FINISAR CORP
Form 10-K
June 28, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended April 30, 2011
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to

000-27999
(Commission File No.)
Finisar Corporation
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	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

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common stock, $.001 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
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 (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

As of October 31, 2010 the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $1,295,451,602 based on the closing sales price of the registrant's common stock as reported on the NASDAQ Stock Market on October 29, 2010 of $17.03 per share. Shares of common stock held by officers, directors and holders of more than ten percent of the outstanding common stock have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of June 9, 2011, there were 89,945,953 shares of the registrant's common stock, $.001 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2011 annual meeting of stockholders are incorporated by reference in Part III hereof.

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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 “Item 1A. Risk Factors.” We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events.

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PART I

Item 1. Business

Overview

We are a leading provider of optical subsystems and components that are used to interconnect equipment in short-distance local area networks, or LANs, storage area networks, or SANs, longer distance metropolitan area networks, or MANs, fiber-to-the-home networks, or FTTx, cable television networks, or CATV, and wide area networks, or WANs. Our optical subsystems consist primarily of transmitters, receivers, transceivers and transponders which provide the fundamental optical-electrical interface for connecting the equipment used in building these networks, including switches, routers and file 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 circuit design and novel packaging technology 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 100 Gbps, using a wide range of network protocols and physical configurations over distances of 70 meters to 200 kilometers. 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-gigabit bandwidth over several wavelengths on the same fiber. We also provide products known as wavelength selective switches, or WSS, that are used for dynamically switching network traffic from one optical wavelength to another across multiple wavelengths without first converting to an electrical signal. These products are sometimes combined with other components and sold as linecards, also known as reconfigurable optical add/drop multiplexers, or ROADMs. Our line of optical components consists primarily of packaged lasers and photodetectors used in transceivers, primarily for LAN and SAN applications, and passive optical components used in building MANs. 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 that must be handled by both wireline and wireless networks.

Our manufacturing operations are vertically integrated and we utilize internal sources for many of the key components used in making our products including lasers, photodetectors and integrated circuits, or ICs, designed by our own 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 telecommunications equipment or their contract manufacturers, such as Alcatel-Lucent, Brocade, Cisco Systems, EMC, Emulex, Ericsson, Hewlett-Packard Company, Huawei, IBM, Juniper, Qlogic, Siemens and Tellabs. These customers, in turn, sell their systems to businesses and to wireline and wireless telecommunications service providers and cable TV operators, collectively referred to as carriers.

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

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

Industry Background and Markets

Industry Background

Computer networks are frequently described in terms of the distance they span and by the hardware and software protocols used to transport and store data. The physical medium through which signals are best transmitted over these networks depends on the amount of data to be transmitted, expressed as Gbps, and the distance involved. Voice-grade copper wire can only support connections of about 1.2 miles without the use of repeaters to amplify the signal, whereas optical systems can carry signals in excess of 60 miles without further processing. Early computer networks had relatively limited performance requirements, short connection distances and low transmission speeds and, therefore, relied almost exclusively on copper wire as the medium of choice. At speeds of more than 1 Gbps, the

ability of copper wire to transmit more than 300 meters is limited due to the loss of signal over distance as well as interference from external signal generating equipment. The proliferation of electronic commerce, communications and broadband entertainment has resulted in the digitization and accumulation of enormous amounts of data. Thus, while copper continues to be the primary medium used for delivering signals to the desktop, even at 1 Gbps, the need to quickly transmit, store and retrieve large blocks of data across networks in a cost-effective manner has increasingly required enterprises and service providers to use fiber optic technology to transmit data at higher speeds over greater distances and to expand the capacity, or bandwith, of their networks. There are three principal categories of networks: LANs and SANs, MANs and WANs.

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LANs and SANs

A LAN typically consists of a group of computers and other devices that share the resources of one or more processors or servers within a small geographic area and are connected through the use of hubs (used for broadcasting data within a LAN), switches (used for sending data to a specific destination in a LAN) and routers (used as gateways to route data packets between two or more LANs or other large networks). LANs typically use the Ethernet protocol to transport data packets across the network at distances of up to 500 meters at speeds of 1 to 10 Gbps.

A SAN is a high-speed subnetwork embedded within a LAN where critical data stored on devices such as disk arrays, optical disks and tape backup devices is made available to all servers on the LAN thereby freeing the network servers to deliver business applications, increasing network capacity and improving response time. SANs were originally developed using the Fibre Channel protocol designed for storing and retrieving large blocks of data. A number of new storage technologies have been introduced to lower the cost and complexity of deploying Fibre Channel-based storage networks. Since its introduction in 2003, small and medium size storage networks have been developed based on the Internet Small Computer System Interface protocol, or iSCSI. In 2007, the Fibre Channel over Ethernet standard, or FCoE, was introduced which enables Fibre Channel data packets to be encapsulated within Enhanced Ethernet frames. This standard utilizes the additional bandwidth created at transmission speeds of 10 Gbps and higher to combine different types of data traffic for storage (Fibre Channel), LAN traffic (TCP/IP) and various server clustering protocols (Infiniband) that previously required their own separate infrastructure within a data center. As a result, FCoE enables the creation of a single converged network within a data center, rather than two or three networks as previously required. In addition, the FCoE protocol utilizes recently developed Ethernet-based technology for transmitting signals at speeds of 40 and 100 Gbps.

Due to the cost effectiveness of the optical technologies involved, transceivers for both LANs and SANs have been developed using vertical cavity surface emitting lasers, or VCSELs, to transmit and receive signals at the 850 nanometer, or nm, wavelength over relatively short distances through multi-mode fiber. Most LANs and SANs operating today at 1, 2, 4 and 8 Gbps over distances of up to 70 meters, incorporate this VCSEL technology. The same technology is now being employed to build FCoE and iSCSI-based LANs and SANs operating at 10 Gbps.

A new market has emerged in recent years for the use of parallel optics technologies for high-capacity telecommunications applications to connect with core internet protocol, or IP, routers, in the data center to interconnect SANs and servers and for high-performance computing clusters. This technology makes use of an array of lasers and photodetectors, instead of one per transceiver, to boost the amount of data that can be transmitted over a single fiber over very short distances. Optical interconnects provide an attractive alternative to bulky copper cables as data rate and port densities increase allowing for fewer connections. Like the transceivers used for LANs and SANs, parallel optical solutions rely primarily on the use of VCSEL technology. A variation of parallel optics technology called active optical cable, or AOC, was introduced by several vendors in late 2007. These products eliminate the use of fiber connectors used in other parallel optical modules by bonding the fibers directly to the optical subassembly.

The demand for optical subsystems and components used in building LANs and SANs is driven primarily by the need of business enterprises to meet the increasing demands for information which must be stored and retrieved in a timely manner and made available to users located within a building or campus. Because SANs enable the sharing of resources thereby reducing the required investment in storage infrastructure, the continued growth in stored data is expected to result in the ongoing centralization of storage and the need to deploy larger SANs. The centralization of storage, in turn, is increasing the demand for higher-bandwidth solutions to provide faster, more efficient interconnection of data storage systems with servers and LANs as well as the need to connect at higher speeds over longer distances for disaster recovery applications.

MANs and WANs

A MAN is a regional data network typically covering an area of up to 50 kilometers in diameter that allows the sharing of computing resources on a regional basis within a town or city. These Metro networks are typically arranged in a ring configuration that can ultimately transmit data around metropolitan areas over hundreds of kilometers. MANs typically use the SONET and SDH communications standards to encapsulate data to be transmitted over fiber optic cable due to the widespread use of this standard in legacy telecommunication networks. However, increasingly, wavelength division multiplexing (or WDM) is used to increase the throughput on a given fiber. MANs can also be

built using the Ethernet standard, also known as Metro Ethernet, which can typically result in savings to the network operator in terms of network infrastructure and operating costs. The demand for products used to build MANs is driven primarily by service providers as they seek to upgrade or build new networks to handle the growth in the bandwidth demands of business and residential users.

The portion of a MAN that connects a LAN or SAN to a public data network is frequently referred to as the Last Mile or Access portion of a network. There are several means that carriers employ to provide integrated voice, video and data services to customers over this portion of the network. The more popular means include CATV and passive optical networks, or PONs.

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Both PONs and CATV employ the use of fiber optic technologies in providing these services. Today, there are three standardized versions of PON based on network speeds: Broadband PON, or BPON, operating at .6 Gbps, Ethernet PON, or EPON, operating at 1 Gbps and Gigabit PON, or GPON, operating at 2.5 Gbps.
CATV is a shared cable system that uses RF signals to deliver services over a tree-and-branch topology in which multiple households within a neighborhood share the same cable. While early CATV systems were all coaxial cable, current systems increasingly employ fiber optic cable to overcome attenuation of signals over long distances and problems related to aging components. Fiber optic cable also provides more bandwidth for future expansion. This dual system is called a hybrid fiber coax, or HFC. Due to the shared-nature of a CATV network and the use of RF signal technology, these networks typically utilize analog lasers in conjunction with optical amplifiers to deliver these services.
A wide area network, or WAN, is a geographically dispersed data communications network that typically includes the use of a public shared user network such as the telephone system, although a WAN can also be built using leased lines or satellites. Similar to MANs, a terrestrial WAN uses the SONET/SDH communications standard to transmit information over longer distances due to its use in legacy telecommunication networks.
Demand for Optical Products Used in Wireless Networks
Wireless networks typically use fiber optic transmission to backhaul wireless traffic to the central office for switching. According to the Cisco Visual Network Index, mobile data traffic alone is expected to roughly double each year from 2008 through 2013 largely as a result of the deployment of mobile network devices which offer enhanced communication services, including the ability to download video files as well as offering voice, data and internet connectivity. To meet these bandwidth demands, next generation wireless networks, or 3G, are being deployed which expand the use of fiber optic technologies from backhauling mobile traffic out of base stations to being used in cellular towers to reduce the weight of copper-based solutions while expanding their bandwidth capabilities.

Business Strategy
We have become a leading supplier of optical products to manufacturers of LAN and SAN networking equipment due in part to our early work in the development of the Fibre Channel standard in the mid-1990s as well as our pioneering work in developing transceivers using VCSEL technology. As part of our business strategy, we continue to actively serve on various standards committees in helping to influence the use of new cost-effective optical technologies. In more recent years, we have become a leading vendor in SONET/SDH, WDM and ROADM networking equipment, due largely to our efforts with respect to XFP form factor modules, our expertise in designing tunable modules, and our novel approach to WSS modules using liquid crystal on silicon, or LCoS.
We have developed a vertically integrated business model that operates best when our module and laser production facilities are highly utilized. In order to maintain our position as a leading supplier of fiber optic subsystems and components, we are continuing to pursue the following business strategies:

- Continue to Invest in or Acquire Critical Technologies. Our years of engineering experience, our multi-disciplinary technical expertise and our participation in the development of industry standards have enabled us to become a leader in the design and development of fiber optic subsystems and components. We have developed and acquired critical skills that we believe are essential to maintain a technological lead in our markets including high speed semiconductor laser design and wafer fabrication, complex logic and mixed signal integrated circuit design, optical subassembly design, software coding, system design, and manufacturing test design. In the process of investing in or acquiring critical technologies, we have obtained a number of U.S. and foreign patents with other patent applications pending. We intend to maintain our technological leadership through continual enhancement of our existing products and the development or acquisition of new products, especially those capable of higher speed transmission of data, with greater capacity, over longer distances.
- Expand Our Broad Product Line of Optical Subsystems. We offer one of the broadest portfolios of optical subsystems which support a wide range of speeds, fiber types, voltages, wavelengths, distances and functionality and are available in a variety of industry standard packaging configurations, or form factors. Our optical subsystems are designed to comply with key networking protocols such as Fibre Channel, Gigabit Ethernet (including 1Gig, 10Gig, 40Gig and 100Gig Ethernet) and SONET/SDH and to plug directly into standard port configurations used in our

customers' products. The breadth of our optical subsystems product line is important to many of our customers who are seeking to consolidate their supply sources for a wide range of networking products for diverse applications, and we are focused on the ongoing expansion of our product line to add key products to meet our customers' needs, particularly for 10Gig Ethernet and SONET/SDH applications. Where time-to-market considerations are especially important in order to secure or enhance our supplier relationships with key customers, we may elect to acquire additional product lines.

• Leverage Core Competencies Across Multiple, High-Growth Markets. We believe that fiber optic technology will

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remain the transmission technology of choice for multiple data communication markets, including 1 Gigabit Ethernet and 10Gig, 40Gig and 100Gig Ethernet-based LANs and MANs, Fibre Channel-based SANs and SONET/SDH-based MANs and WANs. These markets are characterized by differentiated applications with unique design criteria such as product function, performance, cost, in-system monitoring, size limitations, physical medium and software. We intend to target opportunities where our core competencies in high-speed data transmission protocols can be leveraged into leadership positions as these technologies are extended across multiple data communications applications and into other markets and industries such as automotive and consumer electronics products.

- Strengthen and Expand Customer Relationships. Over the past 20 years, we have established valuable relationships and a loyal base of customers by providing high-quality products and superior service. Our service-oriented approach has allowed us to work closely with leading data and storage network system manufacturers, understand and address their current needs and anticipate their future requirements. We intend to leverage our relationships with our existing customers as they enter new, high-speed data communications markets.
- Continue to Strengthen Our Lower-Cost Manufacturing Capabilities. We believe that new markets can be created by the introduction of new, lower-cost, high value-added products. Lower product costs can be achieved through the introduction of new technologies, product design or market presence. Access to low-cost manufacturing resources is a key factor in the ability to offer a lower-cost product solution. We have manufacturing facilities in Ipoh, Malaysia and Shanghai, China in order to take advantage of lower-cost, off-shore labor while protecting access to our intellectual property and know-how. In addition, access to critical underlying technologies, such as our laser manufacturing and IC design capabilities enables us to accelerate our product development efforts to be able to introduce new low cost products more quickly. We continue to seek ways to lower our production costs through improved product design, improved manufacturing and testing processes and increased vertical integration.

Products

Our optical subsystems are integrated into our customers' systems and used for both short- and intermediate-distance fiber optic communications applications.

Our family of optical subsystem products consists of transmitters, receivers, transceivers and transponders principally based on the Gigabit Ethernet, Fibre Channel and SONET/SDH protocols. A transmitter converts electrical signals into optical signals for transmission over fiber optics. Receivers incorporating photo detectors convert incoming optical signals into electric signals. A transceiver combines both transmitter and receiver functions in a single device. A transponder includes an IC to provide the serializer-deserializer function that otherwise resides in the customer's equipment if a transceiver is used. Our optical subsystem products perform these functions with high reliability and data integrity and support a wide range of protocols, transmission speeds, fiber types, wavelengths, transmission distances, physical configurations and software enhancements.

Our high-speed fiber optic subsystems are engineered to deliver value-added functionality and intelligence. Most of our optical subsystem products include a microprocessor with proprietary embedded software that allows customers to monitor transmitted and received optical power, temperature, drive current and other link parameters of each port on their systems in real time. In addition, our intelligent optical subsystems are used by some enterprise networking and storage system manufacturers to enhance the ability of their systems to diagnose and correct abnormalities in fiber optic networks.

For SAN applications which rely on the Fibre Channel standard, we currently provide a wide range of optical subsystems for transmission applications at 1 to 8 Gbps. We currently provide optical subsystems for data networking applications for LANs and MANs based on the Ethernet standard for transmitting signals at 1 to 10 Gbps using the SFP, SFP+, and XFP form factors. We offer products for 10 Gbps Ethernet solutions using the legacy Xenpak and newer X2 form factors which make use of the XAUI electrical interface. For SONET/SDH-based MANs, we supply optical subsystems which are capable of transmitting at 2.5, 10 and 40 Gbps. We also offer products that operate at less than 1 Gbps for these SONET/SDH networks.

We also offer a full line of optical subsystems for MANs using wavelength division multiplexing, or WDM technologies. Our coarse wavelength division multiplexing, or CWDM, subsystems include every major optical transport component needed to support a MAN, including transceivers, optical add/drop multiplexers, or OADMs, for

adding and dropping wavelengths in a network without the need to convert to an electrical signal and multiplexers/demultiplexers for SONET/SDH, Gigabit Ethernet and Fibre Channel protocols. CWDM-based optical subsystems allow network operators to scale the amount of bandwidth offered on an incremental basis, thus providing additional cost savings during the early stages of deploying new IP-based systems. For dense wavelength division multiplexing, or DWDM systems, we offer DWDM-based transceivers in the SFP, XFP and 300 pin form factors.

As a result of several acquisitions, we have gained access to leading-edge technology for the manufacture of a number of active and passive optical components including VCSELs, FP lasers, DFB lasers, PIN detectors, fused fiber couplers, isolators,

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filters, polarization beam combiners, interleavers and linear semiconductor optical amplifiers. Most of these optical components are used internally in the manufacture of our optical subsystems. We currently sell VCSELs and limited quantities of other components in the so-called "merchant market" to other subsystems manufacturers.
We recently began to offer products used in building fiber-to-the-home/curb networks and for parallel optics applications such as backplanes for switches and routers.
We offer a WSS ROADM, a dynamic wavelength processor in a highly configurable platform for wavelength management in a DWDM telecommunications network. These capabilities are made possible in part through the use of unique LCoS technology currently used in making microdisplays and certain projection television sets. This technology provides a highly flexible WSS switch capable of operating on both 50 and 100 GHz International Telecommunications Union grids, the capability for in-service upgrades of functionality and integration of additional system functionality, including drop and continue, channel monitoring and channel contouring.

Customers

To date, our revenues have been principally derived from sales of optical subsystems and components to a broad base of original equipment manufacturers, or OEMs, distributors and system integrators. Sales of products for LAN and SAN applications represented 39%, 43% and 44% of our total revenues in fiscal 2011, 2010 and 2009, respectively. Sales to our five largest customers represented 48%, 43% and 42% of our total revenues during fiscal 2011, 2010 and 2009 respectively. Three customers, Cisco Systems, Huawei and Alcatel-Lucent, each represented more than 10% of our total revenues during fiscal 2011. One customer, Cisco Systems, represented more than 10% of total revenues during each of fiscal 2010 and fiscal 2009. No other customer accounted for more than 10% of our total revenues in any of these years.

Technology

The development of high quality fiber optic subsystems and components for high-speed data communications requires multidisciplinary expertise in the following technology areas:
High Frequency Integrated Circuit Design. Our fiber optic subsystems development efforts are supported by an engineering team that specialized in analog/digital integrated circuit design. This group works in both silicon, or Si, CMOS, and silicon germanium, or SiGe, BiCMOS, semiconductor technologies where circuit element frequencies are very fast and can be as high as 40 Gbps. We have designed proprietary circuits including laser drivers, receiver pre-and post-amplifiers and controller circuits for handling digital diagnostics at 1, 2, 4, 8, 10 and 49 Gbps. We are also investing in designing LCoS based ICs for our WSS products. These advanced semiconductor devices provide significant cost advantages and will be critical in the development of future products capable of even faster data rates.
Optical Subassembly and Mechanical Design. We established ourselves as a low-cost design leader beginning with our initial Gbps optical subsystems in 1992. From that base we have developed single-mode laser alignment approaches and low-cost, all-metal packaging techniques for improved EMI performance and environmental tolerance. We develop our own component and packaging designs and integrate these designs with proprietary manufacturing processes that allow our products to be manufactured in high volume.
System Design. The design of all of our products requires a combination of sophisticated technical competencies — optical engineering, high-speed electrical design, digital and analog application specific IC, or ASIC design and firmware and software engineering. We have built an organization of people with skills in all of these areas. It is the integration of these technical competencies that enables us to produce products that meet the needs of our customers. Our combination of these technical competencies has enabled us to design and manufacture optical modules and subsystems.
Manufacturing System Design. Hardware, firmware and software design skills are utilized to provide specialized manufacturing test systems for our internal use. These test systems are optimized for test capacity and broad test coverage. We use automated, software-controlled testing to enhance the field reliability of all Finisar products and to reduce the level of capital expenditures that would otherwise be required to purchase these test systems.
Optoelectronic Device Design and Wafer Fabrication. The ability to manufacture our own optical components can provide significant cost savings while the ability to create unique component designs, enhances our competitive position in terms of performance, time-to-market and intellectual property. We design and manufacture a number of

active components that are used in our optical subsystems. Our acquisition of Honeywell's VCSEL Optical Products business unit in March 2004 provided us with wafer fabrication capability for designing and manufacturing all of the 850nm VCSEL components used in our short distance transceivers for LAN and SAN applications. These applications represented approximately 39% of our optical subsystem revenues in fiscal 2011. The acquisition of Genoa Corporation in April 2003 provided us with a state-of-the-art foundry for the manufacture of PIN detectors and 1310 nm FP and DFB lasers used in our longer distance transceivers,

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although we continue to rely on third-party suppliers for a portion of our DFB laser requirements. These longer distance transceiver products comprised approximately 45% of our optical subsystem revenues in fiscal 2011.

Competition

Several of our competitors in the optical subsystems and components market have recently been acquired or announced plans to be acquired. These announcements reflect an ongoing realignment of industry capacity with market demand in order to restore the financial health of the optics industry. Despite this trend, the market for optical subsystems and components for use in LANs, SANs, MANs and WANs remains highly competitive. We believe the principal competitive factors in these markets are:

- product performance, features, functionality and reliability;
- price/performance characteristics;
- timeliness of new product introductions;
- breadth of product line;
- adoption of emerging industry standards;
- service and support;
- size and scope of distribution network;
- brand name;
- access to customers; and
- size of installed customer base.

Competition in the market for optical subsystems and components varies by market segment. Our principal competitors for optical transceivers sold for applications based on the Fibre Channel and Ethernet protocols include Avago Technologies (formerly part of Agilent Technologies) and JDS Uniphase. Our principal competitors for optical transceivers sold for MAN, WAN and telecom applications based on the SONET/SDH protocols include Oclaro (formed with the merger of Bookham and Avanex), Opnext and Sumitomo. Our principal competitors for WSS ROADM products include CoAdna, JDS Uniphase, Oclaro and Oplink. Our principal competitors for CATV products include AOI and Emcore. We believe we compete favorably with our competitors with respect to most of the foregoing factors based, in part, upon our broad product line, our sizeable installed base, our significant vertical integration and our lower-cost manufacturing facilities in Ipoh, Malaysia and Shanghai, China. We believe that the recent introduction of a number of products for 10GigE and parallel optics applications and recent design-wins for our WSS ROADM products have strengthened our position in the optical subsystem market.

Sales, Marketing and Technical Support

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

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

- continuing our active participation in industry associations and standards committees to promote and further enhance Gigabit Ethernet, Fibre Channel and SONET/SDH/OTN technologies, promote standardization in the LAN, SAN and MAN markets, and increase our visibility as industry experts; and
- leveraging major trade show events and LAN, SAN and MAN conferences to promote our broad product lines;

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

A high level of continuing service and support is critical to our objective of developing long-term customer relationships. We emphasize customer service and technical support in order to provide our customers and their end users with the knowledge

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and resources necessary to successfully utilize our product line. Our customer service organization utilizes a technical team of field and factory applications engineers, technical marketing personnel and, when required, product design engineers. We provide extensive customer support throughout the qualification and sale process. In addition, we provide many resources through our World Wide Web site, including product documentation and technical information. We intend to continue to provide our customers with comprehensive product support and believe it is critical to remaining competitive.

Backlog

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

Manufacturing

We manufacture most of our optical subsystems at our production facility in Ipoh, Malaysia. This facility consists of 640,000 square feet, of which 240,000 square feet is suitable for cleanroom operations. The acquisition of this facility has allowed us to transfer most of our manufacturing processes from contract manufacturers to a lower-cost manufacturing facility and to maintain greater control over our intellectual property. We expect to continue to use contract manufacturers for a portion of our manufacturing needs. We conduct a portion of our new product introduction operations at our Ipoh, Malaysia facility. We manufacture certain passive optical components used in our long wavelength products for MAN applications as well as ROADM linecards at our 152,000 square foot facility in Shanghai, China. We manufacture our WSS products in our 60,000 square foot facility in Waterloo, Australia and certain CATV and telecommunications products in our 81,000 square foot facility in Horsham, Pennsylvania. We continue to conduct a portion of our new product introduction activities at our Sunnyvale, California and Horsham, Pennsylvania facilities. In Sunnyvale, we also conduct supply chain management for certain components, quality assurance and documentation control operations. We maintain an international purchasing office in Shenzen, China. We conduct wafer fabrication operations for the manufacture of VCSELs used in LAN and SAN applications at our facility in Allen, Texas. We conduct wafer fabrication operations for the manufacture of long wavelength FP and DFB lasers at our facility in Fremont, California.

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

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

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

Research and Development

In fiscal 2011, 2010 and 2009, our research and development expenses related to our continuing operations were $117.3 million, $94.8 million and $80.1 million, respectively. We believe that our future success depends on our ability to continue to enhance our existing products and to develop new products that maintain technological competitiveness. We focus our product development activities on addressing the evolving needs of our customers within the LAN, SAN, MAN and WAN markets, although we also are seeking to leverage our core competencies by developing products for other applications. We work closely

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with our OEMs and system integrators to monitor changes in the marketplace. We design our products around current industry standards and will continue to support emerging standards that are consistent with our product strategy. Our research and development groups are aligned with our various product lines, and we also have specific groups devoted to ASIC design and test, subsystem design, and software design. Our product development operations include the active involvement of our manufacturing engineers who examine each product for its manufacturability, predicted reliability, expected lifetime and manufacturing costs.

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

Intellectual Property

Our success and ability to compete is dependent in part on our proprietary technology. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. We currently own approximately 1,000 issued U.S. patents and approximately 300 patent applications with additional foreign counterparts. We cannot assure you that any patents will issue as a result of pending patent applications or that our issued patents will be upheld. Any infringement of our proprietary rights could result in significant litigation costs, and any failure to adequately protect our proprietary rights could result in our competitors offering similar products, potentially resulting in loss of a competitive advantage and decreased revenues. Despite our efforts to protect our proprietary rights, existing patent, copyright, trademark and trade secret laws afford only limited protection. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States. Attempts may be made to copy or reverse engineer aspects of our products or to obtain and use information that we regard as proprietary. Accordingly, we may not be able to prevent misappropriation of our technology or deter others from developing similar technology. Furthermore, policing the unauthorized use of our products is difficult. We have been involved in extensive litigation to enforce certain of our patents and are currently engaged in such litigation. See “Item 3. Legal Proceedings”. 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. This litigation could result in substantial costs and diversion of resources and could significantly harm our business.

