FINISAR CORP
Form 10-Q
December 08, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
(Mark One)

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

For the Quarterly Period Ended October 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

Commission file number 000-27999

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

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

At November 30, 2011, there were 90,829,334 shares of the registrant's common stock, $.001 par value, issued and outstanding.

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For the Quarter Ended October 30, 2011

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FORWARD LOOKING STATEMENTS

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

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

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
FINISAR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

| | October 30, 2011 (Unaudited) | April 30, 2011 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $228,040 | $314,765 |
| Accounts receivable, net of allowance for doubtful accounts of $1,561 at October 30, 2011 and $1,324 at April 30, 2011 | 176,494 | 168,386 |
| Accounts receivable, other | 11,558 | 12,733 |
| Inventories | 214,940 | 187,617 |
| Prepaid expenses and other | 19,120 | 9,906 |
| Total current assets | 650,152 | 693,407 |
| Property, equipment and improvements, net | 143,139 | 125,693 |
| Purchased intangible assets, net | 47,306 | 17,439 |
| Goodwill | 82,936 | — |
| Minority investments | 12,289 | 12,289 |
| Equity method investment | — | 31,142 |
| Other assets | 21,773 | 5,179 |
| Total assets | $957,595 | $885,149 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $91,034 | $76,288 |
| Accrued compensation | 24,410 | 24,525 |
| Other accrued liabilities | 32,118 | 25,112 |
| Deferred revenue | 7,909 | 8,064 |
| Short-term debt | 4,281 | — |
| Total current liabilities | 159,752 | 133,989 |
| Long-term liabilities: | | |
| Convertible debt | 40,015 | 40,015 |
| Other non-current liabilities | 15,771 | 11,988 |
| Deferred tax liabilities | 4,052 | — |
| Total liabilities | 219,590 | 185,992 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding at October 30, 2011 and April 30, 2011 | — | — |
| Common stock, $0.001 par value, 750,000,000 shares authorized, 90,821,597 shares issued and outstanding at October 30, 2011 and 89,903,095 shares issued and outstanding at April 30, 2011 | 91 | 90 |
| Additional paid-in capital | 2,293,485 | 2,275,600 |
| Accumulated other comprehensive income | 29,323 | 32,966 |
| Accumulated deficit | (1,593,430) | (1,609,499) |
| Finisar Corporation stockholders' equity | 729,469 | 699,157 |

| | | |
|---|---|---|
| Non-controlling interest | 8,536 | — |
| Total stockholders' equity | 738,005 | 699,157 |
| Total liabilities and stockholders' equity | $957,595 | $885,149 |

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | October 30, 2011 | October 31, 2010 | October 30, 2011 | October 31, 2010 |
| Revenues | $241,489 | $240,943 | $469,715 | $448,825 |
| Cost of revenues | 169,571 | 157,343 | 329,794 | 293,419 |
| Amortization of acquired developed technology | 1,637 | 1,200 | 3,159 | 2,392 |
| Gross profit | 70,281 | 82,400 | 136,762 | 153,014 |
| Operating expenses: | | | | |
| Research and development | 36,707 | 28,148 | 72,103 | 54,765 |
| Sales and marketing | 10,125 | 9,247 | 19,711 | 18,322 |
| General and administrative | 13,773 | 8,517 | 27,725 | 19,593 |
| Restructuring charges (recoveries) | — | — | (322) | — |
| Amortization of purchased intangibles | 859 | 383 | 1,638 | 766 |
| Total operating expenses | 61,464 | 46,295 | 120,855 | 93,446 |
| Income from operations | 8,817 | 36,105 | 15,907 | 59,568 |
| Interest income | 100 | 143 | 260 | 235 |
| Interest expense | (1,138) | (2,077) | (2,049) | (4,232) |
| Loss on debt extinguishment | — | — | (419) | — |
| Other income (expense), net | (140) | 192 | 4,523 | — |
| Income before income taxes and non-controlling interest | 7,639 | 34,363 | 18,222 | 55,571 |
| Provision for income taxes | 1,369 | 567 | 1,917 | 2,649 |
| Consolidated net income | 6,270 | 33,796 | 16,305 | 52,922 |
| Adjust for net income attributable to non-controlling interest | (343) | — | (236) | — |
| Net income attributable to Finisar Corporation | $5,927 | $33,796 | $16,069 | $52,922 |
| Net income per share attributable to Finisar Corporation common stockholders: | | | | |
| Basic | $0.07 | $0.44 | $0.18 | $0.69 |
| Diluted | $0.06 | $0.39 | $0.17 | $0.63 |
| | | | | |
| Shares used in computing net income per share: | | | | |
| Basic | 90,715 | 76,766 | 90,470 | 76,433 |
| Diluted | 93,599 | 89,521 | 93,712 | 89,013 |

See accompanying notes.

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

| | Six Months Ended | |
|---|---|---|
| | October 30, 2011 | October 31, 2010 |
| Operating activities | | |
| Consolidated net income | $16,305 | $52,922 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | |
| Depreciation | 21,590 | 16,850 |
| Amortization | 5,211 | 3,457 |
| Stock-based compensation expense | 13,764 | 8,219 |
| Non-cash interest cost on 2.5% convertible senior subordinated notes | — | 742 |
| Loss on sale or retirement of assets | 220 | — |
| Equity in losses of equity method investment | 619 | — |
| Gain on fair value remeasurement of equity investment | (5,429) | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 3,159 | (45,626) |
| Inventories | (16,617) | (24,692) |
| Other assets | (21,840) | (1,465) |
| Deferred income taxes | 542 | 769 |
| Accounts payable | 6,705 | 9,760 |
| Accrued compensation | 458 | 3,556 |
| Other accrued liabilities | 2,665 | (1,903) |
| Deferred revenue | (1,001) | 8,659 |
| Net cash provided by operating activities | $26,351 | $31,248 |
| Investing activities | | |
| Purchases of property, equipment and improvements | (33,464) | (25,700) |
| Proceeds from sale of property and equipment | 32 | — |
| Acquisition of controlling interest in subsidiary, net of cash acquired | (71,125) | — |
| Purchase of available for sale minority investment | — | (5,880) |
| Net cash used in investing activities | $(104,557) | $(31,580) |
| Financing activities | | |
| Proceeds from term loan | 1,800 | — |
| Repayments of long-term debt | (14,026) | (2,000) |
| Repayment of convertible notes | — | (29,581) |
| Proceeds from the issuance of shares under employee stock option and stock purchase plans, net of repurchase of unvested shares | 3,707 | 9,817 |
| Net cash used in financing activities | $(8,519) | $(21,764) |
| Net decrease in cash and cash equivalents | (86,725) | (22,096) |
| Cash and cash equivalents at beginning of period | 314,765 | 207,024 |
| Cash and cash equivalents at end of period | $228,040 | $184,928 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | $1,408 | $3,177 |
| Cash paid for taxes | 5,015 | 697 |

See accompanying notes.

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FINISAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

## 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of October 30, 2011 and for the three and six month periods ended October 30, 2011 and October 31, 2010 have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), and include the accounts of Finisar Corporation and its controlled subsidiaries (collectively, "Finisar" or the "Company"). Non-controlling interest represents the minority shareholders' proportionate share of the net assets and results of operations of the Company's majority-owned subsidiaries. Inter-company accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company's financial position at October 30, 2011, its operating results for the three and six month periods ended October 30, 2011 and October 31, 2010, and cash flows for the six month periods ended October 30, 2011 and October 31, 2010. Operating results for the three and six month periods ended October 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2012. The condensed consolidated balance sheet at April 30, 2011 has been derived from the audited consolidated financial statements at that date but does not include all the footnotes required by GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2011.

### Fiscal Periods

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

### Reclassifications

Certain reclassifications have been made to the prior period's statement of cash flows and footnotes to conform to the current year presentation. These changes had no impact on the Company's previously reported financial position, results of operations and cash flows.

### Use of Estimates

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

## 2. Summary of Significant Accounting Policies

For a description of significant accounting policies, see Note 2, Summary of Significant Accounting Policies to the consolidated financial statements included in the Company's annual report on Form 10-K for the fiscal year ended April 30, 2011. There have been no material changes to the Company's significant accounting policies since the filing of the annual report on Form 10-K, except as noted below.

Recent Adoption of New Accounting Standards

In October 2009, the Financial Accounting Standards Board ("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;

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(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 adopted this guidance on a prospective basis during the first quarter of fiscal 2012. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Pending Adoption of New Accounting Standards

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

3. Acquisition of Ignis ASA

On March 22, 2011, the Company entered into a transaction agreement with Ignis ASA ("Ignis"), a Norwegian company whose securities were traded on the Oslo Stock Exchange, under which, on April 7, 2011, the Company made a recommended voluntary public cash tender offer to acquire all of the outstanding Ignis shares not then 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 (in addition to 25.7 million shares of Ignis that the Company owned prior to the offer) for an aggregate purchase price of $54.7 million, resulting in the Company owning approximately 81% of all outstanding Ignis shares.

