OCLARO, INC.
Form 10-Q
November 06, 2014


UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2014

OR

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

For the transition period from to

Commission file number 000-30684

OCLARO, INC.
(Exact name of registrant as specified in its charter)

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

2560 Junction Avenue, San Jose, California 95134
(Address of principal executive offices, zip code)
(408) 383-1400
(Registrant's telephone number, including area code)

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

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

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

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

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

108,671,361 shares of common stock outstanding as of October 31, 2014

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

OCLARO, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | September 27, 2014 | June 28, 2014 |
|---|---|---|
| | (Thousands, except par value) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $89,309 | $98,973 |
| Restricted cash | 4,658 | 5,055 |
| Short-term investments | 77 | 95 |
| Accounts receivable, net of allowances for doubtful accounts and sales returns of $2,561 and $579 as of September 27, 2014, respectively, and $2,750 and $579 as of June 28, 2014, respectively, and including $1,487 and $2,706 due from related parties as of September 27, 2014 and June 28, 2014, respectively | 74,706 | 82,872 |
| Inventories | 71,099 | 71,099 |
| Prepaid expenses and other current assets | 42,230 | 45,275 |
| Assets held for sale | 16,927 | — |
| Total current assets | 299,006 | 303,369 |
| Property and equipment, net | 44,285 | 50,768 |
| Other intangible assets, net | 3,254 | 8,536 |
| Other non-current assets | 2,735 | 3,012 |
| Total assets | $349,280 | $365,685 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable, including $4,544 and $4,483 due to related parties at September 27, 2014 and June 28, 2014, respectively | $60,492 | $71,283 |
| Accrued expenses and other liabilities | 61,434 | 51,492 |
| Capital lease obligations, current | 4,756 | 5,387 |
| Liabilities in connection with the sale | 10,228 | — |
| Total current liabilities | 136,910 | 128,162 |
| Deferred gain on sale-leaseback | 10,010 | 10,711 |
| Capital lease obligations, non-current | 3,052 | 4,539 |
| Other non-current liabilities | 11,631 | 14,345 |
| Total liabilities | 161,603 | 157,757 |
| Commitments and contingencies (Note 8) | | |
| Stockholders' equity: | | |
| Preferred stock: 1,000 shares authorized; none issued and outstanding | — | — |
| Common stock: $0.01 par value per share; 175,000 shares authorized; 108,671 shares issued and outstanding at September 27, 2014 and 107,779 shares issued and outstanding at June 28, 2014 | 1,087 | 1,077 |
| Additional paid-in capital | 1,459,805 | 1,458,487 |
| Accumulated other comprehensive income | 44,639 | 45,864 |
| Accumulated deficit | (1,317,854) | (1,297,500) |
| Total stockholders' equity | 187,677 | 207,928 |
| Total liabilities and stockholders' equity | $349,280 | $365,685 |

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

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OCLARO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended | |
|---|---|---|
| | September 27, 2014 | September 28, 2013 |
| | (Thousands, except per share amounts) | |
| Revenues, including $1,177 and $1,311 from related parties for the three months ended September 27, 2014 and September 28, 2013, respectively | $89,241 | $96,648 |
| Cost of revenues | 74,832 | 85,430 |
| Gross profit | 14,409 | 11,218 |
| Operating expenses: | | |
| Research and development | 13,913 | 18,087 |
| Selling, general and administrative | 15,414 | 20,950 |
| Amortization of other intangible assets | 418 | 424 |
| Restructuring, acquisition and related (income) expense, net | 1,730 | 2,877 |
| Loss on sale of property and equipment | 397 | 452 |
| Total operating expenses | 31,872 | 42,790 |
| Operating loss | (17,463) | (31,572) |
| Other income (expense): | | |
| Interest income (expense), net | (104) | (553) |
| Gain (loss) on foreign currency transactions, net | (2,010) | 1,777 |
| Other income (expense), net | 555 | 521 |
| Total other income (expense) | (1,559) | 1,745 |
| Loss from continuing operations before income taxes | (19,022) | (29,827) |
| Income tax provision | 954 | 302 |
| Loss from continuing operations | (19,976) | (30,129) |
| Income (loss) from discontinued operations, net of tax | (378) | 63,407 |
| Net income (loss) | $(20,354) | $33,278 |
| Basic and diluted net income (loss) per share: | | |
| Loss per share from continuing operations | $(0.19) | $(0.33) |
| Income per share from discontinued operations | — | 0.70 |
| Basic and diluted net income (loss) per share | $(0.19) | $0.37 |
| Shares used in computing net income (loss) per share: | | |
| Basic | 107,249 | 90,966 |
| Diluted | 107,249 | 90,966 |

