

FINISAR CORP  
Form 10-K  
June 17, 2016  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 1, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

000-27999

(Commission File No.)

Finisar Corporation

(Exact name of Registrant as specified in its charter)

Delaware

94-3038428

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1389 Moffett Park Drive, Sunnyvale, California

94089

(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

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

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

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

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

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

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large

accelerated filer ☒

Accelerated filer ☐

(Do not check if a smaller reporting company)

Non-accelerated filer ☐

Smaller reporting

company ☐

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

As of November 1, 2015, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$905 million based on the closing sales price of the registrant’s common stock as reported on the NASDAQ Stock Market on October 30, 2015 of \$11.37 per share. Shares of common stock held by officers, directors and holders of more than ten percent of the outstanding common stock have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of June 10, 2016, there were 107,706,776 shares of the registrant’s common stock, \$.001 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for its 2016 annual meeting of stockholders are incorporated by reference in Part III hereof.

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FOR THE FISCAL YEAR ENDED MAY 1, 2016

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**FORWARD LOOKING STATEMENTS**

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

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

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### PART I

#### Item 1. Business

##### Overview

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

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

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

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

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

We sell our products primarily to manufacturers of storage systems, networking equipment and telecommunication equipment such as Alcatel-Lucent, Brocade, Ciena, Cisco Systems, EMC, Ericsson, Fujitsu, Hewlett-Packard, Huawei, IBM, Juniper, Nokia, and QLogic, and to their contract manufacturers. These customers, in turn, sell their systems to businesses and to wireline and wireless telecommunication service providers and cable TV operators, collectively referred to as carriers. We also sell products to end-users.

We were incorporated in California in April 1987 and reincorporated in Delaware in November 1999. Our principal executive offices are located at 1389 Moffett Park Drive, Sunnyvale, California 94089, and our telephone number at

that location is +1-408-548-1000.

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

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### Business Strategy

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

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

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

**Leverage Core Competencies Across Multiple, High-Growth Markets.** We believe that fiber optic technology will remain the transmission technology of choice for Fibre Channel and Ethernet data communication applications, including 1 Gigabit Ethernet and 10 Gbps, 40 Gbps, 100 Gbps, and 400 Gbps Ethernet-based networks, and OTN- and SONET/SDH-based telecommunication applications. We also believe that wavelength management and switching technologies, such as those found in WSS, optical channel monitors, and linecards, will be increasingly important in optical transmission networks. These markets are characterized by differentiated applications with unique design criteria such as product function, performance, reliability, cost, in-system monitoring, size, power dissipation and software. We intend to target opportunities where our core competencies in high-speed data transmission protocols can be leveraged into leadership positions as these technologies are extended across multiple data communication and telecommunication applications and into other markets and industries such as high performance computing, military, medical, and consumer electronics.

**Strengthen and Expand Customer Relationships.** Over more than 25 years, we have established valuable relationships and a loyal base of customers by providing high-quality products and superior service. Our service-oriented approach has allowed us to work closely with leading data communication and telecommunication system manufacturers to understand and address their current needs and anticipate their future requirements.

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

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



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### Products

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

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

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

For data communication applications that rely on the Fibre Channel standard, we currently provide a wide range of optical subsystems for transmission applications at 1 to 16 Gbps. For data communication applications that rely on the Ethernet standard, we provide a broad range of optical subsystems for transmitting signals at 1 to 100 Gbps using the SFP, SFP+, XFP, X2, QSFP, QSFP28, CXP, CFP, CFP2, CFP4, and proprietary form factors. For OTN and SONET/SDH-based telecommunication applications, we supply optical subsystems that are capable of transmitting at 0.155, 0.622, 2.5, 10, 40, 100, and 200 Gbps.

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

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

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

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

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

#### Customers

Our revenues are principally derived from sales of optical subsystems and components to a broad base of OEMs, distributors, end customers, and system integrators. Sales of products for data communication applications represented 74%, 75%, and 71% of our total revenues in fiscal 2016, 2015, and 2014, respectively. Sales of products for telecommunication applications represented 26%, 25%, and 29% of our total revenues in fiscal 2016, 2015, and 2014, respectively.

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Sales to our ten largest customers represented 56%, 55%, and 58% of our total revenues during fiscal 2016, 2015, and 2014, respectively. Two customers, Cisco Systems and Huawei, represented more than 10% of our total revenues during fiscal 2016. One customer, Cisco Systems, represented more than 10% of our total revenues during fiscal 2015 and 2014. No other customer accounted for more than 10% of our total revenues in any of these years.

## Technology

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

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

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

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

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

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

XFP and SFP+ transceivers for telecommunication applications.

#### Competition

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

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

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

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

### Sales, Marketing and Technical Support

For sales of our optical subsystems and components, we utilize a direct sales force augmented by four world-wide distributors, 11 international distributors, three domestic distributors, 17 domestic manufacturers' representatives, and six international manufacturers' representatives. Our direct sales force maintains close contact with our customers and provides technical support to our manufacturers' representatives. In our international markets, our direct sales force works with local resellers who assist us in providing support and maintenance in the territories they cover.

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

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

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

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

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

### Backlog

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

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### Manufacturing

We manufacture our optical subsystems at our production facility in Ipoh, Malaysia. This facility consists of 640,000 square feet, of which 240,000 square feet is suitable for clean room operations. We also conduct a portion of our new product introduction operations at our Ipoh facility. In 2012, we entered into a 50-year lease for 550,000 square feet of land in Wuxi, China, where we built a 800,000 square feet facility. At this facility, we manufacture tunable and parallel transceivers, WSS components, ROADM line cards, passive optical components, coherent receivers, and high-end optical subassemblies used in VCSELs and detectors. We manufacture WSS products at our 100,000 square feet facility in Sydney, Australia and certain telecommunication products at our 64,000 square feet facility in Horsham, Pennsylvania. We continue to conduct a substantial portion of our new product introduction activities at our Sunnyvale, California, Horsham, Pennsylvania, Sydney, Australia, and Shanghai, China facilities. In Sunnyvale, we also conduct supply chain management for certain components as well as quality assurance and documentation control operations. We maintain an international purchasing office in Shenzhen, China. We conduct wafer fabrication operations for the manufacture of VCSELs used in short wavelength transceiver products at our facility in Allen, Texas. We conduct wafer fabrication operations for the manufacture of long wavelength FP and DFB lasers at our facility in Fremont, California. We conduct wafer fabrication operations for the manufacturing of tunable lasers and photonic integrated circuits, or PICs, at our facility in Jarfalla, Sweden. We manufacture high speed optical receivers and photodetectors at our facility in Berlin, Germany. We expect to continue to use contract manufacturers for a portion of our manufacturing needs, primarily printed circuit board assemblies.

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

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

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

### Research and Development

In fiscal 2016, 2015 and 2014, our research and development expenses were \$203.4 million, \$202.1 million, and \$183.4 million, respectively. We believe that our future success depends on our ability to continue to enhance the performance and reduce the cost of our existing products and to develop new products that maintain technological and business competitiveness. We focus our product development activities on addressing the evolving needs of our customers within the data communication and telecommunication markets. We also seek opportunities to leverage the

technical and product competencies created for our core markets to develop products for other applications, especially products using active optical components that we design and manufacture. We work closely with our customers to monitor changes in the marketplace. We design our products around current industry standards and will continue to support emerging standards that are consistent with our product strategy. Our research and development groups are aligned with our various product lines, and we also have specific groups devoted to ASIC design and test, subsystem design, and software design. Our product development operations include the active involvement of our manufacturing engineers who examine each product for its manufacturability, predicted reliability, expected lifetime, and manufacturing costs.

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



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### Intellectual Property

Our success and ability to compete is dependent in part on our proprietary technology. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. We currently own approximately 2,002 issued U.S. and foreign patents and have approximately 405 pending U.S. and foreign patent applications. We cannot assure that any patents will be issued as a result of pending patent applications or that our issued patents will be upheld. Any infringement of our proprietary rights could result in significant litigation costs, and any failure to adequately protect our proprietary rights could result in our competitors offering similar products, potentially resulting in loss of a competitive advantage and decreased revenues. Despite our efforts to protect our proprietary rights, existing patent, copyright, trademark, and trade secret laws afford only limited protection. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States. Attempts may be made to copy or reverse engineer aspects of our products or to obtain and use information that we regard as proprietary. Accordingly, we may not be able to prevent misappropriation of our technology or to deter others from developing similar technology. Furthermore, policing the unauthorized use of our products is difficult. We have been involved in extensive litigation to enforce certain of our patents and are currently engaged in such litigation. Additional litigation may be necessary in the future to enforce our intellectual property rights. This litigation could result in substantial costs and diversion of resources and could significantly harm our business.

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

### Employees

As of May 1, 2016, we employed approximately 13,400 full-time employees and contractors, of whom approximately 1,000 were located in the United States and approximately 11,200 were located at our production facilities in Ipoh, Malaysia, and Wuxi, China. We also, from time to time, employ part-time employees. Our employees are not represented by any union, and we have never experienced a work stoppage. Certain of our employees in our Sydney, Australia facility are subject to a collective agreement not involving a union. In addition, we have a works council in our Berlin, Germany facility. We believe that there is a positive employee relations environment within our company.

### Segment and Geography Information

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

#### Available Information

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

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### Item 1A. Risk Factors

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

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

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

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

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

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

Our operating results could also be harmed by:

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

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

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

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

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

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

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

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

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

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

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

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principal competitors for telecommunication applications include Lumentum, Oclaro, Sumitomo and Acacia Communications. Our competitors continue to introduce improved products and we will have to do the same to remain competitive.

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

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

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

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

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

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

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

non-cancelable purchase commitments.

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

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



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

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

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

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

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

new or enhanced products successfully, if at all, or on a timely basis. Further, we cannot assure you that our new products will gain market acceptance or that we will be able to respond effectively to product announcements by competitors, technological changes or emerging industry standards. Many of these factors are beyond our control. Any failure to respond to technological change would significantly harm our business.

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

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

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

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

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

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

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

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

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

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

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

The period of time between our initial contact with a customer and the receipt of an actual purchase order typically spans over a year. During this time, customers may perform, or require us to perform, extensive and lengthy evaluation and testing of our products before purchasing and using the products in their equipment. These products often take substantial time to develop because of their complexity and because customer specifications sometimes change during the development cycle. Our customers do not typically share information on the duration or magnitude of these qualification procedures. The length of

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these qualification processes also may vary substantially by product and customer, and, thus, cause our results of operations to be unpredictable. While our potential customers are qualifying our products and before they place an order with us, we may incur substantial research and development and sales and marketing expenses and expend significant management effort. Even after incurring such costs we ultimately may not be able to sell any products to such potential customers. In addition, these qualification processes often make it difficult to obtain new customers, as customers are reluctant to expend the resources necessary to qualify a new supplier if they have one or more existing qualified sources. Once our products have been qualified, the agreements that we enter into with our customers typically contain no minimum purchase commitments. Failure of our customers to incorporate our products into their systems would significantly harm our business.

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

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

Our international business and operations expose us to additional risks.

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

- periodic changes in a specific country's or region's economic conditions, such as recession;
- compliance with a wide variety of domestic and foreign laws and regulations (including those of municipalities or provinces where we have operations) and unexpected changes in those laws and regulatory requirements, including uncertainties regarding taxes, social insurance contributions and other payroll taxes and fees to governmental entities, tariffs, quotas, export controls, export licenses and other trade barriers;
- unanticipated restrictions on our ability to sell to foreign customers where sales of products and the provision of services may require export licenses;
- certification requirements;
- environmental regulations;
- fluctuations in foreign currency exchange rates;
- inadequate protection of intellectual property rights in some countries;
- potential political, legal and economic instability, foreign conflicts, and the impact of regional and global infectious illnesses in the countries in which we and our customers, suppliers and contract manufacturers are located;
- preferences of certain customers for locally produced products;
-

difficulties and costs of staffing and managing international operations across different geographic areas and cultures, including assuring compliance with the U.S. Foreign Corrupt Practices Act and other U. S. and foreign anticorruption laws;

seasonal reductions in business activities in certain countries or regions; and

fluctuations in freight rates and transportation disruptions.

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

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Our future operating results may be subject to volatility as a result of exposure to foreign exchange risks.

We are exposed to foreign exchange risks. Foreign currency fluctuations may affect both our revenues and our costs and expenses and significantly affect our operating results. More than 95% of our sales worldwide are denominated in U.S. dollars. If there is a significant devaluation of the currency in a specific country relative to the dollar, the prices of our products will increase relative to that country's currency, our products may be less competitive in that country and our revenues may be adversely affected.

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

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

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

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

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

Our industry is characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. We are currently involved as a defendant in patent infringement litigation and have been

involved in the past as a defendant in such lawsuits. From time to time, we have also been accused of patent infringement that is not subject to current lawsuit, some of which accusations are unresolved. In the future we may be subject to additional litigation alleging infringement of patent, copyright, trademark and other intellectual property rights to technologies and in various jurisdictions that are important to our business. Any claims asserting that our products infringe or may infringe proprietary rights of third parties, if determined adversely to us, could significantly harm our business. Further, claims against a customer and/or end user of our products that the re-sale or use of our products, either alone or in combination with other products, infringes proprietary rights of third parties could cause customer or users to choose to not or be required to not utilize our products alone or in such combination, which could harm our sales of such products. Any claims, against us or any customer or user of our products, with or without merit, could be time-consuming, result in costly litigation, divert the efforts of our technical and management personnel, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could significantly harm our business. In addition, our agreements with our customers typically require us to indemnify our customers from any expense or liability resulting from claimed infringement of third party intellectual property rights. In the event a claim



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against us was successful and we could not obtain a license to the relevant technology on acceptable terms or license a substitute technology or redesign our products to avoid infringement, our business would be significantly harmed.

