FINISAR CORP
Form 10-Q
March 08, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
(Mark One)

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

For the Quarterly Period Ended January 27, 2013
or

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

For the transition period from to

Commission file number 000-27999

Finisar Corporation
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-3038428 (I.R.S. Employer Identification No.)
1389 Moffett Park Drive Sunnyvale, California (Address of principal executive offices)	94089 (Zip Code)

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

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

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

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

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

At February 28, 2013, there were 93,431,303 shares of the registrant's common stock, $.001 par value, issued and outstanding.

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For the Quarter Ended January 27, 2013

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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 th 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 "Part II. Other Information, 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 - FINANCIAL INFORMATION
Item 1. Financial Statements
FINISAR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	January 27, 2013 (Unaudited)	April 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$265,454	$234,544
Accounts receivable, net of allowance for doubtful accounts of $1,285 at January 27, 2013 and $1,311 at April 30, 2012	155,502	167,760
Accounts receivable, other	10,843	21,004
Inventories	202,123	218,432
Prepaid expenses and other	22,875	25,482
Total current assets	656,797	667,222
Property, equipment and improvements, net	192,381	163,817
Purchased intangible assets, net	45,823	45,177
Goodwill	91,551	81,431
Minority investments	884	884
Other assets	7,321	10,896
Total assets	$994,757	$969,427
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$67,264	$72,339
Accrued compensation	28,436	27,090
Other accrued liabilities	31,901	20,871
Deferred revenue	9,760	8,970
Short-term debt	—	3,150
Total current liabilities	137,361	132,420
Long-term liabilities:		
Convertible debt	40,015	40,015
Other non-current liabilities	14,078	15,175
Deferred tax liabilities	2,512	1,972
Total liabilities	193,966	189,582
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding at January 27, 2013 and April 30, 2012	—	—
Common stock, $0.001 par value, 750,000,000 shares authorized, 93,406,566 shares issued and outstanding at January 27, 2013 and 91,451,615 shares issued and outstanding at April 30, 2012	93	91
Additional paid-in capital	2,341,448	2,309,219
Accumulated other comprehensive income	26,904	28,720
Accumulated deficit	(1,575,839)	(1,566,506)
Finisar Corporation stockholders' equity	792,606	771,524
Non-controlling interest	8,185	8,321

Total stockholders' equity	800,791	779,845
Total liabilities and stockholders' equity	$994,757	$969,427

See accompanying notes.

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FINISAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	January 27, 2013	January 29, 2012	January 27, 2013	January 29, 2012
Revenues	$238,351	$242,954	$690,918	$712,669
Cost of revenues	168,377	170,215	496,001	500,009
Amortization of acquired developed technology	1,930	1,637	5,202	4,796
Gross profit	68,044	71,102	189,715	207,864
Operating expenses:				
Research and development	39,725	36,470	117,514	108,573
Sales and marketing	10,398	10,599	31,291	30,310
General and administrative	12,797	11,766	39,058	39,491
Restructuring recoveries	—	—	—	(322)
Amortization of purchased intangibles	1,035	959	2,906	2,597
Impairment of long-lived assets	4,886	—	4,886	—
Total operating expenses	68,841	59,794	195,655	180,649
Income (loss) from operations	(797)	11,308	(5,940)	27,215
Interest income	186	151	544	411
Interest expense	(648)	(862)	(2,045)	(2,911)
Loss on debt extinguishment	—	—	—	(419)
Other income (expense), net	(275)	(355)	(295)	4,168
Income (loss) before income taxes and non-controlling interest	(1,534)	10,242	(7,736)	28,464
Provision for income taxes	2,153	875	1,733	2,792
Consolidated net income (loss)	(3,687)	9,367	(9,469)	25,672
Adjust for net income (loss) attributable to non-controlling interest	280	(458)	136	(694)
Net income (loss) attributable to Finisar Corporation	$(3,407)	$8,909	$(9,333)	$24,978
Net income (loss) per share attributable to Finisar Corporation common stockholders:				
Basic	$(0.04)	$0.10	$(0.10)	$0.28
Diluted	$(0.04)	$0.09	$(0.10)	$0.27
Shares used in computing net income (loss) per share:				
Basic	93,097	91,001	92,624	90,644
Diluted	93,097	94,032	92,624	93,904

See accompanying notes.

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FINISAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands)

	Three Months Ended		Nine Months Ended	
	January 27, 2013	January 29, 2012	January 27, 2013	January 29, 2012
Consolidated net income (loss)	$(3,687)	$9,367	$(9,469)	$25,672
Other comprehensive income (loss), net of tax:				
Change in net foreign currency translation adjustment	558	212	(1,816)	(3,431)
Total other comprehensive income (loss), net of tax	558	212	(1,816)	(3,431)
Total comprehensive income (loss)	$(3,129)	$9,579	$(11,285)	$22,241
Adjust for comprehensive income (loss) attributable to non-controlling interest, net of tax	280	(458)	136	(694)
Comprehensive income (loss) attributable to Finisar Corporation	$(2,849)	$9,121	$(11,149)	$21,547

See accompanying notes.

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FINISAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended	
	January 27, 2013	January 29, 2012
Operating activities		
Consolidated net income (loss)	$(9,469)	$25,672
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Depreciation	39,112	32,977
Amortization	8,667	8,015
Stock-based compensation expense	26,048	20,053
(Gain) loss on sale or retirement of assets	25	228
Impairment of long-lived assets	4,886	—
Equity in losses of equity method investment	—	619
Gain on fair value measurement of minority equity-based investment	—	(5,429)
Loss on debt extinguishment	—	419
Changes in operating assets and liabilities:		
Accounts receivable	15,561	1,359
Inventories	18,465	(27,948)
Other assets	4,259	(29,270)
Deferred income taxes	1,249	537
Accounts payable	(7,845)	1,856
Accrued compensation	(347)	715
Other accrued liabilities	2,935	4,955
Deferred revenue	(689)	(2,588)
Net cash provided by operating activities	102,857	32,170
Investing activities		
Additions to property, equipment and improvements	(65,281)	(50,846)
Sale of minority investment	10,495	—
Proceeds from sale of property and equipment	194	32
Acquisitions, net of cash acquired	(20,580)	(71,125)
Purchase of intangibles	(201)	—
Net cash used in investing activities	(75,373)	(121,939)
Financing activities		
Proceeds from term loan	—	1,800
Repayments of debt	(3,150)	(14,445)
Proceeds from the issuance of shares under equity plans and employee stock purchase plan, net of tax withholdings	6,576	5,970
Net cash provided by (used in) financing activities	3,426	(6,675)
Net increase (decrease) in cash and cash equivalents	30,910	(96,444)
Cash and cash equivalents at beginning of period	234,544	314,765
Cash and cash equivalents at end of period	$265,454	$218,321
Supplemental disclosure of cash flow information		
Cash paid for interest	$1,011	$1,474
Cash paid for taxes	1,733	7,175

See accompanying notes.

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FINISAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of January 27, 2013 and for the three and nine month periods ended January 27, 2013 and January 29, 2012 have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”), and include the accounts of Finisar Corporation and its controlled subsidiaries (collectively, “Finisar” or the “Company”). Non-controlling interest represents the minority shareholders' proportionate share of the net assets and results of operations of the Company's majority-owned subsidiary. Intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP and pursuant to the rules and regulations of the SEC have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company's financial position as of January 27, 2013, its operating results for the three and nine month periods ended January 27, 2013 and January 29, 2012, and its cash flows for the nine month periods ended January 27, 2013 and January 29, 2012. Operating results for the three and nine month periods ended January 27, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2013. The condensed consolidated balance sheet as of April 30, 2012 has been derived from the audited consolidated financial statements as of that date but does not include all the footnotes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2012.

Fiscal Periods

The Company maintains its financial records on the basis of a fiscal year ending on April 30, with fiscal quarters ending on the Sunday closest to the end of the period (thirteen-week periods).