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

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OCLARO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

| | Three Months Ended | |
|---|---|---|
| | September 27, 2014 | September 28, 2013 |
| | (Thousands) | |
| Net income (loss) | $(20,354) | $33,278 |
| Other comprehensive income (loss): | | |
| Unrealized loss on marketable securities | (19) | (30) |
| Currency translation adjustments | (1,709) | (2,887) |
| Pension adjustment, net of tax benefits | 503 | 5,817 |
| Total comprehensive income (loss) | $(21,579) | $36,178 |

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

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OCLARO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three Months Ended | |
|---|---|---|
| | September 27, 2014 | September 28, 2013 |
| | (Thousands) | |
| Cash flows from operating activities: | | |
| Net income (loss) | $(20,354) | $33,278 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Amortization of deferred gain on sale-leaseback | (238) | (526) |
| Amortization and write-off of issuance costs in connection with term loan | — | 4,293 |
| Gain on sale of Zurich Business | — | (62,812) |
| Loss on sale of property and equipment | 397 | — |
| Depreciation and amortization | 5,122 | 8,838 |
| Stock-based compensation expense | 1,286 | 1,151 |
| Other non-cash adjustments | 15 | 344 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 2,531 | (847) |
| Inventories | (6,603) | 403 |
| Prepaid expenses and other current assets | (117) | (15,707) |
| Other non-current assets | (6) | 251 |
| Accounts payable | (1,632) | 16,009 |
| Accrued expenses and other liabilities | 13,910 | (2,226) |
| Net cash used in operating activities | (5,689) | (17,551) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (4,693) | (1,416) |
| Proceeds from sale of Amplifier Business | — | 5,000 |
| Proceeds from sale of Zurich Business | — | 90,618 |
| Transfer from restricted cash | 393 | 175 |
| Net cash provided by (used in) investing activities | (4,300) | 94,377 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock, net | 1 | 8 |
| Payments on capital lease obligations | (1,094) | (1,321) |
| Repayments on borrowings under credit line and term loan | — | (64,964) |
| Net cash used in financing activities | (1,093) | (66,277) |
| Effect of exchange rate on cash and cash equivalents | 1,418 | (3,197) |
| Net increase (decrease) in cash and cash equivalents | (9,664) | 7,352 |
| Cash and cash equivalents at beginning of period | 98,973 | 84,635 |
| Cash and cash equivalents at end of period | $89,309 | $91,987 |

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

OCLARO, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

## NOTE 1. BASIS OF PREPARATION

### Basis of Presentation

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

On August 5, 2014, we entered into a separation agreement to sell our industrial and consumer business of Oclaro Japan located at our Komoro, Japan facility to Ushio Opto Semiconductors, Inc. ("Ushio Opto"). On October 27, 2014, the sale was completed. The assets and liabilities to be transferred to Ushio Opto within the next 12 months are classified as assets held for sale and liabilities in connection with the sale within current assets and current liabilities, respectively, on the condensed consolidated balance sheet at September 27, 2014. The transaction is more fully discussed in Note 5, Business Combinations and Dispositions.