Numerous patents in our industry are held by others, including academic institutions, competitors and non-practicing entities. Optical subsystem suppliers may seek to gain a competitive advantage or other third parties may seek an economic return on their intellectual property portfolios by making infringement claims against us. In the future, we may need to obtain license rights to patents or other intellectual property held by others to the extent necessary for our business. Unless we are able to obtain those licenses on commercially reasonable terms, patents or other intellectual property held by others could inhibit our development of new products. Licenses granting us the right to use third party technology may not be available on commercially reasonable terms, if at all. Generally, a license, if granted, would include payments of up-front fees, ongoing royalties or both. These payments or other terms could have a significant adverse impact on our operating results.

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

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

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

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

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

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

- increased risks related to the operations of our manufacturing facilities in Malaysia;
- greater risks of disruption in the operations of our China, Singapore and Israeli facilities and our Asian contract manufacturers, including contract manufacturers located in Thailand, and more frequent instances of shipping delays; and
- the risk that future tightening of immigration controls may adversely affect the residence status of non-U.S. engineers and other key technical employees in our U.S. facilities or our ability to hire new non-U.S. employees in such facilities.

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

In addition to our combination with Optium in August 2008 and our acquisitions of Ignis in May 2011, Red-C in July 2012 and u<sup>2</sup>t Photonics AG ("u<sup>2</sup>t") in January 2014, we have completed the acquisition of 11 privately-held companies and certain businesses and assets from seven other companies since October 2000. We continue to review opportunities to acquire other businesses, product lines or technologies that would complement our current products, expand the breadth of our markets or enhance our technical capabilities, or that may otherwise offer growth opportunities, and we from time to time make proposals and offers, and take other steps, to acquire businesses, products and technologies.

The Optium merger and several of our other past acquisitions have been material, and acquisitions that we may complete in the future may be material. In 13 of our 22 acquisitions, we issued common stock or notes convertible into common stock as all or a portion of the consideration. The issuance of common stock or other equity securities by us in connection with any future acquisition would dilute our stockholders' percentage ownership.

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

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

Not all of our past acquisitions have been successful. In the past, we have subsequently sold some of the assets acquired in prior acquisitions, discontinued product lines and closed acquired facilities. As a result of these activities, we incurred significant restructuring charges and charges for the write-down of assets associated with those acquisitions. Through fiscal 2016, we have written off all of the goodwill associated with our past acquisitions with the exception of the recently completed acquisitions of Ignis, Red-C and u<sup>2</sup>t. We cannot assure you that we will be successful in overcoming problems encountered in connection with our past acquisitions or potential future acquisitions, and our inability to do so could significantly harm our business. In addition, to the extent that the economic benefits associated with our past acquisitions or any of our future acquisitions diminish in the future, we may be required to record additional write downs of goodwill, intangible assets or other assets associated with such acquisitions, which would adversely affect our operating results.

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

Since inception we have made minority equity investments in a number of early-stage technology companies, totaling approximately \$61.9 million. Our investments in these early stage companies were primarily motivated by our desire to gain early access to new technology. We intend to review additional opportunities to make strategic equity investments in pre-public companies where we believe such investments will provide us with opportunities to gain access to important technologies or otherwise enhance important commercial relationships. We have little or no influence over the early-stage companies in which we have made or may make these strategic, minority equity investments. Each of these investments in pre-public companies involves a high degree of risk. We may not be successful in achieving the financial, technological or commercial advantage upon which any given investment is premised, and failure by the early-stage company to achieve its own business objectives or to raise capital needed on acceptable economic terms could result in a loss of all or part of our invested capital. Between fiscal 2003 and 2016,

we wrote off an aggregate of \$26.2 million in seven investments which became impaired and reclassified \$4.2 million of another investment to goodwill as the investment was deemed to have no value. We may be required to write off all or a portion of the \$4.1 million of such equity investments remaining on our balance sheet as of May 1, 2016 in future periods.

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

As of May 1, 2016, we had net operating loss, or NOL, carryforward amounts of approximately \$377.1 million, \$25.5 million and \$48.2 million for U.S. federal, state and foreign income tax purposes, respectively, and tax credit carryforward amounts of approximately \$31.8 million and \$24.4 million for U.S. federal and state income tax purposes, respectively. The federal and state tax credit carryforwards will expire at various dates beginning in 2017 through 2035, and \$824,000 of such carryforwards will expire in the next five years. The federal and state NOL carryforwards will expire at various dates beginning in 2017 through 2035, and \$9.3 million of such carryforwards will expire in the next five years. Utilization of these NOL and

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tax credit carryforward amounts may be subject to a substantial annual limitation if the ownership change limitations under Sections 382 and 383 of the Internal Revenue Code and similar state provisions are triggered by changes in the ownership of our capital stock. Such an annual limitation could result in the expiration of the NOL and tax credit carryforward amounts before utilization. Due to uncertainty regarding the timing and extent of our future profitability, we continue to record a valuation allowance to offset our U.S. deferred tax assets (representing future income tax benefits associated with our operating losses) because we do not currently believe it is more likely than not these assets will be realized.

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

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

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

An adverse change that impacts our tax position could negatively impact our operating results. In addition, we are the recipient of tax incentives that provide that certain income earned by our subsidiary in Malaysia is subject to a tax holiday for a limited period of time under the laws of that country. This Malaysian tax holiday subject to expiration in August 2021. Our ability to realize benefits from tax initiatives could be materially affected if, among other things, applicable requirements are not met, the incentives are substantially modified, or if we incur losses for which we cannot take a deduction. In addition, although we have successfully received tax holiday extensions in the past, there can be no assurance that future extensions will be granted. If we are not able to extend a tax holiday, our total tax paid on a consolidated basis would be materially increased.

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

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

Given the current global political climate, obtaining export licenses can be difficult and time-consuming. Failure to obtain export licenses for these shipments could significantly reduce our revenue and materially adversely affect our business, financial condition and results of operations. Compliance with U.S. Government regulations also subjects us

to additional fees and costs. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position.

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

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

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

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damages have been alleged in the class action lawsuits and, by the nature of the lawsuits, no damages will be alleged against Finisar in the derivative lawsuits.

We will continue to incur legal fees in connection with these pending cases, including expenses for the reimbursement of legal fees of present and former officers and directors under indemnification obligations. The expense of continuing to defend such litigation may be significant. We intend to defend these lawsuits vigorously, however there can be no assurance that we will be successful in any defense. If any of the lawsuits related to our earnings announcement are adversely decided, we may be liable for significant damages directly or under our indemnification obligations, which could adversely affect our business, results of operations and cash flows. Further, the amount of time that will be required to resolve these lawsuits is unpredictable and these actions may divert management's attention from the day-to-day operations of our business, which could adversely affect our business, results of operations and cash flows.

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

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

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

As of May 1, 2016, we had outstanding an aggregate principal amount of \$258.8 million of our 2033 Notes. The 2033 Notes are convertible at the option of the holder, under certain circumstances, into shares of our common stock at an initial conversion price of \$30.18 per share, subject to adjustments. An aggregate of approximately 8,572,413 shares of common stock would be issued upon the conversion of all outstanding 2033 Notes at these conversion prices, which would dilute the voting power and ownership percentage of our existing stockholders. We have previously entered into privately negotiated transactions with certain holders of our convertible notes for the repurchase of notes in exchange for a greater number of shares of our common stock than would have been issued had the principal amount of the notes been converted at the original conversion rate specified in the notes, thus resulting in more dilution. We may enter into similar transactions in the future and, if we do so, there will be additional dilution to the voting power and percentage ownership of our existing stockholders.

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

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

- authorizing the board of directors to issue additional preferred stock;
- prohibiting cumulative voting in the election of directors;
- limiting the persons who may call special meetings of stockholders;

- prohibiting stockholder actions by written consent;
- creating a classified board of directors pursuant to which our directors are elected for staggered three-year terms;
- permitting the board of directors to increase the size of the board and to fill vacancies;
- requiring a super-majority vote of our stockholders to amend our bylaws and certain provisions of our certificate of incorporation; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

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



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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.

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

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

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

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

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

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

### Item 1B. Unresolved Staff Comments

None.

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## Item 2. Properties

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

Information regarding our properties as of May 1, 2016 is as follows:

Location	Use	Size (Square Feet)
Owned		
Wuxi, China	Manufacturing operations	800,000
Ipoh, Malaysia	Manufacturing operations	640,000
Shenzhen, China	Administrative operations	50,000
Daejeon, Korea	Research and development	12,800
Leased		
Wuxi, China	Manufacturing operations	550,000
Shanghai, China	Research and development, general and administrative, and limited manufacturing operations	180,000
Allen, Texas	Wafer fabrication operations. A portion of this facility is currently subleased.	160,000
Sydney, Australia	Manufacturing, research and development and administrative operations	100,000
Fremont, California	Research and development and manufacturing operations	121,000
Sunnyvale, California	Corporate headquarters, research and development, sales and marketing, general and administrative and limited manufacturing operations	92,000
Horsham, Pennsylvania	Manufacturing, research and development, sales and administration, executive offices	64,000
Holon, Israel	Research and development and manufacturing operations	34,000
Jarfalla, Sweden	Wafer fabrication operations and research and development	26,000
Berlin, Germany	Research and development and manufacturing operations	22,000
Hyderabad, India	Information technology support center	22,000
Singapore	Research and development	16,000
Eugene, Oregon	Research and development and manufacturing operations	9,000
Champaign, Illinois	Research and development	3,000

The leased property in Wuxi, China, consists of 550,000 square feet of land leased for 50 years where we built a 800,000 square feet manufacturing operations facility. The owned property in Daejeon, Korea, includes 4,200 square feet of land owned by our subsidiary, Finisar Daejeon Co. Ltd. We believe our properties are in good condition and are suitable for their present uses. We also believe that our existing facilities will be adequate to accommodate our needs for the foreseeable future.

## Item 3. Legal Proceedings

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

## Item 4. Mine Safety Disclosures

Not applicable.



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## PART II

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

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

	High	Low
Fiscal 2016 Quarter Ended:		
May 1, 2016	\$19.00	\$12.19
January 31, 2016	\$14.97	\$11.11
November 1, 2015	\$17.79	\$10.66
August 2, 2015	\$23.14	\$16.86
Fiscal 2015 Quarter Ended:		
May 3, 2015	\$23.24	\$18.14
January 25, 2015	\$19.85	\$15.88
October 26, 2014	\$20.68	\$14.39
July 27, 2014	\$26.87	\$19.20

According to records of our transfer agent, we had 230 stockholders of record as of June 10, 2016 and we believe there is a substantially greater number of beneficial holders. We have never declared or paid dividends on our common stock and currently do not intend to pay dividends in the foreseeable future so that we may reinvest our earnings in the development of our business. The payment of dividends in the future will be at the discretion of the Board of Directors.

## Item 6. Selected Financial Data

You should read the following selected financial data in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation" and our consolidated financial statements and the notes thereto included elsewhere in this report. The statement of operations data set forth below for the fiscal years ended May 1, 2016, May 3, 2015 and April 27, 2014 and the balance sheet data as of May 1, 2016 and May 3, 2015 are derived from, and are qualified by reference to, our audited consolidated financial statements included elsewhere in this report. The statement of operations data set forth below for the fiscal years ended April 28, 2013 and April 30, 2012 and the balance sheet data as of April 27, 2014, April 28, 2013, and April 30, 2012 are derived from our audited consolidated financial statements not included in this report.

	Fiscal Years Ended				
	May 1, 2016	May 3, 2015	April 27, 2014	April 28, 2013	April 30, 2012
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenues	\$1,263,166	\$1,250,944	\$1,156,833	\$934,335	\$952,579
Consolidated net income (loss)	\$35,193	\$11,887	\$111,537	\$(8,095)	) \$43,014
Net income (loss) per share attributable to Finisar Corporation common stockholders:					
Basic	\$0.33	\$0.12	\$1.16	\$(0.06)	) \$0.47
Diluted	\$0.32	\$0.11	\$1.09	\$(0.06)	) \$0.46
Balance Sheet Data:					
Total assets	\$1,646,989	\$1,551,882	\$1,497,546	\$1,007,847	\$969,427
Long-term portion of convertible notes	\$231,011	\$221,406	\$252,268	\$40,015	\$40,015



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

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

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

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

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

**Results of Operations.** This section provides analysis of the Company's results of operations for the three fiscal years period ended May 1, 2016. A brief description is provided of transactions and events that impact comparability of the results being analyzed.

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

#### Forward Looking Statements

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

#### Business Overview

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

We also provide products known as wavelength selective switches, or WSS. In long-haul and metro networks, each fiber may carry 50 to more than 100 different high-speed optical wavelengths. WSS are switches that are used to dynamically switch network traffic from one optical fiber to multiple other fibers without first converting to an

electronic signal. The wavelength selective feature means that WSS enable any wavelength or combination of wavelengths to be switched from the input fiber to the output fibers. WSS products are sometimes combined with other components and sold as linecards that plug into a system chassis referred to as a reconfigurable optical add/drop multiplexers, or ROADM.

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

Demand for our products is largely driven by the continually growing need for additional network bandwidth created by the ongoing proliferation of data and video traffic driven by video downloads, Internet protocol TV, social networking, on-line gaming, file sharing, enterprise IP/Internet traffic, cloud computing, and data center virtualization that must be handled by both

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wireline and wireless networks. Mobile traffic is increasing as the result of proliferation of smartphones, tablet computers, and other mobile devices.

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

We sell our products primarily to manufacturers of storage systems, networking equipment and telecommunication equipment such as Alcatel-Lucent, Brocade, Ciena, Cisco Systems, EMC, Ericsson, Fujitsu, Hewlett-Packard, Huawei, IBM, Juniper, Nokia, and QLogic, and to their contract manufacturers. These customers, in turn, sell their systems to businesses and to wireline and wireless telecommunication service providers and cable TV operators, collectively referred to as carriers. We also sell products to end-users.

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

Since October 2000, we have completed the acquisition of two publicly-held companies. We have also completed the acquisition of 13 privately-held companies and certain businesses and assets from seven other companies in order to broaden our product offerings and provide new sources of revenue, production capabilities and access to advanced technologies that we believe will enable us to reduce our product costs and develop innovative and more highly integrated product platforms while accelerating the timeframe required to develop such products.