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 the mandatory offer at a cash offer price of NOK 8 per share. During the offer period, which ended on June 22, 2011, approximately 12.8 million additional shares of Ignis were tendered, further increasing the Company's ownership position to approximately 97% of all outstanding Ignis shares. As the owner of more than 90% of all outstanding Ignis shares, the Company then exercised its right to effect a compulsory acquisition of the balance of all outstanding Ignis shares for a cash price of NOK 8 per share. As of June 29, 2011, the Company owned 100% of all outstanding Ignis shares, and the shares were de-listed from the Oslo Stock Exchange.

Ignis is an innovative provider of optical components and network solutions for fiber optic communications. It operates globally through four subsidiaries: Fi-ra Photonics ("Fi-ra") in Korea (71.8% owned by Ignis) and wholly-owned subsidiaries Syntune in Sweden, Ignis Photonyx in Denmark, and SmartOptics in Norway. Ignis' product and services portfolio comprises passive optical components including optical chips, splitters and multiplexers, active optical components such as tunable lasers and modulators, and WDM-based solutions enabling the building of simple and cost effective high-capacity optical networks. The Company's management and board of directors believe that this acquisition will: a) provide the Company a secure supply of 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.

Ignis and its subsidiaries maintain their financial records on the basis of a fiscal year ending on December 31, with fiscal quarters ending on March 31, June 30 and September 30, which will change to the Company's basis of a fiscal year ending on April 30, with fiscal quarters ending on Sunday closest to the end of the three-month period, when financial records of Ignis and its subsidiaries are integrated with the Company's consolidated financial reporting system. The results of Ignis' operations have been included in the consolidated financial statements since May 18, 2011, the date the Company obtained control of Ignis, through September 30, 2011. There were no intervening events in the operating results of Ignis for the month ended October 30, 2011 that materially affected the Company's consolidated financial position or results of operations.

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Prior to May 18, 2011, the Company accounted for its 32% interest in Ignis as an equity-method investment. The acquisition-date fair value of this equity interest was $36.6 million (based on the trading price of Ignis shares as quoted on the Oslo Stock Exchange), and is included in the measurement of the consideration transferred. The Company recognized a gain of $5.4 million as a result of remeasuring the equity interest in Ignis that it held before the acquisition date. This gain is included in other income (expense), net in the condensed consolidated statement of operations.

The provisional fair value of the consideration transferred in exchange for the Ignis shares is as follows (in thousands):

| | |
|---|---|
| Cash | $98,900 |
| Contingent consideration | 13,598 |
| Total | $112,498 |

The contingent consideration arrangement requires the Company to pay up to approximately $14.3 million of additional consideration to the former shareholders of one of Ignis' subsidiaries if during calendar years 2011 and 2012 the subsidiary achieves specified levels of revenues, revenue growth, EBITDA and cash flow and successfully launches a new product. The fair value of the contingent consideration arrangement at the acquisition date was $13.6 million. The Company estimated the fair value of the contingent consideration using a probability-weighted discounted cash flow model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820. The key assumptions in applying the income approach are as follows: 5.5% discount rate and 100% probability of achieving specified milestones.

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

| | | |
|---|---|---|
| Cash and cash equivalents | $5,543 | |
| Accounts receivable | 11,267 | |
| Inventory | 14,721 | |
| Other current assets | 2,161 | |
| Property, equipment and improvements | 6,515 | |
| Intangible assets | 34,860 | |
| Other assets | 1,457 | |
| Total identifiable assets acquired | 76,524 | |
| Current liabilities | (17,439 | ) |
| Short-term debt | (9,985 | ) |
| Long-term debt | (7,526 | ) |
| Deferred tax liabilities | (3,553 | ) |
| Other long-term liabilities | (330 | ) |
| Total liabilities assumed | (38,833 | ) |
| Net identifiable assets acquired | 37,691 | |
| Non-controlling interest | (8,300 | ) |
| Goodwill | 83,107 | |
| Net assets acquired | $112,498 | |

The Company is in the process of obtaining third-party valuations of certain intangible assets; thus, the provisional measurements of intangible assets, goodwill and deferred income tax liabilities are subject to change.

Of the $34.9 million of acquired intangible assets, $250,000 was provisionally assigned to in-process research and development assets that were recognized at fair value on the acquisition date. The remaining $34.6 million of acquired intangible assets are subject to a weighted-average useful life of approximately 9 years. Those definite-lived intangible assets include developed technology of $16.3 million (7-year weighted-average useful life), customer relationships of $16.3 million (12-year weighted-average useful life), internal use software of $880,000 (7-year useful life), trade name of $800,000 (15-year useful life), and order backlog of $350,000 (1-year useful life). As noted above, the fair value of the acquired identifiable

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intangible assets is provisional pending receipt of the final valuations for these assets.

As noted above, one of Ignis' subsidiaries (Fi-ra) is 71.8% owned by Ignis. The acquisition-date fair value of the 28.2% non-controlling interest in Fi-ra is estimated to be $8.3 million, based on the estimated fair value of Fi-ra's equity.

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

The acquisition-date fair value of accounts receivable acquired is $11.3 million, with the gross contractual amount being $11.6 million. The Company expects $300,000 to be uncollectible.

The Company recognized $1.1 million of acquisition related costs that were expensed in the six months ended October 30, 2011. These costs are included in general and administrative operating expenses in the consolidated statement of operations.

Unaudited pro forma and other supplemental financial statement disclosures otherwise required by ASC 850 for material business combinations have not been presented herein because management does not believe the acquisition of Ignis is significant to the consolidated financial position or operating results of Finisar.

4. Net Income per Share

Basic net income per share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income 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 per share (in thousands, except per share amounts):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | October 30, 2011 | October 31, 2010 | October 30, 2011 | October 31, 2010 |
| Numerator: | | | | |
| Net income attributable to Finisar Corporation | $5,927 | $33,796 | $16,069 | $52,922 |
| Numerator for basic net income per share | $5,927 | $33,796 | $16,069 | $52,922 |
| Effect of dilutive securities: | | | | |
| Convertible debt interest expense | — | 1,373 | — | 2,743 |
| Numerator for diluted net income per share | $5,927 | $35,169 | $16,069 | $55,665 |
| Denominator: | | | | |
| Denominator for basic net income per share - weighted average shares | 90,715 | 76,766 | 90,470 | 76,433 |
| Effect of dilutive securities: | | | | |
| Employee stock options and restricted stock units | 2,848 | 3,248 | 3,206 | 3,061 |
| Warrants | 36 | 36 | 36 | 36 |
| Convertible debt | — | 9,471 | — | 9,483 |
| Dilutive potential common shares | 2,884 | 12,755 | 3,242 | 12,580 |
| Denominator for diluted net income per share | 93,599 | 89,521 | 93,712 | 89,013 |

| | | | | |
|---|---|---|---|---|
| Net income per share attributable to Finisar Corporation common stockholders: | | | | |
| Basic | $0.07 | $0.44 | $0.18 | $0.69 |
| Diluted | $0.06 | $0.39 | $0.17 | $0.63 |

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | October 30, 2011 | October 31, 2010 | October 30, 2011 | October 31, 2010 |
| Common shares issuable upon: | | | | |
| Exercise of employee stock options | 1,263 | 2,181 | 1,273 | 2,232 |
| Conversion of convertible subordinated notes | 3,748 | — | 3,748 | — |
| | 5,011 | 2,181 | 5,021 | 2,232 |

5. Inventories

Inventories consist of the following (in thousands):

| | October 30, 2011 | April 30, 2011 |
|---|---|---|
| Raw materials | $47,993 | $64,997 |
| Work-in-process | 97,020 | 66,073 |
| Finished goods | 69,927 | 56,547 |
| Total inventories | $214,940 | $187,617 |

During the three and six months ended October 30, 2011, the Company recorded charges of $5.7 million and $11.4 million, respectively, for excess and obsolete inventory, and sold inventory that was written-off in previous periods with an approximate cost of $3.0 million and $7.0 million, respectively. This resulted in a net charge for excess and obsolete inventory of $2.7 million and $4.4 million, respectively, during the three and six months ended October 30, 2011.