The networking industry is characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. 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. Any such claims, with or without merit, could be time-consuming, result in costly litigation, divert the efforts of our technical and management personnel, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could significantly harm our business. Royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all. In addition, our agreements with our customers typically require us to indemnify our customers from any expense or liability resulting from claimed infringement of third party intellectual property rights. In the event a claim against us was successful and we could not obtain a license to the relevant technology on acceptable terms or license a substitute technology or redesign our products to avoid infringement, our business would be significantly harmed.

Employees

As of April 30, 2011, we employed approximately 8,065 full-time employees and contractors, 712 of whom were located in the United States and 6,778 of whom were located at our production facilities in Ipoh, Malaysia and Shanghai, China. We also from time to time employ part-time employees. Our employees are not represented by any union, and we have never experienced a work stoppage. Certain of our employees in our Waterloo, Australia facility are subject to a collective agreement not involving a union. We believe that there is a positive employee relations environment within the company.

Available Information

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

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Item 1A. Risk Factors

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

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

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

- fluctuation in demand for our products;
- the timing of new product introductions or enhancements by us and our competitors;
- the level of market acceptance of new and enhanced versions of our products;
- the timing 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 telecommunications components markets.

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

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

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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. We are currently encountering such shortages and expect to encounter additional shortages and delays in the future. Recently, many of our suppliers have extended lead times for many of their products as the result of significantly reducing capacity in light of the global slowdown in demand. This reduction in capacity has reduced the ability of many suppliers to respond to increases in demand. 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 services provided by our contract manufacturers or the transition to other suppliers of these 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 initiatives to reduce the cost of revenues planned for 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 and borrowings under our bank credit facility, 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

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stockholders.

Failure to accurately forecast our revenues could result in additional charges for obsolete or excess inventories or non-cancellable 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 be required to record additional 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 including all of the short wavelength VCSEL lasers incorporated in transceivers used for LAN/SAN applications 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 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

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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. For example, sales to our top five customers represented 48% of our revenues in fiscal 2011, 43% of our revenues in fiscal 2010 and 42% of our revenues in fiscal 2009. 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 telecommunications 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 communications, telecommunications and CATV networks. Our future performance will depend on the successful development, introduction and market acceptance of new and enhanced products that address these changes as well as current and potential customer requirements. For example, the market for optical subsystems is currently characterized by a trend toward the adoption of "pluggable" modules and subsystems that do not require customized interconnections and by the development of more complex and integrated optical subsystems. We expect that new technologies will emerge as competition and the need for higher and more cost-effective bandwidth increases. The introduction of new and enhanced products may cause our customers to defer or cancel orders for existing products. In addition, a slowdown in demand for existing products ahead of a new product introduction could result in a write-down in the value of inventory on hand related to existing products. 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

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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 optical transceivers sold for applications based on the Fibre Channel and Ethernet protocols include Avago Technologies and JDS Uniphase. Our principal competitors for optical transceivers sold for MAN, WAN and telecom applications based on the SONET/SDH protocols include Oclaro, Opnext and Sumitomo. Our principal competitors for WSS ROADM products include CoAdna, JDS Uniphase, Oclaro and Oplink. Our principal competitors for cable TV products include AOI and Emcore. 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. Therefore, in order to sustain profitable operations, we must continue to develop and introduce on a timely basis new products that incorporate features that can be sold at higher average selling prices. Failure to do so could cause our revenues and gross margins to decline, which would result in additional operating losses and significantly harm our business.

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

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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.

Our optical products sold for longer distance MAN and telecom applications typically have higher gross margins than our products for shorter distance LAN or SAN applications. 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.

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

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

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

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

We depend on facilities located outside of the United States to manufacture a substantial portion of our products, which subjects us to additional risks.

In addition to our principal manufacturing facility in Malaysia, we operate smaller facilities in Australia, China, Israel and Singapore. We also rely on several contract manufacturers located in Asia for our supply of key subassemblies. Each of these facilities and manufacturers subjects us to additional risks associated with international manufacturing, including:

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- unexpected changes in regulatory requirements;
- legal uncertainties regarding liability, tariffs and other trade barriers;
- inadequate protection of intellectual property in some countries;
- greater incidence of shipping delays;
- greater difficulty in overseeing manufacturing operations;
- greater difficulty in hiring and retaining direct labor;
- greater difficulty in hiring talent needed to oversee manufacturing operations;
- potential political and economic instability; and
- the outbreak of infectious diseases such as the H1N1 influenza virus and/or severe acute respiratory syndrome, or SARS, which could result in travel restrictions or the closure of our facilities or the facilities of our customers and suppliers.

Any of these factors could significantly impair our ability to source our contract manufacturing requirements internationally.

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 and the Israeli shekel. 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 and Iraq or additional terrorist activities and associated political instability, and the impact of heightened security concerns on domestic and international travel and commerce. In particular, due to these uncertainties we are subject to:

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

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

In addition to our combination with Optium in August 2008 and our acquisition of more than 80% of the outstanding shares of Ignis AS in May 2011, 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 18 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.

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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 2011, we have written off all of the goodwill associated with our past acquisitions. 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 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 2010, we wrote off an aggregate of $26.8 million in six 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 $12.3 million in such investments remaining on our balance sheet as of April 30, 2011 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, 2011, we had net operating loss, or NOL, carryforward amounts of approximately $457.4 million for U.S. federal income tax purposes and $160.5 million for state income tax purposes, and tax credit carryforward amounts of approximately $18.5 million for U.S. federal income tax purposes and $11.1 million for state income tax purposes. The federal and state tax credit carryforwards will expire at various dates beginning in 2013 through 2030, and $1.2 million of such carryforwards will expire in the next five years. The federal and state NOL carryforwards will expire at various dates beginning in 2015 through 2029, and $37.4 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.

Because of competition for technical personnel, we may not be able to recruit or retain necessary personnel.

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, technical, sales and marketing, finance and manufacturing personnel. In particular, we will need to increase the number of 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 technical personnel. Our failure to attract and retain these qualified employees could significantly harm our business. The loss of the services of any of our qualified employees, the inability to attract or retain qualified personnel in the future or delays

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in hiring required personnel could hinder the development and introduction of and negatively impact our ability to sell our products. 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 filed against Optium by JDSU and Emcore Corporation. This suit involved two of our CATV products, each of which has been redesigned. In addition, in connection with a patent infringement lawsuit that we initiated in January 2010 against Source Photonics, MRV Communications, NeoPhotonics and Oplink Communications, each of Source Photonics and NeoPhotonics raised counterclaims alleging patent infringement by us. The Source Photonics counterclaims were raised against certain of our transceiver products and the NeoPhotonics counterclaims were raised against certain of our WSS products. In connection with our settlement with Source Photonics, we received a royalty free license to the Source Photonics patents through December 31, 2015. While, as a result of various procedural events in that lawsuit and a tolling agreement between the parties, the NeoPhotonics patent counterclaims are not currently being asserted against us, such claims may be re-asserted against us in the future. Further, on March 7, 2011, Optical Communication Products,

Inc. ("OCP"), a wholly owned subsidiary of Oplink Communications, filed a complaint for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges that certain VCSEL lasers and active optical cables manufactured and sold by us infringe five OCP patents. 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 infringes 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

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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.

March 8, 2011 Earnings Announcement Cases

The securities class action lawsuits related to our March 8, 2011 earnings announcement allege claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934 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 Finisar and our Chairman of the Board, Chief Executive Officer and Chief Financial Officer. To date, no specific amount of damages has been alleged. The cases have been related, and motions to consolidate and appoint lead plaintiffs have been filed and will be heard in September 2011.

The shareholder derivative lawsuits related to our March 8, 2011 earnings announcement have been filed in California state court. The complaints assert claims for alleged breach of fiduciary duty, unjust enrichment, and waste on behalf of Finisar. Named as defendants are the members of our board of directors, including our Chairman of the Board and our Chief Executive Officer and our 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 Finisar. The cases have been consolidated and a lead plaintiff has been appointed to file a consolidated complaint.

Stock Option Cases

The stock option derivative cases have been consolidated into two proceedings pending in federal and state courts in California. The plaintiffs in all of these cases have alleged that certain current or former officers and directors of Finisar caused it to grant stock options at less than fair market value, contrary to our public statements (including statements in our financial statements), and that, as a result, those officers and directors are liable to Finisar. No specific amount of damages has been alleged and, by the derivative nature of the lawsuits, no damages will be alleged, against Finisar. The state court action has been stayed pending resolution of the consolidated federal court action. On August 28, 2007, we and the individual defendants filed motions to dismiss the complaint which were granted on January 11, 2008. On May 12, 2008, the plaintiffs filed a further amended complaint in the federal court action. On July 1, 2008, we and the individual defendants filed motions to dismiss the amended complaint. On September 22, 2009, the District Court granted the motions to dismiss. The plaintiffs appealed this order and on April 26, 2011, a panel of the United States Court of Appeals for the Ninth Circuit reversed the District Court ruling and remanded the case for further proceedings. We and the individual defendants have filed a motion seeking rehearing

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of the case en banc before the full Ninth Circuit.
We will continue to incur legal fees in all of the above class action and shareholder derivative 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, fire, power loss, telecommunications 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. California in particular has been vulnerable to natural disasters, such as earthquakes, fires and floods, and other risks which at times have disrupted the local economy and posed physical risks to our property. We are also dependent on communications links with our overseas manufacturing locations and would be significantly harmed if these links were interrupted for any significant length of time. We presently do not have adequate redundant, multiple site capacity if any of these events were to occur, nor can we be certain that the insurance we maintain against these events would be adequate.

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

As of April 30, 2011, 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 these exchange rates, 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.

In addition, in September 2002, our board of directors adopted a stockholder rights plan under which our stockholders received one share purchase right for each share of our common stock held by them. Subject to certain exceptions, the rights become exercisable when a person or group (other than certain exempt persons) acquires, or announces its intention to

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commence a tender or exchange offer upon completion of which such person or group would acquire, 20% or more of our common stock without prior board approval. Should such an event occur, then, unless the rights are redeemed or have expired, our stockholders, other than the acquirer, will be entitled to purchase shares of our common stock at a 50% discount from its then-Current Market Price (as defined) or, in the case of certain business combinations, purchase the common stock of the acquirer at a 50% discount.

Although we believe that these charter and bylaw provisions, provisions of Delaware law and our stockholder rights plan 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. In addition, our credit facility with Wells Fargo LLC contains restrictions on our ability to pay dividends.

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Our principal facilities are located in California, Pennsylvania, Texas, Malaysia and China. Information regarding our principal properties as of April 30, 2011 is as follows:

Location	Use	Size (Square Feet)
Owned		
Ipoh, Malaysia	Manufacturing operations	640,000
Leased		
Sunnyvale, California	Corporate headquarters, research and development, sales and marketing, general and administrative and limited manufacturing operations	92,000
Fremont, California	Wafer fabrication operations	44,000
Boston, Massachusetts	Research and development	25,000
Champaign, Illinois	Research and development	2,500
Shanghai, China	General administrative and manufacturing operations of our subsidiary, Transwave Fiber (Shanghai) Inc.	152,000
Shenzhen, China	Manufacturing operations	8,659
Beijing, China	Research and development	4,533
Suzhou, China	Research and development and manufacturing operations	6,734
Allen, Texas	Principal manufacturing operations for our AOC division. A portion of this facility is currently subleased.	160,000
Singapore	Research and development and logistics	13,600
Hyderabad, India	Information technology support center	6,230
Horsham, Pennsylvania	Manufacturing, research and development, engineering, sales and administration, executive offices	80,970
Waterloo, Australia	Manufacturing, research and development, engineering, administration offices	60,229
Nes Ziona, Israel	Research and development, engineering and manufacturing operations	16,670

We believe our principal facilities are in good condition and are suitable and adequate to accommodate our needs for the foreseeable future.

Item 3. Legal Proceedings

Oplink/OCP Patent Litigation

On December 10, 2010, we filed a complaint for patent infringement in the United States District Court for the Northern District of California. The complaint alleges that certain optoelectronic transceivers from Oplink Communications, Inc. ("Oplink") and its wholly owned subsidiary Optical Communication Products Inc. ("OCP") infringe eleven Finisar patents. The complaint asks the Court to enter judgment (a) that the defendants have infringed, actively induced infringement of, and/or contributorily infringed the patents-in-suit, (b) preliminarily and permanently enjoining the defendants from further infringement of the patents-in-suit, or, to the extent not so enjoined, ordering the defendants to pay compulsory ongoing royalties for any continuing infringement , (c) ordering that the defendants account, and pay actual damages (but no less than a reasonable royalty), to us for the defendants' infringement, (d) declaring that the defendants are willfully infringing one or more of the patents-in-suit and ordering that the defendants pay treble damages to us, (e) ordering that the defendants pay our costs, expenses, and interest, including prejudgment interest, (f) declaring that this is an exceptional case and awarding us our attorneys' fees and expenses, and (g) granting such other and further relief as the Court deems just and appropriate, or that we may be entitled to as a matter of law or equity.

On March 7, 2011, OCP filed a complaint against us for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges that certain VCSELs and active optical cables manufactured and sold by us infringe five OCP patents. We have answered the complaint denying that we have infringed any of these patents and asserting that the patents are invalid. In addition, we have counterclaimed in the case that certain optoelectronic transceivers from OCP and its parent Oplink infringe five Finisar patents.

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The complaint and the counter complaints each ask the Court to enter judgment (a) holding the accused party(ies) liable for infringement of the asserted patents, (b) that the accused party(ies) account for damages resulting from its infringement of the patents, together with pre-judgment and post-judgment interest, (c) preliminarily and permanently enjoining the accused party(ies) from further infringement of the asserted patents, (d) holding the case to an exceptional case, and awarding the complaining party its attorneys' fees and costs, and (g) granting such other relief as the Court deems just and equitable. We intend to prosecute our lawsuit against Oplink and defend OCP's lawsuit vigorously. However, there can be no assurance that we will be successful in our defense. We are not currently able to estimate a range of possible losses if we are not successful in defending the OCP lawsuit. However, if we are not successful, our business could be materially harmed. Even if we are successful, we may incur substantial legal fees and other costs in defending the lawsuit. Further, the lawsuit could divert the efforts and attention of our management and technical personnel, which could harm our business.

On May 13, 2011, Oplink and OCP filed a complaint in the United States District Court for the Northern District of California seeking a declaration that the products accused of infringement by us in our counterclaims in the Texas lawsuit do not infringe the asserted patents. We intend to seek dismissal of this action as the patents and the accused products are subject to the Texas proceeding.

Class Action and Shareholder Derivative Litigation

March 8, 2011 Earnings Announcement Cases

Several securities class action lawsuits related to our March 8, 2011 earnings announcement alleging claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934 have been filed 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 Finisar and our Chairman of the Board, Chief Executive Officer and Chief Financial Officer. To date, no specific amount of damages has been alleged. The cases have been related, and motions to consolidate and appoint lead plaintiffs have been filed and will be heard in September 2011.

In addition, two shareholder derivative lawsuits related to our March 8, 2011 earnings announcement were filed in California state court. The complaints assert claims for alleged breach of fiduciary duty, unjust enrichment, and waste on behalf of Finisar. Named as defendants are the members of our board of directors, including our Chairman of the Board, Chief Executive Officer and our 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 Finisar. The cases have been consolidated and a lead plaintiff has been appointed to file a consolidated complaint.

Stock Option Cases

On November 30, 2006, we announced that we had undertaken a voluntary review of our historical stock option grant practices subsequent to our 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 our 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 we would likely need to restate our 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. Our management, in conjunction with the Audit Committee, conducted a further review to finalize revised measurement dates and determine the appropriate accounting adjustments to our historical financial statements. The announcement of the investigation resulted in delays in filing our quarterly reports on Form 10-Q for the quarters ended October 29, 2006, January 28, 2007, and January 27, 2008, and our annual report on Form 10-K for the fiscal year ended April 30, 2007. On December 4, 2007, we filed all four of these reports which included revised financial statements.

Following our announcement on November 30, 2006 that the Audit Committee of the board of directors had voluntarily commenced an investigation of our historical stock option grant practices, we were 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 our current or former officers and directors caused us to grant stock options at less than fair market value, contrary to our public statements (including its financial statements), and that, as a result, those

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officers and directors are liable to us. No specific amount of damages have been alleged, and by the nature of the lawsuits, no damages will be alleged against us. On May 22, 2007, the state court granted our motion to stay the state court action 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, we 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. We 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 have 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 for further proceedings. We and the individual defendants have filed a motion seeking rehearing of the case en banc before the full Ninth Circuit.

Securities Class Action

A securities class action lawsuit was filed on November 30, 2001 in the United States District Court for the Southern District of New York, purportedly on behalf of all persons who purchased our common stock from November 17, 1999 through December 6, 2000. The complaint named as defendants us, Jerry S. Rawls, our Chairman of the Board and formerly our President and Chief Executive Officer, Frank H. Levinson, our former Chairman of the Board and Chief Technical Officer, Stephen K. Workman, our former Senior Vice President and Chief Financial Officer, and an investment banking firm that served as an underwriter for our initial public offering in November 1999 and a secondary offering in April 2000. The complaint, as subsequently amended, alleges violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(b) of the Securities Exchange Act of 1934, on the grounds that the prospectuses incorporated in the registration statements for the offerings failed to disclose, among other things, that (i) the underwriter had solicited and received excessive and undisclosed commissions from certain investors in exchange for which the underwriter allocated to those investors material portions of the shares of our stock sold in the offerings and (ii) the underwriter had entered into agreements with customers whereby the underwriter agreed to allocate shares of our stock sold in the offerings to those customers in exchange for which the customers agreed to purchase additional shares of our stock in the after market at pre-determined prices. No specific damages are claimed. Similar allegations have been made in lawsuits relating to more than 300 other initial public offerings conducted in 1999 and 2000, which were consolidated for pretrial purposes. In October 2002, all claims against the individual defendants were dismissed without prejudice. On February 19, 2003, the Court denied defendants' motion to dismiss the complaint.

In February 2009, the parties reached an understanding regarding the principal elements of a settlement, subject to formal documentation and Court approval. Under the settlement, the underwriter defendants will pay a total of $486 million, and the issuer defendants and their insurers will pay a total of $100 million to settle all of the cases. On August 25, 2009, we funded approximately $327,000 with respect to its pro rata share of the issuers' contribution to the settlement and certain costs. This amount was accrued in our consolidated financial statements during the first quarter of fiscal 2011. On October 2, 2009, the Court granted approval of the settlement and on November 19, 2009 the Court entered final judgment. The judgment has been appealed by certain individual class members.

Section 16(b) Lawsuit

A lawsuit was filed on October 3, 2007 in the United States District Court for the Western District of Washington by Vanessa Simmonds, a purported holder of our common stock, against two investment banking firms that served as underwriters for the initial public offering of our common stock in November 1999. None of our officers, directors or employees were named as defendants in the complaint. On February 28, 2008, the plaintiff filed an amended complaint. The complaint, as amended, alleges that: (i) the defendants, other underwriters of the offering, and

unspecified officers, directors and our principal shareholders constituted a “group” that owned in excess of 10% of our outstanding common stock between November 11, 1999 and November 20, 2000; (ii) the defendants were therefore subject to the “short swing” prohibitions of Section 16(b) of the Securities Exchange Act of 1934; and (iii) the defendants engaged in purchases and sales, or sales and purchases, of our common stock within periods of less than six months in violation of the provisions of Section 16(b). The complaint seeks disgorgement of all profits allegedly received by the defendants, with interest and attorneys fees, for transactions in violation of Section 16(b). We as the statutory beneficiary of any potential Section 16(b) recovery, are named as a nominal defendant in the complaint.

This case is one of 54 lawsuits containing similar allegations relating to initial public offerings of technology company issuers, which were coordinated (but not consolidated) by the District Court. On July 25, 2008, the real defendants in all 54 cases filed a consolidated motion to dismiss, and a majority of the nominal defendants (including us) filed a consolidated motion to dismiss, the amended complaints. On March 19, 2009, the District Court dismissed the amended complaints naming

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the nominal defendants that had moved to dismiss, without prejudice, because the plaintiff had not properly demanded action by their respective boards of directors before filing suit; and dismissed the amended complaints naming nominal defendants that had not moved to dismiss, with prejudice, finding the claims time-barred by the applicable statute of limitation. Also on March 19, 2009, the District Court entered judgment against the plaintiff in all 54 cases. The plaintiff appealed the order and judgments. The real defendants cross-appealed the dismissal of certain amended complaints without prejudice, contending that dismissal should have been with prejudice because the amended complaints are barred by the applicable statute of limitation. On December 2, 2010, the United States Court of Appeals for the Ninth Circuit affirmed the District Court's dismissal and further ruled that the dismissal is with prejudice. The plaintiff has filed a writ of certiorari seeking review by the United States Supreme Court.

Other Litigation

In the ordinary course of business, we are 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 our business, financial condition, results of operations or cash flows.

Item 4. (Removed and Reserved)

Executive Officers of the Registrant

Information concerning our current executive officers as of June 15, 2011 is as follows:

Name	Position(s)	Age
Jerry S. Rawls	Chairman of the Board	66
Eitan Gertel	Chief Executive Officer	49
Kurt Adzema	Executive Vice President, Finance and Chief Financial Officer	42
Christopher E. Brown	Executive Vice President, General Counsel and Secretary	43
John H. Clark	Executive Vice President, Technology and Global Research and Development	61
Todd Swanson	Executive Vice President, Sales and Marketing	39
Joseph A. Young	Executive Vice President, Global Operations	54
Mark Colyar	Senior Vice President and General Manager	47

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

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

Kurt Adzema has served as the Company's Executive Vice President, Finance and Chief Financial Officer since January 2011. Mr. Adzema joined the Company in January 2005 and served as the Company's Vice President of Strategy and Corporate Development until March 2010, when he was appointed Senior Vice President, Finance and Chief Financial Officer. Prior to joining the Company, he held various positions at SVB Alliant, a subsidiary of Silicon Valley Bank which advised technology companies on merger and acquisition transactions, at Montgomery

Securities/Banc of America Securities, an investment banking firm, and in the financial restructuring group of Smith Barney. Mr. Adzema holds a B.A. in Mathematics from the University of Michigan and an M.B.A. from the Wharton School at the University of Pennsylvania.

Christopher E. Brown has served as our Vice President, General Counsel and Secretary since the completion of the Optium merger in August 2008 and as Executive Vice President since January 2011. Mr. Brown served as Optium's General

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Counsel and Vice President of Corporate Development from August 2006 through the completion of the merger. Prior to that, Mr. Brown was a partner at the law firm of Goodwin Procter LLP from January 2005 to August 2006, a partner at the law firm of McDermott, Will & Emery from January 2003 to January 2005 and an associate at McDermott, Will & Emery from March 2000 to January 2003. Mr. Brown holds a B.A. in Economics and a B.A. in Political Science from the University of Massachusetts at Amherst and a J.D. from Boston College Law School.

John H. Clark joined Finisar as our Executive Vice President, Technology and Global Research and Development in January 2011. Prior to joining Finisar, Dr. Clark served at Cogo Optronics, Inc., a manufacturer of optical components, as a Director from March 2008 to January 2011, as Chief Strategy Officer from May 2009 to October 2009, and as Executive Chairman from October 2009 to January 2011; at Seagate Corporation, a manufacturer of magnetic and solid state disk drives, as Executive Consultant from March 2006 to March 2008 and as Vice President of SSD Development from March 2008 to May 2009; and at Iolon, Inc., a manufacturer of tunable lasers, as President and Chairman from November 2000 to March 2006. Dr. Clark served at Scientific-Atlanta, Inc., a manufacturer of CATV network equipment, as Chief Operating Officer of its wholly-owned subsidiary ATx Telecom Systems, Inc. from 1996 to 1998 and as Vice President and General Manager of the Optoelectronics Business Unit from 1996 to 2000. Dr. Clark co-founded Amoco Laser Company in 1986 and rose through a series of technical and general management positions to Chief Operating Officer at the time of its sale by Amoco Corporation to Scientific-Atlanta in 1996. Dr. Clark started his career with a joint appointment as Senior Staff Scientist at the Lawrence Berkeley National Laboratory and Assistant Professor of Chemistry at the University of California (UC) Berkeley. Dr. Clark holds a B.A. in Physics and a B.A. in Chemistry from UC Santa Barbara and a Ph.D. in Physical Chemistry from UC Berkeley, and carried out his postdoctoral studies as the Oppenheimer Research Fellow at the Los Alamos National Laboratory.

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

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

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

President of Operations. Mr. Colyar holds a B.S.E.E. from Drexel University.

PART II

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

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

	High	Low
Fiscal 2011 Quarter Ended:		
April 30, 2011	$43.23	$21.14
January 30, 2011	$34.76	$17.01
October 31, 2010	$21.28	$12.24
August 1, 2010	$17.67	$13.00
Fiscal 2010 Quarter Ended:		
April 30, 2010	$16.92	$10.04
January 31, 2010	$11.47	$7.19
November 1, 2009	$10.64	$4.88
August 2, 2009	$6.88	$3.60

According to records of our transfer agent, we had 353 stockholders of record as of May 31, 2011 and we believe there is a substantially greater number of beneficial holders. We have never declared or paid dividends on our common stock and currently do not intend to pay dividends in the foreseeable future so that we may reinvest our earnings in the development of our business. The payment of dividends in the future will be at the discretion of the Board of Directors.

Item 6. Selected Financial Data

You should read the following selected financial data in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation" and our consolidated financial statements and the notes thereto included elsewhere in this report. The statement of operations data set forth below for the fiscal years ended April 30, 2011, 2010 and 2009 and the balance sheet data as of April 30, 2011 and 2010 are derived from, and are qualified by reference to, our audited consolidated financial statements included elsewhere in this report. The statement of operations data set forth below for the fiscal years ended April 30, 2008 and 2007 and the balance sheet data as of April 30, 2009, 2008 and 2007 are derived from audited financial statements not included in this report.

	Fiscal Years Ended April 30,				
	2011	2010	2009	2008	2007
	(In thousands, except per share data)				
Statement of Operations Data:					
Net revenues	$948,787	$629,880	$497,058	$401,625	$381,263
Income (loss) from continuing operations	$88,379	$(22,806)	$(262,492)	$(32,844)	$(41,360)
Income (loss) per share from continuing operations-basic	$1.10	$(0.35)	$(4.99)	$(0.85)	$(1.07)
Income (loss) per share from continuing operations-diluted	$1.00	$(0.35)	$(4.99)	$(0.85)	$(1.07)
Balance Sheet Data:					
Total assets	$885,149	$626,730	$380,388	$479,740	$532,382
Long-term debt	$—	$19,250	$21,412	$5,638	$7,535

Convertible notes	$40,015	$128,839	$134,255	$238,487	$241,946

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation
Management's discussion and analysis of financial condition and results of operation, or MD&A, is provided as a

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supplement to the accompanying consolidated financial statements and footnotes to help provide an understanding of our financial condition, changes in our financial condition and results of operations. The MD&A is organized as follows:

- Forward-looking statements. This section discusses how forward-looking statements made by us in the MD&A and elsewhere in this report are based on management's present expectations about future events and are inherently susceptible to uncertainty and changes in circumstances.
- Business Overview. This section provides an introductory overview and context for the discussion and analysis that follows in MD&A.
- Recent Developments. This section summarizes recent developments that affect our financial condition and operating results.
- Critical Accounting Policies and Estimates. This section discusses those accounting policies that are both considered important to our financial condition and operating results and require significant judgment and estimates on the part of management in their application.
- Results of Operations. This section provides analysis of the Company's results of operations for the three fiscal years ended April 30, 2011. A brief description is provided of transactions and events that impact comparability of the results being analyzed.
- Financial Condition and Liquidity. This section provides an analysis of our cash position and cash flows, as well as a discussion of our financing arrangements and financial commitments.