On November 1, 2013, we sold our optical amplifier and micro-optics business (the “Amplifier Business”) to II-VI Incorporated (II-VI). The sale is more fully discussed in Note 5, Business Combinations and Dispositions. On September 12, 2013, we sold our Oclaro Switzerland GmbH subsidiary and associated laser diodes and pump business (the “Zurich Business”) to II-VI. The sale is more fully discussed in Note 5, Business Combinations and Dispositions. These sales are reported as discontinued operations, which require retrospective restatement of prior periods to classify the results of operations as discontinued operations. The notes to our condensed consolidated financial statements relate to our continuing operations only, unless otherwise indicated.

The accompanying unaudited condensed consolidated financial statements of Oclaro as of September 27, 2014 and for the three months ended September 27, 2014 and September 28, 2013 have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Article 10 of Securities and Exchange Commission ("SEC") Regulation S-X, and include the accounts of Oclaro and all of our subsidiaries. Accordingly, they do not include all of the information and footnotes required by such accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our consolidated financial position and results of operations have been included. The condensed consolidated results of operations for the three months ended September 27, 2014 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending June 27, 2015.

The condensed consolidated balance sheet as of June 28, 2014 has been derived from our audited financial statements as of such date, but does not include all disclosures required by U.S. GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with our audited financial statements included in our Annual Report on Form 10-K for the year ended June 28, 2014 ("2014 Form 10-K").

### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported periods. Examples of significant estimates and assumptions made by management involve the fair value of other intangible assets and long-lived assets, valuation allowances for deferred tax assets, the fair value of stock-based compensation, estimates used to determine facility lease loss liabilities, estimates for allowances for doubtful accounts, and valuation of excess and obsolete inventories. These judgments can be subjective and complex and consequently actual results could differ materially from those estimates and assumptions. Descriptions of the key estimates and assumptions are included in our 2014 Form 10-K.

### Out-of-Period Adjustment

In the first quarter of fiscal 2015, we recorded out-of-period adjustments of approximately $2.0 million in cost of goods sold in our condensed consolidated statements of operations. The adjustments, which increased cost of goods sold, also increased accrued liabilities and decreased inventory, and were made to correct our inventory valuation and the value of our purchase commitment accrual.  We determined that the adjustments did not have a material impact to our current or prior period consolidated financial statements.

Fiscal Years
We operate on a 52/53 week year ending on the Saturday closest to June 30. Our fiscal year ending June 27, 2015 will be a 52 week year, with the quarter ended September 27, 2014 being a 13 week quarterly period. Our fiscal year ended June 28, 2014 was a 52 week year, with the quarter ended September 28, 2013 being a 13 week quarterly period.
Reclassifications
For presentation purposes, we have reclassified certain prior period amounts to conform to the current period financial statement presentation. These reclassifications did not affect our consolidated revenues, net income (loss), cash flows, cash and cash equivalents or stockholders' equity as previously reported.

NOTE 2. RECENT ACCOUNTING STANDARDS
In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, Presentation of Financial Statements—Going Concern. The update provides U.S. GAAP guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. This guidance is effective for us beginning with our annual financial statements for the fiscal year ended July 1, 2017, and interim periods thereafter. We are currently evaluating the impact that the implementation of this standard will have on our condensed consolidated financial statements.
In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This update clarifies the principles for recognizing revenue and develops a common revenue standard for GAAP and International Financial Reporting Standards. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016. This guidance is effective for us prospectively in the first quarter of fiscal year 2018. We are currently evaluating the impact that the implementation of this standard will have on our condensed consolidated financial statements.
In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This update requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's financial results be reported as discontinued operations. The standard also expands the disclosures for discontinued operations and requires new disclosures related to individually material disposals that do not meet the definition of a discontinued operation. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2014. We have elected to early adopt this guidance in our first quarter of fiscal year 2015. In accordance with this guidance, our sale of the Komoro Business does not meet the definition of a discontinued operation. We consider this sale as an individually material disposal and have expanded our disclosures related to this transaction, including presenting the pre-tax profit (loss) of the Komoro Business for the three months ended September 27, 2014 and September 28, 2013, respectively.