During the three and six months ended October 31, 2010, the Company recorded charges of $2.8 million and $6.6 million, respectively, for excess and obsolete inventory, and sold inventory that was written-off in previous periods with an approximate cost of $2.8 million and $6.4 million, respectively. This resulted in a net charge for excess and obsolete inventory of $200,000 during the six months ended October 31, 2010.

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 October 30, 2011 and April 30, 2011, the liability for these purchase commitments was $2.1 million and $3.2 million, respectively, and was recorded on the balance sheet as other accrued liabilities.

6. Property, Equipment and Improvements

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

| | October 30, 2011 | April 30, 2011 |
|---|---|---|
| Land | $273 | $— |
| Buildings | 9,104 | 9,733 |
| Computer equipment | 45,250 | 42,888 |
| Office equipment, furniture and fixtures | 4,315 | 4,163 |

| | | |
|---|---|---|
| Machinery and equipment | 279,321 | 248,641 |
| Leasehold improvements | 22,794 | 21,626 |
| Total | 361,057 | 327,051 |
| Accumulated depreciation and amortization | (217,918) | (201,358) |
| Property, equipment and improvements (net) | $143,139 | $125,693 |

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7. Intangible Assets Including Goodwill

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

| | Total |
|---|---|
| Balance at April 30, 2011 | $— |
| Addition related to acquisition of subsidiary (Note 3) | 83,107 |
| Balance at July 31, 2011 | $83,107 |
| Purchase price allocation adjustment | (171) |
| Balance at October 30, 2011 | $82,936 |

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

| | October 30, 2011 Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| Purchased technology | $92,564 | $(72,090) | $20,474 |
| Purchased trade name | 1,972 | (1,196) | 776 |
| Purchased customer relationships | 32,090 | (7,498) | 24,592 |
| Purchased internal use software, backlog and in-process research and development | 1,480 | (216) | 1,264 |
| Purchased patents | 375 | (175) | 200 |
| Total | $128,481 | $(81,175) | $47,306 |

| | 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 |
| Total | $93,781 | $(76,342) | $17,439 |

During the first quarter of fiscal 2012, the Company recorded approximately $34.9 million of purchased intangible assets related to its acquisition of Ignis (see "Note 3. Acquisition of Ignis ASA"). During the three months ended October 30, 2011, a purchase price allocation adjustment of $0.2 million was recorded.

The amortization expense on intangible assets for the three and six months ended October 30, 2011 was $2.5 million and $4.8 million, respectively. The amortization expense on intangible assets for the three and six months ended October 31, 2010 was $1.6 million and $3.2 million, respectively.

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

| Year | Amount |
|---|---|
| 2012 (remainder of year) | $4,915 |
| 2013 | 8,205 |
| 2014 | 6,474 |
| 2015 | 5,537 |
| 2016 and beyond | 22,175 |
| Total | $47,306 |

8. Investments

The following table presents a summary of the Company's investments measured at fair value on a recurring basis as of October 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 | $115,346 | $— | $— | $115,346 |
| Cash | — | — | — | 112,694 |
| Total cash and cash equivalents | | | | $228,040 |

The following table presents a summary of the Company's investments measured at fair value on a recurring basis as of 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 gross realized gains and losses for the three and six months ended October 30, 2011 and October 31, 2010 were immaterial. Realized gains and losses are calculated using the specific identification method.

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9. Minority Investments

Cost Method Investments

The carrying value of minority investments at both October 30, 2011 and April 30, 2011 was $12.3 million and was comprised of the Company's minority investment in three privately held companies accounted for under the cost method. The Company's investments in these companies were primarily motivated by its desire to gain access to new technology. The Company's investments are passive in nature in that the Company generally does not obtain representation on the board of directors of the companies in which it invests.

Equity Method Investments

As of April 30, 2011, the Company's investment in Ignis was carried at approximately $31.1 million and was accounted for under the equity method. During the six month period ended October 30, 2011, the Company completed the acquisition of 100% of all outstanding Ignis shares and as a result no longer accounted for this investment under the equity method (see "Note 3. Acquisition of Ignis ASA").

10. Convertible Debt

The Company's convertible debt balances as of October 30, 2011 and April 30, 2011 were as follows (in thousands):

| Description | Carrying Amount | Interest Rate | | Due in Fiscal year |
|---|---|---|---|---|
| As of October 30, 2011 | | | | |
| Convertible senior notes due October 2029 | $40,015 | 5.00 | % | 2030 |
| Total | $40,015 | | | |
| As of April 30, 2011 | | | | |
| Convertible senior notes due October 2029 | $40,015 | 5.00 | % | 2030 |
| Total | $40,015 | | | |

11. Debt

Korean Bank Loans

As a result of the acquisition of Ignis (see "Note 3. Acquisition of Ignis ASA"), the Company's consolidated liabilities include certain loan obligations of Fi-ra to three Korean banks under which an acquisition-date aggregate principal balance of approximately $2.5 million was outstanding, with interest rates ranging from 4.5% to 6.7% per annum. These loans require monthly interest payments with all principal payable at maturity. These loans mature at various dates beginning in February 2012 through June 2012 and are secured by certain property of Fi-ra.

During the first quarter of fiscal 2012, Fi-ra entered into a $1.8 million loan agreement with a Korean bank. Borrowings under this loan bear interest at variable rates based on the 4-month KORIBOR plus 0.33%, under which the applicable interest rate is currently 4% per annum. This loan requires monthly interest payments with all principal payable at maturity. This loan matures in May 2012 and is secured by certain property of Fi-ra.

The remaining principal outstanding under these loans as of October 30, 2011 was $4.3 million .

Norwegian Bank Loans

As a result of the acquisition of Ignis, the Company's consolidated liabilities included two loan obligations of SmartOptics to a Norwegian bank under which an acquisition-date aggregate principal balance of approximately $5.6 million was outstanding with interest rates ranging from 5.25% to 6% per annum. These loans were fully repaid in October 2011.

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Swedish Loan

As a result of the acquisition of Ignis, the Company's consolidated liabilities included a loan obligation of Syntune to a financing institution under which an acquisition-date aggregate principal balance of approximately $7.8 million was outstanding, with an interest rate of 12% per annum. This loan was fully repaid in July 2011. As a result of the early repayment of this loan, the Company incurred a prepayment charge of $419,000 which the Company recognized as loss on debt extinguishment in its condensed consolidated statement of operations for the six months ended October 30, 2011.

## 12. Revolving Credit Facility

On October 2, 2009, the Company entered into an agreement with Wells Fargo Foothill, LLC to establish a four-year $70 million senior secured revolving credit facility. Borrowings under the credit facility 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 October 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 October 30, 2011 was $66.6 million, and there were no borrowings outstanding against the facility as of that date.

The credit facility is subject to certain financial covenants. The Company was in compliance with all financial covenants associated with this facility as of October 30, 2011.

## 13. Warranty

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

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

| | Six Months Ended October 30, 2011 |
|---|---|
| Beginning balance at April 30, 2011 | $4,469 |
| Additions during the period based on product sold | 1,452 |
| Additions during the period due to acquisition of controlling interest in subsidiary | 313 |
| Change in estimates | (557) |
| Settlements and expirations | (2,238) |
| Ending balance at October 30, 2011 | $3,439 |

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14. 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 October 30, 2011 and April 30, 2011 were as follows (in thousands):

| | October 30, 2011 | | April 30, 2011 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | $228,040 | $228,040 | $314,765 | $314,765 |
| Equity method investment | — | — | 31,142 | 38,671 |
| Total | $228,040 | $228,040 | $345,907 | $353,436 |
| | | | | |
| Financial liabilities: | | | | |
| Convertible debt | $40,015 | $87,105 | $40,015 | $113,023 |
| Short-term debt | 4,281 | 4,281 | — | — |
| Contingent consideration | 14,340 | 14,340 | — | — |
| Total | $58,636 | $105,726 | $40,015 | $113,023 |

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

Convertible debt -The fair value of the 5% Convertible Notes is based on the market price in the open market as of or close to the respective dates. The difference between the carrying value and the fair value is primarily due to the spread between the conversion price and the market value of the shares underlying the conversion.

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

Equity method investment - The fair value of the equity method investment is based on the quoted market price of the equity security listed on a foreign stock exchange.

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

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 October 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.

The following table presents a reconciliation of the beginning and ending balances of the Company's liabilities measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended October 31, 2011 (in thousands), consisting of contingent consideration recorded in connection with the acquisition of Ignis:

| | Three Months Ended October 30, 2011 |
|---|---|

| | |
|---|---|
| Balance at July 31, 2011 | $13,598 |
| Accretion | 742 |
| Balance at October 30, 2011 | $14,340 |

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15. Stockholders' Equity

Comprehensive Income

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.