### Critical Accounting Policies

The preparation of our financial statements and related disclosures require that we make estimates, assumptions and judgments that can have a significant impact on our revenue and operating results, as well as on the value of certain assets and contingent liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements and, therefore, consider these to be our critical accounting policies. See below for more information about these critical accounting policies. We believe there have been no material changes to our critical accounting policies during the fiscal year ended May 1, 2016 compared to prior years.

### Revenue Recognition, Warranty and Sales Returns

We recognize revenue when persuasive evidence of an arrangement exists, title and risk of loss have passed to the customer, generally upon shipment, the price is fixed or determinable and collectability is reasonably assured. At the time revenue is recognized, we establish an accrual for estimated warranty expenses associated with our sales, recorded as a component of cost of revenues. Our standard warranty period usually extends 12 months from the date of sale, although it can extend for longer periods of three to five years for certain products sold to certain customers. Our warranty accrual represents our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. While we believe that our warranty accrual is adequate and that the judgment applied is appropriate, such amounts estimated to be incurred could differ materially from what actually transpire in the future. If our actual warranty costs are greater than the accrual, costs of revenue will increase in the future. We also provide an allowance for estimated customer returns, which is netted against revenue. This provision



is based on our historical returns, analysis of credit memo data and our return policies. If the historical data used by us to calculate the estimated sales returns does not properly reflect future returns, revenue could be reduced in the future.

#### Allowance for Doubtful Accounts

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

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### Slow Moving and Obsolete Inventories

We make inventory commitment and purchase decisions based upon sales forecasts. To mitigate the component supply constraints that have existed in the past and to fill orders with non-standard configurations, we build inventory levels for certain items with long lead times and enter into certain longer-term commitments for certain items. We permanently write off 100% of the cost of inventory that we specifically identify and consider obsolete or excessive to fulfill future sales estimates. We define obsolete inventory as inventory that will no longer be used in the manufacturing process. We periodically discard obsolete inventory. Excess inventory is generally defined as inventory in excess of projected usage, and is determined using our best estimate of future demand at the time, based upon information then available to us. In making these assessments, we are required to make judgments as to the future unit demand for current or committed inventory levels. In addition to the future unit demand, we also consider:

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

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

### Business Combinations

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

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

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

### Goodwill, Intangibles and Other Long-Lived Assets

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

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

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

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

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can be affected by a variety of factors including industry and economic trends, our market position and the competitive environment of the businesses in which we operate.

### Share-Based Compensation Expense

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

The determination of the fair value of stock-based awards on the date of grant using an option pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the expected term of the awards, actual and projected employee stock option exercise behaviors, the risk-free interest rate, estimated forfeitures and expected dividends. We estimate the expected term of options granted by calculating the average term from our historical stock option exercise experience. We calculate the volatility factor based on our historical stock prices. We base the risk-free interest rate on zero-coupon yields implied from U.S. Treasury issues with remaining terms similar to the expected term on the options. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

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

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

### Accounting for Income Taxes

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

We provide for income taxes based upon the geographic composition of worldwide earnings and tax regulations governing each region. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Also, our current effective tax rate assumes that United States income taxes are not provided for the undistributed earnings of non-United States subsidiaries. We intend to indefinitely reinvest the earnings of all foreign corporate subsidiaries accumulated in fiscal 2008 and subsequent years.

Our assumptions, judgments and estimates relative to the current provision for income taxes take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by

foreign and domestic tax authorities. We have established reserves for income taxes to address potential exposures involving tax positions that could be challenged by tax authorities. Although we believe our assumptions, judgments and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements. Our assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations or capital gains income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, thus materially impacting our financial position and results of operations.

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## Recent Accounting Pronouncements

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

## Results of Operations

## Comparison of Fiscal Years Ended May 1, 2016 and May 3, 2015

## Revenues

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

(in thousands, except percentages)	Fiscal Years Ended		Change	% Change
	May 1, 2016	May 3, 2015		
Datacom revenue	\$929,247	\$933,455	\$(4,208 )	— %
Telecom revenue	333,919	317,489	16,430	5 %
Total revenues	\$1,263,166	\$1,250,944	\$12,222	1 %

The decrease in datacom revenue primarily reflects a decline in average selling prices of datacom products. The increase in telecom revenue was primarily due to an increase in market demand for our 10 Gbps tunable transceivers and WSS products.

## Amortization of Acquired Developed Technology

(in thousands, except percentage)	Fiscal Years Ended		Change	% Change
	May 1, 2016	May 3, 2015		
Amortization of acquired developed technology	\$6,129	\$5,739	\$ 390	7 %

The increase was primarily due to the start of amortization for certain in-process R&D intangible assets related to our acquisition of u²t as a result of completing related development projects during fiscal 2016.

## Impairment of Long-lived Assets

(in thousands, except percentage)	Fiscal Years Ended		Change	% Change
	May 1, 2016	May 3, 2015		
Impairment of long-lived assets	\$1,901	\$5,767	\$(3,866)	(67 )%

During the first quarter of fiscal 2016 and the third quarter of fiscal 2015, we recorded \$1.9 million and \$5.8 million, respectively, of charges for the impairment of long-lived assets (primarily machinery and equipment) due to the projected cash flows associated with these assets not supporting the carrying values of these assets.

## Gross Profit

(in thousands, except percentages)	Fiscal Years Ended		Change	% Change
	May 1, 2016	May 3, 2015		
Gross profit	\$354,650	\$350,910	\$3,740	1 %
As a percentage of revenues	28	% 28	%	

The increase in gross profit was primarily due to long-lived assets impairment charges described above.

Research and Development Expenses

(in thousands, except percentage)	Fiscal Years Ended		Change	% Change
	May 1, 2016	May 3, 2015		
Research and development expenses	\$203,389	\$202,089	\$1,300	1 %

The increase was primarily due to increases in employee compensation related expenses.

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## Sales and Marketing Expenses

	Fiscal Years Ended			
(in thousands, except percentage)	May 1, 2016	May 3, 2015	Change	% Change
Sales and marketing expenses	\$46,619	\$46,178	\$ 441	1 %

The increase was primarily due to an increase in marketing product samples in connection with the expansion of our product offering and customer base.

## General and Administrative Expenses

	Fiscal Years Ended			
(in thousands, except percentage)	May 1, 2016	May 3, 2015	Change	% Change
General and administrative expenses	\$60,117	\$72,856	\$(12,739)	(17 )%

The decrease was primarily due to an \$11.0 million charge related to the settlement of patent litigation during the second quarter of fiscal 2015.

## Amortization of Purchased Intangibles

	Fiscal Years Ended			
(in thousands, except percentage)	May 1, 2016	May 3, 2015	Change	% Change
Amortization of purchased intangibles	\$2,672	\$2,948	\$(276 )	(9 )%

The decrease was due to the roll-off of amortization of certain intangible assets related to our prior acquisitions.

## Interest Income

	Fiscal Years Ended			
(in thousands, except percentage)	May 1, 2016	May 3, 2015	Change	% Change
Interest income	\$2,345	\$1,811	\$ 534	29 %

The increase was primarily due to higher cash and short-term investments balances during fiscal 2016 compared to fiscal 2015.

## Interest Expense

	Fiscal Years Ended			
(in thousands, except percentage)	May 1, 2016	May 3, 2015	Change	% Change
Interest expense	\$(11,750)	\$(12,022)	\$ 272	(2 )%

The decrease was primarily due to the conversion of the 2029 Notes into common stock during October 2014.

## Other Income (Expense), Net



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	Fiscal Years			
	Ended			
(in thousands, except percentage)	May 1, 2016	May 3, 2015	Change	% Change
Other income (expense), net	\$3,213	\$4,099	\$ (886 )	(22 )%

The decrease was primarily due to higher foreign currency exchange losses in fiscal 2016.

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## Provision for Income Taxes

	Fiscal Years Ended			
(in thousands, except percentage)	May 1, 2016	May 3, 2015	Change	% Change
Provision for income taxes	\$(362)	\$8,795	\$(9,157)	(104)%

The decrease was primarily due to a change in the mix of pre-tax income into jurisdictions with lower effective tax rate. The income tax provisions for fiscal 2016 and 2015 primarily represent current state and foreign income taxes arising in certain jurisdictions in which we conduct business.

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

## Comparison of Fiscal Years Ended May 3, 2015 and April 27, 2014

## Revenues

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

	Fiscal Years Ended			
(in thousands, except percentages)	May 3, 2015	April 27, 2014	Change	% Change
Datacom revenue	\$933,455	\$822,048	\$111,407	14 %
Telecom revenue	317,489	334,785	(17,296 )	(5 )%
Total revenues	\$1,250,944	\$1,156,833	\$94,111	8 %

The increase in datacom revenue was primarily due to an increase in market demand for our 40 Gbps and higher Ethernet transceivers as enterprises upgraded their technology infrastructure driving demand for our products. The decrease in telecom revenue was primarily due to a decline in market demand for our telecom products as a result of sluggish spending by telecom service providers worldwide, partially offset by additional revenues associated with our acquisition of u²t in the fourth quarter of fiscal 2014.

## Amortization of Acquired Developed Technology

	Fiscal Years Ended			
(in thousands, except percentage)	May 3, 2015	April 27, 2014	Change	% Change
Amortization of acquired developed technology	\$5,739	\$5,061	\$ 678	13 %

The increase was primarily due to the amortization of the acquired developed technology related to the u²t acquisition, partially offset by the roll-off of amortization of certain intangible assets related to our prior acquisitions.

## Impairment of Long-lived Assets

	Fiscal Years Ended			
(in thousands, except percentage)	May 3, 2015	April 27, 2014	Change	% Change

Impairment of long-lived assets    \$5,767    \$        —\$5,767    100    %

During the third quarter of fiscal 2015, we recorded a \$5.8 million charge for the impairment of long-lived assets due to the projected cash flows associated with these assets not supporting the carrying values of these assets. No impairment charges were recorded during fiscal 2014.

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## Gross Profit

	Fiscal Years Ended			
(in thousands, except percentages)	May 3, 2015	April 27, 2014	Change	% Change
Gross profit	\$350,910	\$396,999	\$(46,089)	(12 )%
As a percentage of revenues	28	% 34	%	

The decrease in gross margin primarily reflected a decline in average selling prices of our products.

## Research and Development Expenses

	Fiscal Years Ended			
(in thousands, except percentage)	May 3, 2015	April 27, 2014	Change	% Change
Research and development expenses	\$202,089	\$183,355	\$18,734	10 %

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

## Sales and Marketing Expenses

	Fiscal Years Ended			
(in thousands, except percentage)	May 3, 2015	April 27, 2014	Change	% Change
Sales and marketing expenses	\$46,178	\$46,547	\$(369)	(1 )%

The decrease was primarily due to reductions in employee compensation related expenses.

## General and Administrative Expenses

	Fiscal Years Ended			
(in thousands, except percentage)	May 3, 2015	April 27, 2014	Change	% Change
General and administrative expenses	\$72,856	\$53,214	\$19,642	37 %

The increase was primarily due to an \$11.0 million charge related to the settlement of patent litigation during the second quarter of fiscal 2015 and a non-recurring gain of \$6.5 million recognized during the first quarter of fiscal 2014 related to the settlement of stock option litigation.

## Amortization of Purchased Intangibles

	Fiscal Years Ended			
(in thousands, except percentage)	May 3, 2015	April 27, 2014	Change	% Change
Amortization of purchased intangibles	\$2,948	\$2,468	\$480	19 %

The increase was due to the amortization of the intangibles related to the u<sup>2</sup>t acquisition.

## Interest Income

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(in thousands, except percentage)	Fiscal Years			
	Ended		Change	% Change
	May 3, 2015	April 27, 2014		
Interest income	\$1,811	\$ 1,319	\$ 492	37 %

The increase was primarily due to higher cash and short-term investments balances during fiscal 2015 compared to fiscal 2014.

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## Interest Expense

	Fiscal Years Ended			
(in thousands, except percentage)	May 3, 2015	April 27, 2014	Change	% Change
Interest expense	\$(12,022)	\$(5,547)	\$(6,475)	117 %

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

## Other Income (Expense), Net

	Fiscal Years Ended			
(in thousands, except percentage)	May 3, 2015	April 27, 2014	Change	% Change
Other income (expense), net	\$4,099	\$ 7,234	\$(3,135)	(43 )%

The decrease was primarily due to an \$8.2 million gain on divestiture of our majority-owned subsidiary, Finisar Korea, in the fourth quarter of fiscal 2014, partially offset by higher foreign currency exchange gains in fiscal 2015.

## Provision for Income Taxes

	Fiscal Years Ended			
(in thousands, except percentage)	May 3, 2015	April 27, 2014	Change	% Change
Provision for income taxes	\$8,795	\$ 2,884	\$ 5,911	205 %

The income tax provisions for fiscal 2015 and 2014 primarily represent current state and foreign income taxes arising in certain jurisdictions in which we conduct business.

## Non-controlling interest

	Fiscal Years Ended			
(in thousands, except percentage)	May 3, 2015	April 27, 2014	Change	% Change
Non-controlling interest	\$—	\$ 250	\$(250)	(100 )%

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

## Liquidity and Capital Resources

	Fiscal Years Ended		
(in thousands)	May 1, 2016	May 3, 2015	April 27, 2014
Net cash provided by operating activities	\$183,600	\$113,597	\$99,115
Net cash used in investing activities	\$(88,618)	\$(230,633)	\$(359,785)
Net cash provided by financing activities	\$6,796	\$11,378	\$274,695

## Cash Flows from Operating Activities

Net cash provided by operating activities in fiscal 2016 consisted of our net income, as adjusted to exclude depreciation, amortization and other non-cash items totaling \$152.1 million.

Net cash provided by operating activities in fiscal 2015 consisted of our net income, as adjusted to exclude depreciation, amortization and other non-cash items totaling \$150.9 million, and a \$49.2 million increase in working capital primarily related to increases in inventory. Inventory increased by \$37.5 million due to increased purchases to support the increased sales level

Net cash provided by operating activities in fiscal 2014 consisted of our net income, as adjusted to exclude depreciation, amortization and other non-cash items totaling \$104.4 million, and a \$116.8 million increase in working capital primarily related to increases in accounts receivable and inventory, offset by an increase in accounts payable. Accounts receivable increased by \$74.2 million primarily due to the increase in revenues during the year. Inventory increased by \$62.9 million due to increased purchases to support the increased sales level.

