0 million paid by II-VI was credited against the $88.6 million purchase price for the Amplifier Business.

Following the sale of the Zurich Business, we repaid all amounts outstanding under the Credit Agreement as required. The event of default resulting from not completing the sale of the Zurich Business on September 2, 2013 was waived on September 26, 2013. This waiver eliminated the requirement for the Agent and Lenders to make any advances, issue any letters of credit or provide any other extension of credit until the Agent and Lenders agree otherwise and prevents us from exercising any right or action set forth in the applicable loan documents that is conditioned on the absence of any event of default. If the Agent and Lenders do not agree to make amounts under the Credit Agreement available to us within 30 days of the waiver (or such later time as the Agent agrees), then the Agent and Lenders will have the option to immediately terminate the Credit Agreement.

Given the reduction in sales, delays in production of new programs, sale of revenue generating businesses, the continuing costs of our previously announced restructuring activities and the potential for volatile macroeconomic or market related commercial conditions, we expect our net loss for the second quarter of fiscal year 2014 to be as large as the quarterly losses we experienced during fiscal year 2013. We can make no assurances that we will be successful in negotiating new terms to our bank line of credit so that we may begin borrowing under the Credit Agreement.

The optical communications industry is subject to significant operational fluctuations. In order to remain competitive we incur substantial costs associated with research and development, qualification, production capacity and sales and marketing activities in connection with products that may be purchased, if at all, long after we have incurred such costs. In addition, the rapidly changing industry in which we operate, the length of time between developing and introducing a product to market, frequent changing customer specifications for products, customer cancellations of products and general down cycles in the industry, among other things, make our prospects difficult to evaluate. We are not generating positive cash flow from operations, and it is possible that we may not (i) generate sufficient positive cash flow from operations; (ii) be able to draw down on our $50.0 million senior secured revolving credit facility, against which we have no current ability to draw upon subject to conclusion of negotiations of new terms which are underway; (iii) if we can draw down on our revolving credit facility, be able to subsequently repay such amounts; (iv) conclude additional strategic dispositions or similar transactions; or (v) otherwise have sufficient capital resources to meet our future capital or liquidity needs. We believe it is prudent to undertake additional restructuring activities to reduce our cost base and lower our operating income break-even level, which activities will also be financed from our existing financial resources. There are no guarantees we will be able to generate additional financial resources beyond our existing balances.

If we raise funds through the issuance of equity, equity-linked or convertible debt securities, our stockholders may be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of securities held by existing stockholders. If we raise funds through the issuance of debt instruments, the agreements governing such debt instruments may contain covenant restrictions that limit our ability to, among other things: (i) incur additional debt, assume obligations in connection with letters of credit, or issue guarantees; (ii) create liens; (iii) make certain investments or acquisitions; (iv) enter into transactions with our affiliates; (v) sell certain assets; (vi) redeem capital stock or make other restricted payments; (vii) declare or pay dividends or make other distributions to stockholders; and (viii) merge or consolidate with any entity. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations, develop or enhance our products, or otherwise respond to competitive pressures and operate effectively could be significantly limited.

We sold the Zurich and Amplifier Businesses and may pursue other strategic dispositions or a further reduction in the number of our locations which could be difficult to implement, disrupt our business or further change our business profile significantly.

The sale of the Zurich and Amplifier Businesses, and any future strategic disposition of assets or businesses or reduction in the number of our locations involve numerous risks, including: (i) potential disruption of our ongoing business and distraction of management; (ii) difficulty segregating assets or businesses to be disposed of or consolidated; (iii) exposure to unknown, contingent or other liabilities, including litigation arising in connection with the disposition; (iv) changing our business profile in ways that could have unintended negative consequences; (v) the failure to achieve anticipated benefits, (vi) accounting charges that may affect our financial condition and results of operations; (vii) significant fluctuations in our revenues and operating results; (viii) our ability to support manufacturing services and transition services and the risk to the rest of our business resulting from resources focusing on those services; and (ix) with respect to the sale of the Zurich Business, (A) our ability to support the buyer s transition from Shenzhen; and (B) the ability of the buyer to supply us with 980 nm pumps. In addition, a material disposition could require the amendment or refinancing of our outstanding indebtedness or a portion thereof.

Our revenues and operating results are likely to fluctuate significantly as a result of factors that are outside our control and through asset sales.

Our revenues and operating results are likely to fluctuate significantly in the future as a result of factors that are outside our control. The timing of order placement, size of orders and satisfaction of contractual customer acceptance criteria, changes in the pricing of our products due to competitive pressures as well as order or shipment delays or deferrals, with respect to our products, may cause material fluctuations in revenues. Our lengthy sales cycle, which may extend to more than one year, may cause our revenues and operating results to vary from period to period and it may be difficult to predict the timing and amount of any variation. Delays or deferrals in purchasing decisions by our customers may increase as we develop new or enhanced products for new markets, including data communications, industrial, research, consumer and biotechnology markets. Purchase decisions by our customers are also impacted by the capital expenditure plans of the global telecom carriers, which tend to be the primary customers of our customers. Our current and anticipated future dependence on a small number of customers increases the revenue impact of each such customer s decision to delay or defer purchases from us, or decision not to purchase products from us. For example, during the second half of fiscal 2012, our revenues were adversely impacted by a significant change in demand expectations from a particular major customer. Our expense levels in the future will be based, in large part, on our expectations regarding future revenue sources and, as a result, operating results for any quarterly period in which material orders fail to occur, or are delayed or deferred, could vary significantly. In addition, our revenues will decrease and our operating results will be impacted by the completion of asset sales. We sold the Zurich Business on September 12, 2013 and the Amplifier Business on November 1, 2013. We expect that the loss of revenue from the Zurich and Amplifier Businesses will cause a decrease in our total revenue and impact our operating results during the 2014 fiscal year. Additional asset sales could reduce our revenue and impact our operating results. Because our business is capital intensive, significant fluctuations in our revenues, without a corresponding decrease in expenses, can have a significant adverse impact on our operating results.

A lack of effective internal control over our financial reporting could result in an inability to report our financial results accurately, which could lead to a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

In connection with establishing the fair values of certain assets and liabilities associated with our acquisition of Opnext, we identified a material weakness over controls related to our recording of the purchase under Accounting Standards Codification Topic 805, *Business Combinations*. In the fourth quarter of fiscal year 2013, we made

adjustments to the fair value of certain items, including property and equipment, capital leases and intangible assets. As a result of these adjustments, management concluded that we did not maintain effective internal control over financial reporting as of June 29, 2013, because the potential impact of these adjustments could have been material to our financial position and results of operations. As of September 28, 2013, we continue to implement remediation efforts.

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In addition, in April 2012, in connection with the restatement of our previously issued consolidated financial statements as of and for the quarters ended March 31, 2012 and October 1, 2011, our management re-evaluated the effectiveness of our disclosure controls and procedures. As a result of that re-evaluation, our management determined that a material weakness existed in our internal controls over financial reporting such that our disclosure controls and procedures related to accounting for income taxes were not effective as of March 31, 2012 and October 1, 2011. During the three months ended March 31, 2012, we implemented enhancements to our internal controls over financial reporting, including adding additional monitoring controls over the preparation and filing of foreign income tax returns. Our remediation efforts, including the testing of these controls continued throughout our fiscal year 2012. The material weakness related to the preparation and filing of foreign income taxes was considered remediated in the fourth quarter of fiscal year 2012, once these controls were shown to be operational for a sufficient period of time to allow management to conclude that these controls were operating effectively.

We cannot assure you that similar material weaknesses will not recur. If additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed. Our failure to implement and maintain effective internal control over financial reporting could result in a material misstatement of our financial statements or otherwise cause us to fail to meet our financial reporting obligations. This, in turn, could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our business, financial condition, operating results and our stock price, and we could be subject to stockholder litigation as a result. Even if we are able to implement and maintain effective internal control over financial reporting, the costs of doing business may increase and our management may be required to dedicate greater time and resources to that effort. In addition, we have in the past, and may in the future, acquire companies that have either experienced material weaknesses in their internal controls over financial reporting or have had no previous reporting obligations under Sarbanes-Oxley. Failure to integrate acquired businesses into our internal controls over financial reporting could cause those controls to fail.

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We may experience low manufacturing yields.