Forward Looking Statements

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

Business Overview

We are a leading provider of optical subsystems and components that are used to interconnect equipment in short-distance local area networks, or LANs, storage area networks, or SANs, longer distance metropolitan area networks, or MANs, fiber-to-the-home networks, or FTTx, cable television, or CATV, networks and wide area networks, or WANs. Our optical subsystems consist primarily of transmitters, receivers, transceivers and transponders which provide the fundamental optical-electrical interface for connecting the equipment used in building these networks, including switches, routers and file 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 circuit design and novel packaging technology 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 100 Gbps, using a wide range of network protocols and physical configurations over distances of 70 meters to 200 kilometers. 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-gigabit bandwidth over several wavelengths on the same fiber. We also provide products known as wavelength selective switches, or WSS, that are used for dynamically switching network traffic from one optical wavelength to another across multiple wavelengths without first converting to an electrical signal. These products are sometimes combined with other components and sold as linecards, also known as reconfigurable optical add/drop multiplexers, or ROADMs. Our line of optical components consists primarily of packaged lasers and photodetectors used in transceivers, primarily for LAN and SAN applications, and passive optical components used in building MANs. 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 that must be handled by both wireline and wireless networks.

Our manufacturing operations are vertically integrated and we produce many of the key components used in making our products including lasers, photodetectors and integrated circuits, or ICs, designed by our own 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 telecommunications equipment such as Alcatel-Lucent, Brocade, Cisco Systems, EMC, Emulex, Ericsson, Hewlett-Packard Company, Huawei, IBM, Juniper, Qlogic, Siemens 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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Our cost of revenues consists of materials, salaries and related expenses for manufacturing personnel, manufacturing overhead, warranty expense, inventory adjustments for obsolete and excess inventory and the amortization of acquired developed technology associated with acquisitions that we have made. As a result of building a vertically integrated business model, our manufacturing cost structure has become more fixed. While this can be beneficial during periods when demand is strong, it can be more difficult to reduce costs during periods when demand for our products is weak, product mix is unfavorable or selling prices are generally lower. While we have undertaken measures to reduce our operating costs there can be no assurance that we will be able to reduce our cost of revenues enough to achieve or sustain profitability.

Our gross profit margins vary among our product families. Our optical products sold for longer distance MAN and telecom applications typically have higher gross margins than our products for shorter distance LAN and SAN applications. Our overall gross margins have fluctuated from period to period as a result of overall revenue levels, shifts in product mix, the introduction of new products, decreases in average selling prices and our ability to reduce product costs.

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

Recent Developments

Common Stock Offering

On December 27, 2010, we completed the sale of 4,140,000 shares of our common stock at a price to the underwriter of $28.54 per share. Net proceeds to us after deducting offering expenses were $117.9 million.

Private Exchanges of Convertible Notes

In fiscal 2011, we entered into privately-negotiated agreements with existing holders of our 5% Convertible Senior Notes due 2029 (the Notes) to exchange an aggregate of approximately $60.0 million principal amount of the Notes for a total of approximately 5.6 million shares of our common stock, based on the conversion price of the Notes of $10.68 per share, plus 263,428 additional shares, including 24,077 shares issued in payment of accrued and unpaid interest of $840,672. We recognized a loss on debt extinguishment on these conversions of $8.3 million as explained below under "Results of Operations". Following these exchanges, $40.0 million of principal amount of the Notes remained outstanding.

Repayment of Long-term debt

In the third quarter of fiscal 2011, we repaid in full the remaining principal amounts outstanding under our Malaysian and Chinese bank loans. The principal balance outstanding under these loans as of the end of second quarter of fiscal 2011 was $11.8 million and $5.5 million, respectively.

Litigation Settlement and Resolution

In November 2009, following trial in the United States District Court for the Western District of Pennsylvania, Optium Corporation, a wholly-owned subsidiary of Finisar, was found liable for patent infringement. As a result, the Court awarded the plaintiffs, JDSU and Emcore Corporation, approximately $3.4 million in damages plus interest. The judgment was with respect to complaints filed on September 11, 2006 and March 14, 2007 by JDSU and Emcore

alleging that certain cable television transmission products sold by Optium infringed certain U.S. patents. We appealed this judgment to the United States Court of Appeals for the Federal Circuit. On January 26, 2011, the Federal Circuit affirmed the judgment. A petition for rehearing has been filed. Nevertheless, because of the historically low percentage of requests for rehearing that are granted by the Federal Circuit, we recorded a charge for the judgment of approximately $3.5 million as general and administrative expense in the quarterly period ended January 30, 2011. The judgment was paid in full in the fourth quarter of fiscal 2011, following denial of our petition for rehearing .

On September 10, 2010, we entered into a settlement and cross license agreement with Source Photonics, Inc., resolving a lawsuit that we had filed on January 5, 2010, alleging that certain optoelectronic transceivers from Source Photonics, Inc. infringed eleven of our patents. Under the terms of the settlement agreement, Source Photonics paid a license fee to us in the amount of $14.5 million for a fully paid-up license to our digital diagnostics and transceiver module patents through December 31, 2015. Payment in full was made by September 30, 2010. We used present value techniques to discount our estimated historical and future revenue streams of the infringing Source Photonics products and used the discounted revenue

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streams as a basis to allocate the $14.5 million settlement and license payment amount between Source Photonics' historical and future uses of our patents. We determined that $5.6 million of this settlement amount was attributable to past damages, and that amount was recorded as a reduction to general and administrative expenses upon receipt. The remaining $8.9 million was accounted as deferred revenue and will be recognized as license revenue ratably over the remaining license term through December 31, 2015. During the quarter ended October 31, 2010 we incurred $3.2 million in contingent and other legal fees in connection with the settlement of this litigation which was recorded as general and administrative expense.

Investment in Ignis ASA

During the second quarter of fiscal 2011, we purchased 7.3 million shares of Ignis ASA (“Ignis”), a Norwegian company traded on the Oslo Stock Exchange for total consideration of $5.9 million. This investment was carried on our financial statements at its fair value and classified as available for sale. After this investment, we held an ownership position in Ignis of 9.38%. During the fourth quarter of fiscal 2011, we acquired an aggregate of 18.3 million additional shares from certain existing Ignis shareholders for NOK 8 per share in cash, or an aggregate purchase price of NOK 147 million ($26 million). As a result of these purchases, our ownership position in Ignis increased to approximately 32.6%. As a result of this additional investment, we determined that we had acquired the ability to exercise significant influence over Ignis. Therefore, we accounted for this investment using the equity method. Accordingly, our proportionate share of the net loss of Ignis from the date of purchase of the 18.3 million shares, $413,000, has been included in our consolidated statement of operations under other income (expense), net. The aggregate value of these shares as of April 30, 2011 based on the quoted market price was $38.7 million.

On March 22, 2011, we entered into a Transaction Agreement with Ignis, under which we made a recommended voluntary public cash tender offer to acquire all of the outstanding shares of Ignis not currently owned by us for NOK 8 per share. On May 18, 2011, we completed this tender offer and purchased an additional 38.1 million shares of Ignis for an aggregate purchase price of $55.6 million. We own approximately 81.0% of the outstanding shares of Ignis following completion of this acquisition. Under the Norwegian Securities Trading Act, Finisar’s ownership of more than one-third of the voting shares of Ignis triggered the requirement for us to make a mandatory unconditional offer for all remaining outstanding Ignis shares. On May 24, 2011 we launched a mandatory tender offer for the remaining shares at a cash offer price of NOK 8 per share. During the offer period for the mandatory offer, which ended on June 22, 2011, approximately 12.3 million additional shares of Ignis were tendered. We expect to complete the purchase of these shares during the last week of June 2011 for an aggregate purchase price of $17.7 million. As a result, of these additional purchases, we will own approximately 96.6% of the outstanding shares of Ignis. As a result of acquiring more than 90% of the outstanding Ignis shares, we will have the right to effect a compulsory acquisition of the balance of the outstanding shares of Ignis not owned by us for a cash price of NOK 8 per share. We intend to proceed with the compulsory acquisition promptly following the completion of the purchase of the shares tendered in the mandatory offer.

Ignis ASA is an innovative provider of optical components and network solutions for fiber optic communications. It operates globally through four subsidiaries: Fi-ra Photonics in Korea (71.8% owned) and wholly-owned subsidiaries Syntune in Sweden, Ignis Photonyx in Denmark, and SmartOptics in Norway. Ignis's 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.We believe that this acquisition will provide us with access to Ignis’ tunable laser products which we believe have the highest performance of any such devices currently available in the market; further our vertical integration strategy by providing an internal source of these devices, which we currently purchase on the merchant market; enable us to offer our customers a number of new 40 and 100 Gbps products based on the advanced optical device integration technologies of Ignis’ various business units; and allow us to expand our product portfolio to include a number of other products incorporating innovative technologies and focus on attractive growth markets.

Critical Accounting Policies

The preparation of our financial statements and related disclosures require that we make estimates, assumptions and judgments that can have a significant impact on our revenue and operating results, as well as on the value of certain assets and contingent liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements and, therefore, consider these to be our critical accounting policies. See Note 2 to our consolidated financial statements included elsewhere in this report for more information about these critical accounting policies, as well as a description of other significant accounting policies. We believe there have been no material changes to our critical accounting policies during the fiscal year ended April 30, 2011 compared to prior years.

Revenue Recognition, Warranty and Sales Returns

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

Allowance for Doubtful Accounts

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

Slow Moving and Obsolete Inventories

We make inventory commitment and purchase decisions based upon sales forecasts. To mitigate the component supply constraints that have existed in the past and to fill orders with non-standard configurations, we build inventory levels for certain items with long lead times and enter into certain longer-term commitments for certain items. We permanently write off 100% of the cost of inventory that we specifically identify and consider obsolete or excessive to fulfill future sales estimates. We define obsolete inventory as inventory that will no longer be used in the manufacturing process. We periodically discard obsolete inventory. Excess inventory is generally defined as inventory in excess of projected usage, and is determined using our best estimate of future demand at the time, based upon information then available to us. In making these assessments, we are required to make judgments as to the future demand for current or committed inventory levels. We assume that the last twelve months demand is generally indicative of the demand for the next twelve months. In addition to the 12-month demand forecast, we also consider:

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

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

Investment in Equity Securities

For strategic reasons, we may make minority investments in private or public companies or extend loans or receive equity or debt from these companies for services rendered or assets sold. Our minority investments in private companies are primarily motivated by our desire to gain early access to new technology. Our investments in these companies are passive in nature in that we generally do not obtain representation on the boards of directors. Our investments have generally been part of a larger financing in which the terms were negotiated by other investors, typically venture capital investors. These investments are generally made in exchange for preferred stock with a liquidation preference that helps protect the underlying value of our investment. At the time we made our investments, in most cases the companies had not completed development of their products and we did not enter into any significant supply agreements with the companies in which we invested. In determining if and when a decline in the

market value of these investments below their carrying value is other-than-temporary, we evaluate the market conditions, offering prices, trends of earnings and cash flows, price multiples, prospects for liquidity and other key measures of performance. Our policy is to recognize an impairment in the value of its minority equity investments when clear evidence of an impairment exists, such as (a) the completion of a new equity financing that may indicate a new value for the

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investment, (b) the failure to complete a new equity financing arrangement after seeking to raise additional funds or (c) the commencement of proceedings under which the assets of the business may be placed in receivership or liquidated to satisfy the claims of debt and equity stakeholders. Future adverse changes in market conditions or poor operating results at any of the companies in which we hold a minority position could result in an impairment of our investment and/or an inability to recover the carrying value of these investments.

Goodwill, Intangibles and Other Long-Lived Assets

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

Goodwill is assessed for impairment annually or more frequently when an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value. Goodwill is tested for impairment at the reporting unit level at adoption and at least annually thereafter, utilizing a two-step methodology. The initial step requires us to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such unit. If the fair value of the reporting unit exceeds the carrying value, no impairment loss would be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount, if any, of the impairment is then measured in the second step in which we determine the implied value of goodwill based on the allocation of the estimated fair value determined in the initial step to all assets and liabilities of the reporting unit.

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

At April 30, 2011, goodwill was zero and intangible assets were $17.4 million. During fiscal 2009, we recorded $238.5 million of impairment charges for goodwill as discussed under Results of Operation.

Stock-Based Compensation Expense

Stock-based compensation cost for all stock-based payment awards made to employees and directors including employee stock options and employee stock purchases under our Employee Stock Purchase Plan is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period. Compensation expense for expected-to-vest stock-based awards that were granted on or prior to April 30, 2006 was valued under the multiple-option approach and will continue to be amortized using the accelerated attribution method. Subsequent to April 30, 2006, compensation expense for expected-to-vest stock-based awards is valued under the single-option approach and amortized on a straight-line basis, net of estimated forfeitures.

We estimate the fair value of stock-based payment awards on the date of grant using the Black-Scholes option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our consolidated statements of operations.

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

grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

We measure the fair value of restricted stock units using the market value on the grant date.

If we use different assumptions for estimating stock-based compensation expense in future periods or if actual forfeitures

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differ materially from our estimated forfeitures, the change in our stock-based compensation expense could materially affect our operating income, net income and net income per share.

Restructuring Accrual

We are required to recognize liability for costs associated with an exit or disposal activity when the liability is incurred. We calculate facilities consolidation charges using estimates that are based upon the remaining future lease commitments for vacated facilities from the date of facility consolidation, net of estimated future sublease income. The estimated costs of vacating the leased facilities are based on market information and trend analyses, including information obtained from third party real estate sources. Should operating lease rental rates decline from current estimates or should it take longer than expected to find a suitable tenant to sublease the facility, adjustments to the facilities lease losses reserve will be made in future periods, if necessary, based upon the current actual events and circumstances.

Accounting for Income Taxes

We apply the liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. Deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities and their reported amounts, along with net operating loss carryforwards and credit carryforwards. We reduce the deferred tax assets by recording a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized.

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

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

Our assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations or capital gains income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, thus materially impacting our financial position and results of operations.

Recent Accounting Pronouncements

For a description of recently adopted and issued accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our Consolidated Financial Statements, see Note 2 to our Consolidated Financial Statements.

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Results of Operations

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

	Fiscal Years Ended April 30,					
	2011		2010		2009	
Revenues	100.0	%	100.0	%	100.0	%
Cost of revenues	66.6		70.7		70.8	
Impairment of acquired developed technology	—		—		0.3	
Amortization of acquired developed technology	0.5		0.8		1.0	
Gross profit	32.9		28.5		27.9	
Operating expenses:						
Research and development	12.3		15.0		16.1	
Sales and marketing	3.8		4.9		5.6	
General and administrative	4.8		5.8		7.2	
Acquired in-process research and development	—		—		2.1	
Restructuring charges	—		0.7		—	
Amortization of purchased intangibles	0.2		0.3		0.4	
Impairment of goodwill	—		—		48.0	
Total operating expenses	21.1		26.7		79.4	
Income (loss) from operations	11.8		1.8		(51.5	)
Interest income	0.1		—		0.3	
Interest expense	(0.7	)	(1.4	)	(2.9	)
Gain (loss) on debt extinguishment	(0.9	)	(4.0	)	0.6	
Other income (expense), net	(0.5	)	(0.3	)	(0.7	)
Income (loss) from continuing operations before income taxes	9.8		(3.9	)	(54.2	)
Provision (benefit) for income taxes	0.5		(0.3	)	(1.4	)
Income (loss) from continuing operations	9.3		(3.6	)	(52.8	)
Income (loss) from discontinued operations, net of income taxes	—		5.8		0.4	
Net income (loss)	9.3	%	2.2	%	(52.4	)%

Comparison of Fiscal Years Ended April 30, 2011 and 2010

Revenues. Revenues increased $318.9 million, or 50.6%, to $948.8 million in fiscal 2011 compared to $629.9 million in fiscal 2010. The increase reflects the impact of a combination of factors including increased spending on infrastructure by business enterprises and telecommunications companies as they deal with the ongoing growth in bandwidth through their networks as well as improvement in general economic conditions that contributed to an increase in information technology infrastructure spending. Additionally, we believe that we achieved an increase in our market share, particularly for higher speed products, due in part to the qualification of several products for higher speed applications at certain customers and our entry into new markets.

The following table sets forth the changes in revenues by product segment and speed (in thousands):

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	For Fiscal Year Ended April 30,			
	2011	2010	Change	% Change
Transceivers, transponders and components				
Greater than 10 Gbps:				
LAN/SAN	$141,780	$80,765	$61,015	75.5%
Metro/Telecom	286,833	167,797	119,036	70.9%
Subtotal	428,613	248,562	180,051	72.4%
Less than 10 Gbps:				
LAN/SAN	227,971	187,582	40,389	21.5%
Metro/Telecom	126,148	102,228	23,920	23.4%
Subtotal	354,119	289,810	64,309	22.2%
Total transceivers, transponders and components	782,732	538,372	244,360	45.4%
ROADM linecards and WSS modules	150,881	72,402	78,479	108.4%
CATV	15,174	19,106	(3,932)	(20.6)%
Total revenues	$948,787	$629,880	$318,907	50.6%

Amortization of Acquired Developed Technology. Amortization of acquired developed technology, a component of cost of revenues, decreased $0.1 million, or 1.8%, to $4.7 million in fiscal 2011 compared to $4.8 million in fiscal 2010. The decrease was primarily due to full amortization of certain technology acquired in connection with the Honeywell acquisition in fiscal 2004.

Gross Profit. Gross profit increased $132.5 million, or 73.7%, to $312.3 million in fiscal 2011 compared to $179.7 million in fiscal 2010. Gross profit as a percent of revenues increased by 4.4%, from 28.5% in fiscal 2010 to 32.9% in fiscal 2011. We recorded charges of $19.1 million for obsolete and excess inventory in fiscal 2011 compared to $23.0 million in fiscal 2010. We sold inventory that was written-off in previous periods resulting in a benefit of $12.8 million in fiscal 2011 and $15.1 million in fiscal 2010. As a result, we recognized a net charge of $6.3 million in fiscal 2011 compared to $7.9 million in fiscal 2010. Manufacturing overhead includes stock-based compensation charges of $4.6 million in fiscal 2011 and $4.2 million in fiscal 2010. Excluding amortization of acquired developed technology, the net impact of excess and obsolete inventory charges and stock-based compensation charges, gross profit would have been $327.9 million, or 34.6% of revenues, in fiscal 2011 compared to $196.6 million, or 31.2% of revenues, in fiscal 2010. The increase in gross margin primarily reflects the benefits of higher manufacturing unit volume and the increase in sales of higher margin high speed components and ROADM products, partially offset by the unfavorable impact of lower pricing on some products. Although revenues increased by 50.6% in fiscal 2011, manufacturing overhead costs increased by only 32% compared to fiscal 2010, primarily due to greater utilization of fixed manufacturing capacity.

Research and Development Expenses. Research and development expenses increased $22.5 million, or 23.8%, to $117.3 million in fiscal 2011 compared to $94.8 million in fiscal 2010. The increase was due to increases in employee related expenses and costs of materials associated with new product development. Included in research and development expenses were stock-based compensation charges of $6.3 million in fiscal 2011 and $5.5 million in fiscal 2010. Research and development expenses as a percent of revenues decreased to 12.4% in fiscal 2011 compared to 15.0% in fiscal 2010.

Sales and Marketing Expenses. Sales and marketing expenses increased $5.5 million, or 17.8%, to $36.2 million in fiscal 2011 compared to $30.7 million in fiscal 2010. The increase was primarily due to increased sales commissions as a result of the increase in revenues. The increase was also partly due to an increase in employee related expenses. Included in sales and marketing expenses were stock-based compensation charges of $2.1 million in fiscal 2011 and $1.9 million in fiscal 2010. Sales and marketing expenses as a percent of revenues decreased to 3.8% in fiscal 2011

compared to 4.9% in fiscal 2010.

General and Administrative Expenses. General and administrative expenses increased $8.8 million, or 24.0%, to $45.6 million in fiscal 2011 compared to $36.8 million in fiscal 2010. The increase was primarily due to the $3.5 million accrual for damages payable as the result of an unfavorable judgment in the JDSU and Emcore Corporation litigation described above, and an increase in personnel related costs, partially offset by $2.4 million of litigation settlement income net of legal costs associated with the settlement with Source Photonics Inc. described above. Included in general and administrative expenses were stock-based compensation charges of $5.0 million in fiscal 2011 and $3.4 million in fiscal 2010. General and administrative expenses as a percent of revenues decreased to 4.8% in fiscal 2011 compared to 5.8% in fiscal 2010.

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Amortization of Purchased Intangibles.Amortization of purchased intangibles decreased $497,000, or 24.5%, to $1.5 million in fiscal 2011 compared to $2.0 million in fiscal 2010. The decrease was primarily due to the full amortization of certain intangibles acquired in the Optium merger in fiscal 2009.

Interest Income. Interest income increased $386,000 to $530,000 in fiscal 2011 compared to $144,000 in fiscal 2010. The increase was primarily due to an increase in our cash balances reflecting the receipt of $131.1 million in net proceeds from our common stock offering in March 2010 and $117.9 million in net proceeds from our common stock offering in December 2010.

Interest Expense. Interest expense decreased $2.6 million, or 28.9%, to $6.4 million in fiscal 2011 compared to $9.0 million in fiscal 2010. The decrease was primarily related to lower outstanding debt due to repayment of $47.5 million principal amount of our 2 1/2% Convertible Subordinated Notes due 2010 and our 2 1/2% Convertible Senior Subordinated Notes due 2010 pursuant to exchange offers in the second quarter of fiscal 2010, repurchases of $13.0 million principal amount of our 2 1/2% Convertible Subordinated Notes and $51.9 million of our 2 1/2% Convertible Senior Subordinated Notes in the second quarter of fiscal 2010 and repayment of $3.9 million principal amount of our 2 1/2% Convertible Subordinated Notes due 2010 and $25.7 million principal amount of our 2 1/2% Convertible Senior Subordinated Notes due 2010 in the second quarter of fiscal 2011. Interest expense for fiscal 2011 included $4.2 million related to our 5% Convertible Subordinated Notes due October 2029, $1.5 million related to various other debt instruments and a non-cash charge of $742,000 due to accretion of the original issue discount created by the conversion option in the 2.5% Senior Subordinated Convertible Notes, as interest expense over the term of the instrument using the interest method. Interest expense for fiscal 2010 included $2.7 million related to our 5% Convertible Subordinated Notes due October 2029, $1.8 million related to our convertible subordinated notes which were fully repaid in October 2010, a non-cash charge of $3.0 million related to the accounting for our senior convertible notes and$1.5 million related to various other debt instruments.

Loss on Debt Extinguishment. As described above, in fiscal 2011, we entered into privately-negotiated agreements with existing holders of our 5% Convertible Senior Notes due 2029 to exchange an aggregate of approximately $60.0 million principal amount of the notes for shares of our common stock. We recognized loss on debt extinguishment of $8.3 million on these exchanges, representing the fair value of the shares issued in excess of the number of shares issuable in accordance with the original conversion terms of the notes. This loss on debt extinguishment compares to $11.2 million of interest expense that would have been payable with respect to the $60.0 million in exchanged notes through their first maturity date in October 2014 had such notes not been exchanged.

Other Income (Expense), Net. Other expense was $4.7 million in fiscal 2011 compared to other expense of $1.9 million in fiscal 2010. Other expense in fiscal 2011 primarily consisted of foreign exchange losses of $1.9 million, $1.2 million of amortization of debt issuance costs for our 5% Convertible Senior Notes and $0.6 million of amortization of issuance costs related to other debt. Other expense in fiscal 2010 was primarily due to a $2.0 million write down of a minority investment as the decline in its value was other than temporary.

Provision for Income Taxes. We recorded an income tax provision of $4.4 million and an income tax benefit of $1.6 million, for fiscal 2011 and fiscal 2010, respectively. The income tax provision for fiscal 2011 primarily represents 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 deferred tax assets which represent future income tax benefits associated with our operating losses because we do not believe it is more likely than not these assets will be realized. The income tax benefit for the fiscal 2010 included minimum state taxes of $400,000, federal refundable credits of $500,000 and foreign income tax benefit of $1.5 million arising in certain foreign jurisdictions in which the Company conducts business.

Income from Discontinued Operation, Net of Taxes. The transition services agreement we entered into in connection with the sale of the assets of the Network Tools Division, under which we agreed to provide manufacturing services to JDSU during the transition period, was completed on July 14, 2010. Total operating expenses incurred in relation to the transition services agreement during fiscal 2011 was $284,000. Income from discontinued operations for fiscal 2010 was $36.9 million, including a gain on the sale of the business unit of $35.9 million.

Comparison of Fiscal Years Ended April 30, 2010 and 2009

Revenues. Revenues increased $132.8 million, or 26.7%, to $629.9 million in fiscal 2010 compared to $497.1 million in fiscal 2009. The increase reflects the impact of a combination of factors including increased spending on infrastructure by business enterprises and telecommunications companies as they deal with the ongoing growth in bandwidth through their networks as well

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as improvement in general economic conditions that contributed to an increase in information technology infrastructure spending. Additionally, we believe that we achieved an increase in our market share, particularly for higher speed products, due in part to the qualification of several products for higher speed applications at certain customers and our entry into new markets.