Table of Contents**Cash Flows from Investing Activities**

Net cash used in investing activities in fiscal 2016 primarily consisted of expenditures of \$118.8 million for long-lived assets (property, equipment and improvements) and \$261.2 million related to purchases of short-term marketable securities, offset by \$290.5 million of proceeds from maturities of short-term marketable securities.

Net cash used in investing activities in fiscal 2015 primarily consisted of expenditures of \$149.2 million for long-lived assets (property, equipment and improvements) and \$462.9 million related to purchases of short-term marketable securities, offset by \$380.3 million of proceeds from maturities of short-term marketable securities.

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

**Cash Flows from Financing Activities**

Net cash provided by financing activities in fiscal 2016 primarily consisted of proceeds from the issuance of shares under our employee stock option and stock purchase plans.

Net cash provided by financing activities in fiscal 2015 primarily consisted of proceeds from the issuance of shares under our employee stock option and stock purchase plans.

Net cash provided by financing activities in fiscal 2014 primarily consisted of \$255.0 million of proceeds, net of issuance costs, from the issuance of the 2033 Convertible Senior Notes and \$19.1 million of proceeds from the issuance of shares under our employee stock option and stock purchase plans.

**Contractual Obligations and Commercial Commitments**

Our contractual obligations at May 1, 2016 were as follows (in thousands):

	Total	Payments Due by Period			
		Less than 1 year	1-3 Years	4-5 Years	After 5 Years
Contractual Obligations					
0.5% Convertible Senior Notes due 2033	\$258,750	\$—	\$258,750	\$—	\$—
Interest on 2033 Notes (a)	3,396	1,294	2,102	—	—
Other debt	234	62	125	47	—
Interest on other debt	25	8	16	1	—
Operating leases (b)	43,407	10,859	17,693	9,219	5,636
Purchase obligations (c)	150,798	150,798	—	—	—
Total contractual obligations	\$456,610	\$163,021	\$278,686	\$9,267	\$5,636

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

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

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

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



December 2018, 2023 and 2028. These notes are redeemable by us, in whole or in part, at any time on or after December 22, 2018.

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Other debt consists of loan obligations of our German subsidiary to a German financial institution with interest at 3.5% per annum. Interest is payable monthly and principal is payable at various dates through December 2019.

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

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

### Sources of Liquidity and Capital Resource Requirements

At May 1, 2016, our principal sources of liquidity consisted of approximately \$562 million of cash and cash equivalents and short-term investments, of which approximately \$145 million was held by our foreign subsidiaries. We believe that our existing balances of cash and cash equivalents, together with the cash expected to be generated from future operations, will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 12 months. We may, however, require additional financing to fund our operations in the future, to finance future acquisitions that we may propose to undertake or to repay or otherwise retire all of our outstanding 2033 Notes, in the aggregate principal amount of \$258.8 million, which are subject to redemption by the holders in December 2018, 2023 and 2028. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if and when it is required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition and results of operations will be adversely affected.

### Off-Balance-Sheet Arrangements

At May 1, 2016 and May 3, 2015, we did not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As of May 1, 2016, we had \$258.8 million of aggregate principal amount of convertible notes with a fixed interest rate of 0.5% outstanding. The fair value of this debt as of May 1, 2016 was approximately \$247.4 million, based on the market price of the notes in the open market as of or close to May 1, 2016. The difference between the carrying value and the fair value is primarily due to the spread between the conversion price and the market value of the shares underlying the convertible notes. We are subject to significant fluctuations in fair market value of the debt due to the volatility of the stock market. We had no variable interest rate debt outstanding which would expose us to interest rate risk.

We invest in equity instruments of privately-held companies for business and strategic purposes. These investments are included in other long-term assets and are accounted for under the cost method when our ownership interest is less than 20% and we do not have the ability to exercise significant influence. At May 1, 2016, we had an investment in three privately-held companies in the amount of \$1.2 million accounted for under the cost method and one privately-held company in the amount of \$2.8 million accounted for under the equity method. For such non-quoted investments, our policy is to regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values. We identify and record impairment losses when events and circumstances indicate that such assets are impaired. No such impairment was recorded in fiscal 2016 and 2015. If our investment in a privately-held company becomes readily marketable upon the company's completion of an initial public offering or its acquisition by another company, our investment would be subject to significant fluctuations in fair market value due to the volatility of the stock market.

We have subsidiaries located in China, Malaysia, Israel, Australia, Korea, Sweden, Germany, India and Singapore.

Due to the relative volume of transactions through these subsidiaries, we do not believe that we have significant exposure to foreign currency exchange risks. We currently do not use derivative financial instruments to mitigate this exposure. We continue to review this issue and may consider hedging certain foreign exchange risks through the use

of currency forwards or options in future years.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Finisar Corporation

Sunnyvale, California

We have audited the accompanying consolidated balance sheet of Finisar Corporation as of May 1, 2016 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the year ended May 1, 2016. In connection with our audit of the financial statements, we have audited the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Finisar Corporation at May 1, 2016 and the results of its operations and its cash flows for the year ended May 1, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Finisar Corporation's internal control over financial reporting as of May 1, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 17, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

San Jose, California

June 17, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Finisar Corporation

Sunnyvale, California

We have audited Finisar Corporation's internal control over financial reporting as of May 1, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Finisar Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Item 9A, Management's Annual Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Finisar Corporation maintained, in all material respects, effective internal control over financial reporting as of May 1, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Finisar Corporation as of May 1, 2016 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the fiscal year ended May 1, 2016 and our report dated June 17, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

San Jose, California

June 17, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Finisar Corporation

We have audited the accompanying consolidated balance sheet of Finisar Corporation as of May 3, 2015 and the related consolidated statement of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the two years in the period ended May 3, 2015. Our audit also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Finisar Corporation at May 3, 2015 and the consolidated results of its operations and its cash flows for each of the two years in the period ended May 3, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for each of the two years in the period ended May 3, 2015, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

San Jose, California

June 19, 2015

Table of ContentsFINISAR CORPORATION  
CONSOLIDATED BALANCE SHEETS

	May 1, 2016	May 3, 2015
	(In thousands, except share and per share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$299,221	\$197,443
Short-term investments	263,255	292,748
Accounts receivable, net of allowance for doubtful accounts of \$727 at May 1, 2016 and \$1,136 at May 3, 2015	249,257	213,234
Accounts receivable, other	44,576	40,650
Inventories	273,291	283,670
Prepaid expenses and other current assets	18,483	36,518
Total current assets	1,148,083	1,064,263
Property, equipment and improvements, net	348,613	315,777
Purchased intangible assets, net	18,388	27,188
Goodwill	106,736	106,736
Minority investments	4,051	2,847
Other assets	21,118	35,071
Total assets	\$1,646,989	\$1,551,882
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$141,591	\$131,510
Accrued compensation	36,084	24,918
Other current liabilities	42,206	39,239
Deferred revenue	13,529	9,850
Total current liabilities	233,410	205,517
Long-term liabilities:		
Convertible debt	231,011	221,406
Other non-current liabilities	14,882	21,166
Total liabilities	479,303	448,089
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding at May 1, 2016 and May 3, 2015	—	—
Common stock, \$0.001 par value, 750,000,000 shares authorized, 107,696,314 shares issued and outstanding at May 1, 2016 and 104,131,817 shares issued and outstanding at May 3, 2015	108	104
Additional paid-in capital	2,605,859	2,551,114
Accumulated other comprehensive (loss) income	(25,188 )	861
Accumulated deficit	(1,413,093 )	(1,448,286 )
Total stockholders' equity	1,167,686	1,103,793
Total liabilities and stockholders' equity	\$1,646,989	\$1,551,882

See accompanying notes.





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CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years Ended		
	May 1, 2016	May 3, 2015	April 27, 2014
	(In thousands, except per share data)		
Revenues	\$1,263,166	\$1,250,944	\$1,156,833
Cost of revenues	901,316	888,573	754,773
Amortization of acquired developed technology	6,129	5,739	5,061
Impairment of long-lived assets	1,071	5,722	—
Gross profit	354,650	350,910	396,999
Operating expenses:			
Research and development	203,389	202,089	183,355
Sales and marketing	46,619	46,178	46,547
General and administrative	60,117	72,856	53,214
Amortization of purchased intangibles	2,672	2,948	2,468
Impairment of long-lived assets	830	45	—
Total operating expenses	313,627	324,116	285,584
Income from operations	41,023	26,794	111,415
Interest income	2,345	1,811	1,319
Interest expense	(11,750)	(12,022)	(5,547)
Other income (expense), net	3,213	4,099	7,234
Income before income taxes and non-controlling interest	34,831	20,682	114,421
Provision for (benefit from) income taxes	(362)	8,795	2,884
Consolidated net income	35,193	11,887	111,537
Adjust for net loss attributable to non-controlling interest	—	—	250
Net income attributable to Finisar Corporation	\$35,193	\$11,887	\$111,787
Net income per share attributable to Finisar Corporation common stockholders:			
Basic	\$0.33	\$0.12	\$1.16
Diluted	\$0.32	\$0.11	\$1.09
Shares used in computing net income per share:			
Basic	106,678	101,408	95,979
Diluted	108,870	104,970	104,112

See accompanying notes.

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FINISAR CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Fiscal Years Ended		
	May 1, 2016	May 3, 2015	April 27, 2014
Consolidated net income	\$35,193	\$11,887	\$111,537
Other comprehensive loss, net of tax:			
Change in cumulative foreign currency translation adjustment	(26,049 )	(19,164 )	(8,500 )
Total other comprehensive loss, net of tax	(26,049 )	(19,164 )	(8,500 )
Total comprehensive income (loss)	9,144	(7,277 )	103,037
Adjust for comprehensive loss attributable to non-controlling interest, net of tax	—	—	250
Comprehensive income (loss) attributable to Finisar Corporation	\$9,144	\$(7,277 )	\$103,287

See accompanying notes.

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## FINISAR CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Finisar Stockholders' Equity	Non-controlling Interest	Total Stockholders' Equity
	Shares	Amount						
(In thousands, except share data)								
Balance at April 28, 2013	93,778,620	\$ 94	\$2,350,146	\$ 28,525	\$(1,571,960)	\$806,805	\$ 5,710	\$812,515
Net income (loss)	—	—	—	—	111,787	111,787	(250 )	111,537
Other comprehensive loss, net	—	—	—	(8,500 )	—	(8,500 )	—	(8,500 )
Issuance of shares pursuant to equity plans, net of tax withholdings	2,805,276	3	9,290	—	—	9,293	—	9,293
Issuance of shares pursuant to employee stock purchase plan	608,946	—	7,563	—	—	7,563	—	7,563
Share-based compensation expense	—	—	37,966	—	—	37,966	—	37,966
Employer contribution to defined contribution retirement plan	88,823	—	2,228	—	—	2,228	—	2,228
Equity component of senior convertible notes, net of allocated issuance costs	—	—	48,917	—	—	48,917	—	48,917
Sale of controlling interest	—	—	—	—	—	—	(5,460 )	(5,460 )
Balance at April 27, 2014	97,281,665	97	2,456,110	20,025	(1,460,173 )	1,016,059	—	1,016,059
Net income	—	—	—	—	11,887	11,887	—	11,887
Other comprehensive loss, net	—	—	—	(19,164 )	—	(19,164 )	—	(19,164 )
Issuance of shares pursuant to equity plans, net of tax withholdings	2,453,668	3	(754 )	—	—	(751 )	—	(751 )
	525,032	—	8,584	—	—	8,584	—	8,584

Issuance of shares pursuant to employee stock purchase plan								
Share-based compensation expense	—	—	44,600	—	—	44,600	—	44,600
Employer contribution to defined contribution retirement plan	122,979	—	2,563	—	—	2,563	—	2,563
Issuance of shares upon conversion of convertible debt	3,748,473	4	40,011	—	—	40,015	—	40,015
Balance at May 3, 2015	104,131,817	104	2,551,114	861	(1,448,286 )	1,103,793	—	1,103,793
Net income	—	—	—	—	35,193	35,193	—	35,193
Other comprehensive loss, net	—	—	—	(26,049 )	—	(26,049 )	—	(26,049 )
Issuance of shares pursuant to equity plans, net of tax withholdings	2,761,884	3	(1,923 )	—	—	(1,920 )	—	(1,920 )
Issuance of shares pursuant to employee stock purchase plan	639,149	1	8,980	—	—	8,981	—	8,981
Share-based compensation expense	—	—	45,243	—	—	45,243	—	45,243
Employer contribution to defined contribution retirement plan	163,464	—	2,445	—	—	2,445	—	2,445
Balance at May 1, 2016	107,696,314	\$ 108	\$ 2,605,859	\$ (25,188 )	\$ (1,413,093)	\$ 1,167,686	\$ —	\$ 1,167,686
See accompanying notes.								