Use of Estimates

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

2. Summary of Significant Accounting Policies

For a description of significant accounting policies, see Note 2, Summary of Significant Accounting Policies to the consolidated financial statements included in the Company's annual report on Form 10-K for the fiscal year ended April 30, 2012. There have been no material changes to the Company's significant accounting policies since the filing of the annual report on Form 10-K, except as noted below.

Recent Adoption of New Accounting Standards

In May 2011, the Financial Accounting Standards Board ("FASB") issued guidance under which an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this guidance did not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments should be applied retrospectively. The Company adopted this guidance during the first quarter of fiscal 2013. Adoption of this guidance did not have an impact on the Company's consolidated financial statements.

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Pending Adoption of New Accounting Standards

From time to time, new accounting pronouncements are issued by 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. Acquisitions

Acquisition of Red-C Optical Networks, Inc.

On July 16, 2012, the Company acquired all outstanding equity interests in Red-C Optical Networks, Inc., ("Red-C"), a Delaware corporation, with subsidiary operations in Tel Aviv, Israel, engaged in research, development and marketing of optical amplifiers and sub-systems for the wavelength division multiplexing, or WDM, optical communication sector. The results of Red-C's operations have been included in the consolidated financial statements since that date. The acquisition will allow the Company to broaden its product lines primarily for telecom applications by adding key amplification technologies, including erbium doped fiber amplification, or EDFA, Raman amplification and dynamic hybrid amplification. These technologies are considered critical for reconfigurable optical add-drop multiplexer, or ROADM, line cards and are increasingly important in cost-effectively extending the reach of transceivers and transponders especially for 100 Gbps and 40 Gbps coherent transmission, ultra-long repeaterless links, and low latency networks.

The provisional acquisition-date fair value of the consideration transferred totaled $30.6 million, consisting of a $23.7 million upfront cash payment and $6.9 million of contingent consideration. The contingent consideration arrangement requires the Company to pay up to $15 million, payable in cash or shares of the Company's common stock at the Company's option, subject to Red-C achieving a specified level of gross profit during calendar year 2013. The provisional acquisition-date fair value of the contingent consideration arrangement was $6.9 million, which the Company estimated using a probability-weighted discounted cash flow model. The fair value measurement was based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820. The key assumptions in applying the income approach were as follows: 5% discount rate and 100% probability of achieving an expected level of gross profit. In addition, the Company may be required to pay certain former Red-C shareholders additional cash compensation of up to an aggregate of $5 million contingent upon their continuing employment with the Company for 12-, 24- and 36-month periods subsequent to the acquisition date. Such amounts, as are deemed probable of payment, are being recorded as compensation expense and recognized ratably over the related respective service periods.

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

Cash and cash equivalents	$3,120	
Accounts receivable	3,303	
Inventory	5,571	
Other current assets	751	
Property, equipment and improvements	1,229	
Intangible assets	13,360	
Other assets	662	
Total identifiable assets acquired	27,996	
Current liabilities	(6,089	)
Deferred tax liabilities	(1,023	)

Total liabilities assumed	(7,112)
Net identifiable assets acquired	20,884
Goodwill	9,667
Net assets acquired	$30,551

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

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The $13.4 million of acquired intangibles are subject to a weighted-average useful life of approximately four years. The definite-lived intangible assets include developed technology of $10.3 million (four-year weighted average useful life), customer relationships of $1.8 million (seven-year weighted average useful life), internal use software of $1.0 million (five-year weighted average useful life), and order backlog of $240,000 (one-year useful life). As noted above, the fair value of the acquired identifiable intangible assets is provisional pending receipt of final valuation of these assets.

The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Red-C. None of the goodwill is expected to be deductible for income tax purposes.

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

The Company recognized $499,000 of acquisition related costs that were expensed in the nine months ended January 27, 2013. These costs are included in general and administrative operating expenses in the consolidated statement of operations.

Unaudited pro forma and other supplemental financial statement disclosures otherwise required by ASC 805 for material business combinations have not been presented herein because management does not believe the acquisition of Red-C is significant to the Company's consolidated financial statements.

Acquisition of Ignis ASA

During the first quarter of fiscal 2012, the Company completed the acquisition of Ignis ASA ("Ignis"), a provider of optical components and network solutions for fiber optic communications. Ignis' product and services portfolio comprises passive optical components including optical chips, splitters and multiplexers, active optical components such as tunable lasers and modulators, and WDM-based solutions enabling the building of simple and cost effective high-capacity optical networks. For additional information regarding this acquisition, see Note 5, Acquisition of Ignis ASA, to the consolidated financial statements included in the Company's annual report on Form 10-K for the fiscal year ended April 30, 2012.

Historically, Ignis and its subsidiaries have maintained their financial records on the basis of a fiscal year ending on December 31, with fiscal quarters ending on March 31, June 30 and September 30, which are changing to conform to the Company's basis of a fiscal year ending on April 30, with fiscal quarters ending on the Sunday closest to the end of the three-month period, as financial records of Ignis and its subsidiaries are being integrated with the Company's consolidated financial reporting system. This change did not have a material impact on the Company's consolidated financial statements during the nine months ended January 27, 2013.

For the nine months ended January 27, 2013, the results of operations of Ignis' subsidiaries that are not yet integrated in the Company's consolidated financial reporting system have been included in the consolidated financial statements through December 31, 2012. There were no intervening events in the operating results of such Ignis' subsidiaries for the month ended January 27, 2013 that materially affected the Company's consolidated financial position or results of operations.

4. 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 options, restricted stock units and warrants (under the treasury stock method) and convertible notes (on an as-if-converted basis) outstanding during the period.

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The following table presents the calculation of basic and diluted net income (loss) per share (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	January 27, 2013	January 29, 2012	January 27, 2013	January 29, 2012
Numerator:				
Net income (loss) attributable to Finisar Corporation	$(3,407)	$8,909	$(9,333)	$24,978
Numerator for basic and diluted net income (loss) per share	$(3,407)	$8,909	$(9,333)	$24,978
Denominator:				
Denominator for basic net income (loss) per share - weighted average shares	93,097	91,001	92,624	90,644
Effect of dilutive securities:				
Employee stock options and restricted stock units	—	2,995	—	3,224
Warrants	—	36	—	36
Dilutive potential common shares	—	3,031	—	3,260
Denominator for diluted net income (loss) per share	93,097	94,032	92,624	93,904
Net income (loss) per share attributable to Finisar Corporation common stockholders:				
Basic	$(0.04)	$0.10	$(0.10)	$0.28
Diluted	$(0.04)	$0.09	$(0.10)	$0.27

The following table presents potentially dilutive securities excluded from the calculation of diluted net income per share because their effect would have been anti-dilutive (in thousands):

	Three Months Ended		Nine Months Ended	
	January 27, 2013	January 29, 2012	January 27, 2013	January 29, 2012
Common shares issuable upon:				
Exercise of employee stock options and restricted stock units	4,215	1,198	4,597	1,252
Conversion of convertible subordinated notes	3,748	3,748	3,748	3,748
	7,963	4,946	8,345	5,000

5. Inventories

Inventories consist of the following (in thousands):

	January 27, 2013	April 30, 2012
Raw materials	$44,409	$64,047
Work-in-process	94,290	92,173
Finished goods	63,424	62,212
Total inventories	$202,123	$218,432

During the three and nine months ended January 27, 2013, the Company recorded charges of $7.2 million and $24.5 million, respectively, for excess and obsolete inventory, and sold inventory that was written-off in previous periods with an approximate cost of $5.3 million and $15.4 million, respectively. This resulted in a net charge for excess and obsolete inventory of $1.9 million and $9.1 million, respectively, during the three and nine months ended January 27, 2013.

During the three and nine months ended January 29, 2012, the Company recorded charges of $5.5 million and $16.9 million, respectively for excess and obsolete inventory, and sold inventory that was written-off in previous periods with an approximate cost of $3.2 million and $10.2 million, respectively. This resulted in a net charge for excess and obsolete inventory of $2.3 million and $6.7 million, respectively, during the three and nine months ended January 29, 2012.