The following table sets forth the changes in revenues by market segment and speed (in thousands):

	For Fiscal Year Ended April 30,			
	2010	2009	Change	% Change
Transceivers, transponders and components				
Greater than 10 Gbps:				
LAN/SAN	$80,765	$37,086	$43,679	117.8%
Metro/Telecom	167,797	138,844	28,953	20.9%
Subtotal	248,562	175,930	72,632	41.3%
Less than 10 Gbps:				
LAN/SAN	187,582	181,571	6,011	3.3%
Metro/Telecom	102,228	107,965	(5,737)	(5.3)%
Subtotal	289,810	289,536	274	0.1%
Total transceivers, transponders and components	538,372	465,466	72,906	15.7%
ROADM linecards and WSS modules	72,402	22,200	50,202	226.1%
CATV	19,106	9,392	9,714	103.4%
Total revenues	$629,880	$497,058	$132,822	26.7%

Impairment and Amortization of Acquired Developed Technology. Impairment and amortization of acquired developed technology, components of cost of revenues, decreased $1.4 million, or 22.5%, to $4.8 million in fiscal 2010 compared to $6.2 million in fiscal 2009. The decrease was primarily due to the $1.2 million impairment in the fourth quarter of fiscal 2009 for intellectual property related to our acquisition of Kodeos Communications Inc.

Gross Profit. Gross profit increased $40.9 million, or 29.5%, to $179.7 million in fiscal 2010 compared to $138.8 million in fiscal 2009. The increase in gross profit was primarily due to the $132.8 million increase in revenues. Gross profit as a percentage of total revenues was 28.5% in fiscal 2010 compared to 27.9% in fiscal 2009. We recorded charges of $23.0 million for obsolete and excess inventory in fiscal 2010 compared to $14.4 million in fiscal 2009. We sold inventory that was written-off in previous periods resulting in a benefit of $15.1 million in fiscal 2010 and $8.1 million in fiscal 2009. As a result, we recognized a net charge of $7.9 million in fiscal 2010 compared to $6.3 million in fiscal 2009. Manufacturing overhead included stock-based compensation charges of $4.2 million in fiscal 2010 and $3.3 million in fiscal 2009. Excluding amortization of acquired developed technology, the net impact of excess and obsolete inventory charges and stock-based compensation charges, gross profit would have been $196.6 million, or 31.2% of revenue, in fiscal 2010 compared to $154.5 million, or 31.1% of revenue in fiscal 2009. The slight increase in gross margin percentage primarily reflects the benefits of higher manufacturing unit volume and the increase in sales of higher margin ROADM products offset by the unfavorable impact of lower pricing on some products, lower manufacturing yields on certain new higher speed components and modules and the impact of selling certain lower margin Optium products for the full fiscal year compared to only eight months in fiscal 2009 as the Optium merger closed at the end of August 2008.

Research and Development Expenses. Research and development expenses increased $14.7 million, or 18.3%, to $94.8 million in fiscal 2010 compared to $80.1 million in fiscal 2009. The increase was primarily due to the additional four months of expenses of approximately $6.2 million from Optium operations following the merger which are included in fiscal 2010, higher project costs and increases in employee salaries and bonuses. Included in research and development expenses were stock-based compensation charges of $5.5 million in fiscal 2010 and $5.6 million in fiscal

2009. Research and development expenses as a percent of revenues decreased slightly to 15.0% in fiscal 2010 compared to 16.1% in fiscal 2009.

Sales and Marketing Expenses. Sales and marketing expenses increased $3.0 million, or 10.7%, to $30.7 million in fiscal 2010 compared to $27.7 million in fiscal 2009. The increase was primarily due to increased sales commissions as a result of the increase in revenue, partially offset by cost synergies realized as a result of the Optium merger. Included in sales and marketing expenses were stock-based compensation charges of $1.9 million in fiscal 2010 and $1.7 million in fiscal 2009. Sales and marketing expenses

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as a percent of revenues decreased to 4.9% in fiscal 2010 compared to 5.6% in fiscal 2009.

General and Administrative Expenses. General and administrative expenses increased $954,000 or 2.7%, to $36.8 million in fiscal 2010 compared to $35.8 million in fiscal 2009, primarily due to the additional four months of expenses from Optium operations following the merger which are included in fiscal 2010 offset by cost synergies realized as a result of the Optium merger. Included in general and administrative expenses were stock-based compensation charges of $3.4 million in fiscal 2010 and $2.9 million in fiscal 2009. General and administrative expenses as a percent of revenues decreased to 5.8% in fiscal 2010 compared to 7.2% in fiscal 2009.

Acquired In-process Research and Development. In-process research and development, or IPR&D, expenses related to the Optium merger were $10.5 million in fiscal 2009. There were no IPR&D expenses in fiscal 2010.

Amortization of Purchased Intangibles. Amortization of purchased intangibles decreased $117,000, or 5.5%, to $2.0 million in fiscal 2010 compared to $2.1 million in fiscal 2009. The decrease was primarily due to the sale of assets, including all intangible assets, of our Network Tools Division to JDSU.

Impairment of Goodwill. As a result of the financial liquidity crisis, the economic recession, reductions in our internal revenue and operating forecasts and a substantial reduction in our market capitalization, during fiscal 2009, we performed an analysis to determine if there was an indication of impairment of our intangible assets. Based on this analysis, we determined that the goodwill related to our optical subsystems and components reporting unit was impaired and had an implied fair value of $0 compared to its carrying value. Accordingly, we recorded impairment charges of $178.8 million during the second quarter of fiscal 2009. Following the completion of goodwill impairment analyses, we recorded additional charges of $46.5 million in the third quarter of fiscal 2009 and $13.2 million in the fourth quarter of fiscal 2009. As a result of these impairment charges, as of April 30, 2009 the carrying value of our goodwill was zero.

Restructuring Costs. As a result of moving certain manufacturing activities from our facility in Allen, Texas to our lower cost manufacturing facility in Ipoh, Malaysia, we have determined that approximately 32% of the space in the Allen facility is no longer required for manufacturing. As a result, we closed that portion of the facility in the second quarter of fiscal 2010 and are actively searching for a tenant to sublease the vacated space. As a result, we recorded a restructuring charge of $4.2 million in the second quarter of fiscal 2010 which represents the present value of the lease payments for that portion of the facility that we are obligated to make over the remaining lease term. No restructuring charges were recorded in fiscal 2009.

Interest Income. Interest income decreased $1.6 million, or 91.8%, to $144,000 in fiscal 2010 compared to $1.8 million in fiscal 2009. The decrease was due primarily to lower cash balances as a result of the principal repayment of $92.0 million of our 5 1/4% Convertible Subordinated Notes due 2008 in the second quarter of fiscal 2009 and, to a lesser extent, lower interest rates.

Interest Expense. Interest expense decreased $5.6 million, or 38.6%, to $9.0 million in fiscal 2010 compared to $14.6 million in fiscal 2009. The decrease was primarily related to lower outstanding debt due to the principal repayment of $92.0 million on our 5 1/4% Convertible Subordinated Notes due 2008 in the second quarter of fiscal 2009, repayment of $47.5 million of aggregate principal amount of our 2 1/2% Convertible Subordinated Notes due 2010 and our 2 1/2% Convertible Senior Subordinated Notes due 2010 pursuant to exchange offers in the second quarter of fiscal 2010 and repurchases of $13.0 million principal amount of our 2 1/2% Convertible Subordinated Notes and $51.9 million of our 2 1/2% Convertible Senior Subordinated Notes in the second quarter of fiscal 2010. Included in interest expense for fiscal 2010 were non-cash charges of $3.0 million related to the accounting for our senior convertible notes due to the adoption of FASB authoritative guidance which requires us to separately account for the liability (debt) and equity (conversion option) components of our 2 1/2% senior subordinated convertible notes

that may be settled in cash (or other assets) on conversion in a manner that reflects our non-convertible debt borrowing rate. The separation of the conversion option created an original issue discount in the bond component which is to be accreted as interest expense over the term of the instrument using the interest method, resulting in an increase in interest expense. Included in interest expense for fiscal 2009 were a non-cash charge of $4.9 million related to the accounting for our senior convertible notes and a non-cash charge of $1.8 million to amortize the beneficial conversion feature of the convertible notes due in October 2008.

Gain and Loss on Repurchase/Purchase of Convertible Notes. During fiscal 2010, we recorded a $25.0 million loss related to the repurchase of certain convertible notes. On August 11, 2009, we retired $33.1 million, or 66.2%, of the $50.0 million aggregate outstanding principal amount of our 2 1/2% Convertible Subordinated Notes due 2010 and $14.4 million, or approximately 15.7%, of the $92.0 million aggregate outstanding principal amount of our 2 1/2% Convertible Senior Subordinated Notes due 2010 pursuant to exchange offers which commenced on July 9, 2009. The consideration for the exchange consisted of (i) $525 in cash and (ii) 596 shares of our common stock per $1,000 principal amount of notes. We issued approximately 3.5 million shares of common stock and paid out approximately $24.9 million in cash to the former holders of notes in the exchange offers. The total consideration paid in the exchange was approximately $4.7 million less than the par value of the notes retired. This exchange was

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considered to be an induced conversion in accordance with FASB authoritative guidance and the retirement of the notes was accounted for as if they had been converted according to their original terms, with that value compared to the fair value of the consideration paid in the exchange offers. The original conversion price of the notes was $30.08 per share. Accordingly, although the trading price of our common stock was $5.04 at the time of the exchange, we recorded a loss on debt extinguishment of $23.7 million in the quarter ended November 1, 2009. The additional $1.4 million of loss on debt extinguishment was primarily due to expenses incurred in connection with the exchange offers.

During fiscal 2009, we recorded a $3.1 million gain on the repurchase of certain convertible notes. The gain was related to the repurchase of $8.0 million in principal amount of our 2.5% convertible notes due October 15, 2010 that we purchased at a discount to par value of 50.1%.

Other Income (Expense), Net. Other expense was $1.9 million in fiscal 2010 compared to $3.7 million in fiscal 2009. Other expense in fiscal 2010 was primarily related to a $2 million other-than-temporary write-down of a minority interest investment. Other expense in fiscal 2009 was primarily due to unrealized non-cash foreign exchange losses of $1.6 million related to the re-measurement of a $17.8 million note re-payable in U.S. dollars which is recorded on the books of our subsidiary in Malaysia whose functional currency is the Malaysian ringgit and a $1.2 million other-than-temporary write-down of a minority investment during the period.

Provision for Income Taxes. We recorded income tax benefits of $1.6 million and of $7.0 million for fiscal 2010 and fiscal 2009, respectively. The income tax benefit for fiscal 2010 included minimum state taxes of $400,000, federal refundable credits of $500,000 and foreign income tax benefit of $1.5 million arising in certain foreign jurisdictions in which the Company conducts business. The income tax benefit for fiscal 2009 included a non-cash benefit arising from the reversal of previously recorded deferred tax liabilities related to tax amortization of goodwill for which no financial statement amortization had occurred.

Discontinued Operations. On July 15, 2009, we completed the sale of certain assets related to our Network Tools Division to JDSU. We agreed to perform certain manufacturing activities for JDSU under a transition services agreement entered into at the time of the sale. The expenses associated with the transition services agreement have been classified as results of discontinued operations. During fiscal 2010, income from discontinued operations was $36.9 million, comprising a gain of $35.9 million on the sale and a net operating gain of $1.0 million. Net operating expenses associated with the transition services agreement from July 15, 2009 through April 30, 2010 were $142,000, which included an adjustment of $165,000 recorded as an adjustment to the gain on sale of discontinued operations.

Liquidity and Capital Resources

Cash Flows from Operating Activities

Net cash provided by operating activities totaled $95.4 million in fiscal 2011 compared to $11.8 million in fiscal 2010 and $370,000 in fiscal 2009. Cash provided by operating activities in fiscal 2011 consisted of our net income, as adjusted to exclude depreciation, amortization and other non-cash items totaling $71.5 million, and cash used for working capital requirements primarily related to increases in accounts receivable and inventory. Accounts receivable increased by $40.8 million primarily due to the increase in shipments. Inventory increased by $37.1 million due to increased purchases to support increased sales.

Net cash provided by operating activities in fiscal 2010 consisted of net income, adjusted for depreciation, amortization and other non-cash charges and benefits totaling $44.4 million offset by $46.8 million of funding of additional working capital which was primarily related to increases in accounts receivable and inventories offset by an increase in accounts payable. Accounts receivable increased by $45.8 million primarily due to the increase in shipments and no sales of accounts receivable under our non-recourse accounts receivable purchase agreement with Silicon Valley Bank which was terminated in October 2009. We sold $37.7 million of accounts receivable under this agreement in fiscal 2009. Inventory increased by $26.7 million and accounts payable increased by $28.4 million due

to an increase in purchases to support increased sales.
Net cash provided by operating activities in fiscal 2009 consisted of our net loss of $260.3 million adjusted for goodwill impairment charges, depreciation, amortization and other non-cash related items totaling $310.7 million offset by a $49.9 million increase in working capital levels which were primarily related to an increase in accounts receivable and decreases in other accrued liabilities, accrued compensation and deferred income taxes. In fiscal 2009, accrued liabilities decreased by $9.8 million primarily due to our $11.2 million reduction in financing liability related to the termination of a sale-leaseback agreement with the landlord for one of our facilities located in Sunnyvale, California. This decrease was partially offset by an increase in liability relating to the sales of accounts receivable made under our non-recourse accounts receivable sales agreement with Silicon Valley Bank. Accrued compensation decreased by $4.6 million due to reduced salaries and bonuses under a salary reduction plan that we announced in the fourth quarter of fiscal 2009, lower headcount and the reversal

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of $800,000 of accrued payroll tax liability relating to the stock compensation investigation which was completed during fiscal 2009. Deferred income taxes decreased mainly because of a $7.8 million reversal of previously recorded deferred tax liabilities as a result of the impairment of goodwill in fiscal 2009. Accounts receivable increased by $33.4 million primarily due to increase in revenues.

Cash Flows from Investing Activities

Net cash used in investing activities totaled $96.3 million in fiscal 2011 compared to net cash provided by investing activities of $10.6 million in fiscal 2010 and $45.0 million in fiscal 2009. Net cash used in investing activities in fiscal 2011 represented expenditures of $64.1 million for capital equipment and $32.2 million for investment in a publicly held foreign company which was accounted for under the equity method.

Net cash provided by investing activities in fiscal 2010 primarily consisted of the $40.7 million received from sale of the assets of our Network Tools Division to JDSU on July 15, 2009. We also received $1.2 million in cash in the first quarter of fiscal 2010 from the sale a promissory note and all of the preferred stock that we received as consideration for the sale of a product line in the first quarter of fiscal 2009. These receipts were partially offset by $31.4 million of expenditures for capital equipment.

Net cash provided by investing activities in fiscal 2009 was primarily related to $38.5 million in net maturities of available-for-sale investments and $30.1 million of cash obtained as a result of the Optium merger, offset by $23.9 million of purchases of equipment to support production expansion.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled $108.6 million in fiscal 2011 compared to $147.5 million in fiscal 2010 and net cash used by financing activities of $87.7 million in fiscal 2009. Cash provided by financing activities in fiscal 2011 primarily consisted of net proceeds from our common stock offering of $117.9 million and proceeds from the exercise of stock options and purchases under our stock purchase plan totaling $39.5 million, partially offset by repayments of convertible notes totaling $29.6 million and repayments of long-term debt of $19.3 million. Cash provided by financing activities in fiscal 2010 primarily consisted of $98.1 million in net proceeds from the issuance of our 5.0% Convertible Senior Notes due 2029, $131.1 million in net proceeds from our common stock offering, $5.5 million from bank borrowings by our Chinese subsidiary and $8.4 million from the exercise of stock options and purchases under our employee stock purchase plan, partially offset by $88.0 million of cash used to purchase outstanding convertible notes and $7.7 million of repayments of long-term debt. Cash used in financing activities in fiscal 2009 primarily reflected repayments of $107.9 million on our outstanding convertible notes and $4.2 million of bank borrowings, partially offset by proceeds of $20.0 million from bank borrowings and $4.5 million from the exercise of stock options and purchases under our employee stock purchase plan. The $107.9 million of repayments on our convertible notes included retirement of $92 million principal amount of our outstanding $5^1/4$% convertible subordinated notes, through a combination of private purchases and repayment at maturity, and the repurchase of $8.0 million principal amount of our $2^1/2$% convertible notes at a discount resulting in a realized gain of $3.1 million.

Contractual Obligations and Commercial Commitments

Our contractual obligations at April 30, 2011 totaled $209.4 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)	7,003	2,001	4,002	1,000	—
Operating leases (b)	38,001	6,529	9,191	7,318	14,963
Purchase obligations (c)	124,383	124,383	—	—	—
Total contractual obligations	$209,402	$132,913	$13,193	$8,318	$54,978

(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, subject

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to various restrictions and limitations.

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.

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 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 April 30, 2011, the liability for these purchase commitments of $3.2 million has been expensed and recorded on the 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 April 30, 2011, our principal sources of liquidity consisted of $314.8 million of cash and cash equivalents and an aggregate of $66.6 million available for borrowing under our credit facility with Wells Fargo Foothill, LLC, subject to certain restrictions and limitations. Of this cash and cash equivalent, $15.9 million of cash and cash equivalents was held by our foreign subsidiaries as of April 30, 2011.

We believe that our existing balances of cash and cash equivalents, together with the cash expected to be generated from future operations and borrowings under our bank credit facility, will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 12 months. We may, however, require additional financing to fund our operations in the future, to finance future acquisitions that we may propose to undertake or to repay or otherwise retire all of our outstanding 5% Convertible Senior Notes due 2029, in the aggregate principal amount of $40.0 million, which are subject to redemption by the holders 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 April 30, 2011 and April 30, 2010, we did not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As of April 30, 2011, we had approximately $40.0 million of convertible notes with a fixed interest rate of 5% outstanding. The fair value of this debt as of April 30, 2011 was approximately $113.0 million. The fair value of the 5% Convertible Notes is based on the market price in the open market as of or close to April 30, 2011. The difference between the carrying value and the fair value is primarily due to the spread between the conversion price and the market value of the shares underlying the conversion. We are subject to significant fluctuations in fair market value of the debt due to the volatility of the stock market.We had no variable interest rate debt outstanding which would expose us to interest rate risk.

We invest in equity instruments of privately-held companies for business and strategic purposes. These investments are

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included in other long-term assets and are accounted for under the cost method when our ownership interest is less than 20% and we do not have the ability to exercise significant influence. At April 30, 2011, we had investments in three privately-held companies that totaled $12.3 million and were accounted for under the cost method. For these non-quoted investments, our policy is to regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values. We identify and record impairment losses when events and circumstances indicate that such assets are impaired. There were impairment losses on these assets of $2.0 million during fiscal 2010. We concluded that there were sufficient indicators during the second quarter of fiscal 2010 to require an investment impairment analysis of our investment in one of these companies. Among these indicators was the completion of a new round of equity financing by the investee and the resultant conversion of the Company's preferred stock holdings to common stock. We determined that the value of our minority equity investment was impaired and recorded a $2.0 million impairment loss as other expense during the second quarter of fiscal 2010. No impairment losses were recorded in fiscal 2011 or fiscal 2009. If our investment in a privately-held company becomes readily marketable upon the company's completion of an initial public offering or its acquisition by another company, our investment would be subject to significant fluctuations in fair market value due to the volatility of the stock market.

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

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Item 8. Financial Statements and Supplementary Data

FINISAR CORPORATION CONSOLIDATED FINANCIAL STATEMENTS INDEX

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Finisar Corporation

We have audited the accompanying consolidated balance sheets of Finisar Corporation as of April 30, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended April 30, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Finisar Corporation at April 30, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended April 30, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Finisar Corporation's internal control over financial reporting as of April 30, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 28, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
June 28, 2011

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FINISAR CORPORATION
CONSOLIDATED BALANCE SHEETS

	April 30,	
	2011	2010
	(In thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$314,765	$207,024
Accounts receivable, net of allowance for doubtful accounts of $1,324 at April 30, 2011 and $2,085 at April 30, 2010	168,386	127,617
Accounts receivable, other	12,733	12,855
Inventories	187,617	139,525
Deferred tax assets	—	2,238
Prepaid expenses	9,906	6,956
Total current assets	693,407	496,215
Property, equipment and improvements, net	125,693	89,214
Purchased technology, net	7,332	11,689
Other intangible assets, net	10,107	11,713
Minority investments	12,289	12,289
Equity method investment	31,142	—
Other assets	5,179	5,610
Total assets	$885,149	$626,730
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$76,288	$76,838
Accrued compensation	24,525	18,289
Other accrued liabilities (Note 12)	25,112	21,798
Deferred revenue	8,064	6,571
Current portion of convertible notes (Note 13)	—	28,839
Current portion of long-term debt (Note 14)	—	4,000
Total current liabilities	133,989	156,335
Long-term liabilities:		
Convertible notes, net of current portion (Note 13)	40,015	100,000
Long-term debt, net of current portion (Note 14)	—	15,250
Other non-current liabilities	11,988	6,260
Deferred tax liabilities	—	239
Total liabilities	185,992	278,084
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding at April 30, 2011 and April 30, 2010	—	—
Common stock, $0.001 par value, 750,000,000 shares authorized, 89,903,095 shares issued and outstanding at April 30, 2011 and 75,824,913 shares issued and outstanding at April 30, 2010	90	76
Additional paid-in capital	2,275,600	2,030,373
Accumulated other comprehensive income	32,966	15,791
Accumulated deficit	(1,609,499)	(1,697,594)
Total stockholders' equity	699,157	348,646

Total liabilities and stockholders’ equity	$885,149	$626,730

See accompanying notes.

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FINISAR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years Ended April 30,		
	2011	2010	2009
	(In thousands, except per share data)		
Revenues	$948,787	$629,880	$497,058
Cost of revenues	631,831	445,370	352,096
Impairment of acquired developed technology	—	—	1,248
Amortization of acquired developed technology	4,684	4,769	4,907
Gross profit	312,272	179,741	138,807
Operating expenses:			
Research and development	117,281	94,770	80,136
Sales and marketing	36,165	30,702	27,730
General and administrative	45,579	36,772	35,818
Acquired in-process research and development	—	—	10,500
Restructuring charges	—	4,173	—
Amortization of purchased intangibles	1,531	2,028	2,145
Impairment of goodwill	—	—	238,507
Total operating expenses	200,556	168,445	394,836
Income (loss) from operations	111,716	11,296	(256,029)
Interest income	530	144	1,762
Interest expense	(6,365)	(8,957)	(14,597)
Gain (loss) on debt extinguishment	(8,340)	(25,039)	3,064
Other income (expense), net	(4,715)	(1,890)	(3,654)
Income (loss) from continuing operations before income taxes	92,826	(24,446)	(269,454)
Provision (benefit) for income taxes	4,447	(1,640)	(6,962)
Income (loss) from continuing operations	88,379	(22,806)	(262,492)
Income (loss) from discontinued operations, net of income taxes	$(284)	$36,937	$2,149
Net income (loss)	$88,095	$14,131	$(260,343)
Net income (loss) per share — basic and diluted			
Basic:			
Income (loss) per share from continuing operations	$1.10	$(0.35)	$(4.99)
Income per share from discontinued operations	$—	$0.57	$0.04
Net income (loss) per share	$1.10	$0.22	$(4.95)
Diluted:			
Income (loss) per share from continuing operations	$1.00	$(0.35)	$(4.99)
Income per share from discontinued operations	$—	$0.57	$0.04
Net income (loss) per share	$1.00	$0.22	$(4.95)
Shares used in computing net income (loss) per share:			
Basic	80,582	64,952	52,557
Diluted	92,715	64,952	52,557

See accompanying notes.

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FINISAR CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
			(In thousands, except share data)			
Balance at April 30, 2008	38,604,903	$39	$1,560,020	$ 12,973	$(1,451,382)	$ 121,650
Exercise of stock options and restricted stock issued under restricted stock awards plan	352,981	—	1,138	—	—	1,138
Issuance of common stock through employee stock purchase plan	627,541	1	3,385	—	—	3,386
Employee share-based compensation expense	—	—	14,894	—	—	14,894
Assumption of stock options related to acquisition of Optium	—	—	8,986	—	—	8,986
Issuance of stock related to acquisition of Optium	20,101,082	20	242,801	—	—	242,821
Change in unrealized loss on available-for-sale investments	—	—	—	(925)	—	(925)
Change in cumulative foreign currency translation adjustment	—	—	—	(9,386)	—	(9,386)
Net loss	—	—	—	—	(260,343)	(260,343)
Comprehensive loss						(270,654)
Balance at April 30, 2009	59,686,507	$60	$1,831,224	$ 2,662	$(1,711,725)	$ 122,221
Exercise of stock options, warrants and restricted stock issued under restricted stock awards plan	1,555,694	1	4,861	—	—	4,862
Issuance of common stock through employee stock purchase plan	1,256,571	1	3,604	—	—	3,605
Employee share-based compensation expense	—	—	15,860	—	—	15,860
Income tax benefit on exercise of stock options	—	—	112	—	—	112
Shares issued on conversion of convertible debt	3,539,048	4	16,379	—	—	16,383
Reacquisition of convertible debt equity component	—	—	(226)	—	—	(226)
Loss on conversion of convertible debt	—	—	27,477	—	—	27,477
Issuance of common stock pursuant to public offering	9,787,093	10	131,082	—	—	131,092
Change in unrealized loss on available-for-sale investments	—	—	—	21	—	21
Change in cumulative foreign currency translation adjustment	—	—	—	13,108	—	13,108
Net income	—	—	—	—	14,131	14,131
Comprehensive income						27,260

Balance at April 30, 2010	75,824,913	$76	$2,030,373	$ 15,791	$(1,697,594)	$ 348,646
Exercise of stock options, warrants and restricted stock issued under restricted stock awards plan	3,407,114	3	35,371	—	—	35,374
Repurchase of common stock (a)	(50,542)	—	(962)	—	—	(962)
Issuance of common stock through employee stock purchase plan	698,982	1	5,097	—	—	5,098
Employee share-based compensation expense	—	—	18,660	—	—	18,660
Shares issued on conversion of convertible debt	5,882,628	6	69,159	—	—	69,165
Issuance of common stock pursuant to public offering	4,140,000	4	117,902	—	—	117,906
Change in unrealized loss on available-for-sale investments	—	—	—	—	—	—
Change in cumulative foreign currency translation adjustment	—	—	—	17,175	—	17,175
Net income	—	—	—	—	88,095	88,095
Comprehensive loss						105,270
Balance at April 30, 2011	89,903,095	$90	$2,275,600	$ 32,966	$(1,609,499)	$ 699,157

(a) During fiscal 2011, the Company repurchased 50,542 shares in settlement of the minimum statutory employee tax withholding obligations due upon the vesting of restricted stock units.
See accompanying notes.