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended		
	May 1, 2016	May 3, 2015	April 27, 2014
	(In thousands)		
Operating activities			
Net income attributable to Finisar Corporation	\$35,193	\$11,887	\$111,787
Adjust for net loss attributable to non-controlling interest	—	—	(250 )
Consolidated net income	35,193	11,887	111,537
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	85,264	82,699	62,013
Amortization	9,416	9,374	8,136
Stock-based compensation expense	47,508	46,613	39,955
Equity in earnings of equity method investment	(1,200 )	(730 )	(585 )
(Gain) loss on sale or retirement of assets and asset disposal groups	(405 )	(1,955 )	(8,313 )
Impairment of long-lived assets	1,901	5,767	—
Amortization of discount on 0.50% Convertible Senior Notes due 2033	9,604	9,153	3,151
Changes in operating assets and liabilities:			
Accounts receivable	(36,023 )	12,238	(74,238 )
Inventories	(4,221 )	(37,542 )	(62,864 )
Other assets	14,800	(17,098 )	(33,436 )
Accounts payable	10,081	12,024	33,965
Accrued compensation	11,166	(17,505 )	4,580
Deferred revenue	3,679	(5,816 )	5,505
Other liabilities	(3,163 )	4,488	9,709
Net cash provided by operating activities	183,600	113,597	99,115
Investing activities			
Additions to property, equipment and improvements	(118,825 )	(149,193 )	(130,191 )
Proceeds from sale of property and equipment and asset disposal groups	844	2,477	1,483
Purchases of short-term investments	(261,179 )	(462,935 )	(209,922 )
Maturities of short-term investments	290,542	380,276	—
Acquisitions, net of cash acquired	—	(2,728 )	(21,155 )
Proceeds from sale of minority investments	—	1,470	—
Net cash used in investing activities	(88,618 )	(230,633 )	(359,785 )
Financing activities			
Proceeds from term loans	—	—	4,230
Repayments of term loans	(265 )	(337 )	(3,676 )
Proceeds from issuance of 0.50% Convertible Senior Notes due 2033, net of issuance costs	—	—	255,000
Proceeds from issuance of shares under equity plans and employee stock purchase plan	7,061	11,715	19,141
Net cash provided by financing activities	6,796	11,378	274,695
Net increase (decrease) in cash and cash equivalents	101,778	(105,658 )	14,025
Cash and cash equivalents at beginning of year	197,443	303,101	289,076
Cash and cash equivalents at end of year	\$299,221	\$197,443	\$303,101
Supplemental disclosure of cash flow information			
Cash paid for interest	\$1,314	\$2,340	\$2,067

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Cash paid for taxes	\$9,590	\$4,984	\$3,660
Supplemental disclosure of non-cash transactions			
Issuance of common stock upon conversion of 5.0% Convertible Senior Notes due 2029	\$—	\$40,015	\$—
See accompanying notes			

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FINISAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The Company has a 52- or 53-week fiscal year ending on the Sunday closest to the last day of April in each year. Fiscal 2016, 2015 and 2014 had 52, 53, and 52 weeks, respectively, and fiscal 2017 will have 52 weeks. Fourth quarter of fiscal 2015 was a 14-week quarter. The consolidated financial statements include the accounts of Finisar Corporation and its controlled subsidiaries (collectively “Finisar” or the “Company”). Intercompany accounts and transactions have been eliminated in consolidation. Non-controlling interest represents the minority shareholders' proportionate share of the net assets and results of operations of the Company's majority-owned subsidiary, Finisar Korea, prior to its sale in the fourth quarter of fiscal 2014.

2. Summary of Significant Accounting Policies

Use of Estimates

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

Revenue Recognition

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

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

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

Segment Reporting

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

Concentrations of Risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash and cash equivalents, short-term investment and accounts receivable. The Company invests only in high-quality credit



instruments and maintains its cash, cash equivalents and short-term investments with several high-quality credit financial institutions. Deposits held with banks, including those held in foreign branches of global banks, may exceed the amount of insurance provided on such deposits.

FINISAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Concentrations of credit risk, with respect to accounts receivable, exist to the extent of amounts presented in the financial statements. Generally, the Company does not require collateral or other security to support customer receivables. The Company performs periodic credit evaluations of its customers and maintains an allowance for potential credit losses based on historical experience and other information available to management. Losses to date have not been material. The Company's ten largest customers represented 55% and 46% of total accounts receivable at May 1, 2016 and May 3, 2015, respectively. One customer, Huawei, represented 18% of total accounts receivable as of May 1, 2016. No customers accounted for over 10% of total accounts receivable as of May 3, 2015.

Sales to the Company's ten largest customers represented 56%, 55% and 58% of total revenues during fiscal 2016, 2015 and 2014, respectively. Two customers, Huawei and Cisco Systems, represented 12% and 11%, respectively, of total revenues during fiscal 2016. One customer, Cisco Systems, represented 14% and 17% of total revenues during fiscal 2015 and 2014, respectively.

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

Included in the Company's consolidated balance sheet at May 1, 2016 are the net assets of the Company's operations located at its overseas facilities totaling approximately \$517.7 million.

Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is the local currency. Assets and liabilities denominated in foreign currencies are translated using the exchange rate on the balance sheet date. Revenues and expenses are translated using average exchange rates prevailing during the year. Any translation adjustments resulting from this process are shown separately as a component of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are included in the determination of net income (loss). Included in the determination of net income (loss) for fiscal 2016, 2015 and 2014 were \$1.2 million, \$479,000 and \$2.5 million, respectively, of losses on foreign currency transactions.

Research and Development

Research and development expenditures are charged to operations as incurred.

Shipping and Handling Costs

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

Cash and Cash Equivalents

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

Minority Investments

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

receivership or liquidated to satisfy the claims of debt and equity stakeholders. The Company's minority investments in private companies are generally made in exchange for preferred stock with a liquidation preference that is intended to help protect the underlying value of its investment.

FINISAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fair Value Accounting

The FASB authoritative guidance regarding fair valuation defines fair value and establishes a framework for measuring fair value and expands the related disclosure requirements. The guidance requires or permits fair value measurements with certain exclusions. It provides that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. Valuation techniques used to measure fair value under this guidance must maximize the use of observable inputs and minimize the use of unobservable inputs. It describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

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

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

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

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

Allowance for Doubtful Accounts

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

Inventories

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

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

Property, Equipment and Improvements

Property, equipment and improvements are stated at cost, net of accumulated depreciation and amortization. Property, equipment and improvements are depreciated on a straight-line basis over the estimated useful lives of the assets, generally three years to seven years, except for buildings which are depreciated over 25 to 30 years. Land is carried at acquisition cost and not depreciated. Leased land is depreciated over the life of the lease.

FINISAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Goodwill and Other Intangible Assets

Goodwill, purchased technology and other intangible assets resulting from acquisitions are accounted for under the acquisition method. Intangible assets with finite lives are amortized over their estimated useful lives. Amortization of purchased technology and other intangibles has been recorded on a straight-line basis over periods ranging from three to 15 years. Goodwill is assessed for impairment annually or more frequently when an event occurs or circumstances change between annual impairment tests that would more likely than not reduce the fair value of the reporting unit holding the goodwill below its carrying value.

Accounting for the Impairment of Long-Lived Assets

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

Restructuring Costs

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

Stock-Based Compensation Expense

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

Income Taxes

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

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

Recent and Pending Adoption of New Accounting Standards

In May 2014, the FASB, jointly with the International Accounting Standards Board, issued a comprehensive new standard on revenue recognition from contracts with customers. The standard's core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying this new

guidance to contracts within its scope, an entity will: (1) identify the contract(s) with a customer, (2) identify the performance obligation in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. Additionally, this new guidance would require significantly expanded disclosures about revenue recognition. Provisions of this new standard are effective for annual reporting periods (including interim reporting periods within those annual periods) beginning after December 15, 2016. In April 2015,

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the FASB proposed a deferral of this standard's effective date by one year. The proposed deferral allows early adoption at the original effective date. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt this new guidance. The Company is currently evaluating timing and method of adoption and potential effect on its consolidated financial position, results of operations and cash flows from adoption of this standard.

In November 2015, the FASB issued an accounting standards update requiring the classification of all deferred tax assets and liabilities as non-current on the balance sheet instead of separating deferred taxes into current and non-current. The Company early adopted this update in fiscal 2016 on a prospective basis. Accordingly, in the consolidated balance sheet as of May 1, 2016, \$6.5 million of deferred tax assets were reclassified from prepaid and other current assets to other assets and \$1.8 million of deferred tax liabilities were reclassified from other current liabilities to other non-current liabilities.

In February 2016, the FASB issued an accounting standards update which replaces the current lease accounting standard. The update will require, among other items, lessees to recognize a right-of-use asset and a lease liability for most leases. Extensive quantitative and qualitative disclosures, including significant judgments made by management, will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. The update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company is currently evaluating the timing of adoption and potential effect on its consolidated financial position, results of operations and cash flows from adoption of this update.

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

### 3. Net Income (Loss) Per Share

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

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

	Fiscal Years Ended		
(in thousands, except per share amounts)	May 1, 2016	May 3, 2015	April 27, 2014
Numerator:			
Net income attributable to Finisar Corporation	\$ 35,193	\$ 11,887	\$ 111,787
Numerator for basic income per share	\$ 35,193	\$ 11,887	\$ 111,787
Effect of dilutive securities:	n/a	—	2,157



Interest expense on  
5.0% Convertible  
Senior Notes due  
2029

Numerator for diluted income per share	\$ 35,193	\$ 11,887	\$ 113,944
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Denominator:

Denominator for basic income per share - weighted average shares	106,678	101,408	95,979
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Effect of dilutive  
securities:

Stock options and restricted stock units	2,192	3,562	4,385
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5.0% Convertible Senior Notes due 2029	n/a	—	3,748
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Dilutive potential common shares	2,192	3,562	8,133
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Denominator for diluted income per share	108,870	104,970	104,112
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Net income per  
share attributable  
to Finisar

Corporation  
common

stockholders:

Basic	\$ 0.33	\$ 0.12	\$ 1.16
Diluted	\$ 0.32	\$ 0.11	\$ 1.09

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

(in thousands)	Fiscal Years Ended		
	May 1, 2016	May 3, 2015	April 27, 2014
Stock options and restricted stock units	3,069	880	1,057
Conversion of 5.0% Convertible Senior Notes due 2029	n/a	—	—
Conversion of 0.50% Convertible Senior Notes due 2033 <sup>(1)</sup>	—	—	—
	3,069	880	1,057

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

#### 4. Intangible Assets Including Goodwill

The following tables reflect intangible assets as of May 1, 2016 and May 3, 2015:

(in thousands)	May 1, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	\$107,759	\$ (96,875 )	\$ 10,884
Purchased trade name	1,172	(1,172 )	—
Purchased customer relationships	21,344	(15,700 )	5,644
Purchased internal use software and backlog	2,816	(2,317 )	499
Purchased patents	2,620	(1,259 )	1,361
Total	\$135,711	\$ (117,323 )	\$ 18,388

  

(in thousands)	May 3, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	\$103,859	\$ (90,746 )	\$ 13,113
Purchased trade name	1,172	(1,172 )	—
Purchased customer relationships	21,344	(13,648 )	7,696
Purchased internal use software and backlog	2,816	(1,991 )	825
Purchased patents	2,620	(966 )	1,654
Total intangible assets subject to amortization	131,811	(108,523 )	23,288
In-process research and development	3,900	—	3,900
Total	\$135,711	\$ (108,523 )	\$ 27,188

The amortization expense on intangible assets was \$8.8 million, \$8.7 million and \$7.5 million for fiscal 2016, 2015 and 2014, respectively.

Estimated amortization expense for each of the next five fiscal years and thereafter as of May 1, 2016 is as follows:

Year	Amount (in thousands)
2017	\$ 7,105
2018	5,007
2019	3,504
2020	2,032
2021	512

Beyond 2021 228  
Total \$ 18,388

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## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Balance at April 28, 2014	\$106,114
Addition related to an acquisition	622
Balance at May 3, 2015	106,736
Balance at May 1, 2016	\$106,736

## 5. Investments

## Fixed Income Securities

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

The Company's investments in fixed income securities as of May 1, 2016 and May 3, 2015 were as follows:

(in thousands)	May 1, 2016			May 3, 2015		
	Gross			Gross		
	Amortized	Unrealized	Fair	Amortized	Unrealized	Fair
	Cost	Gains	Losses	Cost	Gains	Losses
			Value			Value
Certificates of deposit	\$263,255	\$-	\$263,255	\$292,748	\$-	\$292,748
Total	\$263,255	\$-	\$263,255	\$292,748	\$-	\$292,748
Reported as:						
Short-term investments	\$263,255	\$-	\$263,255	\$292,748	\$-	\$292,748

The Company monitors its investment portfolio for impairment on a periodic basis. In order to determine whether a decline in fair value is other-than-temporary, the Company evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value; the Company's financial condition and business outlook, including key operational and cash flow metrics, current market conditions and future trends in its industry; the Company's relative competitive position within the industry; and the Company's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. A decline in the fair value of the security below amortized cost that is deemed other-than-temporary is charged to earnings, resulting in the establishment of a new cost basis for the affected securities. During fiscal 2016, 2015 and 2014 there were no realized gains or losses, and the Company did not recognize any other-than-temporary impairments.

## Minority Investments

Included in minority investments at May 1, 2016 and May 3, 2015 is \$1.2 million and \$884,000, respectively, representing the carrying value of the Company's minority investments in three and one, respectively, privately held companies accounted for under the cost method. Additionally, included in minority investments is \$2.8 million and \$1.2 million at May 1, 2016 and May 3, 2015, respectively, representing the carrying value of the Company's minority investment in one privately held company accounted for under the equity method. At May 1, 2016, the Company had a 19.9% ownership interest in this company.

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



## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 6. Inventories

Inventories consist of the following (in thousands):

	As of May 1, 2016	May 3, 2015
Raw materials	\$51,963	\$57,757
Work-in-process	137,603	146,773
Finished goods	83,725	79,140
Total inventories	\$273,291	\$283,670
Including: inventory consigned to others	\$44,600	\$34,240

## 7. Property, Equipment and Improvements

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

	As of May 1, 2016	May 3, 2015
Land and buildings	\$98,586	\$68,286
Computer equipment	64,155	62,857
Office equipment, furniture and fixtures	5,901	5,251
Machinery and equipment	518,649	493,224
Leasehold property and improvements	41,826	42,099
Total	729,117	671,717
Accumulated depreciation and amortization	(380,504 )	(355,940 )
Property, equipment and improvements (net)	\$348,613	\$315,777

During the first quarter of fiscal 2016 and the third quarter of fiscal 2015, the Company recorded a \$1.9 million and \$5.8 million, respectively, charges for the impairment of long-lived assets (primarily machinery and equipment) due to the projected cash flows associated with these assets not supporting the carrying values of these assets. In accordance with the guidance for the impairment of long-lived assets, these assets were written down to their estimated fair value of zero, which was determined based on an income approach using the discounted cash flow method.