Manufacturing yields depend on a number of factors, including the volume of production due to customer demand and the nature and extent of changes in specifications required by customers for which we perform design-in work. Higher volumes due to demand for a fixed, rather than continually changing, design generally results in higher manufacturing yields, whereas lower volume production generally results in lower yields. In addition, lower yields may result, and have in the past resulted, from commercial shipments of products prior to full manufacturing qualification to the applicable specifications. 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 caused, and may in the future cause, significantly reduced manufacturing yields, resulting in low or negative margins on those products. 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. Finally, manufacturing yields and margins can also be lower if we receive or inadvertently use defective or contaminated materials from our suppliers. Any reduction in our manufacturing yields will adversely affect our gross margins and could have a material impact on our operating results.

Delays, disruptions or quality control problems in manufacturing could result in delays in product shipments to customers and could adversely affect our business.

We may experience delays, disruptions or quality control problems in our manufacturing operations or the manufacturing operations of our subcontractors. As a result, we could incur additional costs that would adversely affect our gross margins, and our product shipments to our customers could be delayed beyond the shipment schedules requested by our customers, which would negatively affect our revenues, competitive position and reputation. Furthermore, even if we are able to deliver products to our customers on a timely basis, we may be unable to recognize revenues at the time of delivery based on our revenue recognition policies. Exposures to these risks could increase during the transition of our Shenzhen product lines to Venture Malaysia over what is anticipated to be a two to three year period, and with regards to any product line manufacturing transitions associated with our integration of Opnext.

We may not be able to maintain or improve gross margin levels.

We may not be able to maintain or improve our gross margins, due to slow introductions of new products, failure to effectively cost reduce existing products, the potential for future macroeconomic or market volatility reducing sales volumes, changes in customer demand (including a change in product mix between different areas of our business) and pricing pressure from increased competition or other factors. We are attempting to reduce our product costs and improve our product mix to offset price competition and erosion expected in most product categories, but there is no assurance that we will be successful. Our gross margins can also be adversely impacted for reasons including, but not limited to, fixed manufacturing costs that would not be expected to decrease in proportion to any decrease in revenues, as occurred due to the flooding in Thailand; unfavorable production yields or variances; increases in costs of input parts and materials; the timing of movements in our inventory balances; warranty costs and related returns; changes in foreign currency exchange rates; possible exposure to inventory valuation reserves; the sale of the Zurich and Amplifier Businesses, including procuring certain parts that were previously internally sourced; and failure to realize benefits of the transfer to Venture. Any failure to maintain, or improve, our gross margins will adversely affect our financial results, including our goal to achieve sustainable cash flow positive operations.

Our business and results of operations may continue to be negatively impacted by general economic, financial market conditions and market conditions in the industries in which we operate, and such conditions may increase the other risks that affect our business.

Over the past few years, the world s financial markets have experienced significant turmoil, resulting in reductions in available credit, increased costs of credit, extreme volatility in security prices, potential changes to existing credit terms, and rating downgrades of investments. In light of these economic conditions, many of our customers reduced their spending plans, leading them to draw down their existing inventory and reduce orders for our products. It is possible that economic conditions could result in further setbacks, and that these customers, or others, could as a result significantly reduce their capital expenditures, draw down their inventories, reduce production levels of existing products, defer introduction of new products or place orders and accept delivery for products for which they do not pay us due to their economic difficulties or other reasons. These conditions have contributed materially and adversely affected the market conditions in the industries in which we operate, and have had a material adverse impact on our revenues. In addition, the financial downturn affected the financial strength of certain of our customers, including their ability to obtain credit to finance purchases of our products, and could adversely affect additional customers in the future. Our suppliers may also be adversely affected by economic conditions that may impact their ability to provide important components used in our manufacturing processes on a timely basis, or at all. To a large degree, orders from our customers are dependent on demand from telecom carrier capital expenditures around the world. The capital expenditure plans and execution by telecom carriers can also be adversely impacted, both in terms of total spend and in determination of areas of investment within network infrastructures, by global and regional macroeconomic conditions.

These conditions could also result in reduced capital resources because of the potential lack of credit availability, higher costs of credit and the stretching of payables by creditors seeking to preserve their own cash resources. We are unable to predict the likely duration, severity and potential continuation of any disruption in financial markets and adverse economic conditions in the U.S. and other countries, but the longer the duration the greater the risks we face in operating our business.

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We have a complex multinational tax structure, and changes in effective tax rates or adverse outcomes resulting from examination of our income tax returns could adversely affect our results.

We have a complex multinational tax structure with multiple types of intercompany transactions, and our allocation of profits and losses among us and our subsidiaries through our intercompany transfer pricing agreements is subject to review by the Internal Revenue Service and other tax authorities. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles or interpretations thereof. In addition, we are also subject to the continuous examination of our income tax returns and related transfer pricing documentation by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition.

Our success will depend on our ability to anticipate and respond to evolving technologies and customer requirements.

The market for telecommunications equipment is characterized by substantial capital investment, rapid and unpredictable changes in customer demand and diverse and evolving technologies. For example, the market for optical components is currently characterized by a trend toward the adoption of pluggable components and tunable transmitters that do not require the customized interconnections of traditional fixed wavelength gold box devices and the increased integration of components on subsystems. Our ability to anticipate and respond to these and other changes in technology, industry standards, customer requirements and product offerings and to develop and introduce new and enhanced products will be significant factors in our ability to succeed. We expect that new technologies will continue to emerge as competition in the telecommunications industry increases and the need for higher and more cost efficient bandwidth expands. The introduction of new products embodying new technologies or the emergence of new industry standards could render our existing products or products in development uncompetitive from a pricing standpoint, obsolete or unmarketable, which would negatively affect our financial condition and results of operations.

We depend on a limited number of customers for a significant percentage of our revenues.

Historically, we have generated most of our revenues from a limited number of customers. Our dependence on a limited number of customers is due to the fact that the optical telecommunications systems industry is dominated by a small number of large companies. These companies in turn depend primarily on a limited number of major telecommunications carrier customers to purchase their products that incorporate our optical components. For example, during the fiscal years ended June 29, 2013, June 30, 2012 and July 2, 2011, our three largest customers accounted for 31 percent, 29 percent and 36 percent of our revenues, respectively, including our discontinued operations. Because we rely on a limited number of customers for significant percentages of our revenues, a decrease in demand for our products from any of our major customers for any reason (including due to market conditions, catastrophic events or otherwise) could have a materially adverse impact on our financial conditions and results of operations. For example, during the second half of fiscal 2012, our revenues were adversely impacted by a significant change in demand expectations from a particular major customer. Further, the industry in which our customers operate is subject to a trend of consolidation. To the extent this trend continues, we may become dependent on even fewer customers to maintain and grow our revenues.

The majority of our long-term customer contracts do not commit customers to specified buying levels, and our customers may decrease, cancel or delay their buying levels at any time with little or no advance notice to us.

The majority of our customers typically purchase our products pursuant to individual purchase orders or contracts that do not contain purchase commitments. Some customers provide us with their expected forecasts for our products several months in advance, but many of these customers may decrease, cancel or delay purchase orders already in place, and the impact of any such actions may be intensified given our dependence on a small number of large customers. If any of our major customers decrease, stop or delay purchasing our products for any reason, our business and results of operations would be harmed. Cancellation or delays of such orders may cause us to fail to achieve our short-term and long-term financial and operating goals and result in excess and obsolete inventory. For example, in fiscal year 2011, we did experience certain deferrals and cancellation of orders which adversely impacted our quarterly financial results. In addition, during the second half of fiscal 2012, our revenues were adversely impacted by a significant change in demand expectations from a particular major customer.

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We have significant manufacturing and research and development operations in China, which exposes us to risks inherent in doing business in China.

A significant portion of our assembly and test operations, chip-on-carrier operations and manufacturing and supply chain management operations are concentrated in our facility in Shenzhen, China. In addition, we have substantial research and development related activities in Shenzhen and Shanghai, China. To be successful in China we will need to:

- qualify our manufacturing lines and the products we produce in Shenzhen, as required by our customers;
- attract and retain qualified personnel to operate our Shenzhen facility, even during the transition period to Venture; and
- attract and retain research and development employees at our Shenzhen and Shanghai facilities.

We cannot assure you that we will be able to do any of these.