NOTE 3. BALANCE SHEET DETAILS
The following table provides details regarding our cash and cash equivalents at the dates indicated:

| | September 27, 2014 | June 28, 2014 |
|---|---|---|
| | (Thousands) | |
| Cash and cash equivalents: | | |
| Cash-in-bank | $88,095 | $97,759 |
| Money market funds | 1,214 | 1,214 |
| | $89,309 | $98,973 |

As of September 27, 2014, we had restricted cash of $4.7 million, consisting of collateral for the performance of our obligations under certain lease facility agreements and $2.4 million (equivalent to RMB 15 million) of cash held in Oclaro Shenzhen's bank account in China that was frozen by the Xi'an Court in connection with our litigation with

Xi’an Raysung Photonics Inc. (see Note 8, Commitments and Contingencies, for additional details regarding this litigation.)

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

| | September 27, 2014 | June 28, 2014 |
|---|---|---|
| | (Thousands) | |
| Inventories: | | |
| Raw materials | $21,630 | $20,036 |
| Work-in-process | 22,942 | 20,505 |
| Finished goods | 30,841 | 30,558 |
| | $75,413 | $71,099 |

In connection with our sale of the Komoro Business, we reclassified $4.3 million of the $75.4 million in inventories as assets held for sale in our condensed consolidated balance sheet at September 27, 2014.

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

| | September 27, 2014 | June 28, 2014 |
|---|---|---|
| | (Thousands) | |
| Property and equipment, net: | | |
| Buildings and improvements | $11,764 | $12,989 |
| Plant and machinery | 33,297 | 47,247 |
| Fixtures, fittings and equipment | 5,074 | 9,701 |
| Computer equipment | 12,982 | 13,723 |
| | 63,117 | 83,660 |
| Less: Accumulated depreciation | (15,461) | (32,892) |
| | $47,656 | $50,768 |

In connection with our sale of the Komoro Business, we reclassified $3.4 million of the $47.7 million in property and equipment as assets held for sale in our condensed consolidated balance sheet at September 27, 2014.

Property and equipment includes assets under capital leases of $7.8 million (excluding $0.5 million in capital leases classified as assets held for sale) at September 27, 2014 and $9.9 million at June 28, 2014, respectively. Amortization associated with assets under capital leases is recorded in depreciation expense.

The following table summarizes the activity related to our other intangible assets for the three months ended September 27, 2014:

| | Core and Current Technology | Development and Supply Agreements | Customer Relationships | Patent Portfolio | Other Intangibles | Amortization | Total |
|---|---|---|---|---|---|---|---|
| | (Thousands) | | | | | | |
| Balance at June 28, 2014 | $8,267 | $ 4,660 | $ 5,143 | $915 | $3,338 | $ (13,787) | $8,536 |
| Held for sale in connection with the transfer of the Komoro Business | (1,926) | (2,559) | — | — | — | — | (4,485) |
| Amortization | — | — | — | — | — | (418) | (418) |
| Translations and adjustments | (141) | (41) | (197) | — | — | — | (379) |
| Balance at September 27, 2014 | $6,200 | $ 2,060 | $ 4,946 | $915 | $3,338 | $ (14,205) | $3,254 |

In connection with the sale of our Komoro Business, we intend to transfer certain of our other intangible assets to Ushio Opto. We have classified $4.5 million of our other intangible assets as assets held for sale in our condensed consolidated balance sheet at September 27, 2014.

With the sale of our Komoro Business, we expect the amortization of intangible assets to be $0.9 million for fiscal year 2015, $0.8 million for each fiscal year 2016 through 2017, $0.7 million for fiscal year 2018, $0.1 million for fiscal year 2019 and $0.1 million thereafter, based on the current level of our other intangible assets as of

September 27, 2014.

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

| | September 27, 2014 | June 28, 2014 |
|---|---|---|
| | (Thousands) | |
| Accrued expenses and other liabilities: | | |
| Trade payables | $32,090 | $18,612 |
| Compensation and benefits related accruals | 9,977 | 10,242 |
| Warranty accrual | 4,054 | 4,672 |
| Accrued restructuring, current | 1,630 | 2,220 |
| Other accruals | 15,647 | 15,746 |
| | $63,398 | $51,492 |

In connection with our sale of the Komoro Business, we reclassified $2.0 million of the $63.4 million in accrued expenses and other liabilities as liabilities in connection with the sale in our condensed consolidated balance sheet at September 27, 2014.