## 8. Other Current Liabilities

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

	As of May 1, 2016	May 3, 2015
Warranty accrual (Note 9)	\$12,001	\$6,451
Other liabilities	30,205	32,788
Total	\$42,206	\$39,239

## 9. Warranty

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

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

(in thousands)

As of

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	May 1, 2016	May 3, 2015
Beginning balance	\$6,451	\$5,744
Additions during the period based on product sold	9,548	6,171
Change in estimates	(734 )	(1,388 )
Settlements and expirations	(3,264 )	(4,076 )
Ending balance	\$12,001	\$6,451

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## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 10. Debt

## 0.50% Convertible Senior Notes Due 2033

In December 2013, the Company issued and sold \$258.8 million in aggregate principal amount of 0.50% Convertible Senior Notes due 2033 (the "2033 Notes") at par. The terms of the 2033 Notes are governed by an indenture by and between the Company and Wells Fargo Bank, National Association, as Trustee. The 2033 Notes will mature on December 15, 2033, unless earlier repurchased, redeemed or converted. The 2033 Notes are senior unsecured and unsubordinated obligations of the Company, and are effectively subordinated to the Company's secured indebtedness and the indebtedness and other liabilities of the Company's subsidiaries. The 2033 Notes bear interest at a rate of 0.5% per year, payable semi-annually in arrears on June 15 and December 15 each year.

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

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

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

Because of its option to settle conversion of the 2033 Notes in cash, the Company separated the liability and equity components of the 2033 Notes. The carrying amount of the liability component at issuance date of \$209.1 million was calculated by estimating the fair value of similar liabilities without a conversion feature. The residual principal amount of the 2033 Notes of \$49.6 million was allocated to the equity component. The resulting debt discount is amortized as interest expense. As of May 1, 2016, the remaining debt discount amortization period was 31 months.

The 2033 Notes consisted of the following:

As of



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(in thousands)	May 1, 2016	May 3, 2015
Liability component:		
Principal	\$258,750	\$258,750
Unamortized debt discount	(27,739 )	(37,344 )
Net carrying amount of the liability component	\$231,011	\$221,406
Carrying amount of the equity component	\$49,648	\$49,648

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

(in thousands, except percentages)	Fiscal Years Ended		
	May 1, 2016	May 3, 2015	April 27, 2014
Contractual interest expense	\$1,294	\$1,294	\$458
Amortization of the debt discount	9,604	9,153	3,151
Amortization of issuance costs	616	616	231
Total interest cost	\$11,514	\$11,063	\$3,840

Effective interest rate on the liability component 4.87 % 4.87 % 4.87 %

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

#### 5.0% Convertible Senior Notes Due 2029

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

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

The Company had the right to redeem the 2029 Notes in whole or in part at a redemption price equal to 100% of the principal amount of the 2029 Notes being redeemed, plus accrued and unpaid interest to, but excluding, the redemption date, at any time on or after October 22, 2014 if the last reported sale price per share of the Company's common stock exceeds 130% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days ending within five trading days of the date on which the Company provides the notice of redemption.

The Company considered the embedded derivative in the 2029 Notes, that is, the conversion feature, and concluded that it was indexed to the Company's common stock and would be classified as equity, were it to be accounted for separately and thus was not required to be bifurcated and accounted for separately from the debt.

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

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

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

During October 2014, all holders of the 2029 Notes exercised their rights to exchange their 2029 Notes for 3,748,473 shares of the Company's common stock. All conversions were in accordance with the original terms of the 2029 Notes and no gain or loss was recognized as a result of conversion.

## 11. Commitments

The Company's future commitments at May 1, 2016 included minimum payments under non-cancelable operating lease agreements, including operating lease obligations that have been accrued as restructuring charges, as follows (in thousands):

Total	Payments Due by Period			
	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating leases	\$43,407	\$10,859	\$17,693	\$9,219
				\$5,636

Rent expense under the non-cancelable operating leases was approximately \$9.4 million, \$10.7 million and \$10.0 million for the years ended May 1, 2016, May 3, 2015 and April 27, 2014, respectively. The Company subleases a portion of its facilities that it considers to be in excess of its requirements. Sublease income was \$168,000, \$218,000 and \$266,000 for the years ended May 1, 2016, May 3, 2015 and April 27, 2014, respectively. Certain leases have scheduled rent increases which have been included in the above table. Other leases contain provisions to adjust rental rates for inflation during their terms, most of which are based on to-be-published indices. Rents subject to these adjustments are included in the above table based on current rates.

## 12. Fair Value of Financial Instruments

The Company's financial instruments measured at fair value on a recurring basis as of May 1, 2016 and May 3, 2015 were as follows:

(in thousands)	May 1, 2016				May 3, 2015				
	Carrying Amount	Fair Value			Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3 Total		Level 1	Level 2	Level 3 Total	
Money market funds	\$—	\$—	\$—	\$—	\$196	\$196	\$—	\$—	\$196
Certificates of deposit	263,255	—	263,255	—	292,748	—	292,748	—	292,748
Total	\$263,255	\$—	\$263,255	\$—	\$292,944	\$196	\$292,748	\$—	\$292,944

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

The Company has not estimated the fair value of its minority investments in four privately held companies as it is not practicable to estimate the fair value of these investments because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs. As of May 1, 2016, the carrying value of the Company's minority investments in these privately held companies was \$4.1 million, which management believes is not impaired.

The Company's financial instruments not measured at fair value on a recurring basis as of May 1, 2016 and May 3, 2015 were as follows:

May 1, 2016		May 3, 2015	
Carrying	Fair Value	Carrying	Fair Value

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(in thousands)	Amount	Level 1	Level 2	Level 3	Total	Amount	Level 1	Level 2	Level 3	Total
2033 Notes	\$231,011	\$247,430	\$-	\$-	\$-247,430	\$221,406	\$264,364	\$-	\$-	\$-264,364

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

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 13. Stockholders' Equity

## Accumulated Other Comprehensive Income

Cumulative foreign currency translation adjustment was the only component of the accumulated other comprehensive income as of May 1, 2016 and May 3, 2015.

## Common Stock and Preferred Stock

As of May 1, 2016, Finisar is authorized to issue 750,000,000 shares of \$0.001 par value common stock and 5,000,000 shares of \$0.001 par value preferred stock. The holder of each share of common stock has the right to one vote and is entitled to receive dividends when and as declared by the Company's Board of Directors. The Company has never declared or paid dividends on its common stock. The Company has authority to issue up to 5,000,000 shares of preferred stock, \$0.001 par value. The preferred stock may be issued in one or more series having such rights, preferences and privileges as may be designated by the Company's board of directors.

Common stock subject to future issuance as of May 1, 2016 is as follows:

Exercise of outstanding stock options	1,609,211
Vesting of restricted stock awards	6,214,199
Available for grant under employee stock incentive plan	11,315,273
Available for grant under employee stock purchase plan	3,610,816
Total	22,749,499

## Employee Stock Purchase Plan

In September 2009, the Company's board of directors adopted the 2009 Employee Stock Purchase Plan (the "ESPP"), which was approved by the stockholders in November 2009. An amended and restated version of ESPP was approved by the Company's board of directors in June 2014 and by the stockholders in September 2014. Under the restated ESPP, 7,000,000 shares of the Company's common stock have been reserved for issuance, and the term of the ESPP is scheduled to expire on September 1, 2024. The ESPP permits eligible employees to purchase Finisar common stock through payroll deductions, which may not exceed 20% of the employee's total compensation. Stock may be purchased under the plan at a price equal to 85% of the fair market value of Finisar common stock on either the first or the last day of the offering period, whichever is lower.

## Employee Stock Plans

In September 1999, Finisar's 1999 Stock Option Plan was adopted by the board of directors and approved by the stockholders. An amendment and restatement of the 1999 Stock Option Plan, including renaming it the 2005 Stock Incentive Plan (the "2005 Plan"), was approved by the board of directors in September 2005 and by the stockholders in October 2005. An amended and restated version of the 2005 Plan was approved by the Company's board of directors in June 2014 and by the stockholders in September 2014. Under the restated 2005 Plan, a total of 22,500,000 shares of common stock have been reserved for issuance, and the term of the 2005 Plan is scheduled to expire on September 1, 2024. The types of stock-based awards available under the 2005 Plan includes stock options, stock appreciation rights, restricted stock units ("RSUs") and other stock-based awards which vest upon the attainment of designated performance goals or the satisfaction of specified service requirements or, in the case of certain RSUs or other stock-based awards, become payable upon the expiration of a designated time period following such vesting events. Options generally vest over five years and have a maximum term of 10 years. RSUs generally vest over four years. As of May 1, 2016 and May 3, 2015, no shares were subject to repurchase.

## Stock Options

	Number of Shares	Weighted-Average Exercise Price
Stock options outstanding as of May 3, 2015	2,283,162	\$ 14.64
Stock options exercised	(428,917 )	\$ 6.10
Stock options canceled	(245,034 )	\$ 22.81
Stock options outstanding as of May 1, 2016	1,609,211	\$ 15.68

The total intrinsic value of stock options exercised during fiscal 2016, 2015 and 2014 was \$3.3 million, \$3.4 million and \$14.2 million, respectively. All stock options outstanding as of May 1, 2016 are fully vested and exercisable. The aggregate

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

intrinsic value of stock options outstanding as of May 1, 2016 was \$8.5 million. The weighted-average remaining contractual life of stock options outstanding as of May 1, 2016 was 1.9 years.

## Restricted Stock Units

	Number of Shares	Weighted-Average Grant-Date Fair Value
RSUs unvested as of May 3, 2015	6,611,614	\$ 17.12
RSUs granted	2,955,622	\$ 19.02
RSUs vested	(2,563,391)	\$ 16.28
RSUs forfeited	(789,646)	\$ 18.53
RSUs unvested as of May 1, 2016	6,214,199	\$ 18.19

The weighted-average grant-date fair value of RSUs granted during fiscal 2015 and 2014 was \$19.55 and \$16.91, respectively. The aggregate intrinsic value of RSUs outstanding as of May 1, 2016 was \$102.3 million. The total grant-date fair value of RSUs vested during fiscal 2016, 2015 and 2014 was \$41.7 million, \$36.3 million and \$30.4 million, respectively.

As of May 1, 2016, the Company had \$79.2 million of unrecognized compensation expense related to RSUs grants. These expenses are expected to be recognized over a weighted-average period of 27 months.

## Share-Based Compensation Cost

The following table sets forth the detailed allocation of the share-based compensation expense for the fiscal years ended May 1, 2016, May 3, 2015 and April 27, 2014 which was reflected in the Company's operating results (in thousands):

Share-based compensation expense by caption:	Fiscal Years Ended		
	May 1, 2016	May 3, 2015	April 27, 2014
Cost of revenues	\$10,357	\$9,908	\$8,261
Research and development	18,245	17,764	14,660
Sales and marketing	6,667	6,251	5,083
General and administrative	9,974	10,677	9,962
Total	\$45,243	\$44,600	\$37,966

  

Share-based compensation expense by type of award:	Fiscal Years Ended		
	May 1, 2016	May 3, 2015	April 27, 2014
Stock options	\$—	\$—	\$693
RSUs	42,162	41,729	34,506
Employee stock purchase rights under ESPP	3,081	2,871	2,767
Total	\$45,243	\$44,600	\$37,966

Total share-based compensation cost capitalized as part of inventory was \$2.5 million and \$2.3 million as of May 1, 2016 and May 3, 2015, respectively.

The fair value of employee stock purchase rights granted under the ESPP in fiscal 2016, 2015 and 2014 was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Fiscal Years Ended		
	May 1, 2016	May 3, 2015	April 27, 2014
Expected term (in years)	0.75	0.75	0.75
Volatility	32% - 54%	34% - 53%	40% - 47%



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Risk-free interest rate	0.11 - 0.70%	0.07 - 0.21%	0.01 - 0.13%
Dividend yield	—	% —	% —

FINISAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

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

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

As share-based compensation expense recognized in the consolidated statement of operations for fiscal 2016, 2015 and 2014 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

The weighted-average estimated per share fair value of purchase rights granted under the ESPP in fiscal 2016, 2015 and 2014 was \$2.79, \$3.06 and \$3.69, respectively.

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

#### 14. Employee Benefit Plan

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

Under the plan, each participant may contribute up to 20% of his or her pre-tax gross compensation up to a statutory limit, which is \$18,000, \$18,000 and \$17,500 for calendar year 2016, 2015 and 2014, respectively. All amounts contributed by participants and earnings on participant contributions are fully vested at all times. The Company may contribute an amount equal to one-half of the first 6% of each participant's contribution. The Company may make the matching contribution in shares of Finisar common stock in lieu of cash. Contributions made in shares will be allocated to each participant's account using the share price on the date the Company matching contribution is made to the plan.

The Company made a discretionary matching contribution of 163,464 shares for a total contribution of \$2.4 million during the year ended May 1, 2016. The Company's expenses related to this plan were \$2.4 million, \$2.6 million and \$2.2 million for the fiscal years ended May 1, 2016, May 3, 2015 and April 27, 2014, respectively.