Employee turnover in China is high due to the intensely competitive and fluid market for skilled labor. To operate our Shenzhen facility under these conditions, we need to continue to hire direct manufacturing personnel, administrative personnel and technical personnel; obtain and retain required legal authorization to hire such personnel; and incur the time and expense to hire and train such personnel. On March 28, 2012, shortly after announcing the agreement with Venture, certain of our employees in Shenzhen initiated a work stoppage. The work stoppage impacted our Shenzhen manufacturing capabilities temporarily up to and including April 4, 2012. Revenues for the three months ended March 31, 2012 were adversely impacted by approximately $4.0 million by the work stoppage.

Inflation rates in China are higher than in most jurisdictions in which we operate. We believe that salary inflation rates for the skilled personnel we hire and seek to retain in Shenzhen and Shanghai are likely to be higher than overall inflation rates.

Operations in China are subject to greater political, legal and economic risks than our operations in other countries. In particular, the political, legal and economic climate in China, both nationally and regionally, is fluid and unpredictable. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations such as those related to, among other things, taxation, import and export tariffs, environmental regulations, land use rights, intellectual property, currency controls, employee benefits and other matters. In addition, we may not obtain or retain the requisite legal permits to continue to operate in China, and costs or operational limitations may be imposed in connection with obtaining and complying with such permits.

We intend to continue to export the products manufactured at our Shenzhen facility. Under current regulations, upon application and approval by the relevant governmental authorities, we will not be subject to certain Chinese taxes and will be exempt from certain duties on imported materials that are used in the manufacturing process and subsequently exported from China as finished products. However, Chinese trade regulations are in a state of flux, and we may become subject to other forms of taxation and duties in China or may be required to pay export fees in the future. In the event that we become subject to new forms of taxation or export fees in China, our business and results of operations could be materially adversely affected. We may also be required to expend greater amounts than we currently anticipate in connection with increasing production at our Shenzhen facility. Any one of the factors cited

above, or a combination of them, could result in unanticipated costs or interruptions in production, which could materially and adversely affect our business.

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Our results of operations may suffer if we do not effectively manage our inventory, and we may continue to incur inventory-related charges.

We need to manage our inventory of component parts and finished goods effectively to meet changing customer requirements. Accurately forecasting customers product needs is difficult. Some of our products and supplies have in the past, and may in the future, become obsolete or deemed excess while in inventory due to rapidly changing customer specifications or a decrease in customer demand. We also have exposure to contractual liabilities to our contract manufacturers for inventories purchased by them on our behalf, based on our forecasted requirements, which may become excess or obsolete. Our inventory balances also represent an investment of cash. To the extent our inventory turns are slower than we anticipate based on historical practice, our cash conversion cycle extends and more of our cash remains invested in working capital. If we are not able to manage our inventory effectively, we may need to write down the value of some of our existing inventory or write off non-saleable or obsolete inventory. We have from time to time incurred significant inventory-related charges. Any such charges we incur in future periods could materially and adversely affect our results of operations. As part of the transition of our Shenzhen manufacturing facility to Venture, we may need to invest in additional inventories during the corresponding transition period, and in the future may be exposed to contractual liabilities to Venture for inventories purchased by them on our behalf.

Sales of our products could decline if customer and/or supplier relationships are disrupted by our recent acquisition or divestiture activities.

Our existing customers, customers of acquired businesses, and/or of predecessor companies, may not continue their historical buying patterns. Customers may defer purchasing decisions as they evaluate our financial strength, the likelihood of successful integration or divestiture of our products and our future product strategy, or consider purchasing products of our competitors.

Customers may also seek to modify or terminate existing agreements, or prospective customers may delay entering into new agreements or purchasing our products or may decide not to purchase any products from us.

Competitive positions in the market, including relative to suppliers who are also competitors, could change as a result of an acquisition or divestiture, and this could impact supplier relationships, including the terms under which we do business with such suppliers.

As a result of our recent business combinations, we have become a larger and more geographically diverse organization. Our operating results have been poorer since the acquisition of Opnext. While it is not certain that the added complexity of the business has contributed to the decrease in operating results, the added complexity does increase the difficulty of improving the operating results and of focusing our resources more effectively and efficiently.

As of September 28, 2013, we had approximately 2,500 employees in a total of 20 facilities around the world. As a result of the acquisition of Opnext, and our previous merger and acquisition activities, we face challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs. Our inability to manage successfully the geographically more diverse (including from a cultural perspective) and substantially larger combined organization, including managing and executing the planned acquisition synergies and transitions with Opnext, could have a material adverse effect on our operating results and, as a result, on the market price of our common stock. The Opnext acquisition and other recent acquisitions have increased our serviceable available markets and scaling the company to address the growth potentially available from addressing these markets, and potentially available within our previously existing markets, creates additional challenges of a similar nature. We also continue to evaluate plans and

alternatives to simplify the merged company, and to reduce our profitability break-even levels, which could include additional strategic transactions, such as asset sales or intellectual property transactions and further actions to restructure the merged company. The corresponding activities could distract from normal business operations and adversely impact our ability to execute our operating results.

We have initiated steps to reduce our complexity and to simplify our operating footprint. These actions include the outsourcing of Shenzhen to Venture, the sale of the Zurich and Amplifier Businesses, and the elimination of research and development investment on future WSS products. We anticipate taking further restructuring actions as well. While these, and other, steps may reduce our complexity in the long term, in the short term the execution of these actions, and the support of transitions associated with these actions, increases the complexity of our operations and creates risk of successfully executing the actions.

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We may undertake mergers or acquisitions, such as our acquisition of Opnext, Inc. (Opnext), that do not prove successful, which would materially and adversely affect our business, prospects, financial condition and results of operations.

From time to time we consider mergers or acquisitions, collectively referred to as acquisitions, of other businesses, assets or companies that would complement our current product offerings, enhance our intellectual property rights or offer other competitive opportunities. For example, on March 26, 2012, we entered into an Agreement and Plan of Merger and Reorganization with Opnext, which was completed on July 23, 2012. However, in the future, we may not be able to identify suitable acquisition candidates at prices we consider appropriate. In addition, we are in an industry that is actively consolidating and, as a result, there is no guarantee that we will successfully and satisfactorily bid against third parties, including competitors, when we identify a critical target we want to acquire.

We cannot readily predict the timing or size of our future acquisitions, or the success of our recent or future acquisitions. Failure to successfully implement our acquisition plans could have a material adverse effect on our business, prospects, financial condition and results of operations. Even successful acquisitions could have the effect of reducing our cash balances, diluting the ownership interests of existing stockholders or increasing our indebtedness. For example, in our acquisition of Opnext we issued approximately 38.4 million newly issued shares of our common stock to the former stockholders of Opnext.

In addition, during the first quarter of fiscal year 2012, we issued 0.9 million shares of our common stock related to the settlement of our Xtellus escrow liability. In October 2011, we paid $0.5 million in cash and issued 0.8 million shares of our common stock to pay earnout obligations related to our acquisition of Mintera. In the fourth quarter of fiscal year 2012, we paid $2.2 million to settle a portion of our Mintera earnout obligations, and settled the remaining $8.6 million obligation in cash in the first quarter of fiscal year 2013.

Our acquisition of Opnext and other acquisitions involve a number of other potential risks to our business, including the following, any of which could harm our business:

- failure to realize the potential financial or strategic benefits of the acquisition;
- increased costs associated with merged or acquired operations;
- increased indebtedness obligations;
- economic dilution to gross and operating profit (loss) and earnings (loss) per share;
- failure to successfully further develop the combined, acquired or remaining technology, which could, among other things, result in the impairment of amounts recorded as goodwill or other intangible assets;
- unanticipated costs and liabilities and unforeseen accounting charges;

difficulty in integrating product offerings;

difficulty in coordinating and rationalizing research and development activities to enhance introduction of new products and technologies with reduced cost;

difficulty in coordinating and integrating the manufacturing activities of our acquired businesses, including with respect to third-party manufacturers, including coordination, integration or transfers of any manufacturing activities associated with our acquisition of Opnext;

delays and difficulties in delivery of products and services;

failure to effectively integrate or separate management information systems, personnel, research and development, marketing, sales and support operations;

difficulty in maintaining internal control procedures and disclosure controls that comply with the requirements of the Sarbanes-Oxley Act of 2002, or poor integration of a target s procedures and controls;

difficulty in preserving important relationships of our acquired businesses and resolving potential conflicts between business cultures;

- uncertainty on the part of our existing customers, or the customers of an acquired company, about our ability to operate effectively after a transaction, and the potential loss of such customers;

- loss of key employees;

- difficulty in coordinating the international activities of our acquired businesses, including Opnext, which has substantial operations in Japan as well as the United States, and which uses contract manufacturing suppliers in Southeast Asia;

- the effect of tax laws and other legal and regulatory regimes due to increasing complexities of our global operating structure;

- greater exposure to the impact of foreign currency changes on our business;

- the effect of employment law or regulations or other limitations in foreign jurisdictions that could have an impact on timing, amounts or costs of achieving expected synergies; and

- substantial demands on our management as a result of these transactions that may limit their time to attend to other operational, financial, business and strategic issues.