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FINISAR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended April 30,		
	2011	2010	2009
	(In thousands)		
Operating activities			
Net income (loss)	$88,095	$14,131	$(260,343)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	43,510	37,575	39,065
Stock-based compensation expense	17,948	15,650	14,978
Stock-based defined contribution retirement plan expense	573	—	—
Amortization of beneficial conversion feature of convertible notes	—	—	1,817
Non-cash interest cost on 2.5% convertible senior subordinated notes	742	3,033	4,910
Acquired in-process research and development	—	—	10,500
Impairment of acquired developed technology	—	—	1,248
Equity in losses of equity method investment	413	—	—
Impairment of minority investments	—	2,000	—
Loss on sale or retirement of assets	20	330	996
Other than temporary decline in fair market value of equity security	—	—	1,920
Loss (gain) on debt extinguishment	8,340	23,552	(3,063)
Gain on remeasurement of derivative liability	—	—	(1,135)
Gain on sale of equity investment	—	(375)	—
Loss (gain) on sale of a product line	—	(1,250)	919
Gain on sale of discontinued operations	—	(36,053)	
Impairment of goodwill	—	—	238,507
Changes in operating assets and liabilities:			
Accounts receivable	(40,769)	(45,797)	(33,399)
Inventories	(37,088)	(26,655)	459
Other assets	(4,249)	(6,230)	922
Deferred income taxes	2,000	(1,999)	(7,277)
Accounts payable	(550)	28,417	4,396
Accrued compensation	5,661	6,500	(4,611)
Other accrued liabilities	3,156	(5,728)	(9,759)
Deferred revenue	7,628	4,666	(680)
Net cash provided by operating activities	95,430	11,767	370
Investing activities			
Purchases of property, equipment and improvements	(64,137)	(31,408)	(23,918)
Proceeds from sale of property and equipment	37	33	229
Sale of available- for-sale and held-to-maturity investments, net	—	—	38,534
Proceeds from sale of equity investment	—	375	102
Purchase of minority investments	(32,173)	—	—
Purchase of intangible assets	—	(375)	—
Proceeds from disposal of product line	—	1,250	—
Proceeds from sale of discontinued operation	—	40,683	—
Purchases of subsidiaries, net of cash assumed	—	—	30,137
Net cash (used in) provided by investing activities	(96,273)	10,558	45,084
Financing activities			
Proceeds from term loan	—	5,500	20,000

Net proceeds from issuance of 5% convertible notes	—	98,057	—
Repayments of liability related to sale-leaseback of building	—	—	(101)
Repayment of convertible notes issued in connection with acquisition	—	—	(11,918)
Repayments of long-term debt	(19,250)	(7,663)	(4,225)
Repayment of convertible notes	(29,581)	(87,951)	(95,956)
Net proceeds from common stock offering	117,906	131,090	—
Proceeds from exercise of stock options and stock purchase plan, net of repurchase of unvested shares	39,509	8,445	4,525
Net cash provided by (used in) financing activities	108,584	147,478	(87,675)
Net increase (decrease) in cash and cash equivalents	107,741	169,803	(42,221)
Cash and cash equivalents at beginning of year	207,024	37,221	79,442
Cash and cash equivalents at end of year	$314,765	$207,024	$37,221
Supplemental disclosure of cash flow information			
Cash paid for interest	$4,311	$5,305	$6,776
Cash paid for taxes	$2,138	$711	$1,100
Issuance of common stock and assumption of options and warrants in connection with merger	—	$—	251,382
Issuance of common stock for conversion of convertible debt	$69,165	16,383	—

See accompanying notes

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FINISAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation
Description of Business

Finisar Corporation (the “Company”) was incorporated in California in April 1987 and reincorporated in Delaware in November 1999. The Company is a leading provider of optical subsystems and components that are used to interconnect equipment in local area networks, or LANs, storage area networks, or SANs, metropolitan area networks, or MANs, fiber-to-the-home networks, or FTTx, cable television, or CATV, networks, and wide area networks, or WANs. The Company's optical subsystems consist primarily of transmitters, receivers, transceivers and transponders which provide the fundamental optical-electrical interface for connecting the equipment used in building these networks, including switches, routers and file servers used in wireline networks as well as antennas and base stations for wireless networks. These products rely on the use of digital and analog RF semiconductor lasers in conjunction with integrated circuit design and novel packaging technology 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 100 Gbps using a wide range of network protocols and physical configurations over distances from 70 meters up to 200 kilometers. The Company supplies optical transceivers and transponders that allow point-to-point communications on a fiber using a single specified wavelength or, bundled with multiplexing technologies, can be used to supply multi-gigabit bandwith over several wavelengths on the same fiber. The Company also provides products known as wavelength selective switches, or WSS, that are used for dynamically switching network traffic from one optical link to another across multiple wavelengths without first converting to an electrical signal. These products are sometimes combined with other components and sold as linecards, also known as reconfigurable optical add/drop multiplexers, or ROADMs. The Company's line of optical components consists primarily of packaged lasers and photodetectors used in transceivers, primarily for LAN and SAN applications, and passive optical components used in building MANs. Demand for the Company's products is largely driven by the continually growing need for additional bandwidth created by the ongoing proliferation of data and video traffic that must be handled by both wireline and wireless networks.

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

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

The Company formerly provided network performance test systems through its Network Tools Division. On July 15, 2009, the Company consummated the sale of substantially all of the assets of the Network Tools Division to JDS Uniphase Corporation (“JDSU”). In accordance with the accounting guidance provided by Financial Accounting Standards Board (“FASB”), the operating results of this business and the associated assets and liabilities are reported as discontinued operations in the accompanying consolidated financial statements for all periods presented. See Note 4 for further details regarding the sale of the assets of the division.

The consolidated financial statements include the accounts of Finisar Corporation and its wholly-owned subsidiaries (collectively “Finisar” or the “Company”). Intercompany accounts and transactions have been eliminated in consolidation.

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. The first three quarters of fiscal 2011 ended on August 1, 2010, October 31, 2010 and January 30, 2011. The first three quarters of fiscal 2010 ended on August 2, 2009, November 1, 2009, and January 31, 2010. The first three quarters of fiscal 2009 ended on August 3, 2008, November 2, 2009 and February 1, 2009, respectively.

Reclassifications

Certain reclassifications have been made to the prior year balance sheet and cash flow statements to conform to the

FINISAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

current year presentation. These changes had no impact on previously reported net income or retained earnings.

Use of Estimates

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

2. Summary of Significant Accounting Policies

Revenue Recognition

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

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

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

Segment Reporting

FASB's authoritative guidance regarding segment reporting establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Prior to the first quarter of fiscal 2010, the Company had determined that it operated in two segments consisting of optical subsystems and components and network test systems. After the sale of the assets of the Network Tools Division to JDSU in the first quarter of fiscal 2010, the Company has one reportable segment comprising optical subsystems and components. Optical subsystems consist primarily of transceivers sold to manufacturers of storage and networking equipment for SANs and LANs and MAN applications. Optical subsystems also include multiplexers, de-multiplexers and optical add/drop modules for use in MAN applications. Optical components consist primarily of packaged lasers and photo-detectors which are incorporated in transceivers, primarily for LAN and SAN applications.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk include cash, cash equivalents and accounts receivable. The Company places its cash and cash equivalents with high-credit quality financial institutions. Such investments are generally in excess of FDIC insurance limits.

Concentrations of credit risk, with respect to accounts receivable, exist to the extent of amounts presented in the financial statements. Generally, the Company does not require collateral or other security to support customer receivables. The Company performs periodic credit evaluations of its customers and maintains an allowance for potential credit losses based on historical experience and other information available to management. Losses to date have not been material. The Company's five largest customers represented 47% and 44% of total accounts receivable at April 30, 2011 and April 30, 2010, respectively. As of April 30, 2011, three customers accounted for 14%, 11%and

11%, respectively, of total accounts receivable. As of April 30, 2010, two customers accounted for 12% and 10%, respectively, of total accounts receivable.

The Company sells products primarily to customers located in Asia and North America. Sales to the Company's five largest customers represented 48%, 43% and 42% of total revenues during fiscal 2011, 2010 and 2009 respectively. Three

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

customers, Cisco Systems, Huawei and Alcatel-Lucent, each represented more than 10% of total revenues during fiscal 2011. One customer, Cisco Systems, represented more than 10% of total revenues during each of fiscal 2010 and fiscal 2009.

Current Vulnerabilities Due to Certain Concentrations

Included in the Company's consolidated balance sheet at April 30, 2011 are the net assets of the Company's manufacturing operations located overseas at its Ipoh, Malaysia, Shanghai, China and Australia manufacturing facilities and which total approximately $185.7 million.

Foreign Currency Translation

The functional currency of our foreign subsidiaries is the local currency. Assets and liabilities denominated in foreign currencies are translated using the exchange rate on the balance sheet dates. Revenues and expenses are translated using average exchange rates prevailing during the year. Any translation adjustments resulting from this process are shown separately as a component of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are included in the determination of net loss.

Research and Development

Research and development expenditures are charged to operations as incurred.

Shipping and Handling Costs

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

Cash and Cash Equivalents

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

Investments

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

Fair Value Accounting

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

levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:
Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities;

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

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

The Company's Level 1 assets include instruments valued based on quoted market prices in active markets which generally include money market funds. The Company classifies items in Level 2 if the investments are valued using observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. These investments include: government agencies, corporate bonds and commercial paper. See Note 7 for additional details regarding the fair value of the Company's investments.

The Company did not hold financial assets and liabilities which were valued using unobservable inputs as of April 30, 2011 or April 30, 2010.

Allowance for Doubtful Accounts

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

Inventories

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

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

In quantifying the amount of excess inventory, the Company assumes that the last twelve months of demand is generally indicative of the demand for the next twelve months. Inventory on hand that is in excess of that demand is written down to its estimated net realizable value. Obligations to purchase inventory acquired by subcontractors based on forecasts provided by the Company are recognized at the time such obligations arise.

Property, Equipment and Improvements

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

Goodwill and Other Intangible Assets

Goodwill, purchased technology and other intangible assets resulting from acquisitions are accounted for under the acquisition method. Intangible assets with finite lives are amortized over their estimated useful lives. Amortization of purchased technology and other intangibles has been recorded on a straight-line basis over periods ranging from three to ten years. Goodwill is assessed for impairment annually or more frequently when an event occurs or circumstances

change between annual impairment tests that would more likely than not reduce the fair value of the reporting unit holding the goodwill below its carrying value.

Accounting for the Impairment of Long-Lived Assets

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

Restructuring Costs

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

Stock-Based Compensation Expense

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

Compensation expense for expected-to-vest stock-based awards that were granted on or prior to April 30, 2006 was valued under the multiple-option approach and will continue to be amortized using the accelerated attribution method. Subsequent to April 30, 2006, compensation expense for expected-to-vest stock-based awards is valued under the single-option approach and amortized on a straight-line basis, net of estimated forfeitures.

Income Taxes

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

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

Recent Adoption of New Accounting Standards

In January 2010, the FASB issued revised guidance intended to improve disclosures related to fair value measurements. New disclosures under this guidance require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This guidance clarified previous disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value

measurements using Level 2 and Level 3 inputs. The new disclosures and clarifications of existing disclosure were adopted by the Company beginning May 2010. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Pending Adoption of New Accounting Standards

In May 2011, the 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 do 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 guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The adoption is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

In May 2011, the FASB issued guidance which results in common fair value measurement and disclosure requirements under U.S. GAAP and International Financial Reporting Standards. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. This guidance is effective for interim and annual periods beginning after December 15, 2011. The adoption is not expected to have a material impact on our results of operations, financial position or cash flows.

In November 2010, the FASB issued authoritative guidance on disclosure of supplementary pro forma information for business combinations. The new guidance requires that pro forma financial information should be prepared as if the business combination occurred as of the beginning of the prior annual period. The amendments also expand the required supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The guidance is effective for the Company for business combinations with acquisition dates occurring in and from the first quarter of fiscal 2012.

In October 2009, the FASB amended the accounting standards for revenue recognition to remove tangible products containing software components and nonsoftware components that function together to deliver the product’s essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for multiple deliverable revenue arrangements to:

(i) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;

(ii) require an entity to allocate revenue in an arrangement using estimated selling prices (ESP) of deliverables if a vendor does not have vendor-specific objective evidence of selling price (VSOE) or third-party evidence of selling price (TPE); and

(iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

The accounting changes summarized in this guidance are effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. The Company will be required to adopt this guidance on revenue arrangements entered into or significantly modified subsequent to April 30, 2011 and believes the adoption of this guidance will not have a material impact on its consolidated financial statements.

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. 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.

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

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	Fiscal Years Ended April 30,		
	2011	2010	2009
Numerator:			
Income (loss) from continuing operations	$88,379	$(22,806)	$(262,492)
Numerator for basic income (loss) per share from continuing operations	$88,379	$(22,806)	$(262,492)
Effect of dilutive securities:			
Convertible debt interest expense	4,627	—	—
Numerator for diluted income (loss) per share from continuing operations	$93,006	$(22,806)	$(262,492)
Denominator:			
Denominator for basic income (loss) per share from continuing operations- weighted average shares	80,582	64,952	52,557
Effect of dilutive securities:			
Employee stock options and restricted stock units	4,132	—	—
Warrants	36	—	—
Convertible debt	7,965	—	—
Dilutive potential common shares	12,133	—	—
Denominator for diluted income (loss) per share from continuing operations	92,715	64,952	52,557
Basic income (loss) per share from continuing operations	$1.10	$(0.35)	$(4.99)
Diluted income (loss) per share from continuing operations	$1.00	$(0.35)	$(4.99)

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

	Fiscal Years Ended April 30,		
	2011	2010	2009
Employee stock options and restricted stock units	$1,603	$7,459	$7,279
Conversion of convertible subordinated notes	—	662	1,687
Conversion of 5% convertible senior notes due 2029	—	5,124	—
Warrants assumed in acquisition	—	34	38
	$1,603	$13,279	$9,004

4. Discontinued Operations

During the first quarter of fiscal 2010, the Company completed the sale of substantially all of the assets of its Network Tools Division to JDSU. The Company received $40.6 million in cash and recorded a net gain on sale of the business of $35.9 million before income taxes, which is included in income from discontinued operations, net of tax, in the Company's consolidated statements of operations. The assets and liabilities and results of operation related to this business have been classified as discontinued operations in the consolidated financial statements for all periods presented. As a result, the prior period comparative financial statements have been restated. The Company has elected not to separately disclose the cash flows associated with the discontinued operations in the consolidated statements of cash flows.

The following table summarizes results from discontinued operations (in thousands):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fiscal Years Ended April 30,		
	2011	2010	2009
Net revenue	$—	$6,753	$44,179
Gross profit	—	4,963	29,571
Income (loss) from discontinued operations(1)	(284)	36,937	2,149

(1) Income from discontinued operations of $36.9 million in fiscal 2010 includes gain on sale of discontinued operations of $35.9 million.

The following table summarizes the gain on sale of discontinued operations (in thousands):

Gross proceeds from sale	$40,683
Assets sold	
Inventory	(4,814)
Property and equipment	(2,460)
Intangibles	(845)
Liabilities transferred	
Deferred revenue	3,102
Other accruals	312
Other charges	(90)
	$35,888

In connection with the sale of the assets of the Network Tools Division, the Company entered into a transition services agreement with the buyer under which the Company agreed to provide manufacturing services to the buyer during a transition period. This agreement was completed on July 14, 2010. Total operating expenses incurred in relation to the transition services agreement during fiscal 2011 and 2010 were $284,000 and $142,000, respectively.

5. Business Combinations and Asset Acquisitions

Acquisition of Optium

On August 29, 2008, the Company consummated a combination with Optium Corporation, a leading designer and manufacturer of high performance optical subsystems for use in telecommunications and cable TV network systems, through the merger of Optium with a wholly-owned subsidiary of the Company. The Company's management and board of directors believe that the combination of the two companies created the world's largest supplier of optical components, modules and subsystems for the communications industry and will leverage the Company's leadership position in the storage and data networking sectors of the industry and Optium's leadership position in the telecommunications and CATV sectors to create a more competitive industry participant. In addition, as a result of the combination, management believes that the Company should be able to realize cost synergies related to operating expenses and manufacturing costs resulting from (1) the transfer of production to lower cost locations, (2) improved purchasing power associated with being a larger company and (3) cost synergies associated with the integration of internally manufactured components into product designs in place of components previously purchased by Optium in the open market. The Company has accounted for the combination using the purchase method of accounting and as a result has included the operating results of Optium in its consolidated financial results since the August 29, 2008 consummation date. The following table summarizes the components of the total purchase price (in thousands):

Fair value of Finisar common stock issued	$242,821
Fair value of vested Optium stock options and warrants assumed	8,561

Direct transaction costs	2,431
Total purchase price	$253,813

FINISAR CORPORATION
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At the closing of the merger, the Company issued 20,101,082 shares of its common stock valued at approximately $242.8 million in exchange for all of the outstanding common stock of Optium. The value of the shares issued was calculated using the five day average of the closing price of the Company's common stock from the second trading day before the merger announcement date on May 16, 2008 through the second trading day following the announcement, or $12.08 per share. There were approximately 2,150,325 shares of the Company's common stock issuable upon the exercise of the outstanding options, warrants and restricted stock awards it assumed in accordance with the terms of the merger agreement. The number of shares was calculated based on the fixed conversion ratio of 0.7827 shares of Finisar common stock for each share of Optium common stock. The purchase price includes $8.6 million representing the fair market value of the vested options and warrants assumed.

The Company recognized approximately $520,000 and $1.6 million of non-cash stock-based compensation expense in fiscal 2011 and 2010, respectively, related to the unvested options assumed on the acquisition date. As of April 30, 2011, $176,000 of this expense remained unrecognized and is expected to be recognized over the weighted average remaining recognition period of 2 months. The stock options and warrants were valued using the Black-Scholes option pricing model based on the following weighted average assumptions:

Interest rate	2.17 - 4.5%	
Volatility	47 - 136%	
Expected life	1 - 6 years	
Expected dividend yield	—	%

Direct transaction costs include estimated legal and accounting fees and other external costs directly related to the merger.

Purchase Price Allocation

The purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date of August 29, 2008. The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill. The Company believes the fair value assigned to the assets acquired and liabilities assumed was based on reasonable assumptions. The Company recorded net tangible assets of $68.1 million, $25.1 million of identifiable intangible assets, an in-process research and development charge of $10.5 million and $150.1 million of goodwill based on allocation of the purchase price to the fair value of assets acquired and liabilities assumed.

Identifiable Intangible Assets

Intangible assets consist primarily of developed technology, customer relationships and trademarks. Developed technology is comprised of products that have reached technological feasibility and are a part of Optium's product lines. This proprietary know-how can be leveraged to develop new technology and products and improve our existing products. Customer relationships represent Optium's underlying relationships with its customers. Trademarks represent the fair value of brand name recognition associated with the marketing of Optium's products. The fair values of identified intangible assets were calculated using an income approach and estimates and assumptions provided by both Finisar and Optium management. The rates utilized to discount net cash flows to their present values were based on the Company's weighted average cost of capital and ranged from 15% to 30%. This discount rate was determined after consideration for the Company's rate of return on debt capital and equity and the weighted average return on invested capital. The amounts assigned to developed technology, customer relationships, and trademarks were

$12.1 million, $11.9 million and $1.1 million, respectively. The Company amortizes developed technology, customer relationships, and trademarks on a straight-line basis over their weighted average expected useful life of 10, 5, and 1 years, respectively. Developed technology is amortized into cost of sales while customer relationships and trademarks are amortized into operating expenses.

In-Process Research and Development

The Company expensed in-process research and development (“IPR&D”) upon acquisition as it represented incomplete Optium research and development projects that had not reached technological feasibility and had no alternative future use as of the date of the merger. Technological feasibility is established when an enterprise has completed all planning, designing, coding, and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features, and technical performance requirements. The value assigned to IPR&D of $10.5 million was determined by considering the importance of each project to the Company's overall development plan, estimating costs to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

develop the purchased IPR&D into commercially viable products, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present values based on the percentage of completion of the IPR&D projects as of the date of the merger.

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of the Company and Optium on a pro forma basis after giving effect to the merger with Optium at the beginning of fiscal 2009. The pro forma information is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the merger had happened at the beginning of fiscal 2009.

The unaudited pro forma financial information for fiscal 2009 combines the historical results of the Company for fiscal 2009 with the historical results of Optium for one month ended August 29, 2008 and the three months ended August 2, 2008.

The following pro forma financial information includes purchase accounting adjustments for amortization charges from acquired identifiable intangible assets, depreciation on acquired property and equipment and other non-recurring acquisition related costs (unaudited; in thousands, except per share information):

	Fiscal Year Ended April 30, 2009
Revenues	$549,050
Net loss	$(259,579)
Net loss per share — basic and diluted	$(4.38)

6. Intangible Assets Including Goodwill

Goodwill impairment charges

During the second quarter of fiscal 2009, the Company recorded $150.1 million of goodwill related to the acquisition of Optium which, when combined with the $88.4 million in goodwill acquired prior to the acquisition, resulted in a total goodwill balance of approximately $238.5 million. During the second quarter of fiscal 2009, the Company concluded that there were sufficient indicators to require an interim goodwill impairment analysis. Among these indicators were a significant deterioration in the macroeconomic environment largely caused by the widespread unavailability of business and consumer credit, a significant decrease in the Company’s market capitalization as a result of a decrease in the trading price of its common stock to $4.88 at the end of the quarter and a decrease in internal expectations for near term revenues, especially those expected to result from the Optium merger. For the purposes of this analysis, the Company’s estimates of fair value were based on a combination of the income approach, which estimates the fair value of its reporting units based on future discounted cash flows, and the market approach, which estimates the fair value of its reporting units based on comparable market prices. As of the filing of its quarterly report on Form 10-Q for the second quarter of fiscal 2009, the Company had not completed its analysis due to the complexities involved in determining the implied fair value of the goodwill for the optical subsystems and components reporting unit, which is based on the determination of the fair value of all assets and liabilities of this reporting unit. However, based on the work performed through the date of the filing, the Company concluded that an impairment loss was probable and could be reasonably estimated. Accordingly, it recorded a $178.8 million non-cash goodwill impairment charge, representing its best estimate of the impairment loss during the second quarter of fiscal 2009.

While finalizing its impairment analysis during the third quarter of fiscal 2009, the Company concluded that there were additional indicators sufficient to require another interim goodwill impairment analysis. Among these indicators were a worsening of the macroeconomic environment largely caused by the unavailability of business and consumer credit, an additional decrease in the Company’s market capitalization as a result of a decrease in the trading price of its common stock to $4.08 at the end of the quarter and a further decrease in internal expectations for near term revenues.

For purposes of this analysis, the Company's estimates of fair value were again based on a combination of the income approach and the market approach. As of the filing of its quarterly report on Form 10-Q for the third quarter of fiscal 2009, the Company had not completed its analysis due to the complexities involved in determining the implied fair value of the goodwill for the optical subsystems and components reporting unit, which is based on the determination of the fair value of all assets and liabilities of this reporting unit. However, based on the work performed through the date of the filing, the Company concluded that an impairment loss was probable and could be reasonably estimated. Accordingly, it recorded an additional $46.5 million non-cash goodwill impairment charge, representing its best estimate of the impairment loss during the third quarter of fiscal 2009.

As of the first day of the fourth quarter of fiscal 2009, the Company performed the required annual impairment testing of goodwill and indefinite-lived intangible assets and determined that the remaining balance of goodwill of $13.2 million was impaired and accordingly recognized an additional impairment charge of $13.2 million in the fourth quarter of fiscal 2009.

During fiscal 2009, the Company recorded $238.5 million in goodwill impairment charges. At April 30, 2011 and April 30, 2010 the carrying value of goodwill was zero.

Other Intangible Assets

The following table reflects intangible assets subject to amortization as of April 30, 2011 and April 30, 2010 (in thousands):

	April 30, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	$76,264	$(68,932)	$7,332
Purchased trade name	1,172	(1,172)	—
Purchased customer relationships	15,970	(6,100)	9,870
Purchased patents	375	(138)	237
Totals	$93,781	$(76,342)	$17,439

	April 30, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	$75,936	$(64,247)	$11,689
Purchased trade name	1,172	(1,172)	—
Purchased customer relationships	15,970	(4,569)	11,401
Purchased patents	375	(63)	312
Totals	$93,453	$(70,051)	$23,402

The amortization expense on these intangible assets was $6.3 million, $6.9 million and $7.1 million for fiscal 2011, fiscal 2010 and fiscal 2009, respectively.

During the fourth quarter of fiscal 2009, the Company determined that the net carrying value of certain acquired technology had been impaired and had a fair value of zero. Accordingly, an impairment charge of $1.2 million was recorded against the remaining net book value of these assets during the fourth quarter of fiscal 2009.

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

Year	Amount
2011	$5,519
2012	4,107
2013	2,392
2014	1,454
2015 and beyond	3,967
Total	$17,439

7. Investments

Available-for-sale Securities

The following table presents a summary of the Company's investments measured at fair value on a recurring basis as of

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April 30, 2011 (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	$115,294	$—	$—	$115,294
Cash	—	—	—	199,471
Total cash and cash equivalents				$314,765

The following table presents a summary of the Company's available-for-sale investments measured at fair value on a recurring basis as of April 30, 2010 (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	$140,014	$—	$—	$140,014
Cash	—	—	—	67,010
Total cash and cash equivalents				$207,024

The Company monitors its investment portfolio for impairment on a periodic basis. In order to determine whether a decline in value is other-than-temporary, the Company evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value; the Company's financial condition and business outlook, including key operational and cash flow metrics, current market conditions and future trends in its industry; the Company's relative competitive position within the industry; and the Company's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. A decline in the market value of the security below cost that is deemed other than temporary is charged to earnings, resulting in the establishment of a new cost basis for the security.

The amortized cost basis of securities held as of April 30, 2011 and April 30, 2010 was the same as its fair value. Unrealized gain and loss as of April 30, 2011 and April 30, 2010 was zero. The number of investments that were in a continuous unrealized loss position for more than twelve months was zero.
The gross realized gains and losses for fiscal 2011, 2010 and 2009 were immaterial. Realized gains and losses were calculated based on the specific identification method.

8. Minority Investments

Cost Method Investments

The carrying value of minority investments at April 30, 2011 and April 30, 2010 each was $12.3 million. The carrying value of such investments at April 30, 2011 and April 30, 2010 was comprised of the Company's minority investment in three privately held companies accounted for under the cost method.

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During fiscal 2010, the Company recorded $2.0 million for impairments in the value of these minority investments. The Company concluded that there were sufficient indicators during the second quarter of fiscal 2010 to require an investment impairment analysis of its investment in one of these companies. Among these indicators was the completion of a new round of equity financing by the investee and the resultant conversion of the Company's preferred stock holdings to common stock. The Company determined that the value of its minority equity investment was impaired and recorded a $2.0 million impairment loss as other expense during the second quarter of fiscal 2010. No such impairment was recorded in fiscal 2011.
The Company's investments in these early stage companies were primarily motivated by its desire to gain early access to new technology. The Company's investments were passive in nature in that the Company generally did not obtain representation on the board of directors of the companies in which it invested. At the time the Company made its investments, in most cases the companies had not completed development of their products and the Company did not enter into any significant supply agreements with any of the companies in which it invested.