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 15. Income Taxes

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

	Fiscal Years Ended		
	May 1, 2016	May 3, 2015	April 27, 2014
Current:			
Federal	\$—	\$—	\$(385 )
State	(9 )	209	523
Foreign	4,575	8,814	5,691
	4,566	9,023	5,829
Deferred:			
Federal	—	(607 )	—
State	—	(14 )	—
Foreign	(4,928)	393	(2,945 )
	(4,928)	(228 )	(2,945 )
Provision for (benefit from) income taxes	\$(362)	\$8,795	\$2,884

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

	Fiscal Years Ended		
	May 1, 2016	May 3, 2015	April 27, 2014
U.S.	\$(2,579 )	\$(29,300)	\$46,314
Foreign	37,410	49,982	68,107
	\$34,831	\$20,682	\$114,421

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

	Fiscal Years Ended					
	May 1, 2016		May 3, 2015		April 27, 2014	
Expected income tax provision (benefit) at U.S. federal statutory rate	35.0 %		35.0 %		35.0 %	
Foreign rate differential	(40.5)		(46.9)		(18.3 )	
Share-based compensation expense	14.1		29.6		2.5	
Non-deductible transaction costs	0.1		0.5		0.4	
Valuation allowance	(2.5 )		49.1		(21.4 )	
Other permanent adjustments	4.4		—		—	
Research and development credits	(12.6)		(15.0)		(1.8 )	
Other	1.0		(9.8 )		6.1	
	(1.0 )%		42.5 %		2.5 %	

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Fiscal Years Ended		
	May 1, 2016	May 3, 2015	April 27, 2014
Deferred tax assets:			
Inventory adjustments	\$ 10,740	\$ 10,024	\$ 8,905
Accruals and reserves	14,890	13,081	18,673
Tax credits	34,094	27,836	24,259
Net operating loss carryforwards	100,193	101,850	95,952
Gain/loss on investments under equity or cost method	8,522	8,367	8,843
Depreciation and amortization	3,498	4,509	2,817
Purchase accounting for intangible assets	7,137	4,438	5,651
Capital loss carryforward	189	172	229
Acquired intangibles	6,298	8,208	10,142
Stock compensation	9,162	9,302	8,372
Total deferred tax assets	194,723	187,787	183,843
Valuation allowance	(162,892)	(161,358)	(153,657)
Net deferred tax assets	31,831	26,429	30,186
Deferred tax liabilities:			
Acquired intangibles	(3,613 )	(5,597 )	(7,252 )
Debt discount	(10,774 )	(13,862 )	(16,873 )
Inventory reserve	—	(513 )	(457 )
Depreciation and amortization	(13,037 )	(7,068 )	(5,762 )
Total deferred tax liabilities	(27,424 )	(27,040 )	(30,344 )
Total net deferred tax assets (liabilities)	\$4,407	\$(611 )	\$(158 )

Realization of deferred tax assets is dependent upon future taxable earnings, the timing and amount of which are uncertain. Due to U.S. operating losses in previous years and continuing U.S. earnings volatility, management has established and maintained a full valuation allowance for the U.S. deferred tax assets, which comprise approximately 84% of total deferred tax assets, for which management believes it is not more likely than not to be realized in future periods. The Company's valuation allowance increased/(decreased) from the prior year by approximately \$(1.5) million, \$7.7 million and \$(74.2) million in fiscal 2016, 2015 and 2014, respectively.

As of May 1, 2016, approximately \$45.6 million of deferred tax assets, which is not included in the above table, was attributable to certain employee stock option deductions. When, and if, realized, the benefit of the tax deduction related to these options will be accounted for as a reduction of the income tax provision.

At May 1, 2016, the Company had federal, state and foreign net operating loss carryforwards of approximately \$377.1 million, \$25.5 million and \$48.2 million, respectively, and federal and state credit carryforwards of approximately \$31.8 million and \$24.4 million, respectively. With the exception of California R&D credit, which can be carried forward indefinitely, the net operating loss and tax credit carryforwards will expire at various dates beginning in fiscal 2017, if not utilized. Utilization of the Company's U.S. net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations set forth in Internal Revenue Code Section 382 and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss and tax credit carryforwards before utilization.

The Company's manufacturing operations in Malaysia operate under a tax holiday which will expire at the beginning of the second quarter of fiscal 2022. In fiscal 2016, the aggregate dollar and per share effect of the tax holiday was \$5.8 million and \$0.05 per share, respectively. As of May 1, 2016, there was no provision for U.S. income taxes for undistributed earnings of the Company's foreign subsidiaries as it is currently the Company's intention to reinvest these earnings indefinitely in operations outside the United States. The cumulative amount of foreign earnings to be permanently re-invested as of May 1, 2016 was approximately \$293.5 million. The Company believes it is not practicable to determine the Company's tax liability

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

that may arise in the event of a future repatriation. If repatriated, these earnings could result in a tax expense at the current U.S. federal statutory tax rate of 35%, subject to available net operating losses and other factors. Tax on undistributed earnings may also be reduced by foreign tax credits that may be generated in connection with the repatriation of earnings.

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

	Fiscal Years Ended		
	May 1, 2016	May 3, 2015	April 27, 2014
Beginning balance	\$ 14,653	\$ 13,432	\$ 15,632
Additions for tax positions related to current year	1,331	975	712
Additions for tax positions related to prior years	902	246	—
Reductions for tax positions related to prior years (lapse of statute of limitations)	(475 )	—	(2,912 )
Ending balance	\$ 16,411	\$ 14,653	\$ 13,432

Excluding the effects of recorded valuation allowances for deferred tax assets, \$14.1 million of the unrecognized tax benefits would favorably impact the effective tax rate in future periods if recognized.

It is the Company's belief that no significant changes in the unrecognized tax benefit positions will occur within 12 months from May 1, 2016.

The Company records interest and penalties, if any, related to unrecognized tax benefits in income tax expense. At May 1, 2016, there was no accrued interest or penalties related to uncertain tax positions.

The Company and its subsidiaries are subject to taxation in various state jurisdictions as well as the U.S. The Company's U.S. federal and state income tax returns are generally not subject to examination by the tax authorities for tax years before fiscal 2009. For all federal and state net operating loss and credit carryovers, the statute of limitations does not begin until the carryover items are utilized. The taxing authorities can examine the validity of the carryover items and if necessary, adjustments may be made to the carryover items. The Company's Malaysia, Singapore, China, Australia, Israel and Sweden income tax returns are generally not subject to examination by the tax authorities for tax years before 2009, 2008, 2009, 2010, 2006 and 2009, respectively. The Company's Israel subsidiary received a tax assessment from Israel Tax Authority (ITA) for tax years ended 2005 to 2007. The Company has filed an appeal and anticipates no material tax liability.

#### 16. Segments and Geography Information

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

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

Fiscal Years Ended

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(in thousands)	May 1, 2016	May 3, 2015	April 27, 2014
United States	\$408,700	\$425,066	\$339,423
China	307,327	242,916	229,231
Malaysia	123,057	148,258	185,197
Rest of the world	424,082	434,704	402,982
Totals	\$1,263,166	\$1,250,944	\$1,156,833

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

## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	As of	
(in thousands)	May 1, 2016	May 3, 2015
United States	\$118,000	\$122,118
Malaysia	53,762	54,480
China	182,119	175,580
Rest of the world	33,444	28,704
	\$387,325	\$380,882

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

#### 17. Litigation

The Company accrues a liability for legal contingencies when it believes that it is both probable that a liability has been incurred and that it can reasonably estimate the amount of the loss. The Company reviews these accruals and adjusts them to reflect ongoing negotiations, settlements, rulings, advice of legal counsel and other relevant information. To the extent new information is obtained and the Company's views on the probable outcomes of claims, suits, assessments, investigations or legal proceedings change, changes in the Company's accrued liabilities would be recorded in the period in which such determination is made. For the matters referenced below, the amount of liability is not probable or the amount cannot be reasonably estimated and, therefore, accruals have not been made. In addition, in accordance with the relevant authoritative guidance, for matters which the likelihood of material loss is at least reasonably possible, the Company provides disclosure of the possible loss or range of loss; however, if a reasonable estimate cannot be made, the Company will provide disclosure to that effect.

Due to the nature of the Company's business, it is subject to claims alleging infringement by various Company products and services. The Company believes that it has meritorious defenses to the allegations made in its pending cases and intends to vigorously defend these lawsuits; however, it is unable currently to determine the ultimate outcome of these or similar matters. In addition, the Company is a defendant in various litigation matters generally arising out of the normal course of business. Although it is difficult to predict the ultimate outcomes of these cases, the Company believes that it is not reasonably possible that the ultimate outcomes will materially and adversely affect its business, financial position, results of operations or cash flows.

#### Class Action and Shareholder Derivative Litigation

Several securities class action lawsuits related to the Company's March 8, 2011 earnings announcement alleging claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 have been filed in the United States District Court for the Northern District of California on behalf of a purported class of persons who purchased stock between December 1 or 2, 2010 through March 8, 2011. The named defendants are the Company and its Chairman of the Board, Chief Executive Officer and Chief Financial Officer. To date, no specific amount of damages have been alleged. The cases were consolidated, lead plaintiffs were appointed and a consolidated complaint was filed. The Company filed a motion to dismiss the case. On January 16, 2013, the District Court granted the Company's motion to dismiss and granted the lead plaintiffs leave to amend the consolidated complaint. An amended consolidated complaint was filed on February 6, 2013. Thereafter, the Company filed a renewed motion to dismiss the case. On September 30, 2013, the District Court granted the Company's motion and dismissed the case with prejudice, and plaintiff appealed. On January 8, 2016, the Ninth Circuit Court of Appeals reversed the judgment in part for further proceedings in the District Court. On January 22, 2016, Finisar filed a petition for panel rehearing in part. On March



25, 2016, the panel issued a revised ruling revering the judgment in part for further proceedings in the District Court.

In addition, two purported shareholder derivative lawsuits related to the Company's March 8, 2011 earnings announcement have been filed in the California Superior Court for the County of Santa Clara, and a third derivative lawsuit has been filed in the United States District Court for the Northern District of California. The complaints assert claims for alleged breach of fiduciary duty, unjust enrichment, and waste on behalf of the Company. Named as defendants are the members of the Company's board of directors, including the Company's Chairman of the Board and Chief Executive Officer, and its Chief Financial Officer. No specific amount of damages has been alleged and, by the derivative nature of the lawsuits, no damages will be alleged, against the Company. The state court cases have been consolidated and a lead plaintiff has been appointed to file a consolidated complaint. The derivative cases were stayed pending a ruling in the federal class action case. The derivative

FINISAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

cases remain stayed at present, subject to the right of the parties to reinstate them, and the Company expects that the parties will discuss the stay in light of the Ninth Circuit ruling.

Mears Technologies Litigation

On May 6, 2013, Mears Technologies, Inc. filed a complaint for patent infringement in the United States District Court for the Eastern District of Texas against the Company. The complaint alleges that Finisar's WSS products, ROADM line cards containing a Finisar WSS, and Waveshaper products infringe U.S. Patent No. 6,141,361. The Company has performed a review of the asserted patent and believes that the patent claims are not infringed and/or are invalid. On June 17, 2014, the district court issued a claim construction order favorable to the Company. On October 6, 2014, the court denied a motion of the plaintiff to amend its infringement contentions in light of the court's claim construction ruling. As a result, the plaintiff has conceded that it is unable to pursue its infringement claims against the Company. On December 30, 2014, the court granted the Company's motion for summary judgment of non-infringement. The plaintiff has indicated that it intends to appeal the court's claim construction ruling and the court's denial of the plaintiff's motion to amend its infringement contentions in light of the court's claim construction ruling. The Company intends to oppose any such appeal vigorously. However, if the plaintiff's appeal is wholly or partially successful, the case would be revived in the United States District Court for the Eastern District of Texas. If the appeal succeeds and the case resumes, the Company may be liable for substantial damages. Even if the defense of any resumed case is successful, the Company may incur substantial legal fees and other costs in defending the lawsuit. Further, the lawsuit could divert the efforts and attention of the Company's management and technical personnel, which could harm its business.

Other

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

18. Guarantees and Indemnifications

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

The Company enters into indemnification obligations under its agreements with other companies in its ordinary course of business, including agreements with customers, business partners, and insurers. Under these provisions the Company generally indemnifies and holds harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or the use of the Company's products. These indemnification provisions generally survive termination of the underlying agreement. In some cases, the maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company believes the fair value of these indemnification agreements is minimal. Accordingly, the Company has not recorded any liabilities for these agreements as of May 1, 2016. To date, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements.



## FINISAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 19. Financial Information by Quarter (Unaudited)

	Three Months Ended							
	May 1, 2016	January 31, 2016	November 1, 2015	August 2, 2015 (1)	May 3, 2015	January 25, 2015 (2)	October 26, 2014 (3)	July 27, 2014
(In thousands, except per share data)								
Revenues	\$318,794	\$309,206	\$321,136	\$314,030	\$320,042	\$306,283	\$296,981	\$327,638
Gross profit	\$90,442	\$87,740	\$89,091	\$87,377	\$89,217	\$77,953	\$84,921	\$98,819
Income (loss) from operations	\$14,136	\$10,458	\$9,368	\$7,061	\$10,284	\$3,401	\$(7,259)	\$20,368
Net income (loss) attributable to Finisar Corporation (4)	\$13,072	\$12,084	\$6,644	\$3,393	\$7,327	\$1,678	\$(11,361)	\$14,243
Net income (loss) per share attributable to Finisar Corporation common stockholders (4):								
Basic	\$0.12	\$0.11	\$0.06	\$0.03	\$0.07	\$0.02	\$(0.11)	\$0.14
Diluted	\$0.12	\$0.11	\$0.06	\$0.03	\$0.07	\$0.02	\$(0.11)	\$0.14
Shares used in computing net income (loss) per share:								
Basic	107,612	107,180	106,635	105,286	104,005	103,563	99,621	98,241
Diluted	109,386	108,128	107,493	108,107	107,535	105,990	99,621	106,036

(1) Net income in the first quarter of fiscal 2016 includes a \$1.9 million impairment charge for long-lived assets.

(2) Net income in the third quarter of fiscal 2015 includes a \$5.8 million impairment charge for long-lived assets.

(3) Net loss in the second quarter of fiscal 2015 includes an \$11.0 million charge related to the settlement of patent litigation.

(4) Net income (loss), and related per share amounts, attributable to Finisar Corporation were the same as net income (loss), and related per share amounts, for all periods presented.

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### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

### Item 9A. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

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

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of May 1, 2016, our management, with the participation of our Chairman of the Board, Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report for the purpose of ensuring that the information required to be disclosed by us in this report is made known to them by others on a timely basis, and that the information is accumulated and communicated to our management in order to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported by us within the time periods specified in the SEC’s rules.

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

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

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

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

Under the supervision and with the participation of our management, including our Chairman of the Board, Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of May 1, 2016. Management based its assessment on the criteria set forth in Internal Control - Integrated Framework (“2013 framework”) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this assessment, management determined that we maintained effective internal control over financial reporting as of May 1, 2016.