Our integration with acquired businesses has been and will continue to be a complex, time-consuming and expensive process. We cannot assure you that we will be able to successfully integrate these businesses in a timely manner, or at all, or that any of the anticipated benefits from our acquisition of Opnext or previous acquisitions will be realized. There are inherent challenges in integrating the operations of geographically diverse companies. We may have difficulty, and may incur unanticipated expenses related to, integrating management and personnel from our acquisition of Opnext and previously acquired entities with our management and personnel. Our failure to achieve the strategic objectives of our acquisition of Opnext or previous acquisitions could have a material adverse effect on our revenues, expenses and our other operating results and cash resources, and could result in us not achieving the anticipated potential benefits of these transactions. In addition, we cannot assure you that the growth rate of the combined company will equal the historical growth rate experienced by any of the companies that we have acquired including Opnext. Comparable risks would accompany any divestiture of businesses or assets we might undertake.

In addition, even if we successfully integrate the operations of Opnext and other companies that we acquire in the future, we cannot predict with certainty which strategic, financial or operating synergies or other benefits, if any, will actually be achieved from our acquisition, the timing of any such benefits, or whether those benefits which have been achieved will be sustainable on a long-term basis. Our failure to successfully integrate the operations of Opnext would likely have a material and adverse impact on our business, prospects, financial condition and results of operations.

If we fail to attract and retain key personnel, our business could suffer.

Our future success depends, in part, on our ability to attract and retain key personnel. Competition for highly skilled technical personnel is extremely intense and we continue to face difficulty identifying and hiring qualified engineers in many areas of our business. We may not be able to hire and retain such personnel at compensation levels consistent

with our existing compensation and salary structure. Our future success also depends on the continued contributions of our executive management team and other key management and technical personnel, each of whom would be difficult to replace. The loss of services of these or other executive officers or key personnel or the inability to continue to attract qualified personnel could have a material adverse effect on our business.

In addition, certain employees of companies we have acquired, including Opnext, that are now employed by us may decide to no longer work for us with little or no notice for a number of reasons, including dissatisfaction with our corporate culture, compensation, and new roles or responsibilities, among others.

At times, the market price of our common stock has fluctuated significantly.

The market price of our common stock has been, and is likely to continue to be, highly volatile. For example, between July 1, 2012 and June 29, 2013, the market price of our common stock ranged from a low of $0.99 per share to a high of $3.19 per share. Many factors could cause the market price of our common stock to rise and fall.

In addition to the matters discussed in other risk factors included in our public filings, some of the events that could impact our stock price are:

- fluctuations in our results of operations, including our gross margins;
- changes in our business, operations or prospects;
- hiring or departure of key personnel;
- new contractual relationships with key suppliers or customers by us or our competitors;
- proposed acquisitions and dispositions by us or our competitors;
- financial results or projections that fail to meet public market analysts expectations and changes in stock market analysts recommendations regarding us, other optical technology companies or the telecommunication industry in general;
- future sales of common stock, or securities convertible into, exchangeable or exercisable for common stock;
- adverse judgments or settlements obligating us to pay damages;
- future issuances of common stock in connection with acquisitions or other transactions;
- acts of war, terrorism, or natural disasters;
- industry, domestic and international market and economic conditions, including the global macroeconomic downturn over the last three years and related sovereign debt issues in certain parts of the world;
- low trading volume in our stock;
- developments relating to patents or property rights; and
- government regulatory changes.

In connection with our acquisition of Xtellus, during the first quarter of fiscal year 2012 we issued 0.9 million shares of our common stock to settle our escrow liability. In connection with our acquisition of Mintera, during the second quarter of fiscal year 2012, we issued 0.8 million shares of our common stock to pay portions of the 12 month earnout obligations. In connection with our acquisition of Opnext, during the first quarter of fiscal year 2013, we issued 38.4 million shares of our common stock. In addition, we have $25.0 million of Convertible Notes outstanding, which if converted, would result in us issuing 13.5 million shares of our common stock. In May 2013, we also issued 1.8 million warrants to purchase our common stock at an exercise price of $1.50 per share in connection with the Term Loan we received in May 2013 (See Note 7, *Credit Line and Notes* elsewhere in this Quarterly Report on Form 10-Q for further details). These issuances and the subsequent sale of these shares will dilute our existing stockholders and could potentially have a negative impact on our stock price.

Our shares of common stock have experienced substantial price and volume fluctuations, in many cases without any direct relationship to our operating performance. An outgrowth of this market volatility is the significant vulnerability of our stock price to any actual or perceived fluctuation in the strength of the markets we serve, regardless of the actual consequence of such fluctuations. As a result, the market price for our stock is highly volatile. These broad market and industry factors have caused the market price of our common stock to fluctuate, and may in the future cause the market price of our common stock to fluctuate, regardless of our actual operating performance.

We are not restricted from issuing additional shares of our common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, shares of our common stock. Issuances of shares of our common stock or convertible securities, including outstanding options and warrants, will dilute the ownership interest of our stockholders.

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We have a material amount of debt and may be unable to service or refinance this debt, which could have a material adverse effect on our business in the future, and may place us at a competitive disadvantage in our industry.

As of September 28, 2013, we had consolidated debt of $39.8 million outstanding, net, all of which was secured, including $23.1 million outstanding pursuant to the issuance by our wholly-owned subsidiary of the Convertible Notes and $16.7 million related to capital leases.

This high level of debt could have negative consequences. For example, it could:

- result in our inability to comply with the financial and other restrictive covenants in our current and future credit facilities;
- increase our vulnerability to adverse industry and general economic conditions;
- require us to dedicate a substantial portion of our cash flow from operations to make scheduled principal payments on our debt, thereby reducing the availability of our cash flow for working capital, capital investments and other business activities;
- limit our ability to obtain additional financing to fund future working capital, capital investments and other business activities;
- limit our ability to refinance our indebtedness on terms that are commercially reasonable, or at all;
- expose us to the risk of interest rate fluctuations to the extent we pay interest at variable rates on the debt;
- limit our flexibility to plan for, and react to, changes in our business and industry; or
- place us at a competitive disadvantage relative to our less leveraged competitors.

Despite existing debt levels, we may have to incur substantially more debt, which would increase the risks associated with our leverage.

Even with our existing debt levels as of September 28, 2013, we may have to incur substantial amounts of additional debt in the future, including debt under the senior secured revolving credit facility and any future credit facilities, some or all of which may be secured. Although the terms of the senior secured revolving credit facility and any future credit facilities will limit our ability to incur additional debt, these terms do not and will not prohibit us from incurring substantial amounts of additional debt. If new debt is added to our current debt levels, the related risks that we and they now face could intensify and could further exacerbate the risks associated with our leverage.

Servicing our debt will require a significant amount of cash and our ability to generate cash may be affected by factors beyond our control.

Our business may not generate cash flow in an amount sufficient to enable us to pay the principal of, or interest on, our indebtedness or to fund our other liquidity needs, including working capital, capital expenditures, product development efforts, strategic acquisitions, investments and alliances and other general corporate requirements.

If we cannot fund our liquidity needs, we will have to take actions such as: reducing or delaying capital expenditures, product development efforts, strategic acquisitions, investments and alliances; selling assets; restructuring or refinancing our debt; or seeking additional equity capital. We cannot assure you that any of these remedies could, if necessary, be effected on commercially reasonable terms, or at all, or that they would permit us to meet our scheduled debt service obligations. Our Credit Agreement limits the use of the proceeds from any disposition of assets. As a result, we may not be allowed to use the proceeds from such dispositions to satisfy all current debt service obligations. In addition, if we incur additional debt, the risks associated with our substantial leverage, including the risk that we would be unable to service our debt or generate enough cash flow to fund our liquidity needs, could intensify.