9. Equity Method Investments
During the second quarter of fiscal 2011, the Company purchased 7.3 million shares of Ignis ASA ("Ignis"), a Norwegian company traded on the Oslo exchange (Norway stock exchange) for total consideration of $5.9 million. This investment was carried on our financial statements at its fair value and was classified as available for sale. After such purchases, the Company had an ownership position in Ignis of 9.38%. During the fourth quarter of fiscal 2011, the Company acquired an additional aggregate of 18.3 million shares from certain existing Ignis shareholders for NOK 8 per share in cash, or an aggregate purchase price of NOK 147 million ($26 million). As a result of these purchases the Company's ownership position in Ignis increased to approximately 32.6%. As a result of the Company's additional investment in Ignis, the Company determined that it had acquired the ability to exercise significant influence over Ignis. Therefore, the Company has accounted for this investment using the equity method. Accordingly, the Company's proportionate share of Ignis's net loss from the date of purchase of the 18.3 million shares, $413,000, has been included in the consolidated statement of operations in other income (expense), net.
As of April 30, 2011, the Company's investment in Ignis was carried at approximately $30.0 million less than the amount of its underlying equity in net assets (32% of total investment in Ignis as of April 30, 2011). Such difference has been fully allocated to goodwill and definite lived intangible assets. The intangible assets subject to amortization are being amortized on a straight-line basis over the expected useful life of these assets and this amortization is included in the Company's proportionate share of Igni's loss, as described above.
The aggregate value of these shares as of April 30, 2011, based on the quoted market price was $38.7 million.

10. Inventories
Inventories consist of the following (in thousands):

	April 30,	
	2011	2010
Raw materials	$64,997	$46,780
Work-in-process	66,073	54,352
Finished goods	56,547	38,393
Total inventories	$187,617	$139,525

In fiscal 2011, the Company recorded charges of $19.1 million for excess and obsolete inventory and sold inventory components that were written-off in prior periods of $12.8 million, resulting in a net charge for excess and obsolete inventory of $6.3 million. In fiscal 2010, the Company recorded charges of $23.0 million for excess and obsolete inventory and sold inventory components that were written-off in prior periods of $15.1 million, resulting in a net charge for excess and obsolete inventory of $7.9 million. In fiscal 2009, the Company recorded charges of

$14.4 million for excess and obsolete inventory and sold inventory components that were written-off in prior periods of $8.1 million, resulting in a net charge for excess and obsolete inventory of $6.3 million. Inventory consigned to others as of April 30, 2011 was $43.7 million.

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 April 30, 2011 and April 30, 2010, the

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liability for these purchase commitments was $3.2 million and $722,000, respectively, and was recorded on the balance sheet as other accrued liabilities.

11. Property, Equipment and Improvements

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

	April 30,	
	2011	2010
Buildings	$9,733	$8,337
Computer equipment	42,888	36,613
Office equipment, furniture and fixtures	4,163	3,853
Machinery and equipment	248,641	182,209
Leasehold improvements	21,626	19,197
Total	327,051	250,209
Accumulated depreciation and amortization	(201,358)	(160,995)
Property, equipment and improvements (net)	$125,693	$89,214

12. Other Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	April 30,	
	2011	2010
Warranty accrual (Note 25)	$4,469	$5,472
Other liabilities	20,643	16,326
Total	$25,112	$21,798

13. Convertible Debt

The Company's convertible subordinated and senior subordinated notes as of April 30, 2011 and 2010 are summarized as follows (in thousands):

Description	Carrying Amount	Interest Rate	Due in Fiscal year
As of April 30, 2011			
Convertible senior notes due October 2029	$40,015	5.00%	2030
Total	$40,015		
As of April 30, 2010			
Convertible senior notes due October 2029	$100,000	5.00%	2030
Convertible subordinated notes due October 2010	3,900	2.50%	2011
Convertible senior subordinated notes due October 2010	25,681	2.50%	2011
Unamortized debt discount	(742)		
Convertible senior subordinated notes, net	24,939		
Total	$128,839		

Convertible Subordinated Notes Due 2010

On October 15, 2003, the Company sold $150 million aggregate principal amount of 2 1/2% convertible subordinated notes due October 15, 2010. In separate, privately-negotiated transactions on October 6, 2006, the Company exchanged $100 million in principal amount of its outstanding 2 1/2% convertible subordinated notes due 2010 for a new series of notes. The exchange

primarily resulted in the elimination of a single-day put option which would have allowed the holders of the original notes to require the Company to repurchase some or all of the notes, for cash or common stock of the Company (at the option of the Company), on October 15, 2007. The exchange was treated as the extinguishment of the original debt and issuance of new debt. The remaining $50 million in outstanding principal amount of the original notes were not modified, and had been classified as a current liability as a result of the put option. On October 15, 2007, none of the note holders exercised the right to require the Company to repurchase these notes, and the put option terminated. Accordingly, the Company reclassified the $50 million in principal amount to long-term liabilities.

Repurchase of Convertible Subordinated Notes

During fiscal 2010, the Company repurchased $13.0 million principal amount of the 2 1/2% convertible subordinated notes due 2010 in privately negotiated transactions for a total purchase price of $12.7 million plus accrued interest of $11,000 and recorded a gain on debt extinguishment of $308,000 in connection with these transactions.

Exchange Offer

On August 11, 2009, the Company exchanged $33.1 million principal amount of the 2 1/2% convertible subordinated notes due 2010 pursuant to exchange offers which commenced on July 9, 2009. Additional information regarding settlement of the exchange offer is set forth in the paragraph entitled “Settlement of Exchange Offers” below.

As of April 30, 2010, $3.9 million of principal amount of these notes remained outstanding. The Company repaid this amount in cash in October 2010.

Unamortized debt issuance costs associated with these notes were $8,495 at April 30, 2010. Amortization of prepaid debt issuance costs are classified as other income (expense), net on the consolidated statements of operations. Amortization of prepaid debt issuance costs were $8,495 in fiscal 2011, $125,528 in fiscal 2010, $234,000 in fiscal 2009.

Convertible Senior Subordinated Notes Due 2010

As explained above, On October 6, 2006, the Company entered into separate, privately-negotiated, exchange agreements with certain holders of its existing 2 1/2% Convertible Subordinated Notes due 2010 (the “Old Notes”), pursuant to which holders of an aggregate of $100 million of the Old Notes agreed to exchange their Old Notes for $100 million in aggregate principal amount of a new series of 2 1/2% Convertible Senior Subordinated Notes due 2010 (the “New Notes”), plus accrued and unpaid interest on the Old Notes at the day prior to the closing of the exchange. The New Notes were convertible, at the option of the holder, upon the trading price of the Company's common stock reaching $39.36 per share for a period of time at a conversion price of $26.24 per share, which is equal to a rate of approximately 38.1132 shares of Finisar common stock per $1,000 principal amount of the New Notes. The conversion price was subject to adjustment. This exchange was treated as the issuance of new debt. The New Notes contained a net share settlement feature which required that, upon conversion of the New Notes into common stock of the Company, Finisar would pay holders in cash for up to the principal amount of the converted New Notes and that any amounts in excess of the cash amount will be settled in shares of Finisar common stock.

The Company agreed to use its best efforts to file a shelf registration statement covering the New Notes and the common stock issuable upon conversion of the stock and keep such registration statement effective until two years after the latest date on which the Company issued New Notes (or such earlier date when the holders of the New Notes and the common stock issuable upon conversion of the New Notes are able to sell their securities immediately

pursuant to Rule 144(k) under the Securities Act). If the Company did not comply with these registration obligations, the Company was required to pay liquidated damages to the holders of the New Notes or the common stock issuable upon conversion. The Company did not comply with these registration requirements and accrued liquidated damages of $830,822. None of the liquidated damages have been paid and as of April 30, 2011 and April 30, 2010, the entire accrued balance of $830,822, respectively, was outstanding.

In fiscal 2009, the Company adopted authoritative guidance issued by the FASB for accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) which requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. The separation of the conversion option created an original issue discount in the bond component which was to be accreted as interest expense over the term of the instrument using the interest method, resulting in an increase in interest expense and a decrease in net income and earnings per share. The provisions of this accounting guidance applied to the New Notes and the Company accounted for the debt and equity components of the notes to reflect the estimated nonconvertible debt

borrowing rate at the date of issuance of 8.59%.

Repurchase of the Notes

In the third quarter of fiscal 2009, the Company purchased $8.0 million in principal amount of the New Notes, together with accrued interest, in privately negotiated transactions for approximately $3.9 million in cash. In connection with the purchase, the Company recorded a gain of approximately $3.1 million. During fiscal 2010, the Company repurchased an aggregate of $51.9 million principal amount of the New Notes in privately negotiated transactions for a total purchase price of $50.3 million plus accrued interest of $183,000 and recorded a loss on debt extinguishment of $1.3 million in connection with these transactions.

Exchange Offer

On August 11, 2009, the Company exchanged approximately $14.4 million principal amount of the New Notes pursuant to exchange offers which commenced on July 9, 2009. Additional information regarding settlement of the exchange offer is set forth in the paragraph entitled “Settlement of Exchange Offers” below.

As of April 30, 2010, $25.7 million of principal amount of these notes was outstanding. The Company repaid this amount in cash in October 2010.

The carrying amount of the equity component as of April 30, 2010 was $19.2 million.

Unamortized debt issuance costs associated with the New Notes were $36,479 at April 30, 2010. Amortization of prepaid loan costs are classified as other income (expense), net on the consolidated statement of operations. Debt issuance costs related to debt that is extinguished during the period is written off as loss on debt extinguishment. Amortization of prepaid loan costs were $36,479 in fiscal 2011,$163,000 in fiscal 2010 and $331,000 in fiscal 2009.

The following table presents the associated interest expense related to the Company's convertible senior subordinated notes. The interest expense consists of both the contractual interest coupon (cash interest cost) and amortization of the discount on the liability (non-cash interest cost) (in thousands):

	Fiscal Years Ended April 30,		
	2011	2010	2009
Non-cash interest cost	$742	$3,033	$4,910
Cash interest cost	294	1,402	2,433
	$1,036	$4,435	$7,343

Settlement of Exchange Offers

On August 11, 2009, the Company exchanged approximately $47.5 million aggregate principal amount of its $2^{1}/2$% convertible senior subordinated notes due 2010 and its $2^{1}/2$% Convertible Subordinated Notes due 2010 pursuant to exchange offers which commenced on July 9, 2009 at a price of $870 for each $1,000 principal amount of notes. The consideration for the exchange consisted of (i) $525 in cash and (ii) 596 shares of the Company’s common stock per $1,000 principal amount of notes. The Company issued approximately 3.5 million shares of common stock and paid out approximately $24.9 million in cash to the former holders of notes validly tendered and not withdrawn in the exchange offers. The Company settled $33.1 million, or 66.2%, of the $50.0 million aggregate outstanding principal amount of $2^{1}/2$% convertible subordinated notes due 2010; and $14.4 million, or approximately 15.7%, of the $92.0 million aggregate outstanding principal amount of $2^{1}/2$% convertible senior subordinated notes due 2010. The

total consideration paid in the exchange was approximately $4.7 million less than the par value of the notes retired. In accordance with the provisions of ASC 470-20, this exchange was considered to be an induced conversion and the retirement of the notes was accounted for as if they had been converted according to their original terms, with that value compared to the fair value of the consideration paid in the exchange offers. The original conversion price of the notes was $30.08 per share. Accordingly, the Company recorded loss on debt extinguishment of $23.7 million. The Company incurred $1.5 million of expenses in connection with the exchange offers which was recorded as a loss on debt extinguishment in the consolidated statement of operations.

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5.0% Convertible Senior Notes Due 2029

On October 15, 2009, the Company sold $100 million aggregate principal amount of 5.0% Convertible Senior Notes due 2029. The notes will mature on October 15, 2029, unless earlier repurchased, redeemed or converted. Interest on the notes is payable semi-annually in arrears at a rate of 5.0% per annum on each April 15 and October 15, beginning on April 15, 2010. The notes are senior unsecured and unsubordinated obligations of the Company, and rank equally in right of payment with the Company's other unsecured and unsubordinated indebtedness, but are effectively subordinated to the Company's secured indebtedness and liabilities to the extent of the value of the collateral securing those obligations, and structurally subordinated to the indebtedness and other liabilities of the Company's subsidiaries.

Holders may convert the notes into shares of the Company's common stock, at their option, at any time prior to the close of business on the trading day before the stated maturity date. The initial conversion rate is 93.6768 shares of Common Stock per $1,000 principal amount of the notes (equivalent to an initial conversion price of approximately $10.68 per share of common stock), subject to adjustment upon the occurrence of certain events. Upon conversion of the notes, holders will receive shares of common stock unless the Company obtains consent from a majority of the holders to deliver cash or a combination of cash and shares of common stock in satisfaction of its conversion obligation. If a holder elects to convert the notes in connection with a "fundamental change" (as defined in the indenture) that occurs prior to October 15, 2014, the conversion rate applicable to the notes will be increased as provided in the indenture.

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

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

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

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

Private Exchange of Convertible Notes

In fiscal 2011, the Company entered into privately-negotiated agreements with existing holders of its 5% Convertible Senior Notes due 2029 (the "Notes") to exchange an aggregate of approximately $60.0 million principal amount of the Notes for a total of approximately 5.6 million shares of our common stock, based on the conversion price of the Notes of $10.68 per share, plus 263,428 additional shares, including 24,077 shares issued in payment of accrued and unpaid interest of $840,672. The Company recognized a loss on debt extinguishment on these conversions of $8.3 million representing the fair value of the shares issued in excess of the number of shares issuable in accordance with the original conversion terms of the Notes. Following these exchanges, $40.0 million of principal amount of the notes remained outstanding as of April 30, 2011.

Unamortized debt issuance costs associated with these notes at April 30, 2011 was $540,532. Amortization of prepaid debt issuance costs are classified as other income (expense), net on the consolidated statements of operations.

Amortization of prepaid debt issuance costs during fiscal 2011 and fiscal 2010 was $1.2 million and $212,000, respectively.

14. Long-term Debt

Malaysian Bank Loan

In July 2008, the Company's Malaysian subsidiary entered into two separate loan agreements with a Malaysian bank. Under these agreements, the Company's Malaysian subsidiary borrowed a total of $20 million at an initial interest rate of 5.05% per annum. The first loan was payable in 20 equal quarterly installments of $750,000 beginning in January 2009, and the second loan was payable in 20 equal quarterly installments of $250,000 beginning in October 2008. As of April 30, 2010, $13.8

million of this loan was outstanding of which $4.0 million was the current portion. In January 2011, the remaining principal balance of the loan was repaid in full by the Company's Malaysian subsidiary.

Chinese Bank Loan

In January 2010, the Company's Chinese subsidiary entered into a loan agreement with a bank in China. Under this agreement, the Company's Chinese subsidiary borrowed a total of $4.5 million at an initial interest rate of 2.6% per annum. In April 2010, the Chinese subsidiary borrowed an additional $1.0 million from the bank. The loan was payable on January 6, 2013. As of April 30, 2010, $5.5 million of this loan was outstanding. In January 2011, the remaining principal balance of the loan was repaid in full by the Company's Chinese subsidiary.

15. Short-term Debt

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 bear interest at rates based on the prime rate and LIBOR plus variable margins, under which applicable interest rates currently range from 2.75% to 5.00% per annum. Borrowings are 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 matures four years following the date of the agreement, subject to certain conditions. As of April 30, 2011, the availability of credit under the facility was reduced by $3.4 million for outstanding letters of credit secured under the agreement. Borrowing availability as of April 30, 2011 was $66.6 million, and there were no borrowings outstanding against the facility as of April 30, 2011 and April 30, 2010.

The credit facility is subject to certain financial covenants. Prior to February 2011, the Company was subject to a $4.0 million limit on individual investments that it could make. During the quarter ended October 31, 2010, the Company invested $5.9 million in a publicly held foreign company, which exceeded the maximum individual investment permitted under the covenant. The Company obtained a waiver from the bank to allow this investment. The Company was in compliance with all covenants associated with this facility as of April 30, 2011. In February 2011, the credit agreement was amended to modify certain financial covenants, including the $4.0 million limit on individual investments which was increased to $50.0 million.

16. Commitments

The Company’s future commitments at April 30, 2011 included minimum payments under non-cancelable operating lease agreements as follows (in thousands):

		Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating leases(a)	$38,001	$6,529	$9,191	$7,318	$14,963

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

Rent expense under the non-cancelable operating leases was approximately $6.9 million, $6.5 million and $5.7 million for the years ended April 30, 2011, 2010 and 2009, respectively. The Company subleases a portion of its facilities that it considers to be in excess of its requirements. Sublease income was $222,000, $439,000 and $727,000 for the years ended April 30, 2011, 2010 and 2009, respectively. Certain leases have scheduled rent increases which have been included in the above table. Other leases contain provisions to adjust rental rates for inflation during their terms, most of which are based on to-be-published indices. Rents subject to these adjustments are included in the above table

based on current rates.

17. 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 April 30, 2011 and April 30, 2010 are as follows (in thousands):

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	April 30, 2011		April 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$314,765	$314,765	$207,024	$207,024
Equity method investment	31,142	38,671	—	—
Financial liabilities:				
Convertible notes	$40,015	$113,023	$128,839	$188,710
Long-term debt	—	—	19,250	18,183
Total	$40,015	$113,023	$148,089	$206,893

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

Equity method investment - The fair value of the equity method investment is based on the quoted market price of the shares as of April 30, 2011.

Convertible notes -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.

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

The Company has not estimated the fair value of its minority investments in three privately held companies as it is not practicable to estimate the fair value of these investments because of the lack of a quoted market price and the inability to estimate fair value without incurring excessive costs. As of April 30, 2011, the carrying value of the Company's minority investments in these three privately held companies was $12.3 million, which management believes is not impaired.

18. Stockholders' Equity

Comprehensive Income (Loss)

FASB authoritative guidance establishes rules for reporting and display of comprehensive income or loss and its components and requires unrealized gains or losses on the Company's available-for-sale securities and foreign currency translation adjustments to be included in comprehensive income (loss).

The components of comprehensive loss were as follows (in thousands):

	Fiscal Years Ended April 30,		
	2011	2010	2009
Net income (loss)	$88,095	$14,131	$(260,343)
Foreign currency translation adjustment, net of income taxes	17,175	13,108	(9,386)
Change in unrealized gain (loss) on securities, net of reclassification adjustments for realized gain/(loss), net of income taxes	—	21	(925)
Comprehensive income (loss)	$105,270	$27,260	$(270,654)

Included in the determination of net income (loss) were losses of $1.9 million, $1.3 million and $700,000 on foreign exchange transactions for the fiscal years ended April 30, 2011, 2010 and 2009, respectively.
The components of accumulated other comprehensive loss, net of taxes, were as follows (in thousands):

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	April 30,	
	2011	2010
Cumulative translation adjustment	$32,966	$15,791

Common Stock and Preferred Stock
As of April 30, 2011, Finisar is authorized to issue 750,000,000 shares of $0.001 par value common stock and 5,000,000 shares of $0.001 par value preferred stock. The board of directors has the authority to issue the undesignated preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. The holder of each share of common stock has the right to one vote and is entitled to receive dividends when and as declared by the Company's Board of Directors. The Company has never declared or paid dividends on its common stock.
Common stock subject to future issuance as of April 30, 2011 is as follows:

Conversion of convertible notes	3,748,478
Exercise of outstanding options	5,162,077
Vesting of restricted stock awards	2,477,554
Available for grant under stock compensation plans	10,656,690
Total	22,044,799

Common Stock Offerings

On December 27, 2010, the Company completed the sale of 4,140,000 shares of its common stock at a price to the underwriter of $28.54 per share. Net proceeds to the Company after deducting offering expenses were $117.9 million. On March 23, 2010, the Company completed the sale of 9,787,093 shares of its common stock at a price to the public of $14.00 per share. Total gross proceeds of the offering were $137.0 million. Net proceeds to the Company after deducting underwriting discounts and commissions and offering expenses were $131.1 million.
Warrants
In connection with the acquisition of Optium in fiscal 2009, the Company assumed outstanding warrants to purchase stock of Optium as a part of the consideration paid to Optium's equity holders. The assumed warrants entitled the holders to purchase an aggregate of 37,961 shares of Finisar common stock at an exercise price of $0.80 per share. During fiscal 2010 warrants to purchase 378 shares of Finisar common stock were exercised.
Preferred Stock
The Company has authority to issue up to 5,000,000 shares of preferred stock, $0.001 par value. The preferred stock may be issued in one or more series having such rights, preferences and privileges as may be designated by the Company's board of directors. In September 2002, the Company's board of directors designated 500,000 shares of its preferred stock as Series RP Preferred Stock, which is reserved for issuance under the Company's stockholder rights plan described below. As of April 30, 2011 and 2010, no shares of the Company's preferred stock were issued and outstanding.
Stockholder Rights Plan
In September 2002, Finisar's board of directors adopted a stockholder rights plan. Under the rights plan, stockholders received one share purchase right for each share of Finisar common stock held. The rights, which will initially trade with the common stock, effectively allow Finisar stockholders to acquire Finisar common stock at a discount from the then current market value when a person or group acquires 20% or more of Finisar's common stock without prior board approval. When the rights become exercisable, Finisar stockholders, other than the acquirer, become entitled to exercise the rights, at an exercise price of $112.00 per right, for the purchase of one-thousandth of a share of Finisar Series RP Preferred Stock or, in lieu of the purchase of Series RP Preferred Stock, Finisar common stock having a market value of twice the exercise price of the rights. Alternatively, when the rights become exercisable, the board of

directors may authorize the issuance of one share of Finisar common stock in exchange for each right that is then exercisable. In addition, in the event of certain business combinations, the rights permit the purchase of the common stock of an acquirer at a 50% discount. Rights held by the acquirer will become null and void in each case. Prior to a person or group acquiring 20%, the rights can be redeemed for $0.008 each by action of the

FINISAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

board of directors.

The rights plan contains an exception to the 20% ownership threshold for Finisar's founder, former Chairman of the Board and former Chief Technical Officer, Frank H. Levinson. Under the terms of the rights plan, Dr. Levinson and certain related persons and trusts are permitted to acquire additional shares of Finisar common stock up to an aggregate amount of 30% of Finisar's outstanding common stock, without prior board approval.

Employee Stock Purchase Plan

In fiscal 2010, the Company's 1999 Employee Stock Purchase Plan (the "1999 Purchase Plan") expired since all the shares available under the plan were issued. The 1999 Purchase Plan permitted eligible employees to purchase Finisar common stock through payroll deductions, which could not exceed 20% of the employee's total compensation. Stock was purchased under the plan at a price equal to 85% of the fair market value of Finisar common stock on either the first or the last day of the offering period, whichever was lower. During fiscal 2010, the Company issued 1,256,400 shares under the 1999 Purchase Plan.

In September 2009, the Company's board of directors adopted the 2009 Employee Stock Purchase Plan, which includes its sub-plan, the International Employee Stock Purchase Plan (together the "Purchase Plan"), under which 2,500,000 shares of the Company's common stock have been reserved for issuance. The Purchase Plan was approved by the Company's stockholders in November 2009. The Purchase Plan permits eligible employees to purchase Finisar common stock through payroll deductions, which may not exceed 20% of the employee's total compensation. Stock may be purchased under the plan at a price equal to 85% of the fair market value of Finisar common stock on either the first or the last day of the offering period, whichever is lower. During fiscal 2011, 698,982 shares were issued under the Purchase Plan.

Employee Stock Option Plans

In September 1999, Finisar's 1999 Stock Option Plan was adopted by the board of directors and approved by the stockholders. An amendment and restatement of the 1999 Stock Option Plan, including renaming it the 2005 Stock Incentive Plan (the "2005 Plan"), was approved by the board of directors in September 2005 and by the stockholders in October 2005. A total of 2,625,000 shares of common stock were initially reserved for issuance under the 2005 Plan. The share reserve automatically increases on May 1 of each calendar year by a number of shares equal to 5% of the number of shares of Finisar's common stock issued and outstanding as of the immediately preceding April 30, subject to certain restrictions on the aggregate maximum number of shares that may be issued pursuant to incentive stock options. The types of stock-based awards available under the 2005 Plan includes stock options, stock appreciation rights, restricted stock units ("RSUs") and other stock-based awards which vest upon the attainment of designated performance goals or the satisfaction of specified service requirements or, in the case of certain RSUs or other stock-based awards, become payable upon the expiration of a designated time period following such vesting events. Options generally vest over five years and have a maximum term of 10 years. As of April 30, 2011 and 2010, no shares were subject to repurchase.

A summary of activity under the Company's employee stock option plans is as follows:

FINISAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Shares Available for Grant	Options Outstanding			
	Number of Shares	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value(1) ($000's)
Balance at April 30, 2008	4,627,865	6,607,108	$ 21.20		
Increase in authorized shares	1,930,150	—	—		
Options assumed on acquisition of Optium	—	1,868,926	$ 10.96		
Options granted	(2,919,221)	2,919,221	$ 4.16		
RSUs granted	(1,573,711)	—	—		
Options exercised	—	(183,908)	$ 6.08		
RSUs canceled	58,562	—	$ —		
Options canceled	1,530,037	(1,530,037)	$ 19.36		
Balance at April 30, 2009	3,653,682	9,681,310	$ 14.64		
Increase in authorized shares	2,984,325	—	$ —		
Options granted	(1,290,344)	1,290,344	$ 8.36		
RSUs granted	(1,087,410)	—	—		
Options exercised	—	(824,313)	$ 5.90		
RSUs canceled	165,314	—	—		
Options canceled	1,535,392	(1,664,535)	$ 19.21		
Balance at April 30, 2010	5,960,959	8,482,806	$ 13.67		
Increase in authorized shares	4,194,225	—	—		
Options granted	—	—	$ —		
RSUs granted	(1,925,007)	—	—		
Options exercised	—	(2,929,996)	$ 12.07		$45,203
RSUs canceled	195,464	—	—		
Repurchase of common stock (2)	50,542	—	$ —		
Options canceled	385,198	(390,733)	$ 40.78		
Balance at April 30, 2011	8,861,381	5,162,077	$ 12.53	5.93	$82,609

(1) Represents the difference between the exercise price and the value of Finisar common stock at April 30, 2011.
(2) During fiscal 2011, the Company repurchased 50,542 shares in settlement of the minimum statutory employee tax withholding obligations due upon the vesting of restricted stock units.