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The Company enters into agreements with subcontractors that allow them to procure inventory on behalf of the Company to fulfill subcontractor obligations. The Company records a liability for noncancelable purchase commitments with these subcontractors for quantities in excess of its future demand forecasts. As of January 27, 2013 and April 30, 2012, the liability for these purchase commitments was $1.8 million and $2.0 million, respectively, and was recorded on the balance sheet as other accrued liabilities.

6. Property, Equipment and Improvements

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

	January 27, 2013	April 30, 2012
Land and buildings	$23,399	$10,600
Computer equipment	53,164	49,215
Office equipment, furniture and fixtures	5,341	4,833
Machinery and equipment	339,990	301,084
Leasehold property and improvements	32,383	30,809
Total	454,277	396,541
Accumulated depreciation and amortization	(261,896)	(232,724)
Property, equipment and improvements (net)	$192,381	$163,817

7. Intangible Assets Including Goodwill

The following table reflects intangible assets subject to amortization as of January 27, 2013 and April 30, 2012 (in thousands):

	January 27, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	$102,804	$(80,444)	$22,360
Purchased trade name	1,623	(1,274)	349
Purchased customer relationships	30,637	(10,809)	19,828
Purchased internal use software, backlog and in-process research and development	3,771	(1,589)	2,182
Purchased patents	1,477	(373)	1,104
Total	$140,312	$(94,489)	$45,823

	April 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	$92,564	$(75,242)	$17,322
Purchased trade name	2,072	(1,229)	843
Purchased customer relationships	32,974	(8,407)	24,567
Purchased internal use software, backlog and in-process research and development	2,156	(1,130)	1,026
Purchased patents	1,651	(232)	1,419
Total	$131,417	$(86,240)	$45,177

During the second quarter of fiscal 2013, the Company recorded approximately $13.4 million of purchased intangible assets related to its acquisition of Red-C (see "Note 3. Acquisitions"). During the three months ended January 27, 2013, a purchase price allocation adjustment of $220,000 was recorded. This adjustment relates to changes in the provisional acquisition-date measurements of intangible assets, goodwill and deferred income tax liabilities.

During the third quarter of fiscal 2013, the Company recorded a $4.9 million charge for the impairment of long-lived assets as a result of adjusting the carrying value of certain purchased intangible assets to their estimated fair values based on their

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potential expected sale in the future. The adjusted carrying values of these asset disposal groups, which are held for sale, are not presented separately herein, as otherwise required by ASC 360 Property, Plant and Equipment, because they are not material to the Company's consolidated financial statements.

The amortization expense on intangible assets for the three and nine months ended January 27, 2013 was $3.0 million and $8.3 million, respectively. The amortization expense on intangible assets for the three and nine months ended January 29, 2012, was $2.6 million and $7.4 million, respectively.

Estimated remaining amortization expense for each of the next five fiscal years ending April 30, is as follows (in thousands):

Year	Amount
2013 (remainder of year)	$2,761
2014	9,351
2015	8,413
2016	8,149
2017	6,122
2018	4,206
2019 and beyond	6,821
Total	$45,823

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

	Total	
Balance as of April 30, 2012	$81,431	
Addition related to acquisition of Red-C (Note 3)	16,563	
Balance at July 29, 2012	$97,994	
Acquisition consideration allocation adjustment	(6,896	)
Balance at October 28, 2012	$91,098	
Acquisition consideration allocation adjustment	453	
Balance at January 27, 2013	91,551	

8. Investments

The following table presents a summary of the Company's investments measured at fair value on a recurring basis as of January 27, 2013 (in thousands):

Assets Measured at Fair Value on a Recurring Basis	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Cash equivalents				
Money market funds	$157	$—	$—	$157
Cash	—	—	—	265,297
Total cash and cash equivalents				$265,454

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The following table presents a summary of the Company's investments measured at fair value on a recurring basis as of April 30, 2012 (in thousands):

Assets Measured at Fair Value on a Recurring Basis	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Remaining Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Cash equivalents				
Money market funds	$15,156	$—	$—	$15,156
Cash	—	—	—	219,388
Total cash and cash equivalents				$234,544

The gross realized gains and losses for the three and nine months ended January 27, 2013 and January 29, 2012 were immaterial. Realized gains and losses are calculated using the specific identification method.

9. Minority Investments

The carrying value of minority investments at both January 27, 2013 and April 30, 2012 was $884,000 and was comprised of the Company's minority investment in one privately held company accounted for under the cost method. The Company's investment in this company was primarily motivated by its desire to gain 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.

10. Debt

As a result of the acquisition of Ignis in fiscal 2012, the Company's consolidated liabilities included certain loan obligations of Ignis' Korean subsidiary to three Korean banks under which an acquisition-date aggregate principal balance of approximately $2.5 million was outstanding, with interest rates ranging from 4.5% to 6.7% per annum. In addition, during the first quarter of fiscal 2012, this subsidiary entered into a $1.8 million loan agreement with a Korean bank. Borrowings under this loan bore interest at variable rates based on the 4-month KORIBOR plus 0.33%. These loans required monthly interest payments with all principal payable at maturity. The remaining principal balance outstanding under these loans as of April 30, 2012 was $3.2 million. These loans were fully repaid in May 2012 and June 2012.

11. Revolving Credit Facility

On October 2, 2009, the Company entered into an agreement with Wells Fargo Foothill, LLC to establish a four-year $70 million senior secured revolving credit facility. Borrowings under the credit facility bore interest at rates based on the prime rate and LIBOR plus variable margins and were guaranteed by the Company's U.S. subsidiaries and secured by substantially all of the assets of the Company and its U.S. subsidiaries. The credit facility was scheduled to mature four years following the date of the agreement, subject to certain conditions. On October 17, 2012, the Company gave notice of its voluntary early termination of this facility, which became effective October 31, 2012.

12. 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 based at the time revenue is recognized. Factors that affect the Company's warranty liability include the historical and anticipated rates of warranty claims. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

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Changes in the Company's warranty liability during the following period were as follows (in thousands):

	Nine Months Ended January 27, 2013
Beginning balance at April 30, 2012	$3,926
Additions during the period based on product sold	3,969
Additions during the period due to Red-C acquisition (Note 3)	166
Settlements and expirations	(2,668)
Ending balance at January 27, 2013	$5,393

13. Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments presents amounts that have been determined using available market information and appropriate valuation methodologies. The estimated fair values of the Company's financial instruments as of January 27, 2013 and April 30, 2012 were as follows (in thousands):

	January 27, 2013					April 30, 2012				
	Carrying Amount	Level 1	Level 2	Level 3	Fair Value	Carrying Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:										
Cash and cash equivalents	$265,454	$265,454	$—	$—	$265,454	$234,544	$234,544	$—	$—	$234,544
Total	$265,454	$265,454	$—	$—	$265,454	$234,544	$234,544	$—	$—	$234,544
Financial liabilities:										
Convertible debt	$40,015	$64,674	$—	$—	$64,674	$40,015	$73,688	$—	$—	$73,688
Debt	—	—	—	—	—	3,150	3,150	—	—	3,150
Contingent consideration	6,851	—	—	6,851	6,851	—	—	—	0	0
Total	$46,866	$64,674	$—	$6,851	$71,525	$43,165	$76,838	$—	$—	$76,838

Cash and cash equivalents - The fair value of cash and cash equivalents approximates its carrying value.

Convertible debt - The fair value of the 5% Convertible Notes is based on the market price in the open market as of or close to the respective 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.

Debt - The fair value of the debt is determined by discounting the contractual cash flows at the current rates charged for similar debt instruments.

Contingent consideration - The fair value of the contingent consideration is estimated using a probability-weighted discounted cash flow model. (See "Note 3. Acquisitions").

The Company has not estimated the fair value of its minority investment in one privately held company as it is not practicable to estimate the fair value of this investment because of the lack of a quoted market price and the inability to estimate fair value without incurring excessive costs. As of January 27, 2013, the carrying value of the Company's minority investment in this privately held company was $884,000, which management believes is not impaired.