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Restrictive covenants in our Credit Agreement, the indenture governing our outstanding notes and the agreements governing our other indebtedness restrict our ability to operate our business.

Our Credit Agreement and the indenture governing our outstanding senior secured second lien notes contain, and agreements governing indebtedness we may incur in the future may contain, covenants that restrict our ability to, among other things, incur additional debt, pay dividends, make investments, enter into transactions with affiliates, merge or consolidate with other entities or sell all or substantially all of our assets.

On May 6, 2013, we entered into Amendment Number Two to the Second Amended and Restated Credit Agreement and the associated guaranties and security agreements, which amended the Credit Agreement in pertinent part by adding an affirmative covenant that Borrower shall have consummated one or more asset sales by July 15, 2013 and with a minimum threshold of net proceeds as set forth in the Amendment. On August 21, 2013, we amended our Credit Agreement to extend the time frame in which we must complete such asset sales to September 2, 2013. We completed the sale of the Zurich Business on September 12, 2013 and applied the net proceeds to repay all amounts outstanding under the Credit Agreement. The event of default resulting from not completing the sale of the Zurich Business on September 2, 2013 was waived on September 26, 2013. This waiver eliminated the requirement for the Agent and Lenders to make any advances, issue any letters of credit or provide any other extension of credit until the Agent and Lenders agree otherwise and prevents us from exercising any right or action set forth in the applicable loan documents that is conditioned on the absence of any event of default. If the Agent and Lenders do not agree to make amounts under the Credit Agreement available to us within 30 days of the waiver (or such later time as the Agent agrees), then the Agent and Lenders will have the option to immediately terminate the Credit Agreement. As a result of this waiver, we currently cannot access the availability under our Credit Agreement.

Additionally, the Credit Agreement requires us to comply with certain financial covenants. A breach of any of these covenants could result in a default under these agreements, which could allow the lenders or holders to declare all amounts outstanding thereunder immediately due and payable. If we are unable to repay outstanding borrowings when due, the lenders under the Credit Agreement, the second lien collateral agent under the indenture governing these notes and similar agents under other agreements would have the right to proceed against the collateral granted to them. We may also be prevented from taking advantage of business opportunities that arise because of the limitations imposed on us by the restrictive covenants under our indebtedness.

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

When the market price of a stock experiences a sharp decline, as our stock price recently has, holders of that stock have often brought securities class action litigation against the company that issued the stock. Several securities class action lawsuits have been filed against us and certain of our current and former officers and directors. Other class action lawsuits have been initiated against Opnext, us and certain of our respective current and former officers and directors as purported derivative actions. The securities class action complaints allege violations of section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated by the Securities and Exchange Commission. Each purported derivative complaint alleges, among other things, counts for breaches of fiduciary duty, waste, and unjust enrichment. For a description of these lawsuits, see Part II, Item 1 *Legal Proceedings* of this Quarterly Report on Form 10-Q. These lawsuits will likely divert the time and attention of our management. In addition, if these suits are resolved in a manner adverse to us, the damages we could be required to pay may be substantial and could have an adverse impact on our results of operations and our ability to operate our business.

Fluctuations in our operating results could adversely affect the market price of our common stock.

Our revenues and other operating results are likely to fluctuate significantly in the future. The timing of order placement, size of orders and satisfaction of contractual customer acceptance criteria, changes in the pricing of our products due to competitive pressures as well as order or shipment delays or deferrals, with respect to our products, acquisitions and asset sales may cause material fluctuations in revenues. Our lengthy sales cycle, which may extend to more than one year, may cause our revenues and operating results to vary from period to period and it may be difficult to predict the timing and amount of any variation. Delays or deferrals in purchasing decisions by our customers may increase as we develop new or enhanced products for new markets, including data communications, industrial, research, consumer and biotechnology markets. Purchase decisions by our customers are also impacted by the capital expenditure plans of the global telecom carriers, which tend to be the primary customers of our customers. Our current and anticipated future dependence on a small number of customers increases the revenue impact of each such customer s decision to delay or defer purchases from us, or decision not to purchase products from us. Our expense levels in the future will be based, in large part, on our expectations regarding future revenue sources and, as a result, operating results for any quarterly period in which material orders fail to occur, or are delayed or deferred, could vary significantly.

Because of these and other factors, quarter-to-quarter comparisons of our results of operations may not be indicative of our future performance. In future periods, our results of operations may differ, in some cases materially, from the estimates of public market analysts and investors. Such a discrepancy, or our failure to meet published financial projections, could cause the market price of our common stock to decline.

The failure to maintain a minimum closing share price of $1.00 per share of our common stock could result in the delisting of our shares from the NASDAQ Global Select Market, which would harm the market price of our common stock.

In order to retain our listing on The NASDAQ Global Select Market we are required by NASDAQ to maintain a minimum closing bid price of $1.00 per share. Our stock price is currently trading above $1.00 per share, but closed below $1.00 per share on September 4, 5 and 6, 2013. In the event that our common stock closes below the minimum closing bid price of $1.00 per share for any 30 consecutive business days, our common stock could be delisted from The NASDAQ Global Select Market, transferred to a listing on The NASDAQ Capital Market or delisted from the NASDAQ markets altogether unless we regain compliance by having our common stock close at or above $1.00 per share for 10 consecutive days during the 180 days immediately following failure to maintain the minimum closing bid price. The failure to maintain our listing on The NASDAQ Global Select Market could harm the liquidity of our common stock and could have an adverse effect on the market price of our common stock.

We will incur significant additional restructuring charges that will adversely affect our results of operations.

We expect to incur significant restructuring expenses for incremental actions going forward, including restructuring actions we intend to announce in the first half of fiscal year 2014 to reduce our complexity and to simplify our operating footprint subsequent to the sale of the Zurich and Amplifier Businesses.

We have previously enacted a series of restructuring plans and cost reduction plans designed to reduce our manufacturing overhead and our operating expenses that have resulted in significant restructuring charges. Such charges have adversely affected, and will continue to adversely affect, our results of operations for the periods in which such charges have been, or will be, incurred. Additionally, actual costs have in the past, and may in the future, exceed the amounts estimated and provided for in our financial statements. Significant additional charges could materially and adversely affect our results of operations in the periods that they are incurred and recognized. In addition, any restructuring activities will require significant cash commitments and will adversely affect our cash balances.

For instance, during fiscal year 2011, we incurred $0.6 million in restructuring charges related to a restructuring plan specific to our acquisition of Mintera. During fiscal year 2012 and 2013, we incurred $6.0 million and $5.1 million in restructuring charges, respectively, in connection with the transition of our Shenzhen, China assembly and test operations to Venture, and expect to incur an additional $4.0 million to $6.0 million in restructuring charges over the remaining transition period. During the year ended June 29, 2013, we incurred $12.1 million in restructuring charges in connection with the acquisition and integration of Opnext, and expect to incur additional restructuring charges related to this plan over the next few quarters.

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If our customers do not qualify our manufacturing lines or the manufacturing lines of our subcontractors for volume shipments, our operating results could suffer.

Most of our customers do not purchase products, other than limited numbers of evaluation units, prior to qualification of the manufacturing line for volume production. Our existing manufacturing lines, as well as each new manufacturing line, must pass through varying levels of qualification with our customers. Our manufacturing lines have passed our qualification standards, as well as our technical standards. However, our customers also require that our manufacturing lines pass their specific qualification standards and that we, and any subcontractors that we may use, be registered under international quality standards. In addition, we have in the past, and may in the future, encounter quality control issues as a result of relocating our manufacturing lines or introducing new products to fill production. We may be unable to obtain customer qualification of our manufacturing lines or we may experience delays in obtaining customer qualification of our manufacturing lines. Such delays or failure to obtain qualifications would harm our operating results and customer relationships. To the extent we introduce new contract manufacturing partners and move any production lines from existing internal or external facilities the new production lines will likely need to be re-qualified with customers. Exposures to these risks could increase materially during the transition of our Shenzhen product lines to Venture Malaysia, and as a result of our acquisition and integration of Opnext, including the relocation of certain operations from Totsuka, Japan to a different leased facility in Sagamihara, Japan.