The components of comprehensive income for the three and six months ended October 30, 2011 and October 31, 2010 were as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | October 30, 2011 | October 31, 2010 | October 30, 2011 | October 31, 2010 |
| Consolidated net income | $6,270 | $33,796 | $16,305 | $ 52,922 |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in foreign currency translation adjustment, net of tax | (4,081) | 4,920 | (3,643) | 4,841 |
| Total other comprehensive income (loss), net of tax | (4,081) | 4,920 | (3,643) | 4,841 |
| Consolidated comprehensive income | 2,189 | 38,716 | 12,662 | 57,763 |
| Adjust for comprehensive income attributable to non-controlling interest, net of tax | (343) | — | (236) | — |
| Comprehensive income attributable to Finisar Corporation | $1,846 | $38,716 | $12,426 | $ 57,763 |

Accumulated other comprehensive income, net of taxes, as of October 30, 2011 and April 30, 2011, consists only of cumulative foreign currency translation adjustment.

Share-based Compensation Expense Information

The following table summarizes share-based compensation expense related to employee stock options and employee stock purchases for the three and six months ended October 30, 2011 and October 31, 2010 which was reflected in the Company's operating results (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | October 30, 2011 | October 31, 2010 | October 30, 2011 | October 31, 2010 |
| Cost of revenues | $1,569 | $1,310 | $3,280 | $2,055 |
| Research and development | 2,109 | 1,702 | 4,238 | 2,739 |
| Sales and marketing | 729 | 528 | 1,524 | 978 |
| General and administrative | 1,897 | 1,422 | 3,826 | 2,447 |
| Total | $6,304 | $4,962 | $12,868 | $8,219 |

The total share-based compensation capitalized as part of inventory as of October 30, 2011 was $1.1 million.

During the three months ended October 30, 2011, no stock was issued under the Company's Employee Stock Purchase Plan and options to purchase 145,182 shares of common stock were exercised. During the six months ended October 30, 2011, 191,794 shares of common stock were issued under the Company's Employee Stock Purchase Plan and options to purchase 220,311 shares of common stock were exercised. The number of restricted stock units issued during the three and six months ended October 30, 2011 was 93,067 and 552,029, respectively.

As of October 30, 2011, total compensation expense, net of estimated forfeitures, related to unvested stock options and restricted stock units not yet recognized was approximately $112.6 million, which is expected to be recognized in the Company's operating results over the succeeding 37 months.

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16. Income Taxes

The Company recorded a provision for income taxes of $1.4 million and $567,000, respectively, for the three months ended October 30, 2011 and October 31, 2010 and $1.9 million and $2.6 million, respectively, for the six months ended October 30, 2011 and October 31, 2010. The income tax provisions for the three and six months ended October 30, 2011 and October 31, 2010 includes state taxes and foreign income taxes arising in certain foreign jurisdictions in which the Company conducts business.

The Company records a valuation allowance against its deferred tax assets for each period in which management concludes that it is more likely than not that the deferred tax assets will not be realized. Realization of the Company's net deferred tax assets is dependent upon future taxable income, the amount and timing of which are uncertain. Accordingly, substantially all of the Company's net deferred tax assets as of October 30, 2011 have been fully offset by a valuation allowance.

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

The Company's total gross unrecognized tax benefit as of April 30, 2011 and October 30, 2011 was $13.9 million. 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.

Due to the Company's taxable loss position in previous years, all tax years since inception are subject to examination in the U.S. and state jurisdictions. The Company is also subject to examinations in various foreign jurisdictions, none of which were individually material. It is the Company's belief that no significant changes in the unrecognized tax benefit positions will occur through April 30, 2012.

The Company records interest and penalties related to unrecognized tax benefits in income tax expense. At October 30, 2011, there were no accrued interest or penalties related to uncertain tax positions.

17. Segment and Geographic Information

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

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | October 30, 2011 | October 31, 2010 | October 30, 2011 | October 31, 2010 |
| Revenues from sales to unaffiliated customers: | | | | |
| United States | $56,830 | $72,979 | $114,780 | $135,982 |
| Malaysia | 45,217 | 38,616 | 98,399 | 69,164 |
| China | 48,656 | 56,846 | 93,659 | 97,278 |
| Rest of the world | 90,786 | 72,502 | 162,877 | 146,401 |
| | $241,489 | $240,943 | $469,715 | $448,825 |

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

Two customers each represented more than 10% of total revenues in the three months ended October 30, 2011 and October 31, 2010. Three customers each represented more than 10% of total revenues in the six months ended October 30, 2011 and October 31, 2010.

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

| | October 30, 2011 | April 30, 2011 |
|---|---|---|
| Long-lived assets: | | |
| United States | $118,615 | $103,468 |
| Malaysia | 37,443 | 41,125 |
| China | 37,329 | 24,872 |
| Rest of the world | 31,120 | 22,277 |
| | $224,507 | $191,742 |

The increase in long-lived assets was primarily due to the Company's acquisition of Ignis (see "Note 3. Acquisition of Ignis ASA") as well as additions of machinery and equipment in the United States and China.

18. Restructuring Charges

During 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 the first six months of fiscal 2012 (in thousands):

| | |
|---|---|
| Balance as of April 30, 2011 | $4,083 |
| Adjustments | (322) |
| Cash payments, net of sublease income | (129) |
| Balance as of October 30, 2011 | $3,632 |

Adjustments in the above table relate to a sublease agreement with a third party entered into during the first quarter of fiscal 2012 for a portion of the above mentioned facility.

Of the $3.6 million remaining accrual, $264,000 is expected to be paid in the next twelve months and $3.4 million is expected to be paid out from fiscal 2013 through fiscal 2020.

19. Pending Litigation

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

Oplink/OCP Patent Litigation

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.

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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 vertical cavity surface emitting lasers ("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 (e) 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 is seeking 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 consolidated and lead plaintiffs have been appointed to file a consolidated complaint.

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, 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 to the District Court for further proceedings. The Company and the individual defendants filed a motion seeking rehearing of the case en banc before the full Ninth Circuit, which was denied on July 8, 2011.

Cheetah Omni Litigation

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

To date, Finisar has received a request for indemnification from two customers with respect to the two patents mentioned above and may receive additional requests in the future. The Company is currently evaluating the request for indemnification. The Company also expects that the defendant customers will defend the lawsuit vigorously at least with respect to the claims that implicate any Finisar products. However, there can be no assurance that they will be successful in their defense and, if they are not successful with respect to the two patents mentioned above, Finisar may be liable to indemnify the accused customers for significant damages. Even if the defense is successful, the Company may incur substantial legal fees and other costs in defending and/or aiding in the defense of the lawsuit with respect to the two patents mentioned above. Further, the lawsuit could divert the efforts and attention of the Company's management and technical personnel, which could harm its business.

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

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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.

Other

During the second quarter of fiscal 2012, the Company received a favorable arbitrator's decision in an intellectual property legal dispute unrelated to current or future quarters awarding the Company $7.4 million. As litigation related to the decision is ongoing, no amounts were recognized in the Company's consolidated financial statements as of, and for the three- and six-month periods ending, October 30, 2011.

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.

20. Guarantees and Indemnifications

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

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

Historically, the Company has not made any significant indemnification payments under such arrangements. The Company believes the fair value of these indemnification agreements is minimal. Accordingly, the Company has not recorded any liabilities for these agreements as of October 30, 2011.

21. Related Party Transaction

During the three and six months ended October 30, 2011, the Company paid $47,102 and $130,302, respectively, in cash compensation to a company owned by Guy Gertel, the brother of the Chief Executive Officer of the Company, for sales and marketing services. In addition, the Company granted to Mr. Gertel, for no additional consideration, 2,000 restricted stock units with a fair market value of $29,300, which vest as follows: 25% on June 20, 2012 and an additional 25% on each of the next three annual anniversaries thereafter, to be fully vested on June 20, 2015, subject to him continuing to provide services to the Company. During the three and six months ended October 31, 2010, the Company paid Mr. Gertel's company $45,000 and $88,000, respectively, in cash compensation. The amounts paid to Mr. Gertel represented values considered by management to be fair and reasonable, reflective of an arm's length transaction.

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

Cautionary Note Regarding Forward-Looking Statements
This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We use words like “anticipates,” “believes,” “plans,” “expects,” “future,” “intends” and similar expressions to identify these forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events; however, our business and operations are subject to a variety of risks and uncertainties, and, consequently, actual results may materially differ from those projected by any forward-looking statements. As a result, you should not place undue reliance on these forward-looking statements since they may not occur.