The effectiveness of internal control over financial reporting as of May 1, 2016 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

#### Changes in Internal Control

There were no changes in our internal control over financial reporting during the fiscal quarter ended May 1, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Item 9B. Other Information

None.



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## PART III

The SEC allows us to include information required in this report by referring to other documents or reports we have already filed or will soon be filing. This is called “incorporation by reference.” We intend to file our definitive proxy statement for our 2016 annual meeting of stockholders (the “Proxy Statement”) pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report, and certain information to be contained therein is incorporated in this report by reference.

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

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

## Item 11. Executive Compensation

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

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

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

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

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

## Item 14. Principal Accountant Fees and Services

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

## PART IV

## Item 15. Exhibits and Financial Statement Schedules

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

(2) Financial Statement Schedules:

## Schedule II — Consolidated Valuation and Qualifying Accounts

	Additions				
	Balance at Beginning of Period	Charged to (Recoveries Offset) Costs and Expenses, Net	Write-Offs	Balance at End of Period	
	(in thousands)				
Allowance for doubtful accounts					
Balance at May 1, 2016	\$1,136	\$ (403)	) \$ (6	)	\$ 727
Balance at May 3, 2015	\$929	\$ 207	\$ —		\$ 1,136
Balance at April 27, 2014	\$958	\$ 101	\$ (130	)	\$ 929

(3) Exhibits:

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this report.



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Certain of the agreements filed as exhibits to this Form 10-K contain representations and warranties by the parties to the agreements that have been made solely for the benefit of the parties to the agreement. These representations and warranties:

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

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

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

## FINISAR CORPORATION

By/s/ Jerry S. Rawls

Jerry S. Rawls

Chairman of the Board of Directors and Chief Executive Officer

(Principal Executive Officer)

June 17, 2016

## POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/ Jerry S. Rawls Jerry S. Rawls	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	June 17, 2016
/s/ Kurt Adzema Kurt Adzema	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	June 17, 2016
/s/ Michael C. Child Michael C. Child	Director	June 17, 2016
/s/ Michael L. Dreyer Michael L. Dreyer	Director	June 17, 2016
/s/ Roger C. Ferguson Roger C. Ferguson	Director	June 17, 2016
Thomas E. Pardun	Director	
/s/ Robert N. Stephens Robert N. Stephens	Director	June 17, 2016

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EXHIBIT INDEX

Number Title

- 2.1 Transaction Agreement, dated March 22, 2011, between Registrant and Ignis ASA(1)
- 3.1 Amended and Restated Bylaws of Registrant(2)
- 3.2 Restated Certificate of Incorporation of Registrant(3)
- 3.3 Certificate of Amendment to Restated Certificate of Incorporation of Registrant, filed with the Delaware Secretary of State on June 19, 2001(4)
- 3.4 Certificate of Elimination regarding Registrant's Series A Preferred Stock(5)
- 3.5 Certificate of Designation regarding Registrant's Series RP Preferred Stock(6)
- 3.6 Certificate of Amendment to Restated Certificate of Incorporation of Registrant, filed with the Delaware Secretary of State on May 11, 2005(7)
- 3.7 Certificate of Amendment of the Restated Certificate of Incorporation of Registrant(8)
- 3.8 Amended and Restated Certificate of Incorporation of Registrant (9)
- 4.1 Specimen certificate representing Registrant's common stock(10)
- 4.2 Indenture, dated December 16, 2013, between Registrant and Wells Fargo Bank, National Association (11)
- 10.1 Form of Indemnity Agreement between Registrant and Registrant's directors and officers(12)
- 10.2\* 1999 Stock Option Plan(13)
- 10.3 Lease Agreement by and between Finisar (CA-TX) Limited Partnership and Registrant, dated February 4, 2005(14)
- 10.4\* Amended and Restated Finisar Corporation 2005 Stock Incentive Plan(15)
- 10.5\* Form of Stock Option Agreement for options granted under the 2005 Stock Incentive Plan(16)
- 10.6\* Optium Corporation 2000 Stock Incentive Plan(17)
- 10.7\* Optium Corporation 2006 Stock Option and Incentive Plan and Israeli Addendum to 2006 Stock Option and Incentive Plan(18)
- 10.8 First Amendment to lease for 200 Precision Road, Horsham, PA by and between Horsham Property Assoc., L.P. and Optium Corporation dated January 4, 2008(19)
- 10.9\* Form of Stock Option Grant Notice under the Optium Corporation 2006 Stock Option and Incentive Plan(20)
- 10.10\* Form of Stock Option Grant Notice for Australian Employees under the Optium Corporation 2006 Stock Option and Incentive Plan(21)
- 10.11\* Form of Employee Incentive Stock Option Agreement under the Optium Corporation 2006 Stock Option and Incentive Plan(22)
- 10.12\* Form of Employee Non-Qualified Stock Option Agreement under the Optium Corporation 2006 Stock Option and Incentive Plan(23)
- 10.13\* Form of Non-Employee Non-Qualified Stock Option Agreement under the Optium Corporation 2006 Stock Option and Incentive Plan(24)
- 10.14\* Form of Australian Employee Non-Qualified Stock Option Agreement under the Optium Corporation 2006 Stock Option and Incentive Plan(25)
- 10.15\* Form of Deferred Stock Award under Optium Corporation 2006 Stock Option and Incentive Plan(26)
- 10.16 Lease Agreement, dated December 7, 2007, by and between Charvic Pty Ltd and Optium Australia Pty Limited for premises located at 244 Young Street, Waterloo, NSW, Australia(27)
- 10.17 Lease Agreement between Optium Corporation and 200 Precision Drive Investors, LLC for the premises located at 200 Precision Drive, Horsham, Pennsylvania, dated September 26, 2006(28)
- 10.18\* Stock Option and Grant Notice, dated March 3, 2007, for Eitan Gertel(29)
- 10.19\* Stock Option and Grant Notice, dated March 3, 2007, for Mark Colyar(30)
- 10.20\* Stock Option and Grant Notice, dated March 3, 2007, for Christopher Brown(31)
- 10.21\* Stock Option and Grant Notices, dated March 14, 2006, February 14, 2006, June 23, 2005 and May 1, 2003, for Eitan Gertel(32)
- 10.22\* Stock Option and Grant Notices, dated August 28, 2006, for Christopher Brown(33)

10.23\* Finisar Executive Retention and Severance Plan, as Amended and Restated Effective March 7, 2011(34)

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EXHIBIT INDEX

Number	Title
10.24*	Amended and Restated Executive Employment Agreement between Registrant and Christopher Brown, dated December 31, 2008(35)
10.25*	Amended and Restated Executive Employment Agreement between Registrant and Mark Colyar, dated December 31, 2008(36)
10.26*	Amended and Restated Executive Employment Agreement between Registrant and Eitan Gertel, dated December 31, 2008(37)
10.27*	Form of Restricted Stock Unit Issuance Agreement(38)
10.28*	Form of Restricted Stock Unit Issuance Agreement — Officers(39)
10.29*	Form of Restricted Stock Unit Issuance Agreement — International(40)
10.30*	Form of Restricted Stock Unit Issuance Agreement — Israel(41)
10.31*	Form of Restricted Stock Unit Issuance Agreement — UK(42)
10.32*	Amended and Restated Finisar Corporation 2009 Employee Stock Purchase Plan(43)
10.33*	Registrant's 2009 International Employee Stock Purchase Plan(44)
10.34	Summary of the principal terms of the lease agreement - Wuxi, China(45)
10.35	Summary of the principal terms of the contract for state-owned construction land use right assignment - Wuxi, China(46)
10.36	Summary of the principal terms of the lease agreement - Jarfalla, Sweden(47)
10.37	Summary of the principal terms of the lease agreement - Shanghai, China(48)
10.38	Tenth Amendment to the Lease agreement by and between Registrant (as successor in interest to GenOA Corporation) and PSB Northern California Industrial Portfolio, Inc. (as successor in interest to RREEF America REIT II Corp. DDD, successor in interest to Speiker Properties, L.P.) dated January 10, 2000(49)
10.39	Lease agreement, dated October 21, 2013, by and between NMBE Pty Ltd and Finisar Australia Pty Ltd for premises located at 19-21 Rosebery Avenue, Rosebery, NSW, Australia(50)
10.40	Purchase Agreement dated December 10, 2013, by and between Finisar Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated(51)
10.41*	Separation and General Release Agreement(52)
21	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
23.2	Consent of Independent Registered Public Accounting Firm
24	Power of Attorney (incorporated by reference to the signature page of this Annual Report)
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS^	XBRL Instance Document
101.SCH^	XBRL Taxonomy Extension Schema
101.CAL^	XBRL Taxonomy Extension Calculation Linkbase
101.DEF^	XBRL Taxonomy Extension Definition Linkbase
101.LAB^	XBRL Taxonomy Extension Label Linkbase
101.PRE^	XBRL Taxonomy Extension Presentation Linkbase

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

\* Compensatory plan or management contract



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- (1) Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed March 28, 2011.
- (2) Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed December 5, 2014.
- (3) Incorporated by reference to Exhibit 3.5 to Registrant's Registration Statement on Form S-1/A filed October 19, 1999 (File No. 333-87017).
- (4) Incorporated by reference to Exhibit 3.6 to Registrant's Annual Report on Form 10-K filed July 18, 2001.
- (5) Incorporated by reference to Exhibit 3.8 to Registrant's Registration Statement on Form S-3 filed December 18, 2001 (File No. 333-75380).
- (6) Incorporated by reference to Exhibit 99.2 to Registrant's Registration Statement on Form 8-A12G filed on September 27, 2002.
- (7) Incorporated by reference to Exhibit 3.3 to Registrant's Registration Statement on Form S-3 filed May 18, 2005 (File No. 333-125034).
- (8) Incorporated by reference to Exhibit 3.8 to Registrant's Current Report on Form 8-K filed September 28, 2009.
- (9) Incorporated by reference to Exhibit 3.8 to Registrant's Annual Report on Form 10-K filed July 1, 2010.
- (10) Incorporated by reference to the same numbered exhibit to Registrant's Quarterly Report on Form 10-Q filed December 10, 2009.
- (11) Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K filed December 16, 2013.
- (12) Incorporated by reference to Exhibit 10.1 to Registrant's Registration Statement on Form S-1/A filed October 19, 1999 (File No. 333-87017).
- (13) Incorporated by reference to Exhibit 10.3 to Registrant's Registration Statement on Form S-1 filed September 13, 1999 (File No. 333-87017).
- (14) Incorporated by reference to Exhibit 10.25 to Registrant's Current Report on Form 8-K filed February 9, 2005.
- (15) Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed September 8, 2014.
- (16) Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed June 14, 2005.
- (17) Incorporated by reference to Exhibit 99.1 to Registrant's Registration Statement on Form S-8 filed on September 19, 2008.
- (18) Incorporated by reference to Exhibit 99.2 to Registrant's Registration Statement on Form S-8 filed on September 19, 2008.
- (19) Incorporated by reference to Exhibit 10.6 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 13, 2008.
- (20) Incorporated by reference to Exhibit 10.2 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 12, 2006.
- (21) Incorporated by reference to Exhibit 10.2 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 7, 2007.
- (22) Incorporated by reference to Exhibit 10.3 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 12, 2006.
- (23) Incorporated by reference to Exhibit 10.4 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 12, 2006.
- (24) Incorporated by reference to Exhibit 10.5 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 12, 2006.
- (25) Incorporated by reference to Exhibit 10.3 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 7, 2007.
- (26) Incorporated by reference to Exhibit 10.1 to Optium Corporation's Current Report on Form 8-K filed on September 28, 2007.
- (27) Incorporated by reference to Exhibit 10.3 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 13, 2007.
- (28) Incorporated by reference to Exhibit 10.23 to Optium Corporation's Registration Statement on Form S-1/A(333-135472) filed on October 11, 2006.
- (29) Incorporated by reference to Exhibit 10.4 to Optium Corporation's, Quarterly Report on Form 10-Q filed on March 7, 2007.

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- (30) Incorporated by reference to Exhibit 10.5 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 7, 2007.
- (31) Incorporated by reference to Exhibit 10.6 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 7, 2007.
- (32) Incorporated by reference to Exhibit 10.36 to Optium Corporation's Annual Report on Form 10-K filed on October 24, 2007.
- (33) Incorporated by reference to Exhibit 10.38 to Optium Corporation's Annual Report on Form 10-K filed on October 24, 2007.
- (34) Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed March 10, 2011.
- (35) Incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K filed on January 7, 2009.



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- (36) Incorporated by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K filed on January 7, 2009.
- (37) Incorporated by reference to Exhibit 99.4 to Registrant's Current Report on Form 8-K filed on January 7, 2009.
- (38) Incorporated by reference to Exhibit 10.61 to Registrant's Quarterly Report on Form 10-Q filed March 12, 2009.
- (39) Incorporated by reference to Exhibit 10.62 to Registrant's Quarterly Report on Form 10-Q filed March 12, 2009.
- (40) Incorporated by reference to Exhibit 10.63 to Registrant's Quarterly Report on Form 10-Q filed March 12, 2009.
- (41) Incorporated by reference to Exhibit 10.64 to Registrant's Quarterly Report on Form 10-Q filed March 12, 2009.
- (42) Incorporated by reference to Exhibit 10.32 to Registrant's Annual Report on Form 10-K filed June 26, 2014.
- (43) Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed September 8, 2014.
- (44) Incorporated by reference to Exhibit 99.4 to Registrant's Registration Statement on Form S-8 filed December 14, 2009 (File No. 333-163710).
- (45) Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed March 8, 2013.
- (46) Incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q filed March 8, 2013.
- (47) Incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q filed March 8, 2013.
- (48) Incorporated by reference to Exhibit 10.36 to Registrant's Annual Report on Form 10-K filed June 24, 2013.
- (49) Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed March 10, 2016.
- (50) Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed December 5, 2013.
- (51) Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed March 6, 2014.
- (52) Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed December 10, 2015.