The following table summarizes significant ranges of outstanding and exercisable options as of April 30, 2011:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Range of Exercise Prices		Options Outstanding			Options Exercisable	
		Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
			(In years)			
$0.64	$3.04	345,364	3.65	$1.22	295,557	$0.97
$3.36	$3.36	1,042,290	7.62	$3.36	684,414	$3.36
$3.92	$8.08	262,409	5.12	$6.84	228,513	$6.90
$8.29	$8.29	914,375	8.60	$8.29	240,703	$8.29
$8.32	$12.88	561,549	4.50	$10.67	468,540	$10.61
$13.12	$14.88	541,197	3.70	$14.11	479,331	$14.12
$15.36	$28.09	1,115,761	5.36	$22.24	901,462	$22.20
$28.09	$30.72	99,278	1.27	$30.52	99,278	$30.52
$31.28	$152.88	279,849	5.53	$35.32	196,058	$36.33
$419.84	$419.84	5	6.01	$419.84	5	$419.84
		5,162,077	5.93		3,593,861	$13.37

The Company's vested and expected-to-vest stock options and exercisable stock options as of April 30, 2011 are summarized in the following table:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
			(In years)	($000's)
Vested and expected-to-vest options	4,864,081	$12.65	5.80	$77,325
Exercisable options	3,593,861	$13.37	5.13	$54,750

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of $28.09 as of April 30, 2011, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of April 30, 2011 was approximately 3.3 million.

As of April 30, 2011, total compensation cost, net of estimated forfeitures, related to unvested stock options not yet recognized was $5.4 million which is expected to be recognized over the next 21 months on a weighted-average basis.

Restricted Stock Units

During fiscal 2011, 2010 and 2009, the Company issued 1.9 million, 1.1 million and 1.6 million RSUs, respectively, under the 2005 Plan. Typically, vesting of RSUs occurs over one to four years and is subject to the employee's continuing service to the Company. The fair value of these awards of $31.9 million, $9.1 million and $8.2 million for fiscal 2011, fiscal 2010 and fiscal 2009, respectively, was determined using the fair market value of the Company's common stock on the date of the grant and is recognized as compensation expense under a straight line method over the awards' vesting period.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at April 30, 2009	1,381,637	$5.36
Granted	1,087,410	$8.33
Vested	(1,084,581)	$3.83
Forfeited	(165,314)	$5.05
Nonvested at April 30, 2010	1,219,152	$9.41
Granted	1,925,007	$16.59
Vested	(471,934)	$7.48
Forfeited	(194,671)	$12.76
Nonvested at April 30, 2011	2,477,554	$15.09

The aggregate intrinsic value of RSUs outstanding at April 30, 2011 was $69.6 million. The fair value of RSUs vested during fiscal 2011 was $11.0 million.

As of April 30, 2011, the Company had $16.5 million of unrecognized compensation expense, net of estimated forfeitures, related to RSUs grants. These expenses are expected to be recognized over a weighted-average period of 36 months.

Stock Compensation Valuation and Expense Information

The Company measures and recognizes compensation expense for all stock-based payment awards made to the Company's employees and directors including employee stock options and employee stock purchases based on estimated fair values.

The following table summarizes stock-based compensation expense related to employee stock options and employee stock purchases for the fiscal years ended April 30, 2011, 2010 and 2009 which was reflected in the Company's operating results (in thousands):

	Fiscal Years Ended April 30,		
	2011	2010	2009
Cost of revenues	$4,623	$4,212	$3,267
Research and development	6,255	5,518	5,576
Sales and marketing	2,103	1,858	1,681
General and administrative	4,967	3,357	2,917
Total	$17,948	$14,945	$13,441

The total stock-based compensation capitalized as part of inventory was $1.2 million and $520,828 as of April 30, 2011 and 2010, respectively.

Compensation expense for expected-to-vest stock-based awards that were granted on or prior to April 30, 2006 was valued under the multiple-option approach and will continue to be amortized using the accelerated attribution method. Subsequent to April 30, 2006, compensation expense for expected-to-vest stock-based awards is valued under the single-option approach and amortized on a straight-line basis, net of estimated forfeitures.

The Company did not grant any options in fiscal 2011. The fair value of options granted in fiscal 2010 and 2009 was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

FINISAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Employee Stock Option Plans		Employee Stock Purchase Plan		
	Year Ended April 30,		Year Ended April 30,		
	2010	2009	2011	2010	2009
Expected term (in years)	5.22	5.26	0.75	0.75	0.75
Volatility	83 %	79 %	59%- 109%	93% - 109%	102 %
Risk-free interest rate	2.36 %	1.96 %	0.2 - 0.3%	0.2 - 0.5%	0.45 %
Dividend yield	— %	— %	— %	— %	— %

The expected term represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on the Company's historical experience with similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock- based awards.
The Company calculated the volatility factor based on the Company's historical stock prices.
The Company bases the risk-free interest rate used in the Black-Scholes option-pricing model on constant maturity bonds from the Federal Reserve in which the maturity approximates the expected term.
The Black-Scholes option-pricing model calls for a single expected dividend yield as an input. The Company has not issued any dividends.
As stock-based compensation expense recognized in the consolidated statement of operations for fiscal 2011, 2010 and 2009 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.
The weighted-average grant-date per share fair value of options granted in fiscal 2010 and 2009 was $5.70 and $2.64, respectively. The weighted-average estimated per share fair value of shares granted under the 2009 Purchase Plan in fiscal 2011 was $3.60. The weighted-average estimated per share fair value of shares granted under the 1999 Purchase Plan in fiscal 2010 and 2009 was $1.53 and $1.68, respectively.
The Black-Scholes option-pricing model requires the input of highly subjective assumptions, including the expected life of the stock-based award and the stock price volatility. The assumptions listed above represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, recorded stock-based compensation expense could have been materially different from that depicted above. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If the actual forfeiture rate is materially different from this estimate, the stock-based compensation expense could be materially different.

19. Employee Benefit Plan

The Company maintains a defined contribution retirement plan under the provisions of Section 401(k) of the Internal Revenue Code which covers all eligible employees. Employees are eligible to participate in the plan on the first day of the month immediately following twelve months of service with Finisar.
Under the plan, each participant may contribute up to 20% of his or her pre-tax gross compensation up to a statutory limit, which was $15,500 for calendar year 2009 and $16,500 for calendar year 2010 and calendar year 2011. All amounts contributed by participants and earnings on participant contributions are fully vested at all times. The Company may contribute an amount equal to one-half of the first 6% of each participant's contribution. The Company suspended contributions to the plan beginning in the fourth quarter of fiscal 2010. The Company reinstated matching contributions beginning January 1, 2011. Per the provisions of reinstated match, the Company may make the matching contribution in shares of Finisar stock in lieu of cash. Contributions made in shares will be allocated to each participant's account using the share price on the date the Company matching contribution is made to the Plan.
The Company's expenses related to this plan were $573,000, $0 and $1,591,000 for the fiscal years ended April 30, 2011, 2010 and 2009, respectively.

20. Income Taxes

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

FINISAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fiscal Years Ended April 30,		
	2011	2010	2009
Current:			
Federal	$67	$(538)	$(225)
State	404	402	86
Foreign	1,977	495	1,023
	2,448	359	884
Deferred:			
Federal	—	—	(7,135)
State	—	—	(711)
Foreign	1,999	(1,999)	—
	1,999	(1,999)	(7,846)
Provision (benefit) for income taxes	$4,447	$(1,640)	$(6,962)

Income (loss) before income taxes consists of the following (in thousands):

	Fiscal Years Ended April 30,		
	2011	2010	2009
U.S.	$39,838	$(49,076)	$(286,214)
Foreign	52,703	24,630	16,760
	$92,541	$(24,446)	$(269,454)

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

	Fiscal Years Ended April 30,		
	2011	2010	2009
Expected income tax provision (benefit) at U.S. federal statutory rate	35.0%	(35.0)%	(35.0)%
Stock compensation expense	1.3	13.3	1.3
Goodwill impairment	—	—	20.4
Debt conversion	3.1	28.0	—
Tax gain convertible note	—	9.5	—
Non-deductible interest	—	2.0	0.6
Valuation allowance	(17.3)	18.6	10.3
Foreign (income) taxed at different rates	(15.6)	(41.4)	(1.8)
In-process research and development	—	—	1.6
Other	(1.7)	(1.7)	—
	4.8%	(6.7)%	(2.6)%

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

FINISAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fiscal Years Ended April 30,		
	2011	2010	2009
Deferred tax assets:			
Inventory adjustments	$10,422	$9,779	$9,556
Accruals and reserves	13,380	10,366	12,025
Tax credits	17,610	12,075	12,014
Net operating loss carryforwards	136,412	160,710	166,944
Gain/loss on investments under equity or cost method	9,805	11,654	10,981
Depreciation and amortization	(100)	(707)	3,944
Purchase accounting for intangible assets	2,446	3,476	4,161
Capital loss carryforward	—	—	709
Acquired intangibles	18,784	18,913	22,524
Stock compensation	6,714	7,676	5,753
Total deferred tax assets	215,473	233,942	248,611
Valuation allowance	(215,473)	(229,201)	(237,456)
Net deferred tax assets	—	4,741	11,155
Deferred tax liabilities:			
Tax basis difference on convertible debt	—	(2,431)	(7,995)
Debt discount	—	(313)	(3,160)
Total deferred tax liabilities	—	(2,744)	(11,155)
Total net deferred tax assets (liabilities)	$—	$1,997	$—

Realization of deferred tax assets is dependent upon future taxable earnings, the timing and amount of which are uncertain. Due to operating losses in previous years, management has established a full valuation allowance for the deferred tax assets for which it is not more likely than not that the deferred tax assets will be realizable in future periods. The Company's valuation allowance increased/(decreased) from the prior year by approximately ($13.7) million, ($8.3) million and $34.7 million in fiscal years 2011, 2010 and 2009, respectively.

As of April 30, 2011, approximately $35.1 million of deferred tax assets, which is not included in the above table, was attributable to certain employee stock option deductions. When realized, the benefit of the tax deduction related to these options will be accounted for as a credit to stockholders' equity rather than as a reduction of the income tax provision

At April 30, 2011, the Company had federal, state and foreign net operating loss carryforwards of approximately $457.4 million, $160.5 million and $3.7 million, respectively, and federal and state tax credit carryforwards of approximately $ 18.5 million, and $11.1 million, respectively. The net operating loss and tax credit carryforwards will expire at various dates beginning in fiscal 2016, if not utilized. Utilization of the Company's U.S. net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations set forth in Internal Revenue Code Section 382 and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss and tax credit carryforwards before utilization.

The Company's manufacturing operations in Malaysia operate under a tax holiday which will expire in fiscal 2017. As of April 30, 2011 there was no provision for U.S. income taxes for undistributed earnings of the Company's foreign subsidiaries as it is currently the Company's intention to reinvest these earnings indefinitely in operations outside the United States. The cumulative amount of foreign earnings to be permanently re-invested as of April 30, 2011 was approximately $82 million. The Company believes it is not practicable to determine the Company's tax liability that may arise in the event of a future repatriation. If repatriated, these earnings could result in a tax expense

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

The amount of gross unrecognized tax benefits as of April 30, 2010 and April 30, 2011 was $12.6 million and $13.9 million, respectively.

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

Gross unrecognized tax benefits balance at April 30, 2009	$12,474
Add:	
Additions based on tax positions related to the current year	361
Additions for tax positions of prior years	(215)
Gross unrecognized tax benefits balance at April 30, 2010	$12,620
Add:	
Additions based on tax positions related to the current year	1,010
Additions for tax positions of prior years	277
Gross unrecognized tax benefits balance at April 30, 2011	$13,907

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

It is the Company's belief that no significant changes in the unrecognized tax benefit positions will occur within 12 months of April 30, 2011.

The Company records interest and penalties related to unrecognized tax benefits in income tax expense. At April 30, 2011, there were no accrued interest or penalties related to uncertain tax positions. The company estimated no interest or penalties for the year ended April 30, 2011.

The Company and its subsidiaries are subject to taxation in various state jurisdictions as well as the U.S. The Company's U.S. federal and state income tax returns are generally not subject to examination by the tax authorities for tax years before fiscal 2007. For all federal and state net operating loss and credit carryovers, the statute of limitations does not begin until the carryover items are utilized. The taxing authorities can examine the validity of the carryover items and if necessary, adjustments may be made to the carryover items. The Company's Malaysia, Singapore, and China income tax returns are generally not subject to examination by the tax authorities for tax years before 2006, 2004, and 2006, respectively. The Company's Israel subsidiary received a tax assessment from Israel Tax Authority (ITA) for tax years ended 2005 to 2007. The Company has filed an appeal and anticipates no material tax liability.

21. Segments

Prior to the first quarter of fiscal 2010, the Company’s Chief Executive Officer and Chairman of the Board viewed its business as having two principal operating segments, consisting of optical subsystems and components, and network performance test systems. After the sale of the assets of the Network Tools Division to JDSU in the first quarter of fiscal 2010, the Company has one reportable segment consisting of optical subsystems and components.

Optical subsystems consist primarily of transceivers sold to manufacturers of storage and networking equipment for SANs and LANs and MAN applications. Optical subsystems also include multiplexers, de-multiplexers and optical add/drop modules for use in MAN applications. Optical components consist primarily of packaged lasers and photo-detectors which are incorporated in transceivers, primarily for LAN and SAN applications.

The following is a summary of operations within geographic areas based on the location of the entity purchasing the Company’s products (in thousands):

	Fiscal Years Ended April 30,		
	2011	2010	2009
Revenues from sales to unaffiliated customers:			
United States	$279,542	$221,789	$147,352

Malaysia	150,101	117,991	90,669
China	218,594	89,722	75,860
Rest of the world	300,550	200,378	183,177
Totals	$948,787	$629,880	$497,058

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Revenues generated in the United States are all from sales to customers located in the United States.
The following is a summary of long-lived assets within geographic areas based on the location of the assets (in thousands):

	April 30, 2011	April 30, 2010
Long-lived assets		
United States	$103,468	$70,975
Malaysia	41,125	35,575
China	24,872	10,962
Rest of the world	22,277	13,003
	$191,742	$130,515

22. Litigation Settlement and Resolution

In November 2009, following trial in the United States District Court for the Western District of Pennsylvania, Optium Corporation, a wholly owned subsidiary of the Company, was found liable for patent infringement. As a result the Court awarded the plaintiffs, JDSU and Emcore Corporation, approximately $3.4 million in damages plus interest. The judgment was with respect to complaints filed on September 11, 2006 and March 14, 2007 by JDSU and Emcore alleging that certain cable television transmission products sold by Optium infringed certain U.S. patents. The Company appealed the judgment to the United States Court of Appeals for the Federal Circuit. On January 26, 2011, the Federal Circuit affirmed the judgment. A petition for rehearing has been filed. Nevertheless, because of the historically low percentage of requests for rehearing that are granted by the Federal Circuit, the Company recorded a charge for the judgment of approximately $3.5 million as general and administrative expense for the damages of $3.4 million plus interest in the third quarter of fiscal 2011. The judgment was paid in full in the fourth quarter of fiscal 2011, following the denial of the Company's petition for rehearing.

On September 10, 2010, the Company entered into a settlement and cross license agreement with Source Photonics, Inc., resolving a lawsuit that the Company had filed on January 5, 2010, alleging that certain optoelectronic transceivers from Source Photonics, Inc. infringed eleven Finisar patents. Under the terms of the settlement agreement, Source Photonics paid a license fee to Finisar in the amount of $14.5 million for a fully paid-up license to Finisar's digital diagnostics and transceiver module patents through December 31, 2015. Payment in full was made by September 30, 2010. The Company used present value techniques to discount its estimated historical and future revenue streams of the infringing Source Photonics products and used the discounted revenue streams as a basis to allocate the $14.5 million settlement and license payment amount between Source Photonics' historical and future uses of the Company's patents. The Company determined that $5.6 million of this settlement amount was attributable to past damages, and that amount was recorded as an offset to general and administrative expenses upon receipt. The remaining $8.9 million was accounted for as deferred revenue and will be recognized as license revenue ratably over the remaining license term through December 31, 2015. During the second quarter of fiscal 2011 the Company incurred contingent and other legal fees of $3.2 million in connection with the settlement of this litigation which were recorded as general and administrative expense.

23. Pending Litigation

Oplink/OCP Patent Litigations

On December 10, 2010, the Company filed a complaint for patent infringement in the United States District Court for the Northern District of California. The complaint alleges that certain optoelectronic transceivers from Oplink Communications, Inc. ("Oplink") and its wholly-owned subsidiary Optical Communication Products Inc. ("OCP") infringe eleven Finisar patents. The complaint asks the Court to enter judgment (a) that the defendants have infringed, actively induced infringement of, and/or contributorily infringed the patents-in-suit, (b) preliminarily and permanently enjoining the defendants from further infringement of the patents-in-suit, or, to the extent not so enjoined, ordering the defendants to pay compulsory ongoing royalties for any continuing infringement, (c) ordering that the defendants account, and pay actual damages (but no less than a reasonable royalty), to the Company for the defendants' infringement, (d) declaring that the defendants are willfully infringing one or more of the patents-in-suit and ordering that the defendants pay treble damages to the Company, (e) ordering that the defendants pay the Company's costs, expenses, and interest, including prejudgment interest, (f) declaring that this is an exceptional case and awarding the Company its attorneys' fees and expenses, and (g) granting such other and further relief as the Court deems just and appropriate,

or that the Company may be entitled to as a matter of law or equity.

On March 7, 2011, OCP filed a complaint against the Company for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges that certain VCSELs and active optical cables manufactured and sold by the Company infringe five OCP patents. The Company has answered the complaint denying that it has infringed any of these patents and asserting that the patents are invalid. In addition, the Company has counterclaimed in the case that certain optoelectronic transceivers from OCP and its parent Oplink infringe five Finisar patents.

The complaint and the counter complaints each ask the Court to enter judgment (a) holding the accused party(ies) liable for infringement of the asserted patents, (b) that the accused party(ies) account for damages resulting from its infringement of the patents, together with pre-judgment and post-judgment interest, (c) preliminarily and permanently enjoining the accused party(ies) from further infringement of the asserted patents, (d) holding the case to an exceptional case, and awarding to the complaining party its attorneys' fees and costs, and (g) granting such other relief as the Court deems just and equitable. The Company intends to prosecute its lawsuit against Oplink and defend OCP's lawsuit vigorously. However, there can be no assurance that it will be successful in its defense. The Company is not currently able to estimate a range of possible losses if it is not successful in defending the OCP lawsuit. However, if it is not successful, the Company's business could be materially harmed. Even if the Company is successful, it may incur substantial legal fees and other costs in defending the lawsuit. Further, the lawsuit could divert the efforts and attention of the Company's management and technical personnel, which could harm its business.

On May 13, 2011, Oplink and OCP filed a complaint in the United States District Court for the Northern District of California seeking a declaration that the products accused of infringement by the Company as counterclaims in the Texas lawsuit do not infringe the asserted patents. The Company intends to seek dismissal of this action as the patents and the accused products are subject to the Texas proceeding.

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 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 related, and motions to consolidate and appoint lead plaintiffs have been filed and will be heard in September 2011.
In addition, two shareholder derivative lawsuits related to the Company's March 8, 2011 earnings announcement were filed in California state court. 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 its board of directors, including the Company's Chairman of the Board, Chief Executive Officer and our Chief Financial Officer. No specific amount of damages have been alleged and, by the derivative nature of the lawsuits, no damages will be alleged, against the Company. The 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,

FINISAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. On May 22, 2007, the state court granted the Company's motion to stay the state court action 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 for further proceedings. The Company and the individual defendants have filed a motion seeking rehearing of the case en banc before the full Ninth Circuit.

Securities Class Action

A securities class action lawsuit was filed on November 30, 2001 in the United States District Court for the Southern District of New York, purportedly on behalf of all persons who purchased the Company's common stock from November 17, 1999 through December 6, 2000. The complaint named as defendants the Company, Jerry S. Rawls, its Chairman of the Board and formerly its President and Chief Executive Officer, Frank H. Levinson, its former Chairman of the Board and Chief Technical Officer, Stephen K. Workman, its former Senior Vice President and Chief Financial Officer, and an investment banking firm that served as an underwriter for the Company's initial public offering in November 1999 and a secondary offering in April 2000. The complaint, as subsequently amended, alleges violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(b) of the Securities Exchange Act of 1934, on the grounds that the prospectuses incorporated in the registration statements for the offerings failed to disclose, among other things, that (i) the underwriter had solicited and received excessive and undisclosed commissions from certain investors in exchange for which the underwriter allocated to those investors material portions of the shares of the Company's stock sold in the offerings and (ii) the underwriter had entered into agreements with customers whereby the underwriter agreed to allocate shares of the Company's stock sold in the offerings to those customers in exchange for which the customers agreed to purchase additional shares of the Company's stock in the after market at pre-determined prices. No specific damages are claimed. Similar allegations have been made in lawsuits relating to more than 300 other initial public offerings conducted in 1999 and 2000, which were consolidated for pretrial purposes. In October 2002, all claims against the individual defendants were dismissed without prejudice. On February 19, 2003, the Court denied defendants' motion to dismiss the complaint.

In February 2009, the parties reached an understanding regarding the principal elements of a settlement, subject to formal documentation and Court approval. Under the settlement, the underwriter defendants will pay a total of $486

million, and the issuer defendants and their insurers will pay a total of $100 million to settle all of the cases. On August 25, 2009, the Company funded approximately $327,000 with respect to its pro rata share of the issuers' contribution to the settlement and certain costs. This amount was accrued in the Company's consolidated financial statements during the first quarter of fiscal 2010. On October 2, 2009, the Court granted approval of the settlement and on November 19, 2009 the Court entered final judgment. The judgment has been appealed by certain individual class members.

Section 16(b) Lawsuit

A lawsuit was filed on October 3, 2007 in the United States District Court for the Western District of Washington by Vanessa Simmonds, a purported holder of the Company's common stock, against two investment banking firms that served as underwriters for the initial public offering of the Company's common stock in November 1999. None of the Company's officers, directors or employees were named as defendants in the complaint. On February 28, 2008, the plaintiff filed an amended complaint. The complaint, as amended, alleges that: (i) the defendants, other underwriters of the offering, and

FINISAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

unspecified officers, directors and the Company's principal shareholders constituted a "group" that owned in excess of 10% of the Company's outstanding common stock between November 11, 1999 and November 20, 2000; (ii) the defendants were therefore subject to the "short swing" prohibitions of Section 16(b) of the Securities Exchange Act of 1934; and (iii) the defendants engaged in purchases and sales, or sales and purchases, of the Company's common stock within periods of less than six months in violation of the provisions of Section 16(b). The complaint seeks disgorgement of all profits allegedly received by the defendants, with interest and attorneys fees, for transactions in violation of Section 16(b). The Company, as the statutory beneficiary of any potential Section 16(b) recovery, is named as a nominal defendant in the complaint.

This case is one of 54 lawsuits containing similar allegations relating to initial public offerings of technology company issuers, which were coordinated (but not consolidated) by the District Court. On July 25, 2008, the real defendants in all 54 cases filed a consolidated motion to dismiss, and a majority of the nominal defendants (including the Company) filed a consolidated motion to dismiss, the amended complaints. On March 19, 2009, the District Court dismissed the amended complaints naming the nominal defendants that had moved to dismiss, without prejudice, because the plaintiff had not properly demanded action by their respective boards of directors before filing suit; and dismissed the amended complaints naming nominal defendants that had not moved to dismiss, with prejudice, finding the claims time-barred by the applicable statute of limitation. Also on March 19, 2009, the District Court entered judgment against the plaintiff in all 54 cases. The plaintiff appealed the order and judgments. The real defendants cross-appealed the dismissal of certain amended complaints without prejudice, contending that dismissal should have been with prejudice because the amended complaints are barred by the applicable statute of limitation. On December 2, 2010, the United States Court of Appeals for the Ninth Circuit affirmed the District Court's dismissal and further ruled that the dismissal is with prejudice. The plaintiff has filed a writ of certiorari seeking review by the United States Supreme Court.

Other Litigation

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.

24. Restructuring Charges

During the second quarter of fiscal 2010, the Company recorded restructuring charges of $4.2 million for the non-cancelable facility lease relating to the abandoned and unused portion of its facility in Allen, Texas.
The following table summarizes the activities of the restructuring accrual during fiscal 2011 (in thousands):

Balance as of April 30, 2010	$4,664	
Charges	—	
Cash payments	(581	)
Balance as of April 30, 2011	$4,083	

Of the $4.1 million of remaining accrual, $298,000 is expected to be paid in the next twelve months and $3.8 million is expected to be paid out from fiscal 2012 through fiscal 2020.

25. 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 in the amount of such costs based on revenue 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.
Changes in the Company's warranty liability during the period are as follows (in thousands):

FINISAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	April 30,	
	2011	2010
Beginning balance	$5,472	$6,413
Additions during the period based on product sold	4,273	3,902
Settlements and expirations	(5,276)	(4,843)
Ending balance	$4,469	$5,472

26. Related Parties

Frank H. Levinson, the Company's former Chairman of the Board and Chief Technical Officer and a member of the Company's board of directors until August 29, 2008, is a member of the board of directors of Fabrinet, Inc., a privately held contract manufacturer. In June 2000, the Company entered into a volume supply agreement, at rates which the Company believes to be market, with Fabrinet under which Fabrinet serves as a contract manufacturer for the Company. In addition, Fabrinet purchases certain products from the Company. The Company recorded purchases of $28.5 million from Fabrinet during the four months ended August 29, 2008, and Fabrinet purchased products from the Company totaling $16.2 million during that period.

During fiscal 2011, the Company paid $181,528, in cash compensation to a company owned by Guy Gertel, the brother of the Chief Executive Officer of the Company, for sales and marketing services. In addition, the Company granted to Mr. Gertel, for no additional consideration, 2,150 restricted stock units with a fair market value of $33,841, which vest as follows: 25% on June 23, 2011 and an additional 25% on each of the next 3 anniversaries thereafter, to be fully vested on June, 2014, subject to him continuing to provide services to Finisar. During fiscal 2010, the Company paid Mr. Gertel's Company $160,000 in cash compensation.

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

27. Guarantees and Indemnifications

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

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

The Company believes the fair value of these indemnification agreements is minimal. Accordingly, the Company has not recorded any liabilities for these agreements as of April 30, 2011. To date, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements.