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

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

Business Overview

We are a leading provider of optical subsystems and components that are used in data communication and telecommunication applications. Our optical subsystems consist primarily of transmitters, receivers, transceivers 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 data communication and telecommunication applications, and passive optical components used in telecommunication applications. Demand for our products is largely driven by the continually growing need for additional 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, photo-detectors 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 telecommunication 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.

Recent Developments

Acquisition of Ignis ASA

In several transactions during fiscal 2011, we acquired an aggregate of 25.7 million shares of Ignis ASA ("Ignis"), a Norwegian company whose securities were traded on the Oslo Stock Exchange, representing approximately 32% of the outstanding Ignis shares.
On March 22, 2011, we entered into a transaction agreement with Ignis under which, on April 7, 2011, we made a recommended voluntary public cash tender offer to acquire all of the outstanding Ignis shares not then owned by us for NOK 8 per share. On May 18, 2011, we completed this tender offer and purchased an additional 38.1 million Ignis shares for an aggregate

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purchase price of $54.7 million, increasing our ownership to approximately 81% of all outstanding Ignis shares. Under the Norwegian Securities Trading Act, our 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 the mandatory offer at a cash offer price of NOK 8 per share. During the offer period, which ended on June 22, 2011, approximately 12.8 million additional Ignis shares were tendered, further increasing our ownership position to approximately 97% of all outstanding Ignis shares. As the owner of more than 90% of all outstanding Ignis shares, we then exercised our right to effect a compulsory acquisition of the balance of all outstanding Ignis shares for a cash price of NOK 8 per share and, as of June 29, 2011, we owned 100% of the outstanding Ignis shares, and the shares were de-listed from the Oslo Stock Exchange.

Ignis is an innovative provider of optical components and network solutions for fiber optic communications. It operates globally through four subsidiaries. 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. Our management and board of directors believe that this acquisition will:

- provide us a secure supply of 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.

The results of Ignis' operations have been included in the consolidated financial statements since May 18, 2011, the date we obtained control of Ignis. Prior to May 18, 2011, we accounted for our 32% interest in Ignis as an equity-method investment. The acquisition-date fair value of this equity interest was $36.6 million (based on the trading price of the Ignis shares as quoted on the Oslo Stock Exchange), and is included in the measurement of the consideration transferred. We recognized a gain of $5.4 million as a result of remeasuring the equity interest in Ignis that we held before the acquisition date. This gain is included in other income (expense), net in the condensed consolidated statement of operations.

The provisional fair value of the consideration transferred in exchange for the Ignis shares is as follows (in thousands):

| | |
|---|---|
| Cash | $98,900 |
| Contingent consideration | 13,598 |
| Total | $112,498 |

The contingent consideration arrangement requires us to pay up to approximately $14.3 million of additional consideration to the former shareholders of one of Ignis' subsidiaries if, during calendar years 2011 and 2012, the subsidiary achieves specified levels of revenues, revenue growth, EBITDA and cash flow, and successfully launches a new product. The fair value of the contingent consideration arrangement at the acquisition date was $13.6 million. For additional information regarding the estimation of the contingent consideration and the allocation of the provisional fair value of the consideration, see "Part I, Item 1, Financial Statements - Note 3. Acquisition of Ignis ASA."

We recognized $1.1 million of acquisition related costs that were expensed in the six months ended October 30, 2011. These costs are included in general and administrative expenses in the condensed consolidated statement of operations.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make judgments, estimates and assumptions in the preparation of our consolidated financial statements and accompanying notes. Actual results could differ from those estimates. We believe there have been no significant changes in our critical accounting policies as discussed in our Annual Report on Form 10-K for the year ended April 30, 2011.

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Results of Operations

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | October 30, 2011 | October 31, 2010 | October 30, 2011 | October 31, 2010 |
| Revenues | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Cost of revenues | 70.2 | 65.3 | 70.2 | 65.4 |
| Amortization of acquired developed technology | 0.7 | 0.5 | 0.7 | 0.5 |
| Gross profit | 29.1 | 34.2 | 29.1 | 34.1 |
| Operating expenses: | | | | |
| Research and development | 15.2 | 11.7 | 15.4 | 12.2 |
| Sales and marketing | 4.2 | 3.8 | 4.2 | 4.1 |
| General and administrative | 5.7 | 3.5 | 5.9 | 4.4 |
| Restructuring charges (recoveries) | — | — | (0.1) | — |
| Amortization of purchased intangibles | 0.4 | 0.2 | 0.3 | 0.2 |
| Total operating expenses | 25.5 | 19.2 | 25.7 | 20.9 |
| Income from operations | 3.7 | 15.0 | 3.4 | 13.3 |
| Interest income | — | 0.1 | 0.1 | 0.1 |
| Interest expense | (0.5) | (0.9) | (0.4) | (0.9) |
| Loss on debt extinguishment | — | — | (0.1) | — |
| Other income (expense), net | (0.1) | 0.1 | 1.0 | — |
| Income before income taxes and non-controlling interest | 3.2 | 14.3 | 3.9 | 12.5 |
| Provision for income taxes | 0.6 | 0.2 | 0.4 | 0.6 |
| Consolidated net income | 2.6 | 14.1 | 3.5 | 11.8 |
| Adjust for net income attributable to non-controlling interest | (0.1) | — | (0.1) | — |
| Net income attributable to Finisar Corporation | 2.5 % | 14.1 % | 3.4 % | 11.8 % |

Revenues. Revenues increased $546,000, or 0.2%, to $241.5 million in the quarter ended October 30, 2011 compared to $240.9 million in the quarter ended October 31, 2010. Revenues increased $20.9 million, or 4.7%, to $469.7 million in the six months ended October 30, 2011 compared to $448.8 million in the six months ended October 31, 2010.

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

| | Three Months Ended | | | |
|---|---|---|---|---|
| | October 30, 2011 | October 31, 2010 | Change | % Change |
| Datacom revenue | $128,521 | $122,482 | $6,039 | 4.9 % |
| Telecom revenue | 112,968 | 118,461 | (5,493) | (4.6)% |
| Total revenues | $241,489 | $240,943 | $546 | 0.2 % |

| | Six Months Ended | | | |
|---|---|---|---|---|
| | October 30, 2011 | October 31, 2010 | Change | % Change |
| Datacom revenue | $257,593 | $226,714 | $30,879 | 13.6 % |
| Telecom revenue | 212,122 | 222,111 | (9,989) | (4.5)% |

| | | | | |
|---|---|---|---|---|
| Total revenues | $469,715 | $448,825 | $20,890 | 4.7 % |

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The datacom revenues increased primarily due to increase in market demand for our datacom products and the inclusion of a full quarter and one and one-half quarters, respectively, in Ignis revenues for the three and six months ended October 30, 2011. The telecom revenues decreased primarily due to decline in market demand for our telecom products, particularly ROADM products, largely offset by the inclusion of a full quarter and approximately one and one-half quarters, respectively, in Ignis revenues, for the three and six months ended October 30, 2011.

Amortization of Acquired Developed Technology. Amortization of acquired developed technology, a component of cost of revenues, increased $437,000, or 36.4%, to $1.6 million in the quarter ended October 30, 2011 compared to $1.2 million in the quarter ended October 31, 2010. It increased $767,000, or 32.1%, to $3.2 million in the six months ended October 30, 2011 compared to $2.4 million for the six months ended October 31, 2010. These increases were due to the amortization of the acquired developed technology related to the Ignis acquisition.

Gross Profit. Gross profit decreased $12.1 million, or 14.7%, to $70.3 million in the quarter ended October 30, 2011 compared to $82.4 million in the quarter ended October 31, 2010. Gross profit as a percentage of revenues decreased by 5.1%, from 34.2% in the quarter ended October 31, 2010 to 29.1% in the quarter ended October 30, 2011. We recorded charges of $5.7 million for obsolete and excess inventory in the quarter ended October 30, 2011 compared to $2.8 million in the quarter ended October 31, 2010. We sold inventory that was written-off in previous periods resulting in a benefit of $3.0 million in the quarter ended October 30, 2011 and $2.8 million in the quarter ended October 31, 2010. As a result, we recognized a net charge of $2.7 million in the quarter ended October 30, 2011 compared to no net charge in the quarter ended October 31, 2010. Cost of revenues included stock-based compensation charges of $1.6 million in the quarter ended October 30, 2011 and $1.3 million in the quarter ended October 31, 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 $76.2 million, or 31.5% of revenues, in the quarter ended October 30, 2011 compared to $84.9 million, or 35.2% of revenues, in the quarter ended October 31, 2010. The decrease in gross margin primarily reflects the decline in average selling prices, offset by reduced material costs, as well as under-utilization of certain manufacturing facilities, higher amortization of acquired developed technology, higher net charges for excess and obsolete inventory and consolidation of the financial results of Ignis, which has a lower average gross margin than the overall corporate average.