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The following table presents a reconciliation of the beginning and ending balances of the Company's liabilities measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended January 27, 2013 (in thousands), consisting of contingent consideration recorded in connection with the acquisition of Red-C:

	Nine Months Ended January 27, 2013
Balance at April 30, 2012	$—
Additions due to acquisition of Red-C (See Note 3)	6,851
Accretion	191
Balance at January 27, 2013	$7,042

14. Stockholders' Equity

The following table summarizes share-based compensation expense related to employee stock options and employee stock purchases for the three and nine months ended January 27, 2013 and January 29, 2012 which was reflected in the Company's operating results (in thousands):

	Three Months Ended		Nine Months Ended	
	January 27, 2013	January 29, 2012	January 27, 2013	January 29, 2012
Cost of revenues	$1,992	$1,479	$5,058	$4,759
Research and development	2,401	2,044	8,323	6,282
Sales and marketing	830	708	2,786	2,232
General and administrative	2,167	1,696	7,814	5,522
Total	$7,390	$5,927	$23,981	$18,795

The total share-based compensation capitalized as part of inventory as of January 27, 2013 was $1.5 million.

During the three months ended January 27, 2013, 237,832 shares of common stock were issued under the Company's Employee Stock Purchase Plan and options to purchase 64,262 shares of common stock were exercised under the Company's Stock Incentive Plan. During the nine months ended January 27, 2013, 577,136 shares of common stock were issued under the Company's Employee Stock Purchase Plan and options to purchase 176,806 shares of common stock were exercised under the Company's Stock Incentive Plan. The number of restricted stock units issued during the three and nine months ended January 27, 2013 was 107,676 and 1,141,107, respectively.

As of January 27, 2013, total compensation expense, net of estimated forfeitures, related to unvested stock options and restricted stock units not yet recognized was approximately $98.3 million, which is expected to be recognized in the Company's operating results over a weighted average period of 28 months.

15. Income Taxes

The Company recorded provisions for income taxes of $2.2 million and $875,000, respectively, for the three months ended January 27, 2013 and January 29, 2012, and provisions for income taxes of $1.7 million and $2.8 million, respectively, for the nine months ended January 27, 2013 and January 29, 2012. The income tax provisions for the three and nine months ended January 27, 2013 and January 29, 2012 include state taxes and foreign income taxes arising in certain foreign jurisdictions in which the Company conducts business.

The Company records a valuation allowance against its deferred tax assets for each period in which management concludes that it is more likely than not that the deferred tax assets will not be realized. Realization of the Company's net deferred tax assets is dependent upon future taxable income, the amount and timing 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 91% of total deferred tax assets as of January 27, 2013, which management does not believe are more likely than not to be realized in future periods.

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Utilization of the Company's net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations set forth by Internal Revenue Code Sections 382 and 383 and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss and tax credit carryforwards before full utilization.

The Company's total gross unrecognized tax benefit as of April 30, 2012 and January 27, 2013 was $14.6 million. Excluding the effects of recorded valuation allowances for deferred tax assets, $12.2 million of the unrecognized tax benefits would favorably impact the effective tax rate in future periods if recognized.

Due to the Company's taxable loss position in previous years, all tax years since inception are subject to examination in the U.S. federal and state jurisdictions. The Company is also subject to examinations in various foreign jurisdictions, none of which were individually material. It is the Company's belief that no significant changes in the unrecognized tax benefit positions will occur through April 30, 2013.

The Company records interest and penalties related to unrecognized tax benefits in income tax expense. At January 27, 2013, there were no accrued interest or penalties related to uncertain tax positions.

16. Segment Information

The Company has one reportable segment consisting of optical subsystems and components.

17. Restructuring Charges

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

The following table summarizes the activities of the restructuring accrual during the first nine months of fiscal 2013 (in thousands):

Balance as of April 30, 2012	$3,505	
Cash payments, net of sublease income	(207	)
Balance as of January 27, 2013	$3,298	

Of the $3.3 million remaining accrual, $305,000 is expected to be paid in the next twelve months and $3.0 million is expected to be paid from fiscal 2014 through fiscal 2020.

18. Pending Litigation

The Company is a party to several pending legal proceedings described below. In each of these proceedings in which the Company is a defendant, the Company believes that it has strong defenses and intends to vigorously defend the action. As of the date of this report, the Company does not believe it is reasonably possible that losses related to any of these cases have been incurred in excess of the amounts, if any, that have been accrued as of January 27, 2013. However, the litigation process is inherently uncertain, and accordingly, the Company cannot predict the outcome of any of these matters with certainty. Future developments in one or more of these matters may cause the Company to revise its estimates and related accruals in future periods.

Class Action and Shareholder Derivative Litigation

March 8, 2011 Earnings Announcement Cases

Several securities class action lawsuits related to the Company's March 8, 2011 earnings announcement alleging claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 have been filed in the United States

District Court for the Northern District of California on behalf of a purported class of persons who purchased stock between December 1 or 2, 2010 through March 8, 2011. The named defendants are the Company and its Chairman of the Board, Chief Executive Officer and Chief Financial Officer. To date, no specific amount of damages have been alleged. The cases have been consolidated, lead plaintiffs have been appointed and a consolidated complaint has been 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 February 6, 2013. The Company has filed a renewed motion to dismiss the case and this motion is pending.

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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.

Stock Option Cases

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

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

Cheetah Omni Litigation

Customer Texas Litigation

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

Finisar has received a request for indemnification from all six customer defendants with respect to the two patents mentioned above. The Company is currently evaluating the requests for indemnification. On November 19, 2012, the United States District Court in the Finisar Michigan litigation described below issued an order enjoining Cheetah Omni from continuing to pursue its claims against Finisar customers in the Texas litigation with respect to the two patents asserted against products containing a Finisar WSS. As a result, these Texas claims have been stayed pending the outcome of the Michigan litigation. If such a stay is later lifted, the Company expects that the defendant customers will defend the lawsuit vigorously at least with respect to the claims that implicate any Finisar products. However, there can be no assurance that they will be successful in their defense and, if they are not successful with respect to the two patents mentioned above, Finisar may be liable to indemnify the accused customers for significant costs and damages. Even if the defense is successful, the Company may incur substantial legal fees and other costs in defending and/or aiding in the defense of the lawsuit with respect to the two patents mentioned above. Further, the lawsuit could divert the efforts and attention of the Company's management and technical personnel, which could harm its business.

Finisar Michigan Litigation

On December 23, 2011, the Company filed a declaratory judgment action in the United States District Court for the Eastern District of Michigan seeking a declaration of invalidity and non-infringement by Finisar and its customers of four Cheetah Omni patents, including the two patents implicating the Company's WSS that are asserted against Finisar customers in the case described above that is currently pending in the Eastern District of Texas. On February 27, 2012, Cheetah Omni filed its answer to the complaint in which it denied the allegations of invalidity with respect to the four patents at issue. However, in its initial answer Cheetah Omni did not deny any of the allegations of non-infringement in the Company's complaint. Cheetah Omni also did not include any counterclaims. Before Cheetah Omni's answer was filed, on February 24, 2012, the Company filed a motion seeking to enjoin Cheetah Omni's pending claims implicating the Company's WSS asserted against the Company's customers in the Eastern District of Texas case described above and for leave to file a motion for summary judgment of non-infringement. This motion with respect to the requested injunction was granted on November 19, 2012 as described above with respect to the customer Michigan litigation. The motion for leave to file a motion for summary judgment has been denied pending completion of claim construction. After Cheetah Omni's answer was filed, the Company filed a motion for judgment on the pleadings in favor of the Company, and Cheetah Omni filed a motion requesting permission to add counterclaims of infringement by the Company's WSS devices. The motion for judgment on the pleadings has been denied. The motion for permission to add counterclaims of infringement was granted and Cheetah Omni added claims accusing the Company's WSS devices of infringement of the two Cheetah Omni patents. The Company intends to defend the counterclaims vigorously. However, there can be no assurance that the defense will be successful and, if the defense is not successful, Finisar may be liable for substantial damages. Even if the defense is successful, the Company may incur substantial legal fees and other costs in defending the counterclaims. Further, the lawsuit could divert the efforts and attention of the Company's management and technical personnel, which could harm its business.