28. Subsequent Events

On March 22, 2011, the Company entered into a Transaction Agreement with Ignis ASA, under which the Company made a recommended voluntary public cash tender offer to acquire all of the outstanding shares of Ignis not currently owned by the Company for NOK 8 per share. On May 18, 2011, the Company completed this tender offer and purchased an additional 38.1 million shares of Ignis for an aggregate purchase price of $55.6 million. The Company owns approximately 81.0% of the outstanding shares of Ignis following completion of this acquisition. Under the Norwegian Securities Trading Act, the Company's ownership of more than one-third of the voting shares of Ignis triggered the requirement for the Company to make a mandatory unconditional offer for all remaining outstanding Ignis shares.

On May 24, 2011 the Company launched a mandatory tender offer for the remaining shares of Ignis at a cash offer price of NOK 8 per share. During the offer period for the mandatory offer, which ended on June 22, 2011, approximately 12.3 million additional shares of Ignis were tendered. The Company expects to complete the purchase of these shares during the last week of June 2011 for an aggregate purchase price of $17.7 million. As a result of these additional purchases, it will own approximately 96.6% of the outstanding shares of Ignis. As a result of acquiring more than 90% of the outstanding Ignis shares, the Company will have the right to effect a compulsory acquisition of the balance of the outstanding shares of Ignis not owned by the Company for a cash price of NOK 8 per share. The Company intends to proceed with the compulsory acquisition promptly following the completion of the purchase of the shares tendered in the mandatory offer.

Ignis ASA is an innovative provider of optical components and network solutions for fiber optic communications. It operates globally through four subsidiaries: Fi-ra Photonics in Korea (71.8% owned) and wholly-owned subsidiaries Syntune in Sweden, Ignis Photonyx in Denmark, and SmartOptics in Norway. Ignis's 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. The Company's management and board of directors believe that this acquisition will: a) provide the Company with access to Ignis' tunable laser products which the Company believes have the highest performance of any such devices currently available in the market; b)further the Company's vertical integration strategy by providing an internal source of these devices, which the Company currently purchases on the merchant market; c) enable the Company to offer its customers a number of new 40 and 100 Gbps products based on the advanced optical device integration technologies of Ignis' various business units; and d) allow the Company to expand its product portfolio to include a number of other products incorporating innovative technologies and focus on attractive growth markets.

Due to the closing of this acquisition subsequent to the Company's fiscal year end, the Company is currently determining the fair value of assets acquired and liabilities assumed necessary to develop the purchase price allocation. Therefore, disclosure of the purchase consideration allocation to the tangible and intangible assets acquired and liabilities assumed as well as disclosure of pro forma information is not practicable. The Company expects to complete the purchase price allocation for this acquisition during the first quarter of fiscal 2012.

29. Financial Information by Quarter (Unaudited)

Summarized quarterly data for fiscal 2011 and 2010 are as follows:

FINISAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Three Months Ended							
	Aprll 30, 2011 (1)	January 30, 2011 (2)	October 31, 2010 (3)	August 1, 2010	April 30, 2010	January 31, 2010	November 1, 2009	August 2, 2009
	(In thousands, except per share data)							
Revenues	$236,946	$263,016	$240,943	$207,882	$188,490	$166,935	$145,730	$128,725
Gross profit	$74,909	$84,065	$82,400	$70,898	$58,851	$51,695	$39,793	$29,402
Income (loss) from operations	$21,265	$30,599	$36,105	$23,747	$12,919	$9,126	$(1,963)	$(8,786)
Income (loss) from continuing operations	$16,352	$18,821	$33,796	$19,410	$14,111	$5,616	$(31,417)	$(11,116)
Income (loss) from discontinued operations	$—	$—	$—	$(284)	$56	$(131)	$(67)	$37,079
Net income (loss)	$16,352	$18,821	$33,796	$19,126	$14,167	$5,485	$(31,484)	$25,963
Basic:								
Income (loss) per share from continuing operations	$0.18	$0.24	$0.44	$0.26	$0.20	$0.09	$(0.49)	$(0.18)
Income (loss) per share from discontinued operations	$—	$—	$—	$—	$—	$—	$—	$0.62
Net income (loss) per share	$0.18	$0.24	$0.44	$0.26	$0.20	$0.09	$(0.49)	$0.44
Diluted:								
Income (loss) per share from continuing operations	$0.17	$0.22	$0.39	$0.24	$0.19	$0.08	$(0.49)	$(0.18)
Income (loss) per share from discontinued operations	$—	$—	$—	$—	$—	$—	$—	$0.62
Net income (loss) per share	$0.17	$0.22	$0.39	$0.24	$0.19	$0.08	$(0.49)	$0.44
Shares used in computing net income (loss) per share								
Basic	89,584	80,080	76,766	76,111	70,596	65,113	64,198	60,181
Diluted	97,837	93,388	89,521	88,215	82,351	66,719	64,198	60,181

(1) The net income in the fourth quarter of fiscal 2011 includes loss on debt extinguishment costs of $2.4 million on exchange of an aggregate of $17.8 million principal amount of the Company's 5% Convertible Senior Notes due 2029.

(2) The net income in the third quarter of fiscal 2011 includes loss on debt extinguishment costs of $5.9 million on exchange of an aggregate of $42.2 million principal amount of the Company's 5% Convertible Senior Notes due 2029 and $5.6 million of litigation settlement income relating to Source Photonics litigation settlement.
Reclassification of debt conversion inducement expense.

In the fourth quarter of fiscal 2011, the Company determined that the loss on debt extinguishment of $5.9 million incurred in the third quarter of fiscal 2011 on induced conversion of debt and classified as general and administrative expense was similar to the loss on debt extinguishment of $25.0 million recorded in fiscal 2010 in which the exchanges were considered to be induced conversions and the retirement of the underlying notes was accounted for as if the notes had been converted according to their original terms, with that value compared to the fair value of the consideration paid in the exchange offers to determine the induced conversion charge. For consistency with the fiscal 2010 presentation, this third quarter expense has been reclassified to loss on debt extinguishment.
The following table reflects the Company's previously reported amounts, along with the adjusted amounts reflecting the reclassification of debt conversion inducement expense.

FINISAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONSOLIDATED STATEMENTS OF OPERATIONS

	As Reported	As Adjusted	Effect of Change
	(in thousands, except per share data)		
Quarter ended January 30, 2011			
General and administrative expense	$20,604	$14,658	$(5,946)
Income from operations	24,653	30,599	5,946
Loss on debt extinguishment	—	5,946	5,946
Net income	18,821	18,821	—

(3) The net income in second quarter of fiscal 2011 includes a charge of $3.5 million for damages and interest accrued on settlement and resolution of litigation.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of April 30, 2011, our management, with the participation of our Chairman of the Board, Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report for the purpose of ensuring that the information required to be disclosed by us in this report is made known to them by others on a timely basis, and that the information is accumulated and communicated to our management in order to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported by us within the time periods specified in the SEC's rules.

Management's Annual Report on Internal Control Over Financial Reporting

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

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

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

Under the supervision and with the participation of our management, including our Chairman of the Board, Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of April 30, 2011. Management based its assessment on the criteria set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management determined that we maintained effective internal control over financial reporting as of April 30, 2011.

The effectiveness of internal control over financial reporting as of April 30, 2011 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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Changes in Internal Control

There were no changes in our internal control over financial reporting during the fiscal quarter ended April 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm
On Internal Control Over Financial Reporting
The Board of Directors and Stockholders
Finisar Corporation
We have audited Finisar Corporation's internal control over financial reporting as of April 30, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Finisar Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
In our opinion, Finisar Corporation maintained, in all material respects, effective internal control over financial reporting as of April 30, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Finisar Corporation as of April 30, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended April 30, 2011 and our report dated June 28, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, CA
June 28, 2011

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Item 9B. Other Information

None.

PART III

The SEC allows us to include information required in this report by referring to other documents or reports we have already filed or will soon be filing. This is called “incorporation by reference.” We intend to file our definitive proxy statement for our 2011 annual meeting of stockholders (the “Proxy Statement”) pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report, and certain information to be contained therein is incorporated in this report by reference.

Item 10. Directors, Executive Officers and Corporate Governance

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

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

(2) Financial Statement Schedules

Schedule II — Consolidated Valuation and Qualifying Accounts

	Balance at Beginning of Period	Balance Acquired on Merger with Optium	Additions Charged to Cost and Expenses	Write-Offs	Balance at End of Period
Allowance for doubtful accounts					
Year ended April 30, 2011	$2,085	$—	$40	$(801)	$1,324

Year ended April 30, 2010	$1,069	$—	$1,016	$—	$2,085
Year ended April 30, 2009	$635	$210	$361	$(137)	$1,069

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(b) Exhibits

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

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

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

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

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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, in the City of Sunnyvale, State of California, on this 28th day of June, 2011.

FINISAR CORPORATION

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

POWER OF ATTORNEY

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

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

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Signature	Title	Date
/s/ Jerry S. Rawls Jerry S. Rawls	Chairman of the Board of Directors (Co-Principal Executive Officer)	June 28, 2011
/s/ Eitan Gertel Eitan Gertel	Chief Executive Officer (Co-Principal Executive Officer)	June 28, 2011
/s/ Kurt Adzema Kurt Adzema	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	June 28, 2011
Michael C. Child	Director	June , 2011
/s/ Roger C. Ferguson Roger C. Ferguson	Director	June 28, 2011
/s/ Thomas E. Pardun Thomas E. Pardun	Director	June 28, 2011
/s/ Robert N. Stephens Robert N. Stephens	Director	June 28, 2011
/s/ Dominique Trempont Dominique Trempont	Director	June 28, 2011

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EXHIBIT INDEX

Exhibit Number	Exhibit Title
1.1	Underwriting Agreement, dated March 17, 2010, by and among Finisar Corporation, the selling stockholders named in Schedule I thereto, and Morgan Stanley & Co. Incorporated and Jeffries & Co., Inc., as representatives of the several underwriters named in Schedule II thereto(1)
1.2	Underwriting agreement, dated December 20, 2010, by and between Finisar Corporation and Credit Suisse Securities (USA) LLC (2)
2.1	Agreement and Plan of Reorganization, dated as of May 15, 2008, by and among Registrant, Fig Combination Corporation and Optium Corporation(3)
2.2	Transaction Agreement, dated March 22, 2011, between Finisar Corporation and Ignis ASA(4)
3.1	Amended and Restated Bylaws of Registrant(5)
3.2	Restated Certificate of Incorporation of Registrant(6)
3.3	Certificate of Amendment to Restated Certificate of Incorporation of Registrant, filed with the Delaware Secretary of State on June 19, 2001(7)
3.4	Certificate of Elimination regarding the Registrant's Series A Preferred Stock(8)
3.5	Certificate of Designation(9)
3.6	Certificate of Amendment to Restated Certificate of Incorporation of Registrant, filed with the Delaware Secretary of State on May 11, 2005(10)
3.7	Certificate of Amendment of the Restated Certificate of Incorporation of Registrant(11)
3.8	Amended and Restated Certificate of Incorporation of Registrant (12)
4.1	Specimen certificate representing the common stock(13)
4.2	Form of Rights Agreement between the Registrant and American Stock Transfer and Trust Company, as Rights Agent (including as Exhibit A the form of Certificate of Designation, Preferences and Rights of the Terms of the Series RP Preferred Stock, as Exhibit B the form of Right Certificate, and as Exhibit C the Summary of Terms of Rights Agreement)(14)
4.3	Indenture between the Registrant and U.S. Bank Trust National Association, a national banking association, dated October 15, 2003(15)
4.4	Indenture between the Registrant and U.S. Bank Trust National Association, a national banking association, dated October 12, 2006(16)
4.5	Indenture dated as of October 15, 2009, by and between Finisar Corporation and Wells Fargo Bank, National Association(17)
10.1	Form of Indemnity Agreement between Registrant and Registrant's directors and officers(18)
10.2*	1999 Stock Option Plan(19)
10.3	Lease Agreement by and between Finisar (CA-TX) Limited Partnership and Finisar Corporation, dated February 4, 2005(20)
10.4*	Finisar Corporation 2005 Stock Incentive Plan, as amended(21)
10.5*	Form of Stock Option Agreement for options granted under the 2005 Stock Incentive Plan(22)
10.6*	Optium Corporation 2000 Stock Incentive Plan(23)
10.7*	Optium Corporation 2006 Stock Option and Incentive Plan and Israeli Addendum to 2006 Stock Option and Incentive Plan(24)
10.8*	Form of Amended and Restated Warrant to Purchase Common Stock(25)
10.9*	Deferred Stock Award Agreement, dated March 11, 2008, by and between Optium Corporation and Eitan Gertel(26)
10.10*	Deferred Stock Award Agreement, dated March 11, 2008, by and between Optium Corporation and Christopher Brown(27)
10.11*	Deferred Stock Award Agreement, dated March 11, 2008, by and between Optium Corporation and Mark Colyar(28)

10.12	First Amendment to lease for 200 Precision Road, Horsham, PA by and between Horsham Property Assoc., L.P. and Optium Corporation dated January 4, 2008(29)
10.13*	Form of Deferred Stock Award for Israeli grantees under Optium Corporation 2006 Stock Option and Incentive Plan(30)

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EXHIBIT INDEX

Exhibit Number	Exhibit Title
10.14*	Form of Deferred Stock Award for directors under Optium Corporation 2006 Stock Option and Incentive Plan(31)
10.15*	Form of Stock Option Grant Notice under the Optium Corporation 2006 Stock Option and Incentive Plan(32)
10.16*	Form of Stock Option Grant Notice for Australian Employees under the Optium Corporation 2006 Stock Option and Incentive Plan(33)
10.17*	Form of Employee Incentive Stock Option Agreement under the Optium Corporation 2006 Stock Option and Incentive Plan(34)
10.18*	Form of Employee Non-Qualified Stock Option Agreement under the Optium Corporation 2006 Stock Option and Incentive Plan(35)
10.19*	Form of Non-Employee Non-Qualified Stock Option Agreement under the Optium Corporation 2006 Stock Option and Incentive Plan(36)
10.20*	Form of Australian Employee Non-Qualified Stock Option Agreement under the Optium Corporation 2006 Stock Option and Incentive Plan(37)
10.21*	Form of Deferred Stock Award under Optium Corporation 2006 Stock Option and Incentive Plan(38)
10.22	Lease Agreement, dated December 7, 2007, by and between Charvic Pty Ltd and Optium Australia Pty Limited for premises located at 244 Young Street, Waterloo, NSW, Australia(39)
10.23	Lease Agreement between Optium Corporation and 200 Precision Drive Investors, LLC for the premises located at 200 Precision Drive, Horsham, Pennsylvania, dated September 26, 2006(40)
10.24	Unprotected Lease Agreement by and among Kailight Photonics, Ltd., Niber Promotions and Investments, Ltd., Atido Holding Ltd. and Roller Electric Works, Ltd. dated May 11, 2006(41)
10.25*	Stock Option and Grant Notice, dated March 3, 2007, for Eitan Gertel(42)
10.26*	Stock Option and Grant Notice, dated March 3, 2007, for Mark Colyar(43)
10.27*	Stock Option and Grant Notice, dated March 3, 2007, for Christopher Brown(44)
10.28*	Stock Option and Grant Notices, dated March 14, 2006, February 14, 2006, June 23, 2005 and May 1, 2003, for Eitan Gertel(45)
10.29*	Stock Option and Grant Notices, dated April 14, 2006, April 5, 2005, March 1, 2004 and May 1, 2003, for Mark Colyar(46)
10.30*	Stock Option and Grant Notices, dated August 28, 2006, for Christopher Brown(47)
10.31*	Deferred Stock Award Agreement, dated September 25, 2007, for Eitan Gertel(48)
10.32*	Deferred Stock Award Agreement, dated September 25, 2007, for Mark Colyar(49)
10.33*	Deferred Stock Award Agreement, dated September 25, 2007, for Christopher Brown(50)
10.34*	Deferred Stock Award Agreement, dated August 25, 2008, for Eitan Gertel(51)
10.35*	Deferred Stock Award Agreement, dated August 25, 2008, for Mark Colyar(52)
10.36*	Deferred Stock Award Agreement, dated August 25, 2008, for Christopher Brown(53)
10.37*	Finisar Executive Retention and Severance Plan, as Amended and Restated Effective January 1, 2009(54)
10.38*	Amended and Restated Executive Employment Agreement between Finisar Corporation and Christopher Brown, dated December 31, 2008(55)
10.39*	Amended and Restated Executive Employment Agreement between Finisar Corporation and Mark Colyar, dated December 31, 2008(56)
10.40*	Amended and Restated Executive Employment Agreement between Finisar Corporation and Eitan Gertel, dated December 31, 2008(57)
10.41*	Form of Restricted Stock Unit Issuance Agreement(58)
10.42*	Form of Restricted Stock Unit Issuance Agreement — Officers(59)

10.43*	Form of Restricted Stock Unit Issuance Agreement — International(60)
10.44*	Form of Restricted Stock Unit Issuance Agreement — Israel(61)
10.45	Asset Purchase Agreement dated as of July 8, 2009 by and between Finisar Corporation and JDS Uniphase Corporation(62)

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EXHIBIT INDEX

Exhibit Number	Exhibit Title
10.46	Credit Agreement dated October 2, 2009 by and among Finisar Corporation, Optium Corporation and Wells Fargo Foothill, LLC(63)
10.47	Security Agreement dated October 2, 2009, among Finisar Corporation, Optium Corporation, AZNA LLC, Finisar Sales, Inc., Kailight Photonics, Inc. and Wells Fargo Foothill, LLC(64)
10.48	Purchase Agreement dated October 8, 2009, by and between Finisar Corporation and Piper Jaffray & Co., as amended by a letter agreement dated October 12, 2009(65)
10.49	Registration Rights Agreement dated as of October 15, 2009, by and between Finisar Corporation and Piper Jaffray & Co.(66)
10.50*	Finisar Corporation 2009 Employee Stock Purchase Plan(67)
10.51*	Finisar Corporation 2009 International Employee Stock Purchase Plan(68)
10.52	First Amendment to Credit Agreement dated January 7, 2010 by and among Finisar Corporation, Optium Corporation and Wells Fargo Foothill, LLC(69)
10.53	Loan Contract dated January 6, 2010 by and between Finisar Shanghai Inc. and Xiamen International Bank, Shanghai Branch(70)
10.54	Second Amendment to Credit Agreement dated April 16, 2010 by and among Finisar Corporation, Optium Corporation and Wells Fargo Foothill, LLC (71)
10.55	Third Amendment to Credit Agreement dated February 9, 2011 by and among Finisar Corporation, Optium Corporation and Wells Fargo Foothill, LLC
10.56	Form of contract note between Finisar Corporation and sellers of shares of Ignis ASA(72)
10.57	Form of pre-acceptance agreement between Finisar Corporation and shareholders of Ignis ASA(73)
21	List of Subsidiaries of the Registrant (74)
23.1	Consent of Independent Registered Public Accounting Firm
24	Power of Attorney (incorporated by reference to the signature page of this Annual Report)
31.1	Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Co-Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Co-Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Compensatory plan or management contract

(1) Incorporated by reference to Exhibit 1.1 to Registrant’s Current Report on Form 8-K filed March 18, 2010.

(2) Incorporated by reference to Exhibit 1.1 to Registrant's Current Report on Form 8-K filed December 22, 2010.

(3) Incorporated by reference to Exhibit 2.1 to Registrant’s Current Report on Form 8-K filed May 16, 2008.

(4) Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed March 28, 2011.

(5) Incorporated by reference to Exhibit 3.1 to Registrant’s Current Report on Form 8-K filed December 4, 2007.

(6) Incorporated by reference to Exhibit 3.5 to Registrant’s Registration Statement on Form S-1/A filed October 19, 1999 (File No. 333-87017).

(7) Incorporated by reference to Exhibit 3.6 to Registrant’s Annual Report on Form 10-K filed July 18, 2001.

(8) Incorporated by reference to Exhibit 3.8 to Registrant’s Registration Statement on Form S-3 filed December 18, 2001 (File No. 333-75380).

(9) Incorporated by reference to Exhibit 99.2 to Registrant's Registration Statement on Form 8-A12G filed on September 27, 2002.
(10) Incorporated by reference to Exhibit 3.3 to Registrant's Registration Statement on Form S-3 filed May 18, 2005 (File No. 333-125034).
(11) Incorporated by reference to Exhibit 3.8 to Registrant's Current Report on Form 8-K filed September 28, 2009.
(12) Incorporated by reference to Exhibit 3.8 to Registrant's Annual Report on Form 10-K filed July 1, 2010.
(13) Incorporated by reference to the same numbered exhibit to Registrant's Quarterly Report on Form 10-Q filed December 10, 2009.

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(14) Incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K filed September 27, 2002.
(15) Incorporated by reference to Exhibit 4.4 to Registrant's Quarterly Report on Form 10-Q filed December 10, 2003.
(16) Incorporated by reference to Exhibit 4.8 to Registrant's Current Report on Form 8-K filed October 17, 2006.
(17) Incorporated by reference to Exhibit 4.5 to Registrant's Current Report on Form 8-K filed October 15, 2009.
(18) Incorporated by reference to Exhibit 10.1 to Registrant's Registration Statement on Form S-1/A filed October 19, 1999 (File No. 333-87017).
(19) Incorporated by reference to Exhibit 10.3 to Registrant's Registration Statement on Form S-1 filed September 13, 1999 (File No. 333-87017).
(20) Incorporated by reference to Exhibit 10.25 to Registrant's Current Report on Form 8-K filed February 9, 2005.
(21) Incorporated by reference to Exhibit 99.1 to Registrant's Registration Statement on Form S-8 filed December 14, 2009 (File No. 333-163710).
(22) Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed June 14, 2005.
(23) Incorporated by reference to Exhibit 99.1 to Registrant's Registration Statement on Form S-8 filed on September 19, 2008.
(24) Incorporated by reference to Exhibit 99.2 to Registrant's Registration Statement on Form S-8 filed on September 19, 2008.
(25) Incorporated by reference to Exhibit 99.3 to Registrant's Registration Statement on Form S-8 filed on September 19, 2008.
(26) Incorporated by reference to Exhibit 10.1 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 13, 2008.
(27) Incorporated by reference to Exhibit 10.2 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 13, 2008.
(28) Incorporated by reference to Exhibit 10.3 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 13, 2008.
(29) Incorporated by reference to Exhibit 10.6 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 13, 2008.
(30) Incorporated by reference to Exhibit 10.1 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 13, 2007.
(31) Incorporated by reference to Exhibit 10.2 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 13, 2007.
(32) Incorporated by reference to Exhibit 10.2 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 12, 2006.
(33) Incorporated by reference to Exhibit 10.2 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 7, 2007.
(34) Incorporated by reference to Exhibit 10.3 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 12, 2006.
(35) Incorporated by reference to Exhibit 10.4 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 12, 2006.
(36) Incorporated by reference to Exhibit 10.5 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 12, 2006.
(37) Incorporated by reference to Exhibit 10.3 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 7, 2007.
(38) Incorporated by reference to Exhibit 10.1 to Optium Corporation's Current Report on Form 8-K filed on September 28, 2007.
(39) Incorporated by reference to Exhibit 10.3 to Optium Corporation's Quarterly Report on Form 10-Q filed on December 13, 2007.
(40) Incorporated by reference to Exhibit 10.23 to Optium Corporation's Registration Statement on Form S-1/A(333-135472) filed on October 11, 2006.
(41)

Incorporated by reference to Exhibit 10.1 to Optium Corporation's Current Report on Form 8-K filed on May 21, 2007.

(42) Incorporated by reference to Exhibit 10.4 to Optium Corporation's, Quarterly Report on Form 10-Q filed on March 7, 2007.

(43) Incorporated by reference to Exhibit 10.5 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 7, 2007.

(44) Incorporated by reference to Exhibit 10.6 to Optium Corporation's Quarterly Report on Form 10-Q filed on March 7, 2007.

(45) Incorporated by reference to Exhibit 10.36 to Optium Corporation's Annual Report on Form 10-K filed on October 24, 2007.

(46) Incorporated by reference to Exhibit 10.37 to Optium Corporation's Annual Report on Form 10-K filed on October 24,

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2007.

(47) Incorporated by reference to Exhibit 10.38 to Optium Corporation's Annual Report on Form 10-K filed on October 24, 2007.

(48) Incorporated by reference to Exhibit 10.2 to Optium Corporation's Current Report on Form 8-K filed on September 28, 2007.

(49) Incorporated by reference to Exhibit 10.3 to Optium Corporation's Current Report on Form 8-K filed on September 28, 2007.

(50) Incorporated by reference to Exhibit 10.4 to Optium Corporation's Current Report on Form 8-K filed on September 28, 2007.

(51) Incorporated by reference to Exhibit 10.55 to Registrant's Quarterly Report on Form 10-Q filed December 17, 2008.

(52) Incorporated by reference to Exhibit 10.56 to Registrant's Quarterly Report on Form 10-Q filed December 17, 2008.

(53) Incorporated by reference to Exhibit 10.57 to Registrant's Quarterly Report on Form 10-Q filed December 17, 2008.

(54) Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed on January 7, 2009.

(55) Incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K filed on January 7, 2009.

(56) Incorporated by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K filed on January 7, 2009.

(57) Incorporated by reference to Exhibit 99.4 to Registrant's Current Report on Form 8-K filed on January 7, 2009.

(58) Incorporated by reference to Exhibit 10.61 to Registrant's Quarterly Report on Form 10-Q filed March 12, 2009.

(59) Incorporated by reference to Exhibit 10.62 to Registrant's Quarterly Report on Form 10-Q filed March 12, 2009.

(60) Incorporated by reference to Exhibit 10.63 to Registrant's Quarterly Report on Form 10-Q filed March 12, 2009.

(61) Incorporated by reference to Exhibit 10.64 to Registrant's Quarterly Report on Form 10-Q filed March 12, 2009.

(62) Incorporated by reference to Exhibit 10.65 to Registrant's Current Report on Form 8-K filed July 16, 2009.

(63) Incorporated by reference to Exhibit 10.1 to Registrant's Amendment to Quarterly Report on Form 10-Q/A filed January 11, 2010.

(64) Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed December 10, 2009.

(65) Incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q filed December 10, 2009.

(66) Incorporated by reference to Exhibit 10.65 to Registrant's Current Report on Form 8-K filed October 15, 2009.

(67) Incorporated by reference to Exhibit 99.3 to Registrant's Registration Statement on Form S-8 filed December 14, 2009 (File No. 333-163710).

(68) Incorporated by reference to Exhibit 99.4 to Registrant's Registration Statement on Form S-8 filed December 14, 2009 (File No. 333-163710).

(69) Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed March 3, 2010.

(70) Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed March 3, 2010.

(71) Incorporated by reference to Exhibit 10.62 to Registrant's Annual Report on Form 10-K filed July 1, 2010.

(72) Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed March 28, 2011.

(73) Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed March 28, 2011.

(74) Incorporated by reference to Exhibit 21 to Registrant's Annual Report on Form 10-K filed July 1, 2010.