Gross profit decreased $16.3 million, or 10.6%, to $136.8 million in the six months ended October 30, 2011 compared to $153.0 million in the six months ended October 31, 2010. Gross profit as a percentage of revenues decreased by 5.0%, from 34.1% in the six months ended October 31, 2010 to 29.1% in the six months ended October 30, 2011. We recorded charges of $11.4 million for obsolete and excess inventory in the six months ended October 30, 2011 compared to $6.6 million in the six months ended October 31, 2010. We sold inventory that was written-off in previous periods resulting in a benefit of $7.0 million in the six months ended October 30, 2011 and $6.4 million in the six months ended October 31, 2010. As a result, we recognized a net charge of $4.4 million in the six months ended October 30, 2011 compared to a net charge of $200,000 in the six months ended October 31, 2010. Cost of revenues included stock-based compensation charges of $3.3 million in the six months ended October 30, 2011 and $2.1 million in the six months ended October 31, 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 $147.7 million, or 31.4% of revenues, in the six months ended October 30, 2011 compared to $157.7 million, or 35.1% of revenues, in the six months ended October 31, 2010. The decrease in gross margin primarily reflects the decline in average selling prices, offset by reduced material costs, as well as under-utilization of certain manufacturing facilities, higher amortization of acquired developed technology, higher net charges for excess and obsolete inventory and consolidation of the financial results of Ignis, which has a lower average gross margin than the overall corporate average.

Research and Development Expenses. Research and development expenses increased $8.6 million, or 30.4%, to $36.7 million in the quarter ended October 30, 2011 compared to $28.1 million in the quarter ended October 31, 2010.

The increase was due primarily to increases in employee related expenses, costs of materials associated with new product development, and the consolidation of financial results of Ignis for the quarter ended October 30, 2011. Included in research and development expenses were stock-based compensation charges of $2.1 million in the quarter ended October 30, 2011 and $1.7 million in the quarter ended October 31, 2010. Research and development expenses as a percent of revenues increased to 15.2% in the quarter ended October 30, 2011 compared to 11.7% in the quarter ended October 31, 2010.

Research and development expenses increased $17.3 million, or 31.7%, to $72.1 million in the six months ended October 30, 2011 compared to $54.8 million in the six months ended October 31, 2010. The increase was due primarily to increases in employee related expenses, costs of materials associated with new product development, and the consolidation of financial results of Ignis. Included in research and development expenses were stock-based compensation charges of $4.2 million in the six months ended October 30, 2011 and $2.7 million in the six months ended October 31, 2010. Research and development expenses as a percent of revenues increased to 15.4% in the six months ended October 30, 2011 compared to 12.2% in the six months ended October 31, 2010.

Sales and Marketing Expenses. Sales and marketing expenses increased $878,000, or 9.5%, to $10.1 million in the quarter ended October 30, 2011 compared to $9.2 million in the quarter ended October 31, 2010. The increase was primarily due to increases in employee related expenses and the consolidation of financial results of Ignis for the quarter ended October 30, 2011. Included in sales and marketing expenses were stock-based compensation charges of $729,000 in the quarter ended October 30, 2011 and $528,000 in the quarter ended October 31, 2010. Sales and marketing expenses as a percent of revenues increased to 4.2% in the quarter ended October 30, 2011 compared to 3.8% in the quarter ended October 31, 2010.

Sales and marketing expenses increased $1.4 million, or 7.6%, to $19.7 million in the six months ended October 30, 2011 compared to $18.3 million in the six months ended October 31, 2010. The increase was primarily due to increases in employee related expenses and the consolidation of financial results of Ignis. Included in sales and marketing expenses were stock-based compensation charges of $1.5 million in the six months ended October 30, 2011 and $978,000 in the six months ended October 31, 2010. Sales and marketing expenses as a percent of revenues increased to 4.2% in the six months ended October 30, 2011 compared to 4.1% in the six months ended October 31, 2010.

General and Administrative Expenses. General and administrative expenses increased $5.3 million, or 61.7%, to $13.8 million in the quarter ended October 30, 2011 compared to $8.5 million in the quarter ended October 31, 2010. The increase was primarily due to a non-recurring net gain of $2.4 million related to the settlement of legal proceedings in the prior year quarter and the consolidation of financial results of Ignis for the quarter ended October 30, 2011. Included in general and administrative expenses were stock-based compensation charges of $1.9 million in the quarter ended October 30, 2011 and $1.4 million in the quarter ended October 31, 2010. General and administrative expenses as a percent of revenues increased to 5.7% in the quarter ended October 30, 2011 compared to 3.5% in the quarter ended October 31, 2010.

General and administrative expenses increased $8.1 million, or 41.5%, to $27.7 million in the six months ended October 30, 2011 compared to $19.6 million in the six months ended October 31, 2010. The increase was primarily due to $1.1 million of transaction costs incurred in connection with our acquisition of Ignis, a non-recurring net gain of $2.4 million related to the settlement of legal proceedings in the prior year and the consolidation of the financial results of Ignis. Included in general and administrative expenses were stock-based compensation charges of $3.8 million in the six months ended October 30, 2011 and $2.4 million in the six months ended October 31, 2010. General and administrative expenses as a percent of revenues increased to 5.9% in the six months ended October 30, 2011 compared to 4.4% in the six months ended October 31, 2010.

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

Amortization of Purchased Intangibles. Amortization of purchased intangibles increased $476,000, or 124.3%, to $859,000 in the quarter ended October 30, 2011 compared to $383,000 in the quarter ended October 31, 2010. The increase was due to the amortization of certain intangibles related to the acquisition of Ignis.

Amortization of purchased intangibles increased $872,000, or 113.8%, to $1.6 million in the six months ended October 30, 2011 compared to $766,000 in the six months ended October 31, 2010. The increase was due to the amortization of certain intangibles related to the acquisition of Ignis.

Interest Income. Interest income decreased $43,000 to $100,000 in the quarter ended October 30, 2011 compared to $143,000 in the quarter ended October 31, 2010. The decrease was primarily due to decreases in interest rates.

Interest income increased $25,000 to $260,000 in the six months ended October 30, 2011 compared to $235,000 in the six months ended October 31, 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, partially offset by decreases in interest rates.

Interest Expense. Interest expense decreased $939,000, or 45.2%, to $1.1 million in the quarter ended October 30, 2011 compared to $2.1 million in the quarter ended October 31, 2010. The decrease was primarily related to lower outstanding convertible debt due to conversion to equity and lower long-term debt balances due to their repayment in fiscal 2011. Interest expense for the quarter ended October 30, 2011 included $743,000 related to our 5% Convertible Subordinated Notes due October 2029 and various other debt instruments related to our acquisition of Ignis. Interest expense for the quarter ended October 31, 2010 included $1.3 million related to our 5% Convertible Subordinated Notes due October 2029, $460,000 related to various other debt instruments, and a non-cash charge of $376,000 due to the adoption of authoritative accounting guidance which requires us to separately account for the liability (debt) and equity (conversion option) components of our 2.5% senior

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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 accreted as interest expense over the term of the instrument using the interest method, resulting in an increase in interest expense.

Interest expense decreased $2.2 million, or 51.6%, to $2.0 million in the six months ended October 30, 2011 compared to $4.2 million in the six months ended October 31, 2010. The decrease was primarily related to lower outstanding convertible debt due to conversion to equity and lower long-term debt balances due to their repayment in fiscal 2011. Interest expense for the six months ended October 30, 2011 included $1.6 million related to our 5% Convertible Subordinated Notes due October 2029 and various other debt instruments acquired with the acquisition of Ignis. Interest expense for the six months ended October 31, 2010 included $2.5 million related to our 5% Convertible Subordinated Notes due October 2029, $960,000 related to various other debt instruments, and a non-cash charge of $742,000 due to the adoption of authoritative accounting guidance which requires us to separately account for the liability (debt) and equity (conversion option) components of our 2.5% 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 accreted as interest expense over the term of the instrument using the interest method, resulting in an increase in interest expense.

Loss on Debt Extinguishment. During the first quarter of fiscal 2012, we repaid certain bank loans that we assumed as part of the Ignis acquisition. The repayment of these loans resulted in a loss of $419,000 which we recognized in our condensed consolidated statement of operations for the six months ended October 30, 2011.

Other Income (Expense), Net. Other expense, net was $140,000 in the quarter ended October 30, 2011 compared to other income, net of $192,000 in the quarter ended October 31, 2010. Other expense, net in the quarter ended October 30, 2011 primarily consisted of amortization of debt issuance costs.