Thomas Swan Litigation

On February 26, 2013, Thomas Swan & Co. Ltd. filed a complaint for patent infringement in the United States District Court for the Eastern District of Texas against the Company. The complaint alleges that Finisar's WSS products, ROADM line cards containing a Finisar WSS, and Waveshaper products infringe four related Thomas Swan patents. The Company has performed an initial review of the asserted patents and believes that the patent claims are not infringed and/or invalid. The Company intends to defend this lawsuit vigorously. However, there can be no assurance that the defense will be successful and, if the defense is not successful, Finisar may be liable for substantial damages.

Even if the defense is successful, the Company may incur substantial legal fees and other costs in defending the counterclaims. 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.

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19. 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.

Historically, the Company has not made any significant indemnification payments under such arrangements. The Company believes the fair value of these indemnification agreements is immaterial. Accordingly, the Company has not recorded any liabilities for these agreements as of January 27, 2013.

20. Related Party Transaction

During the three and nine months ended January 27, 2013, the Company paid $50,466 and $152,690, respectively, in cash compensation to a company owned by Guy Gertel, the brother of the Chief Executive Officer of the Company, for sales and marketing services. In addition, during the first quarter of fiscal 2013, the Company granted to Mr. Gertel, for no additional consideration, 3,814 restricted stock units with a fair market value of $49,086, which vest as follows: 25% on June 14, 2013 and an additional 25% on each of the next three annual anniversaries thereafter, to be fully vested on June 14, 2016, subject to him continuing to provide services to Finisar.

During the three and nine months ended January 29, 2012, the Company paid Mr. Gertel's company $45,300 and $175,600, respectively, in cash compensation. In addition, during the first quarter of fiscal 2013, the Company granted to Mr. Gertel, for no additional consideration, 2,000 restricted stock units with a fair market value of $29,300, which vest as follows: 25% on June 20, 2012 and an additional 25% on each of the next three anniversaries thereafter, to be fully vested on June 20, 2015, subject to him continuing to provide services to Finisar.

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

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 these 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 “Part II. Other Information, 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.

The following discussion should be read together with our condensed consolidated financial statements and related notes thereto included elsewhere in this report.

Business Overview

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

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

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 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 wire line and wireless networks. Mobile traffic is increasing as the result of proliferation of smart phones, tablet computers, and other mobile devices.

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

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

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Recent Developments

Acquisition of Red-C

On July 16, 2012, we acquired all outstanding equity interests in Red-C Optical Networks, Inc., ("Red-C"), a Delaware Corporation, with subsidiary operations in Tel Aviv, Israel, engaged in research, development and marketing of optical amplifiers and sub-systems for the wavelength division multiplexing, or WDM, optical communication sector. The acquisition will enable the Company to broaden its product lines primarily for telecom applications by adding key amplification technologies, including erbium doped fiber amplification, or EDFA, Raman amplification and dynamic hybrid amplification. These technologies are considered critical for reconfigurable optical add-drop multiplexer, or ROADM, line cards and are increasingly important in cost-effectively extending the reach of transceivers and transponders especially for 100 Gbps and 40 Gbps coherent transmission, ultra-long repeaterless links, and low latency networks. For additional information regarding this acquisition, see "Part I, Item 1, Financial Statements - Note 3. Acquisitions."

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make judgments, estimates and assumptions in the preparation of our consolidated financial statements and accompanying notes. Actual results could differ from those estimates. We believe there have been no significant changes in our critical accounting policies from those described in our Annual Report on Form 10-K for the fiscal year ended April 30, 2012.

Results of Operations

The following table sets forth certain statement of operations data as a percentage of revenues for the periods indicated:

	Three Months Ended		Nine Months Ended	
	January 27, 2013	January 29, 2012	January 27, 2013	January 29, 2012
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	70.6	70.1	71.8	70.2
Amortization of acquired developed technology	0.8	0.7	0.8	0.7
Gross profit	28.6	29.2	27.4	29.1
Operating expenses:				
Research and development	16.7	15.0	17.0	15.2
Sales and marketing	4.4	4.4	4.5	4.3
General and administrative	5.4	4.8	5.7	5.5
Restructuring recoveries	—	—	—	—
Amortization of purchased intangibles	0.4	0.4	0.4	0.4
Impairment of long-lived assets	2.0	—	0.7	—
Total operating expenses	28.9	24.6	28.3	25.4
Income (loss) from operations	(0.3)	4.7	(0.9)	3.7
Interest income	0.1	0.1	0.1	0.1
Interest expense	(0.3)	(0.4)	(0.3)	(0.4)
Loss on debt extinguishment	—	—	—	(0.1)
Other income (expense), net	(0.1)	(0.1)	—	0.6
Income (loss) before income taxes and non-controlling interest	(0.6)	4.3	(1.1)	3.9

Provision for income taxes	0.9	0.4	0.3	0.4
Consolidated net income (loss)	(1.5)	3.9	(1.4)	3.5
Adjust for net income attributable to non-controlling interest	0.1	(0.2)	—	(0.1)
Net income (loss) attributable to Finisar Corporation	(1.4)%	3.7 %	(1.4)%	3.4 %

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Revenues. Revenues decreased $4.6 million, or 1.9%, to $238.4 million in the quarter ended January 27, 2013 compared to $243.0 million in the quarter ended January 29, 2012. Revenues decreased $21.8 million, or 3.1%, to $690.9 million in the nine months ended January 27, 2013 compared to $712.7 million in the nine months ended January 29, 2012.

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

	Three Months Ended			
	January 27, 2013	January 29, 2012	Change	% Change
Datacom revenue	$147,670	$133,661	$14,009	10.5 %
Telecom revenue	90,681	109,293	(18,612)	(17.0)%
Total revenues	$238,351	$242,954	$(4,603)	(1.9)%

	Nine Months Ended			
	January 27, 2013	January 29, 2012	Change	% Change
Datacom revenue	$426,976	$391,254	$35,722	9.1 %
Telecom revenue	263,942	321,415	(57,473)	(17.9)%
Total revenues	$690,918	$712,669	$(21,751)	(3.1)%

Datacom revenue for the three and nine months ended January 27, 2013 increased compared to the three and nine months ended January 29, 2012 primarily due to an increase in market demand as enterprises upgraded their technology infrastructure driving demand for the products of our OEM system customers and thus higher demand for our datacom module products. Telecom revenue decreased for the three and nine months ended January 27, 2013, primarily due to a decline in market demand for our telecom products due to sluggish spending by telecom service providers.

Amortization of Acquired Developed Technology. Amortization of acquired developed technology, a component of cost of revenues, increased $293,000, or 17.9%, to $1.9 million in the quarter ended January 27, 2013 compared to $1.6 million in the quarter ended January 29, 2012. The increase was due to the amortization of the acquired developed technology related to the Red-C acquisition. Amortization of acquired developed technology increased $406,000, or 8.5%, to $5.2 million in the nine months ended January 27, 2013 compared to $4.8 million for the nine months ended January 29, 2012. The increase was due to the amortization of the acquired developed technology related to the Red-C acquisition partially offset by the roll-off of amortization of certain intangible assets related to one of our prior acquisitions.

Gross Profit. Gross profit decreased $3.1 million, or 4.3%, to $68.0 million in the quarter ended January 27, 2013 compared to $71.1 million in the quarter ended January 29, 2012. Gross profit as a percentage of revenues decreased by 0.8%, from 29.3% in the quarter ended January 29, 2012 to 28.5% in the quarter ended January 27, 2013. We recorded charges of $7.2 million for obsolete and excess inventory in the quarter ended January 27, 2013 compared to $5.5 million in the quarter ended January 29, 2012. We sold inventory that was written-off in previous periods resulting in a benefit of $5.3 million in the quarter ended January 27, 2013 and $3.2 million in the quarter ended January 29, 2012. As a result, we recognized a net charge of $1.9 million in the quarter ended January 27, 2013 compared to a net charge of $2.3 million in the quarter ended January 29, 2012. Cost of revenues included stock-based compensation charges of $2.0 million in the quarter ended January 27, 2013 and $1.5 million in the quarter ended January 29, 2012. The decrease in gross margin primarily reflects a decline in average selling prices.