Because we do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We have never declared or paid any dividends on our common stock. We anticipate that we will retain any future earnings to support operations and to finance the development of our business and do not expect to pay cash dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend entirely upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Our products are complex and may take longer to develop than anticipated and we may not recognize revenues from new products until after long field testing and customer acceptance periods.

Many of our new products must be tailored to customer specifications. As a result, we are developing new products and using new technologies in those products. For example, while we currently manufacture and sell discrete gold box technology, we expect that many of our sales of gold box technology will soon be replaced by pluggable modules. New products or modifications to existing products often take many quarters or even years to develop because of their complexity and because customer specifications sometimes change during the development cycle. We often incur substantial costs associated with the research and development, design, sales and marketing activities in connection with products that may be purchased long after we have incurred such costs. In addition, due to the rapid technological changes in our market, a customer may cancel or modify a design project before we begin large-scale manufacture of the product and receive revenues from the customer. It is unlikely that we would be able to recover the expenses for cancelled or unutilized design projects. It is difficult to predict with any certainty, particularly in the present economic climate, the frequency with which customers will cancel or modify their projects, or the effect that any cancellation or modification would have on our results of operations. In some cases, the adoption of our new product offerings can also become a function of the pace of adoption of new technologies or new data rates at the telecom network level.

As a result of our global operations, our business is subject to currency fluctuations that have adversely affected our results of operations in recent quarters and may continue to do so in the future.

Our financial results have been and will continue to be materially impacted by foreign currency fluctuations. At certain times in our history, declines in the value of the U.S. dollar versus the U.K. pound sterling have had a major negative effect on our margins and our cash flow. A significant portion of our expenses are denominated in U.K. pounds sterling and Japanese yen and substantially all of our revenues are denominated in U.S. dollars.

Fluctuations in the exchange rate between these currencies and, to a lesser extent, other currencies in which we collect revenues and/or pay expenses could have a material effect on our future operating results. For example during fiscal year 2013, the Swiss franc appreciated approximately 1 percent relative to the U.S. dollar, the U.K. pound sterling depreciated approximately 2 percent relative to the U.S. dollar, and the Japanese yen depreciated approximately 20 percent relative to the U.S. dollar, impacting our manufacturing overhead and operating expenses. If the U.S. dollar stays the same or depreciates relative to the U.K. pound sterling and/or Japanese yen in the future, our future operating results may be materially impacted. Additional exposure could also result should the exchange rate between the U.S. dollar and the Chinese yuan, the South Korean won, or the Euro vary more significantly than they have to date.

We periodically engage in currency hedging transactions in an effort to cover some of our exposure to U.S. dollar to U.K. pound sterling currency fluctuations, and we may be required to convert currencies to meet our obligations. We may, in the future, enter into similar hedging transactions in an effort to cover some of our exposure to U.S. dollar to Japanese yen currency fluctuations. These transactions may not operate to fully hedge our exposure to currency fluctuations, and under certain circumstances, these transactions could have an adverse effect on our financial condition.

We may record additional impairment charges that will adversely impact our results of operations.

As of September 28, 2013, we had $9.9 million in other intangible assets on our condensed consolidated balance sheet. If we make changes in our business strategy or if market or other conditions adversely affect our business operations, we may be forced to record an impairment charge related to these assets, which would adversely impact our results of operations. If impairment has occurred, we will be required to record an impairment charge for the difference between the carrying value of the other intangible assets and the implied fair value of the other intangible assets in the period in which such determination is made. The testing of other intangible assets for impairment requires us to make significant estimates about the future performance and cash flows of our business, as well as other assumptions. These estimates can be affected by numerous factors, including changes in economic, industry, or market conditions, changes in underlying business operations, future reporting unit operating performance, changes in competition, or changes in technologies. Any changes in key assumptions, or actual performance compared with those assumptions, about our business and its future prospects or other assumptions could affect the fair value of one or more reporting units, and result in an impairment charge.

During the fourth quarter of fiscal year 2013 we completed our annual analysis for potential impairment of our goodwill, which included examining the impact of current general economic conditions on our future prospects and the current level of our market capitalization. Based on this analysis, we determined that the goodwill related to our Mintera reporting unit was fully impaired. This resulted in a $10.9 million impairment charge in our statement of operations for fiscal year 2013. In addition, during the first quarter of fiscal year 2013, we recorded $0.9 million in impairment charges related to the impairment of certain technology that is now considered redundant following the acquisition of Opnext. In the fourth quarter of fiscal year 2013, we recorded an additional $13.7 million impairment charge related to the impairment of intangible assets related to certain technologies and we recorded impairment charges of $1.7 million related to other long-lived assets.

Our intellectual property rights may not be adequately protected.

Our future success will depend, in large part, upon our intellectual property rights, including patents, copyrights, design rights, trade secrets, trademarks and know-how. We maintain an active program of identifying technology appropriate for patent protection. Our practice is to require employees and consultants to execute non-disclosure and proprietary rights agreements upon commencement of employment or consulting arrangements. These agreements acknowledge our exclusive ownership of all intellectual property developed by the individuals during their work for us and require that all proprietary information disclosed will remain confidential. Although such agreements may be binding, they may not be enforceable in full or in part in all jurisdictions and any breach of a confidentiality obligation could have a negative effect on our business and our remedy for such breach may be limited.

Our intellectual property portfolio is an important corporate asset. The steps we have taken and may take in the future to protect our intellectual property may not adequately prevent misappropriation or ensure that others will not develop competitive technologies or products. We cannot assure you that our competitors will not successfully challenge the validity of our patents or design products that avoid infringement of our proprietary rights with respect to our technology. There can be no assurance that other companies are not investigating or developing other similar

technologies, that any patents will be issued from any application pending or filed by us, or that, if patents are issued, that the claims allowed will be sufficiently broad to deter or prohibit others from marketing similar products. In addition, we cannot assure you that any patents issued to us will not be challenged, invalidated or circumvented, or that the rights under those patents will provide a competitive advantage to us or that our products and technology will be adequately covered by our patents and other intellectual property. Further, the laws of certain regions in which our products are or may be developed, manufactured or sold, including Asia-Pacific, Southeast Asia and Latin America, may not be enforceable to protect our products and intellectual property rights to the same extent as the laws of the United States, the U.K. and continental European countries. This is especially relevant since we have transferred our assembly and test operations and chip-on-carrier operations, including certain engineering-related functions, to Shenzhen, China, and have recently signed an agreement to transition these assembly and test operations to Malaysia.

Opnext has historically relied on Hitachi for assistance with the research and development efforts related to Opnext s product portfolio. Any failure of Hitachi to continue to provide these services could have a material adverse effect on our business. Opnext s product expertise is based on the research ability developed within their Hitachi heritage and through joint research and development in lasers and optical technologies. A key factor to Opnext s business success and strategy is fundamental laser research. Opnext relied on access to Hitachi s research laboratories pursuant to a research and development agreement with Hitachi, which includes access to Hitachi s research facilities and engineers, to conduct research and development activities that are important to the establishment of new technologies and products vital to their current and future business. Should access to Hitachi s research laboratories become unavailable or available at less attractive terms in the future, this may impede development of new technologies and products, and our financial condition and operating results could be materially adversely affected.

Our products may infringe the intellectual property rights of others, which could result in expensive litigation or require us to obtain a license to use the technology from third parties, or we may be prohibited from selling certain products in the future.

Companies in the industry in which we operate frequently are sued or receive informal claims of patent infringement or infringement of other intellectual property rights. We have, from time to time, received such claims, including from competitors and from companies that have substantially more resources than us.

Third parties may in the future assert claims against us concerning our existing products or with respect to future products under development, or with respect to products that we may acquire through acquisitions. We have entered into and may in the future enter into indemnification obligations in favor of some customers that could be triggered upon an allegation or finding that we are infringing other parties proprietary rights. If we do infringe a third party s rights, we may need to negotiate with holders of those rights in order to obtain a license to those rights or otherwise settle any infringement claim. We have from time to time received notices from third parties alleging infringement of their intellectual property and where appropriate have entered into license agreements with those third parties with respect to that intellectual property. Any license agreements that we wish to enter into the future with respect to intellectual property rights may not be available to us on commercially reasonable terms, or at all. We may not in all cases be able to resolve allegations of infringement through licensing arrangements, settlement, alternative designs or otherwise. We may take legal action to determine the validity and scope of the third-party rights or to defend against any allegations of infringement. Holders of intellectual property rights could become more aggressive in alleging infringement of their intellectual property rights and we may be the subject of such claims asserted by a third party. In the course of pursuing any of these means or defending against any lawsuits filed against us, we could incur significant costs and diversion of our resources and our management s attention. Due to the competitive nature of our industry, it is unlikely that we could increase our prices to cover such costs. In addition, such claims could result in significant penalties or injunctions that could prevent us from selling some of our products in certain markets or result in settlements or judgments that require payment of significant royalties or damages.