Other income, net was $4.5 million in the six months ended October 30, 2011 compared to other income, net of $0 in the six months ended October 31, 2010. Other income, net in the six months ended October 30, 2011 primarily consisted of a gain of $5.4 million related to remeasurement of our equity interest in Ignis upon obtaining a controlling interest in May 2011, offset by $619,000, representing our proportionate share of the net losses of Ignis during the period prior to our acquisition of a controlling interest, during which period we accounted for our investment using the equity method.

Non-controlling interest. Non-controlling interest for the quarter ended October 30, 2011, represents minority shareholders' proportionate share of the net income of Fi-ra.

Non-controlling interest for the six months ended October 30, 2011 represents $187,000 of the minority shareholders' proportionate share of the net loss of Ignis offset by $423,000 of the minority shareholders' proportionate share of the net income of Fi-ra.

Provision for Income Taxes. We recorded income tax provisions of $1.4 million and $567,000, respectively, for the quarters ended October 30, 2011 and October 31, 2010 and $1.9 million and $2.6 million, respectively, for the six months ended October 30, 2011 and October 31, 2010. The income tax provisions for the three months ended October 30, 2011 and October 31, 2010 primarily represent current state and foreign income taxes arising in certain jurisdictions in which we conduct business.

Due to the uncertainty regarding the timing and extent of our future profitability, we have recorded a valuation allowance to offset our U.S. deferred tax assets which represent future income tax benefits associated with our operating losses because we do not currently believe it is more likely than not these assets will be realized. We calculated the valuation allowance in accordance with the provisions of ASC 740, “Income Taxes,” which requires an assessment of both positive and negative evidence regarding the realizability of these deferred tax assets, when measuring the need for a valuation allowance. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In determining net deferred tax assets and valuation allowances, management is required to make judgments and estimates related to projections of profitability, the timing and extent of the utilization of net operating loss carry-forwards, applicable tax rates and tax planning strategies. We review the valuation allowance quarterly and will maintain it until sufficient positive evidence exists to support a reversal. Because evidence such as our operating results during the most recent three-year period is afforded more weight than forecasted results for future periods, we have determined that our cumulative loss during this three-year period represents sufficient negative evidence regarding the need for a full valuation allowance under ASC 740. If we conclude that sufficient positive evidence exists to support a reversal of all or a portion of the valuation allowance, we expect that a significant portion of any release of the valuation allowance will be recorded as an income tax benefit at the time of release, which could occur in the fiscal year ending April 30, 2012.

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Liquidity and Capital Resources

Cash Flows from Operating Activities

Net cash provided by operating activities was $26.4 million in the six months ended October 30, 2011, compared to net cash used in operating activities of $31.2 million in the six months ended October 31, 2010. Cash provided by operating activities in the six months ended October 30, 2011 consisted of our net income, as adjusted to exclude depreciation, amortization and other non-cash items totaling $36.0 million, less cash used for working capital requirements primarily related to increases in accounts receivable, inventory and accounts payable. Accounts receivable decreased by $3.2 million primarily due to strong collections near the end of the second quarter. Inventory increased by $16.6 million and accounts payable increased by $6.7 million due to increased purchases to support projected increased levels of sales. Cash used in operating activities in the six months ended October 31, 2010 consisted of our net income, as adjusted to exclude depreciation, amortization and other non-cash items totaling to $29.3 million and cash used for working capital, primarily related to increases in accounts receivable and inventories, offset by an increase in accounts payable. Accounts receivable increased by $45.6 million primarily due to the increase in revenues. Inventory and accounts payable increased by $24.7 million and $9.8 million, respectively, primarily due to increase in purchases to support higher levels of sales.

Cash Flows from Investing Activities

Net cash used in investing activities totaled $104.6 million in the six months ended October 30, 2011 compared to $31.6 million in the six months ended October 31, 2010. Net cash used in investing activities in the six months ended October 30, 2011 consisted of $71.1 million related to the acquisition of Ignis and $33.5 million of expenditures for capital equipment. Net cash used in investing activities in the six months ended October 31, 2010 consisted of $25.7 million of expenditures for capital equipment.

Cash Flows from Financing Activities

Net cash used in financing activities totaled $8.5 million in the six months ended October 30, 2011 compared to $21.8 million in the six months ended October 31, 2010. Cash used in financing activities for the six months ended October 30, 2011 primarily reflected repayments of borrowings related to the Ignis acquisition totaling $14.0 million, partially offset by additional borrowings of $1.8 million by Fi-ra (Ignis' Korean subsidiary) and proceeds from the issuance of shares under employee stock option and stock purchase plans totaling $3.7 million. Cash used in financing activities for the six months ended October 31, 2010 primarily reflected repayment of convertible notes of $29.6 million and repayments of borrowings totaling $2.0 million, partially offset by proceeds from the exercise of stock options and purchases under our stock purchase plan totaling $9.8 million.

Contractual Obligations and Commercial Commitments

At October 30, 2011, we had contractual obligations of $196.7 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 |
| Short-term debt | $4,281 | $4,281 | $— | | $— |
| Convertible debt | 40,015 | — | — | 40,015 | — |
| Interest on debt (a) | 6,127 | 2,126 | 4,001 | | — |

| | | | | | |
|---|---|---|---|---|---|
| Operating leases (b) | 45,580 | 9,101 | 14,093 | 9,119 | 13,267 |
| Purchase obligations (c) | 100,686 | 100,686 | — | — | — |
| Total contractual obligations | $196,689 | $116,194 | $18,094 | $49,134 | $13,267 |

(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.

Short-term debt consists of bank loans that resulted from our acquisition of Ignis. These loans mature at various dates beginning in February 2012 through June 2012.

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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 non-cancelable purchase obligations is to record losses, if any, when they are probable and reasonably estimable. Our subcontractors purchase materials based on forecasts provided by us. We record a liability for firm, non-cancelable and unconditional purchase commitments for quantities held by subcontractors on our behalf to fulfill the subcontractors' purchase order obligations at their facilities which are in excess of our future demand forecasts. As of October 30, 2011, the liability for these purchase commitments of $2.1 million has been expensed and recorded on the condensed consolidated balance sheet as other accrued liabilities and is not included in the preceding table. We believe we have made adequate provisions for potential exposure related to inventory purchases for orders that may not be utilized.

Sources of Liquidity and Capital Resource Requirements

At October 30, 2011, our principal sources of liquidity consisted of $228.0 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. Cash and cash equivalents totaling $31.5 million was held by our foreign subsidiaries as of October 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 our outstanding 5% Convertible Senior Notes due 2029, in the aggregate principal amount of $40.0 million, which are subject to redemption by the holders at their option in October 2014, 2016, 2019 and 2024. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if and when it is required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition and results of operations will be adversely affected.

Off-Balance-Sheet Arrangements

At October 30, 2011 and April 30, 2011, 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.

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## Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting Finisar, see Item 7A: “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K for the fiscal year ended April 30, 2011. Our exposure related to market risk has not changed materially since April 30, 2011.

## Item 4. Controls and Procedures

### Evaluation of Effectiveness of Disclosure Controls and Procedures

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

### Changes in Internal Control Over Financial Reporting

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

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## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

Reference is made to “Part I, Item 1, Financial Statements - Note 19. Pending Litigation” for descriptions of pending legal proceedings, including material developments in certain of those proceedings during the quarter ended October 30, 2011.

### Item 1A. Risk Factors

OUR FUTURE PERFORMANCE IS SUBJECT TO A VARIETY OF RISKS, INCLUDING THOSE DESCRIBED BELOW. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS COULD BE HARMED AND THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE. YOU SHOULD ALSO REFER TO THE OTHER INFORMATION CONTAINED IN THIS REPORT, INCLUDING OUR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES. THE RISK FACTORS DESCRIBED BELOW DO NOT CONTAIN ANY MATERIAL CHANGES FROM THOSE PREVIOUSLY DISCLOSED IN ITEM 1A OF OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED APRIL 30, 2011.

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

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

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

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

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

Our operating results could also be harmed by:

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

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

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

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

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

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

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

As part of our 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

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convertible debt in the aggregate principal amount of $40 million, which is subject to redemption by the holders in October 2014, 2016, 2019 and 2024. Due to the unpredictable nature of the capital markets, particularly in the technology sector, we cannot assure you that we will be able to raise additional capital if and when it is required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, or is not available on favorable terms, we could be required to significantly reduce or restructure our business operations. If we do raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our existing stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders.