Gross profit decreased $18.1 million, or 8.7%, to $189.7 million in the nine months ended January 27, 2013 compared to $207.9 million in the nine months ended January 29, 2012. Gross profit as a percentage of revenues decreased by

1.7%, from 29.2% in the nine months ended January 29, 2012 to 27.5% in the nine months ended January 27, 2013. We recorded charges of $24.5 million for obsolete and excess inventory in the nine months ended January 27, 2013 compared to $16.9 million in the nine months ended January 29, 2012. We sold inventory that was written-off in previous periods resulting in a benefit of $15.4 million in the nine months ended January 27, 2013 and $10.2 million in the nine months ended January 29, 2012. As a result, we recognized a net charge of $9.1 million in the nine months ended January 27, 2013 compared to a net charge of $6.7 million in the nine months ended January 29, 2012. Cost of revenues included stock-based compensation charges of $5.1 million in the nine months ended January 27, 2013 and $4.8 million in the nine months ended January 29, 2012. The decrease in gross margin primarily reflects a decline in average selling prices.

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Research and Development Expenses. Research and development expenses increased $3.3 million, or 8.9%, to $39.7 million in the quarter ended January 27, 2013 compared to $36.5 million in the quarter ended January 29, 2012. The increase was due primarily to increase in material costs related to new product development projects. Included in research and development expenses were stock-based compensation charges of $2.4 million in the quarter ended January 27, 2013 and $2.0 million in the quarter ended January 29, 2012. Research and development expenses as a percent of revenues increased to 16.7% in the quarter ended January 27, 2013 compared to 15.0% in the quarter ended January 29, 2012.

Research and development expenses increased $8.9 million, or 8.2%, to $117.5 million in the nine months ended January 27, 2013 compared to $108.6 million in the nine months ended January 29, 2012. The increase was due primarily to increases in employee compensation related expenses and material costs related to new product development projects. Included in research and development expenses were stock-based compensation charges of $8.3 million in the nine months ended January 27, 2013 and $6.3 million in the nine months ended January 29, 2012. Research and development expenses as a percent of revenues increased to 17.0% in the nine months ended January 27, 2013 compared to 15.2% in the nine months ended January 29, 2012.

Sales and Marketing Expenses. Sales and marketing expenses decreased $201,000, or 1.9%, to $10.4 million in the quarter ended January 27, 2013 compared to $10.6 million in the quarter ended January 29, 2012. The decrease was primarily due to decrease in employee compensation related expenses. Included in sales and marketing expenses were stock-based compensation charges of $830,000 in the quarter ended January 27, 2013 and $708,000 in the quarter ended January 29, 2012. Sales and marketing expenses as a percent of revenues remained stable at 4.4% in the quarter ended January 27, 2013 compared to the quarter ended January 29, 2012.

Sales and marketing expenses increased $1.0 million, or 3.2%, to $31.3 million in the nine months ended January 27, 2013 compared to $30.3 million in the nine months ended January 29, 2012. The increase was primarily due to increase in stock-based compensation expenses. Included in sales and marketing expenses were stock-based compensation charges of $2.8 million in the nine months ended January 27, 2013 and $2.2 million in the nine months ended January 29, 2012. Sales and marketing expenses as a percent of revenues increased to 4.5% in the nine months ended January 27, 2013 compared to 4.3% in the nine months ended January 29, 2012.

General and Administrative Expenses. General and administrative expenses increased $1.0 million, or 8.8%, to $12.8 million in the quarter ended January 27, 2013 compared to $11.8 million in the quarter ended January 29, 2012. The increase was primarily due to increases in stock-based compensation expenses and legal costs. Included in general and administrative expenses were stock-based compensation charges of $2.2 million in the quarter ended January 27, 2013 and $1.7 million in the quarter ended January 29, 2012. General and administrative expenses as a percent of revenues increased to 5.4% in the quarter ended January 27, 2013 compared to 4.8% in the quarter ended January 29, 2012.

General and administrative expenses decreased $433,000, or 1.1%, to $39.1 million in the nine months ended January 27, 2013 compared to $39.5 million in the nine months ended January 29, 2012. The decrease was due to a $1.1 million reduction in transaction-related expenses, as we incurred $499,000 in transaction costs in connection with the acquisition of Red-C in the nine months ended January 27, 2013 compared to $1.6 million incurred in connection with the acquisition of Ignis in the nine months ended January 29, 2012. This reduction, as well as a reduction in legal costs was partially offset by higher stock-based compensation expense. Included in general and administrative expenses were stock-based compensation charges of $7.8 million in the nine months ended January 27, 2013 and $5.5 million in the nine months ended January 29, 2012. General and administrative expenses as a percent of revenues increased to 5.7% in the nine months ended January 27, 2013 compared to 5.5% in the nine months ended January 29, 2012.

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

Amortization of Purchased Intangibles. Amortization of purchased intangibles increased $76,000, or 7.9%, to $1.0 million in the quarter ended January 27, 2013 compared to $959,000 in the quarter ended January 29, 2012. The increase was due to the amortization of intangibles related to the acquisition of Red-C.

Amortization of purchased intangibles increased $309,000, or 11.9%, to $2.9 million in the nine months ended January 27, 2013 compared to $2.6 million in the nine months ended January 29, 2012. The increase was due to the amortization of intangibles related to the acquisition of Red-C.

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Impairment of Long-lived Assets. During the quarter ended January 27, 2013, we recorded a $4.9 million charge for the impairment of long-lived assets as a result of adjusting the carrying value of certain purchased intangible assets to their estimated fair values based on their potential expected sale in the future.

Interest Income. Interest income increased $35,000 to $186,000 in the quarter ended January 27, 2013 compared to $151,000 in the quarter ended January 29, 2012. Interest income increased due to higher cash balances in the quarter ended January 27, 2013 compared to the quarter ended January 29, 2012.

Interest income increased $133,000 to $544,000 in the nine months ended January 27, 2013 compared to $411,000 in the nine months ended January 29, 2012. Interest income increased due to higher cash balances in the nine months ended January 27, 2013 compared to the nine months ended January 29, 2012.

Interest Expense. Interest expense decreased $214,000, or 24.8%, to $648,000 in the quarter ended January 27, 2013 compared to $862,000 in the quarter ended January 29, 2012. The decrease was primarily due to repayments of Ignis loans during fiscal 2012 and the first quarter of fiscal 2013.

Interest expense decreased $866,000, or 29.7%, to $2.0 million in the nine months ended January 27, 2013 compared to $2.9 million in the nine months ended January 29, 2012. The decrease was primarily due to repayments of Ignis loans during fiscal 2012 and the first quarter of fiscal 2013.

Loss on Debt Extinguishment. During the first quarter of fiscal 2012, we repaid certain bank loans that we assumed as part of the Ignis acquisition. The repayment of these loans resulted in a loss of $419,000 which we recognized in our condensed consolidated statement of operations for the nine months ended January 29, 2012.

Other Income (Expense), Net. Other expense, net was $275,000 in the quarter ended January 27, 2013 compared to $355,000 in the quarter ended January 29, 2012. Other expense, net in the quarter ended January 27, 2013 primarily consisted of foreign exchange losses. Other expense, net in the quarter ended January 29, 2012 primarily consisted of $189,000 in amortization of debt issuance costs and foreign exchange losses of $97,000.