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If we fail to obtain the right to use the intellectual property rights of others necessary to operate our business, our business and results of operations will be materially and adversely affected.

Certain companies in the telecommunications and optical components markets in which we sell our products have experienced frequent litigation regarding patent and other intellectual property rights. Numerous patents in these industries are held by others, including academic institutions and our competitors. Optical component suppliers may seek to gain a competitive advantage or other third parties, inside or outside our market, may seek an economic return on their intellectual property portfolios by making infringement claims against us. We currently in-license certain intellectual property of third parties, and 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 such licenses on commercially reasonable terms, patents or other intellectual property held by others could be used to inhibit or prohibit our production and sale of existing products and our development of new products for our markets. Licenses granting us the right to use third-party technology may not be available on commercially reasonable terms, or 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. In addition, in the event we are granted such a license, it is likely such license would be non-exclusive and other parties, including competitors, may be able to utilize such technology. Our larger competitors may be able to obtain licenses or cross-license their technology on better terms than we can, which could put us at a competitive disadvantage. In addition, our larger competitors may be able to buy such technology and preclude us from licensing or using such technology.

Prior to our acquisition of Opnext, Opnext licensed its intellectual property to Hitachi and its wholly owned subsidiaries without restriction. In addition, Hitachi is free to license certain of Hitachi s intellectual property that Opnext used in its business to any third party, including competitors, which could harm our business and operating results.

Opnext was initially created as a stand-alone entity by acquiring certain assets of Hitachi through various transactions. In connection with these transactions, Opnext acquired a number of patents and know-how from Hitachi, but also granted Hitachi and its wholly owned subsidiaries a perpetual right to continue to use those patents and know-how, as well as other patents and know-how that Opnext developed during a period which ended in July 2011 (or October 2012 in certain cases). This license back to Hitachi is broad and permits Hitachi to use this intellectual property for any products or services anywhere in the world, including licensing this intellectual property to our competitors.

Additionally, while significant intellectual property owned by Hitachi was assigned to Opnext when Opnext was formed, Hitachi retained and only licensed to Opnext the intellectual property rights to underlying technologies used in both Opnext products and the products of Hitachi. Under the agreement, Hitachi remains free to license these intellectual property rights to the underlying technologies to any party, including competitors. The intellectual property that has been retained by Hitachi and that can be licensed in this manner does not relate solely or primarily to one or more of Opnext s products, or groups of products; rather, the intellectual property that is licensed to Opnext by Hitachi is generally used broadly across Opnext s entire product portfolio. Competition by third parties using the underlying technologies retained by Hitachi could harm the Opnext business, financial condition and results of operations.

The inability to obtain government licenses and approvals for desired international trading activities or technology transfers may prevent the profitable operation of our business.

Many of our present and future business activities are subject to licensing by the United States government under the Export Administration Act, the Export Administration Regulations and other laws, regulations and requirements governing international trade and technology transfer. We presently manufacture products in China and

Thailand that require such licenses. The profitable operations of our business may require the continuity of these licenses and may require further licenses and approvals for future products in these and other countries. However, there is no certainty to the continuity of these licenses, nor that further desired licenses and approvals may be obtained.

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We generate a significant portion of our revenues internationally and therefore are subject to additional risks associated with the extent of our international operations.

For fiscal years ended June 29, 2013, June 30, 2012 and July 2, 2011, 13 percent, 18 percent and 17 percent of our revenues, respectively, were derived from sales to customers located in the United States and 87 percent, 82 percent and 83 percent of our revenues, respectively, were derived from sales to customers located outside the United States, including our discontinued operations. We are subject to additional risks related to operating in foreign countries, including:

- currency fluctuations, which could result in increased operating expenses and reduced revenues;
- greater difficulty in accounts receivable collection and longer collection periods;
- difficulty in enforcing or adequately protecting our intellectual property;
- ability to hire qualified candidates;
- foreign taxes;
- political, legal and economic instability in foreign markets;
- foreign regulations;
- changes in, or impositions of, legislative or regulatory requirements;
- trade restrictions, including restrictions imposed by the United States government on trading with parties in foreign countries;
- transportation delays;
- epidemics and illnesses;
- terrorism and threats of terrorism;

- work stoppages and infrastructure problems due to adverse weather conditions or natural disasters;
- work stoppages related to employee dissatisfaction;
- changes in import/export regulations, tariffs, and freight rates; and
- the effective protections of, and the ability to enforce, contractual arrangements.

Any of these risks, or any other risks related to our foreign operations, could materially adversely affect our business, financial condition and results of operations.

We may face product liability claims.

Despite quality assurance measures, defects may occur in our products. The occurrence of any defects in our products could give rise to liability for damages caused by such defects, including consequential damages. Such defects could, moreover, impair market acceptance of our products. Both could have a material adverse effect on our business and financial condition. In addition, we may assume product warranty liabilities related to companies we acquire, which could have a material adverse effect on our business and financial condition. In order to mitigate the risk of liability for damages, we carry product liability insurance with a $25.0 million aggregate annual limit and errors and omissions insurance with a $5.0 million annual limit. We cannot assure you that this insurance would adequately cover our costs arising from any defects in our products or otherwise.

Our business and operating results may be adversely affected by natural disasters or other catastrophic events beyond our control.

Our business and operating results are vulnerable to natural disasters, such as earthquakes, fires, tsunami, volcanic activity and floods, as well as other events beyond our control such as power loss, telecommunications failures and uncertainties arising out of terrorist attacks in the United States and armed conflicts overseas. For example, in the latter three quarters of fiscal year 2012, our results of operations were materially and adversely impacted by the flooding in Thailand. Additionally, our corporate headquarters and a portion of our research and development and manufacturing operations are located in Silicon Valley, California, and select manufacturing facilities are located in Japan. These regions in particular have been vulnerable to natural disasters, such as earthquakes and tsunamis. The occurrence of any of these events could pose physical risks to our property and personnel, which may adversely affect our ability to produce and deliver products to our customers. Although we presently maintain insurance against certain of these events, we cannot be certain that our insurance will be adequate to cover any damage sustained by us or by our customers.

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We are subject to anti-corruption laws in the jurisdictions in which we operate, including the U.S. Foreign Corrupt Practices Act, or the FCPA. Our failure to comply with these laws could result in penalties which could harm our reputation and have a material adverse effect on our business, results of operations and financial condition.

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits, along with various other anticorruption laws. Although we have implemented policies and procedures designed to ensure that we, our employees and other intermediaries comply with the FCPA and other anticorruption laws to which we are subject, there is no assurance that such policies or procedures will work effectively all of the time or protect us against liability under the FCPA or other laws for actions taken by our employees and other intermediaries with respect to our business or any businesses that we may acquire. We have manufacturing operations in China and other jurisdictions, many of which pose elevated risks of anti-corruption violations, and we export our products for sale internationally. This puts us in frequent contact with persons who may be considered foreign officials under the FCPA, resulting in an elevated risk of potential FCPA violations. If we are not in compliance with the FCPA and other laws governing the conduct of business with government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, financial condition, results of operations and liquidity. Any investigation of any potential violations of the FCPA or other anticorruption laws by U.S. or foreign authorities could harm our reputation and have an adverse impact on our business, financial condition and results of operations.

Litigation may substantially increase our costs and harm our business.

We are a party to numerous lawsuits and will continue to incur legal fees and other costs related thereto, including potentially expenses for the reimbursement of legal fees of officers and directors under indemnification obligations. The expense of continuing to defend such litigation may be significant. In addition, there can be no assurance that we will be successful in any defense. 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. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters that may arise from time to time could have a material adverse effect on our business, results of operations and financial condition.