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

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

Our manufacturing operations are highly vertically integrated. In order to reduce our manufacturing costs, we have acquired a number of companies, and business units of other companies, that manufacture optical components incorporated in our optical subsystem products and have developed our own facilities for the final assembly and testing of our products. For example, we design and manufacture many critical components incorporated in transceivers used for data communication and telecommunication applications, including all of the short wavelength VCSEL lasers, at our wafer fabrication facility in Allen, Texas and manufacture a portion of our internal requirements for longer wavelength lasers at our wafer fabrication facility in Fremont, California. We assemble and test most of our transceiver products at our facility in Ipoh, Malaysia. As a result of this vertical integration, we have become increasingly dependent on our internal production capabilities. The manufacture of critical components, including the fabrication of wafers, and the assembly and testing of our products, involve highly complex processes. For example, minute levels of contaminants in the manufacturing environment, difficulties in the fabrication process or other factors can cause a substantial portion of the components on a wafer to be nonfunctional. These problems may be difficult to detect at an early stage of the manufacturing process and often are time-consuming and expensive to correct. From time to time, we have experienced problems achieving acceptable yields at our wafer fabrication facilities, resulting in delays in the availability of components. Moreover, an increase in the rejection rate of products during the quality control process before, during or after manufacture, results in lower yields and margins. In addition, changes in manufacturing processes required as a result of changes in product specifications, changing customer needs and the introduction of new product lines have historically significantly reduced our manufacturing yields, resulting in low or negative margins on those products. Poor manufacturing yields over a prolonged period of time could adversely affect our ability to deliver our subsystem products to our customers and could also affect our sale of components to customers in the merchant market. Our inability to supply components to meet our internal needs could harm our relationships with customers and have an adverse effect on our business.

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

We derive all of our revenue from sales of our optical subsystems and components. Accordingly, widespread acceptance of these products is critical to our future success. If the market does not continue to accept our optical subsystems and components, our revenues will decline significantly. Our future success also ultimately depends on the continued growth of the communications industry and, in particular, the continued expansion of global information networks, particularly those directly or indirectly dependent upon a fiber optics infrastructure. As part of that growth, we are relying on increasing demand for voice, video and other data delivered over high-bandwidth network systems as well as commitments by network systems vendors to invest in the expansion of the global information network. As network usage and bandwidth demand increase, so does the need for advanced optical networks to provide the required bandwidth. Without network and bandwidth growth, the

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need for optical subsystems and components, and hence our future growth as a manufacturer of these products, will be jeopardized, and our business would be significantly harmed.

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

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

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

The markets in which we have historically sold our optical subsystems and components products are dominated by a relatively small number of systems manufacturers, thereby limiting the number of our potential customers. Recent consolidation of portions of our customer base, including 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 communication and telecommunication networks. Our future performance will depend on the successful development, introduction and market acceptance of new and enhanced products that address these changes as well as current and potential customer requirements. For example, the market for optical subsystems is currently characterized by a trend toward the adoption of “pluggable” modules and subsystems that do not require customized interconnections and by the development of more complex and integrated optical subsystems. We expect that new technologies will emerge as competition

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

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

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

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

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

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

The market for optical subsystems is characterized by declining average selling prices resulting from factors such as increased competition, overcapacity, the introduction of new products and increased unit volumes as manufacturers continue to deploy network and storage systems. We have in the past experienced, and in the future may experience, substantial period-to-period fluctuations in operating results due to declining average selling prices. We anticipate that average selling prices will decrease in the future in response to product introductions by competitors or us, or by other factors, including pricing pressures from significant customers. In particular, we typically conduct pricing negotiations for our existing products with some of our largest telecommunications OEM customers in the last several months of the calendar year. Decreases in our average selling prices resulting from these negotiations typically become effective at the beginning of the next calendar year and generally have an adverse impact on our gross margins in future quarters. 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.

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

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

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

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

The period of time between our initial contact with a customer and the receipt of an actual purchase order may span a year or more. During this time, customers may perform, or require us to perform, extensive and lengthy evaluation and testing of our products before purchasing and using the products in their equipment. These products often take substantial time to develop because of their complexity and because customer specifications sometimes change during the development cycle. Our customers do not typically share information on the duration or magnitude of these qualification procedures. The length of these qualification processes also may vary substantially by product and customer, and, thus, cause our results of operations to be unpredictable. While our potential customers are qualifying our products and before they place an order with us, we may incur substantial research and development and sales and marketing expenses and expend significant management effort. Even after incurring such costs we ultimately may not sell any products to such potential customers. In addition, these qualification processes often make it difficult to obtain new customers, as customers are reluctant to expend the resources necessary to qualify a new supplier if they have one or more existing qualified sources. Once our products have been qualified, the agreements that we enter into with our customers typically contain no minimum purchase commitments. Failure of our customers to incorporate our products into their systems would significantly harm our business.

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 occur and could also be costly to resolve.

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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 Singapore, Korea, Sweden and Denmark. 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:

- 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, the Israeli shekel, the Swedish krona, the Korean won, the Norwegian krone and the Danish krone. As a result, we bear the risk that the rate of inflation in one or more countries will exceed the rate of the devaluation of that country's currency in relation to the U.S. dollar, which would increase our costs as expressed in U.S. dollars. To date, we have not engaged in currency hedging transactions to decrease the risk of financial exposure from fluctuations in foreign exchange rates.

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

Like other U.S. companies, our business and operating results are subject to uncertainties arising out of the continuing threat of terrorist attacks on the United States and ongoing military actions in the Middle East, including the economic consequences of the war in Afghanistan 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 Ignis 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.

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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.

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 with the exception of the recently completed acquisition of Ignis. We cannot assure you that we will be successful in overcoming problems encountered in connection with the recent Ignis acquisition or potential future acquisitions, and our inability to do so could significantly harm our business. In addition, to the extent that the economic benefits associated with the Ignis acquisition or any of our future acquisitions diminish in the future, we may be required to record additional write downs of goodwill, intangible assets or other assets associated with such acquisitions, which would adversely affect our operating results.

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

Since inception we have made minority equity investments in a number of early-stage technology companies, totaling approximately $61.9 million. Our investments in these early stage companies were primarily motivated by our desire to gain early access to new technology. We intend to review additional opportunities to make strategic equity investments in pre-public companies where we believe such investments will provide us with opportunities to gain access to important technologies or otherwise enhance important commercial relationships. We have little or no influence over the early-stage companies in which we have made or may make these strategic, minority equity investments. Each of these investments in pre-public companies involves a high degree of risk. We may not be successful in achieving the financial, technological or commercial advantage upon which any given investment is premised, and failure by the early-stage company to achieve its own business objectives or to raise capital needed on acceptable economic terms could result in a loss of all or part of our invested capital. Between fiscal 2003 and 2010, we wrote off an aggregate of $25.6 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 October 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.

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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 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 that such use, alone or in combination with other products, infringes proprietary rights of third parties could result in indemnification obligations to our customers and/or cause users to choose to not or be required to not utilize our products in such combination, which could harm our sales of such products. Any claims, against us or any use of our products, with or without merit, could be time-consuming, result in costly litigation, divert the efforts of our technical and management personnel, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could significantly harm our business. In addition, our agreements with our customers typically require us to indemnify our customers from any expense or liability resulting from claimed infringement of third party intellectual property rights. In the event a claim against us was successful and we could not obtain a license to the relevant technology on acceptable terms or license a substitute technology or redesign our products to avoid infringement, our business would be significantly harmed.

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

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

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

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

Several securities class action lawsuits were filed against us and our Chairman of the Board, Chief Executive Officer and Chief Financial Officer following our March 8, 2011 announcement of unaudited financial results for the third quarter of fiscal 2011 and our financial outlook for the fourth quarter. We also have been named as a nominal defendant in several shareholder derivative lawsuits filed in 2011 concerning our March 8, 2011 earnings announcement and filed in 2007 concerning the granting of stock options.

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 consolidated and lead plaintiffs have been appointed to file a consolidated complaint.

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.

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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 to the District Court for further proceedings.

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, floods, 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 and our principal manufacturing operations and those of most of our key suppliers and contract manufacturers are located in Asia. These areas have been vulnerable to natural disasters, such as earthquakes, floods and fires, and other risks which at times have disrupted the local economy and posed physical risks to our property. We are also dependent on communications links with our overseas manufacturing locations and would be significantly harmed if these links were interrupted for any significant length of time. We presently do not have adequate redundant, multiple site capacity if any of these events were to occur, nor can we be certain that the insurance we maintain against these events would be adequate.

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

As of October 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;

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- 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 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 6. Exhibits

The exhibits listed in the Exhibit Index are filed as part of this report (see page 45).

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SIGNATURES

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

FINISAR CORPORATION

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

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

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

Dated: December 8, 2011

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EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 31.1 | Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Co-Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.3 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chairman of the Board Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.3 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase |

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