Other expense, net was $295,000 in the nine months ended January 27, 2013 compared to other income, net of $4.2 million in the nine months ended January 29, 2012. Other expense, net in the nine months ended January 27, 2013 primarily consisted of the acceleration of debt issuance costs related to the revolving credit facility which we terminated. Other income, net in the nine months ended January 29, 2012 primarily consisted of a gain of $5.4 million related to the fair-value measurement of our equity interest in Ignis upon obtaining a controlling interest in May 2011, partially offset by $567,000 in amortization of debt issuance costs and $619,000 representing our portion of the net losses of Ignis during the period prior to our acquisition of a controlling interest, during which period we accounted for our investment in Ignis using the equity method of accounting.

Non-controlling Interest. Non-controlling interest for the three and nine months ended January 27, 2013 and January 29, 2012 represents minority shareholders' proportionate share of the net income of Finisar Korea (formerly, Fi-ra, the Korean subsidiary of Ignis).

Provision for Income Taxes. We recorded income tax provisions of $2.2 million and $875,000, respectively, for the quarters ended January 27, 2013 and January 29, 2012 and income tax provisions of $1.7 million and $2.8 million, respectively, for the nine months ended January 27, 2013 and January 29, 2012. The income tax provisions for the three and nine months ended January 27, 2013 and January 29, 2012 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 have recorded 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.

Liquidity and Capital Resources

Cash Flows from Operating Activities

Net cash provided by operating activities was $102.9 million in the nine months ended January 27, 2013, compared to $32.2 million in the nine months ended January 29, 2012. Cash provided by operating activities in the nine months ended January 27, 2013 consisted of our net loss, as adjusted to exclude depreciation, amortization and other non-cash items totaling $78.7 million, less cash used for working capital requirements primarily related to decrease in accounts payable offset by decreases in accounts receivable and inventory. Accounts receivable decreased by $15.6 million primarily due to strong collections during the nine months ended January 27, 2013. Inventory decreased by $18.5 million primarily due to usage in the manufacturing

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process. Cash provided by operating activities in the nine months ended January 29, 2012 consisted of our net income, as adjusted to exclude depreciation, amortization and other non-cash items totaling to $56.9 million and cash used for working capital, primarily related to increases in accounts receivable, inventory and accounts payable. Accounts receivable decreased by $1.4 million primarily due to strong collections near the end of the third quarter. Inventory increased by $27.9 million and accounts payable increased $1.9 million due to increased purchases to support projected levels of sales.

Cash Flows from Investing Activities

Net cash used in investing activities totaled $75.4 million in the nine months ended January 27, 2013 compared to $121.9 million in the nine months ended January 29, 2012. Net cash used in investing activities in the nine months ended January 27, 2013 primarily consisted of $20.6 million related to the acquisition of Red-C and $65.3 million of expenditures for capital equipment, partially offset by $10.5 million in proceeds from the sale of a minority interest in a privately-held company. Net cash used in investing activities in the nine months ended January 29, 2012 consisted of $71.1 million related to the acquisition of Ignis and $50.8 million of expenditures for capital equipment.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled $3.4 million in the nine months ended January 27, 2013 compared to net cash used in financing activities of $6.7 million in the nine months ended January 29, 2012. Cash provided by financing activities for the nine months ended January 27, 2013 primarily reflected proceeds from the issuance of shares under employee stock option and stock purchase plans totaling $6.6 million offset by repayments of borrowings related to the Ignis acquisition totaling $3.2 million. Net cash used in financing activities for the nine months ended January 29, 2012 reflected repayments of borrowings related to the Ignis acquisition totaling $14.4 million, partially offset by proceeds from the exercise of stock options and purchases under our stock purchase plan totaling $6.0 million and additional borrowings of $1.8 million by Finisar Korea.

Contractual Obligations and Commercial Commitments

At January 27, 2013, we had contractual obligations of $177.2 million as shown in the following table (in thousands):

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Convertible debt	$40,015	$—	$40,015	$—	$—
Interest on debt (a)	4,002	2,001	2,001	—	—
Operating leases (b)	41,589	12,532	11,715	8,645	8,697
Facility construction	14,395	14,395	—	—	—
Purchase obligations (c)	77,157	77,157	—	—	—
Total contractual obligations	$177,158	$106,085	$53,731	$8,645	$8,697

(a) Includes interest to October 2014 on our 5% Convertible Senior Notes due October 2029 as we have the right to redeem the notes in whole or in part at any time on or after October 22, 2014.
(b) Includes 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.

Convertible debt consists of a series of convertible senior notes in the aggregate principal amount of $40.0 million due October 15, 2029. The notes are convertible by the holders at any time prior to maturity into shares of our common stock at specified conversion prices. The notes are redeemable by us, in whole or in part at any time on or after October 22, 2014 if the last reported sale price per share of our common stock exceeds 130% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days ending within five trading days of the date on which we provide the notice of redemption. These notes are also subject to redemption by the holders in October 2014, 2016, 2019 and 2024.

Interest on debt consists of the scheduled interest payments on our convertible debt.

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

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

Purchase obligations represent all open purchase orders and contractual obligations in the ordinary course of business for which we have not received the goods or services. Although open purchase orders are considered enforceable and legally binding, their terms generally allow us the option to cancel, reschedule and adjust our requirements based on our business needs prior to the delivery of goods or performance of services. Our policy with respect to all non-cancelable purchase obligations is to record losses, if any, when they are probable and reasonably estimable. Our subcontractors purchase materials based on forecasts provided by us. We record a liability for firm, non-cancelable and unconditional purchase commitments for quantities held by subcontractors on our behalf to fulfill the subcontractors' purchase order obligations at their facilities which are in excess of our future demand forecasts. As of January 27, 2013, the liability for these purchase commitments of $1.8 million has been expensed and recorded on the condensed consolidated balance sheet as other accrued liabilities and is not included in the preceding table. We believe we have made adequate provisions for potential exposure related to inventory purchases for orders that may not be utilized.

Sources of Liquidity and Capital Resource Requirements

At January 27, 2013, our principal sources of liquidity consisted of $265.5 million of cash and cash equivalents. Cash and cash equivalents totaling $53.3 million was held by our foreign subsidiaries as of January 27, 2013.

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 5% Convertible Senior Notes due 2029, in the aggregate principal amount of $40.0 million, which are subject to redemption by the holders at their option in October 2014, 2016, 2019 and 2024. 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 January 27, 2013 and April 30, 2012, 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 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting Finisar, see Item 7A: “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K for the fiscal year ended April 30, 2012. Our exposure related to market risk has not changed materially since April 30, 2012.

Item 4. Controls and Procedures

Evaluation of Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chairman of the Board, our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chairman of the Board, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

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Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended January 27, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to “Part I, Item 1, Financial Statements - Note 18. Pending Litigation” for descriptions of pending legal proceedings, including material developments in certain of those proceedings during the quarter ended January 27, 2013.

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES. THE RISK FACTORS DESCRIBED BELOW DO NOT CONTAIN ANY MATERIAL CHANGES FROM THOSE PREVIOUSLY DISCLOSED IN ITEM 1A OF OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED APRIL 30, 2012.

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:

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

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

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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. In this event, it is likely that the trading price of our common stock would significantly decline.

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 are not meaningful and should not be relied upon as indications of future performance. Any shortfall in revenues or net income from levels expected by the investment community could cause a decline in the trading price of our stock.

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

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 convertible debt in the aggregate principal amount of $40 million, which is subject to redemption by the holders in October 2014, 2016, 2019 and 2024. 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.

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

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

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

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

We are dependent on widespread market acceptance of our optical subsystems and components, and our revenues will decline if the markets for these products do not expand as expected.

We derive all of our revenue from sales of our optical subsystems and components. Accordingly, widespread acceptance of these products is critical to our future success. If the market does not continue to accept our optical subsystems and components, our revenues will decline significantly. Our future success also 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. As part of that growth, 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

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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.