For a description of our current material litigation, see Part II, Item 1 *Legal Proceedings* of this Quarterly Report on Form 10-Q.

In addition, from time to time, we have been a party to certain intellectual property infringement litigation as more fully described above under Risks Related to Our Business *Our products may infringe the intellectual property rights of others, which could result in expensive litigation or require us to obtain a license to use the technology from third parties, or we may be prohibited from selling certain products in the future*.

Our business involves the use of hazardous materials, and we are subject to environmental and import/export laws and regulations that may expose us to liability and increase our costs.

We handle hazardous materials as part of our manufacturing activities. Consequently, our operations are subject to environmental laws and regulations governing, among other things, the use and handling of hazardous substances and waste disposal. We may incur costs to comply with current or future environmental laws. As with other companies engaged in manufacturing activities that involve hazardous materials, a risk of environmental liability is inherent in our manufacturing activities, as is the risk that our facilities will be shut down in the event of a release of hazardous waste, or that we would be subject to extensive monetary liabilities. The costs associated with environmental

compliance or remediation efforts or other environmental liabilities could adversely affect our business. Under applicable European Union regulations, we, along with other electronics component manufacturers, are prohibited from using lead and certain other hazardous materials in our products. We could lose business or face product returns if we fail to maintain these requirements properly.

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In addition, the sale and manufacture of certain of our products require on-going compliance with governmental security and import/export regulations. We may, in the future, be subject to investigation which may result in fines for violations of security and import/export regulations. Furthermore, any disruptions of our product shipments in the future, including disruptions as a result of efforts to comply with governmental regulations, could adversely affect our revenues, gross margins and results of operations.

The new disclosure requirements related to the conflict minerals provision of the Dodd-Frank Act may limit our supply and increase our costs for certain metals used in our products and could affect our reputation with customers or shareholders.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the Securities and Exchange Commission (SEC) adopted a new rule requiring public companies to disclose the use of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The new rule, which went into effect for calendar year 2013 and requires a disclosure report to be filed with the SEC by May 31, 2014, will require companies to perform due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo (DRC) or an adjoining country. The new rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacturing of our products. The number of suppliers who provide conflict-free minerals may be limited. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to the due diligence process of determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. As our supply chain is complex and we use contract manufacturers for some of our products, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement, which may harm our reputation. If we cannot determine that our products exclude conflict minerals sourced from the DRC or adjoining countries, some of our customers may discontinue, or materially reduce, purchases of our products, which could negatively affect our results of operations.

We can issue shares of preferred stock that may adversely affect your rights as a stockholder of our common stock.

Our certificate of incorporation authorizes us to issue up to 1.0 million shares of preferred stock with designations, rights and preferences determined from time-to-time by our board of directors. Accordingly, our board of directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights superior to those of holders of our common stock. For example, an issuance of shares of preferred stock could:

- adversely affect the voting power of the holders of our common stock;
- make it more difficult for a third-party to gain control of us;
- discourage bids for our common stock at a premium;
- limit or eliminate any payments that the holders of our common stock could expect to receive upon our liquidation; or

otherwise adversely affect the market price of our common stock.
We may in the future issue shares of authorized preferred stock at any time.

Delaware law and our charter documents 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 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 percent or more of the corporation s outstanding voting securities, or certain affiliated persons. We do not currently have a stockholder rights plan in place.

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.

ITEM 6. EXHIBITS

The exhibits filed as part of this Quarterly Report on Form 10-Q, or incorporated by reference, are listed on the Exhibit Index immediately preceding such exhibits, which Exhibit Index is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements 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.

OCLARO, INC.
(Registrant)

Date: November 7, 2013

By: /s/ JERRY TURIN
Jerry Turin
Chief Financial Officer
(Authorized Officer and Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger dated March 26, 2012, among Oclaro, Inc., Tahoe Acquisition Sub, Inc. and Opnext, Inc. (previously filed as Exhibit 2.1 to Registrant s Current Report on Form 8-K filed on March 26, 2012 and incorporated herein by reference)
2.2	Agreement of Merger among: Oclaro, Inc., a Delaware corporation; Nikko Acquisition Corp., a Delaware corporation; Mintera Corporation, a Delaware corporation; and Shareholder Representative Services LLC, as the Stockholders Agent. Dated as of July 20, 2010 (previously filed as Exhibit 2.1 to Registrant s Current Report on Form 8-K filed on July 26, 2010 and incorporated herein by reference.)
2.3	Agreement of Merger among: Oclaro, Inc., a Delaware corporation; Rio Acquisition corp., a Delaware corporation; Xtellus Inc., a Delaware corporation; and Alta Berkeley LLP, as the Stockholders Agent. Dated as of December 16, 2009 (previously filed as Exhibit 2.1 to Registrant s Current Report on Form 8-K filed on December 22, 2009 and incorporated herein by reference.)
3.1	Amended and Restated Bylaws of Oclaro, Inc., including Amendments No. 1 and No. 2 thereto (formerly Bookham, Inc.) (previously filed as Exhibit 3.1 to Registrant s Registration Statement on Form S-8 dated May 5, 2009 and incorporated herein by reference)
3.2	Amendment No. 3 to Amended and Restated By-Laws of Oclaro, Inc. (previously filed as Exhibit 3.1 to Registrant s Current Report on Form 8-K filed on July 28, 2011 and incorporated herein by reference).
3.3	Restated Certificate of Incorporation of Oclaro, Inc. (previously filed as Exhibit 3.2 to Registrant s Annual Report on Form 10-K filed on September 1, 2010 and incorporated herein by reference)
3.4	Certificate of Amendment to Restated Certificate of Incorporation of Oclaro, Inc. (previously filed as Exhibit 3.1 to Registrant s Current Report on Form 8-K filed on July 27, 2012 and incorporated herein by reference.)
4.1	Indenture, dated December 14, 2012, entered into by Oclaro, Inc., Oclaro Luxembourg S.A., certain of Oclaro, Inc. s domestic and foreign subsidiaries and Wells Fargo Bank, National Association (previously filed as Exhibit 4.1 to Registrant s Quarterly Report on Form 10-Q/A filed on February 15, 2013 and incorporated herein by reference.)
4.2	Form of Warrant Certificate dated May 6, 2013 (previously filed as Exhibit 4.2 to Registrant s Annual Report on 10-K filed on September 27, 2013 and incorporated herein by reference.)
10.1 (1)(3)	Retirement, Severance and Release of All Claims Agreement, effective July 12, 2013, between Alain Couder and Oclaro, Inc.
10.2 (1)	Waiver and Amendment Number Three to Second Amended and Restated Credit Agreement, dated August 21, 2013, by and among Oclaro, Inc., Oclaro Technology Limited, Wells Fargo Capital Finance, LLC and other lenders party thereto.
10.3 (1)	Asset Purchase Agreement, dated October 10, 2013, entered into by Oclaro Technology Limited and II-VI Incorporated.

10.4	Share and Asset Purchase Agreement, dated September 12, 2013, entered into by Oclaro Technology Limited and II-VI Holdings B.V. (previously filed as Exhibit 2.1 to Registrant s Current Report on Form 8-K filed on September 17, 2013 and incorporated herein by reference.)

10.5 (1)	Waiver to Second Amended and Restated Credit Agreement, dated September 26, 2013, by and among Oclaro, Inc., Oclaro Technology Limited, Wells Fargo Capital Finance, LLC and the lenders party thereto.
10.6 (1)	Option Agreement, dated September 12, 2013, entered into by Oclaro Technology Limited, Oclaro, Inc., Oclaro (North America), Inc., Avanex Communications Technologies Co, II-VI Holdings B.V., and II-VI Incorporated.
10.7 (3)	Employment Agreement, dated September 11, 2013, between Oclaro, Inc. and Greg Dougherty (previously filed as Exhibit 10.1 to Registrant s Current Report on Form 8-K filed on September 17, 2013 and incorporated herein by reference.)
31.1 (1)	Certification of Chief Executive Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2 (1)	Certification of Chief Financial Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1 (1)	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2 (1)	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
101.INS (2)	XBRL Instance Document
101.SCH (2)	XBRL Taxonomy Extension Schema Document
101.CAL (2)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF (2)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB (2)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE (2)	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Filed herewith.
(2) Pursuant to Rule 406T of Regulation S-T, XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.
(3) Management contract or compensatory plan or arrangement.