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

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

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

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

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

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

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

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

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

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and the need for higher and more cost-effective bandwidth increases. The introduction of new and enhanced products may cause our customers to defer or cancel orders for existing products. In addition, a slowdown in demand for existing products ahead of a new product introduction could result in a write-down in the value of inventory on hand related to existing products and/or a charge for the impairment of long-lived assets related to such products. We have in the past experienced a slowdown in demand for existing products and delays in new product development and such delays may occur in the future. To the extent customers defer or cancel orders for existing products due to a slowdown in demand or in the expectation of a new product release or if there is any delay in development or introduction of our new products or enhancements of our products, our operating results would suffer. We also may not be able to develop the underlying core technologies necessary to create new products and enhancements, or to license these technologies from third parties. Product development delays may result from numerous factors, including:

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

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

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

The end markets for optical products have experienced significant industry consolidation during the past few years while the
industry that supplies these customers has experienced less consolidation. As a result, the markets for optical subsystems and components are highly competitive. Our current competitors include a number of domestic and international companies, many of which have substantially greater financial, technical, marketing and distribution resources and brand name recognition than we have. Increased consolidation in our industry, should it occur, will reduce the number of our competitors but would be likely to further strengthen surviving industry participants. We may not be able to compete successfully against either current or future competitors. Companies competing with us may introduce products that are competitively priced, have increased performance or functionality, or incorporate technological advances and may be able to react quicker to changing customer requirements and expectations. There is also the risk that network systems vendors may re-enter the subsystem market and begin to manufacture the optical subsystems incorporated in their network systems. Increased competition could result in significant price erosion, reduced revenue, lower margins or loss of market share, any of which would significantly harm our business. Our principal competitors for data communication applications include Avago Technologies, JDS Uniphase and Opnext. Our principal competitors for telecommunication applications include JDS Uniphase, Oclaro, Opnext and Sumitomo. 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 April 30, 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

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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.

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

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 facility is located in Malaysia. We currently operate smaller facilities in Australia, China, Israel, Korea and Sweden, and we are planning to build an expanded manufacturing facility in China. We also rely on several contract manufacturers located in Asia for our supply of key subassemblies. Conducting business outside the United States subjects us to a number of additional risks and challenges, including:

- periodic changes in a specific country's or region's economic conditions, such as recession;
- compliance with a wide variety of domestic and foreign laws and regulations and unexpected changes in those laws and regulatory requirements, including uncertainties regarding taxes, tariffs, quotas, export controls, export licenses and other trade barriers;
- certification requirements;

- environmental regulations;
- 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.

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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.

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.

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

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

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

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

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

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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 and Red-C in July 2012, we have completed the acquisition of ten privately-held companies and certain businesses and assets from six 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 19 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 2012, we have written off all of the goodwill associated with our past acquisitions with the exception of the recently completed acquisitions of Ignis and Red-C. We cannot assure you that we will be successful in overcoming problems encountered in connection with the recent Ignis acquisition or potential future acquisitions, and our inability to do so could significantly harm our business. In addition, to the extent that the economic benefits associated with the Ignis acquisition or any of our future acquisitions diminish in the future, we may be required to record additional write downs of goodwill, intangible assets or other assets associated with such acquisitions, which would adversely affect our operating results.

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

Since inception we have made minority equity investments in a number of early-stage technology companies, totaling approximately $61.9 million. Our investments in these early stage companies were primarily motivated by our desire to gain early access to new technology. We intend to review additional opportunities to make strategic equity investments in pre-public companies where we believe such investments will provide us with opportunities to gain access to important technologies or otherwise enhance important commercial relationships. We have little or no influence over the early-stage companies in which we have made or may make these strategic, minority equity investments. Each of these investments in pre-public companies involves a high degree of risk. We may not be successful in achieving the financial, technological or commercial advantage upon which any given investment is premised, and failure by the early-stage company to achieve its own business objectives or to raise capital needed on acceptable economic terms could result in a loss of all or part of our invested capital. Between fiscal 2003 and 2012, 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 $884,000 in such investments remaining on our balance sheet as of January 27, 2013 in future periods.

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

As of April 30, 2012, we had net operating loss, or NOL, carryforward amounts of approximately $442.9 million for U.S. federal income tax purposes and $160.5 million for state income tax purposes, and tax credit carryforward amounts of approximately $19.9 million for U.S. federal income tax purposes and $12.6 million for state income tax purposes. The federal and state tax credit carryforwards will expire at various dates beginning in 2014 through 2030, and $600,000 of such carryforwards will expire in the next five years. The federal and state NOL carryforwards will expire at various dates beginning

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in 2015 through 2029, and $94.6 million of such carryforwards will expire in the next five years. Utilization of these NOL and tax credit carryforward amounts may be subject to a substantial annual limitation if the ownership change limitations under Sections 382 and 383 of the Internal Revenue Code and similar state provisions are triggered by changes in the ownership of our capital stock. Such an annual limitation could result in the expiration of the NOL and tax credit carryforward amounts before utilization.

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

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

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

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

The networking 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 the past as a defendant in patent infringement lawsuits, and we were recently found liable in a patent infringement lawsuit involving two of our cable TV products, each of which has subsequently been redesigned. In addition, in connection with a patent infringement lawsuit that we initiated in January 2010, the defendants raised counterclaims alleging patent infringement by us, and in a later case, the defendant also raised patent infringement counterclaims against us. In connection with our settlement of two of the cases, we received royalty free licenses

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to the patents involved. While, as a result of various procedural events in the 2010 lawsuit and a tolling agreement between the parties, certain patent counterclaims are not currently being asserted against us, such claims could be re-asserted against us in the future. From time to time, other parties may assert 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 user of our products in combination with other products that such use infringes proprietary rights of third parties could cause users to choose to not or be required to not utilize our products in such combination, which could harm our sales of such products. Any claims, against us or any use of our products, with or without merit, could be time-consuming, result in costly litigation, divert the efforts of our technical and management personnel, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could significantly harm our business. In addition, our agreements with our customers typically require us to indemnify our customers from any expense or liability resulting from claimed infringement of third party intellectual property rights. In the event a claim against us was successful and we could not obtain a license to the relevant technology on acceptable terms or license a substitute technology or redesign our products to avoid infringement, our business would be significantly harmed.

Numerous patents in our industry are held by others, including academic institutions and competitors. 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.

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. We also have been named as a nominal defendant in several shareholder derivative lawsuits filed in 2011 concerning our March 8, 2011 earnings announcement and filed in 2007 concerning the granting of stock options. No specific amounts of damages have been alleged in the class action lawsuits and, by the nature of the lawsuits, no damages will be alleged against Finisar in the derivative lawsuits.

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

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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 January 27, 2013, we had outstanding 5.0% Convertible Senior Notes due 2029 in the principal amount of $40.0 million. These notes are convertible, at the option of the holder, at any time on or prior to maturity into shares of our common stock at a conversion price of 10.68 per share. An aggregate of approximately 3,748,478 shares of common stock would be issued upon the conversion of all outstanding convertible notes at this conversion price, which would dilute the voting power and ownership percentage of our existing stockholders. We have previously entered into privately negotiated transactions with certain holders of our convertible notes for the repurchase of notes in exchange for a greater number of shares of our common stock than would have been issued had the principal amount of the notes been converted at the original conversion rate specified in the notes, thus resulting in more dilution. We may enter into similar transactions in the future and, if we do so, there will be additional dilution to the voting power and percentage ownership of our existing stockholders.

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

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

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

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

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

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 6. Exhibits

The exhibits listed in the Exhibit Index are filed as part of this report (see page 42).

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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 (Co-Principal Executive Officer)

By: /s/ EITAN GERTEL
Eitan Gertel
Chief Executive officer (Co-Principal Executive Officer)

By: /s/ KURT ADZEMA
Kurt Adzema
Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Dated: March 8, 2013

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EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chairman of the Board Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
10.2	Summary of the principal terms of the lease agreement - Wuxi, China
10.3	Summary of the principal terms of the contract for state-owned construction land use right assignment - Wuxi, China
10.4	Summary of the principal terms of the lease agreement - Jarfalla, Sweden
10.5	Summary of the principal terms of the lease agreement - Tel Aviv, Israel
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 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.