The following table summarizes the activity related to our accrued restructuring charges for the three months ended September 27, 2014:

| | Lease Cancellations, Commitments and Other Charges | Termination Payments to Employees and Related Costs | Total Accrued Restructuring Charges |
|---|---|---|---|
| | (Thousands) | | |
| Balance at June 28, 2014 | $1,881 | $962 | $2,843 |
| Charged to restructuring costs | 654 | 1,076 | 1,730 |
| Paid or written-off | (1,250) | (1,693) | (2,943) |
| Balance at September 27, 2014 | $1,285 | $345 | $1,630 |
| Current portion | 1,285 | 345 | 1,630 |
| Non-current portion | — | — | — |

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

During the first quarter of fiscal year 2014, we initiated a restructuring plan to simplify our operating footprint, reduce our cost structure and focus our research and development investment in the optical communications market where we can leverage our core competencies. During the three months ended September 27, 2014 and September 28, 2013, we recorded restructuring charges of $0.8 million and $0.2 million, respectively, in connection with this restructuring plan. The restructuring charges for the three months ended September 27, 2014 included $0.2 million related to workforce reductions and $0.6 million related to revised estimates related to lease cancellations and commitments. The restructuring charges for the three months ended September 28, 2013 related to workforce reductions in our research and development facility in Israel. During the three months ended September 27, 2014 and September 28, 2013, we made scheduled payments of $1.4 million and $2.0 million, respectively, to settle a portion of these restructuring liabilities. As of September 27, 2014, we had $1.4 million in accrued restructuring liabilities related to this restructuring plan.

In connection with the acquisition of Opnext, we initiated a restructuring plan to integrate our acquisition of Opnext. During the three months ended September 27, 2014 and September 28, 2013, we recorded restructuring charges of zero and $0.9 million, respectively, in connection with this restructuring plan. The restructuring charges recorded in fiscal year 2014 included $0.9 million in external consulting charges and professional fees associated with reorganizing the infrastructure. During the three months ended September 28, 2013, we made scheduled payments of $2.0 million to settle these restructuring liabilities. As of September 27, 2014, we had no further accrued restructuring liabilities related to this restructuring plan.

During fiscal year 2012, we initiated a restructuring plan in connection with the transfer of a portion of our Shenzhen, China manufacturing operations to Venture Corporation Limited ("Venture"). This transition is scheduled to occur in a phased and gradual transfer of certain products, which is scheduled to be completed in fiscal year 2015. In connection with this transition, during the three months ended September 27, 2014 and September 28, 2013, we recorded restructuring charges related to employee separation charges of $0.9 million and $1.0 million, respectively. During the three months ended September 27, 2014

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and September 28, 2013, we made scheduled payments of $1.3 million and $0.5 million,, respectively, to settle a portion of these restructuring liabilities. As of September 27, 2014, we had $0.2 million in accrued restructuring liabilities related to this restructuring plan.

We expect to incur an additional $3.0 million to $9.0 million, in aggregate, in restructuring charges over the course of the next year in connection with these restructuring plans.

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

| | September 27, 2014 | | June 28, 2014 | |
|---|---|---|---|---|
| | (Thousands) | | | |
| Accumulated other comprehensive income: | | | | |
| Currency translation adjustments | $44,781 | | $46,490 | |
| Unrealized loss on marketable securities | (228 | ) | (209 | ) |
| Japan defined benefit plan | 86 | | (417 | ) |
| | $44,639 | | $45,864 | |

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

NOTE 4. FAIR VALUE

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

We apply the following fair value hierarchy, which ranks the quality and reliability of the information used to determine fair values:

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

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

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

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

During the first quarter of fiscal year 2014, we had a contingent obligation related to the make-whole premium on our convertible notes, which was valued using a valuation model which estimated the value based on the probability and timing of conversion. The contingent obligation was classified within Level 3 of the fair value hierarchy. During the three months ended September 28, 2013, we recorded a $0.6 million fair value adjustment to the the contingent obligation, increasing the value of the contingent obligation to $0.7 million as of September 28, 2013. During the second quarter of fiscal year 2014, the holders of the convertible notes exercised their rights to exchange the convertible notes for common stock, and settled the make-whole premium.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are shown in the table below by their corresponding balance sheet caption and consisted of the following types of instruments at September 27, 2014:

| | Fair Value Measurement at Reporting Date Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) (Thousands) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets: | | | | |
| Cash and cash equivalents: [1] | | | | |
| Money market funds | $1,214 | $— | $— | $1,214 |
| Short-term investments: | | | | |
| Marketable securities | 77 | — | — | 77 |
| Total assets measured at fair value | $1,291 | $— | $— | $1,291 |

[1] Excludes $88.1 million in cash held in our bank accounts at September 27, 2014.

NOTE 5. BUSINESS COMBINATIONS AND DISPOSITIONS

Sale of Komoro, Japan Industrial and Consumer Business ("Komoro Business")

On August 5, 2014, Oclaro Japan, Inc., our wholly-owned subsidiary (“Oclaro Japan”), entered into a Master Separation Agreement (“MSA”) with Ushio Opto and Ushio, Inc. (“Ushio”), whereby Ushio Opto agreed to acquire the industrial and consumer business of Oclaro Japan located at its Komoro, Japan facility (the “Komoro Business”), by means of an absorption-type demerger under the Japanese Companies Act (such transaction, the “Transaction”). On October 27, 2014, the sale was completed. Consideration for the Transaction consisted of 1.85 billion Japanese yen (approximately $17.1 million based on the exchange rate on October 27, 2014) in cash, of which 1.6 billion Japanese yen (approximately $14.8 million based on the exchange rate on October 27, 2014) was paid at the closing and 250 million Japanese yen (approximately $2.3 million) was paid into escrow and will be released to Oclaro Japan upon the earlier of six months after the closing or the completion by Oclaro Japan of certain transition services, subject to a net asset valuation adjustment post-closing and after deduction for any indemnification amounts determined to be owed to Ushio Opto prior to release of the funds from escrow.

At the closing of the Transaction, Oclaro Japan and Ushio Opto entered into certain transition services and reciprocal services agreements to allow the Komoro Business to continue operations during the ownership transition, as well as an intellectual property agreement. Ushio has guaranteed the performance of Ushio Opto’s obligations under the MSA. Oclaro Japan, Ushio Opto and Ushio each provided customary and reciprocal representations, warranties and covenants in the MSA.

We have recorded the assets and liabilities that we are transferring to Ushio Opto in connection with our sale of the Komoro Business as assets held for sale and liabilities in connection with the sale at September 27, 2014, and consist of the following:

| Assets Held for Sale | September 27, 2014 (Thousands) |
|---|---|
| Accounts receivable, net | $3,503 |
| Inventories | 4,314 |
| Prepaid expenses and other current assets | 1,254 |
| Property and equipment, net | 3,371 |
| Other intangible assets | 4,485 |

$16,927

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| Liabilities in Connection with the Sale | September 27, 2014 (Thousands) |
|---|---|
| Accounts payable | $5,866 |
| Accrued expenses, other liabilities and capital lease obligations, current | 2,119 |
| Other non-current liabilities | 2,243 |
| | $10,228 |

The income from continuing operations before income taxes attributable to the Komoro Business was $1.6 million and $1.7 million for the three months ended September 27, 2014 and September 28, 2013, respectively.

Sale of Amplifier Business

On October 10, 2013, Oclaro Technology Limited entered into an Asset Purchase Agreement with II-VI, whereby Oclaro Technology Limited agreed to sell to II-VI and certain of its affiliates its Amplifier Business for $88.6 million in cash. The transaction closed on November 1, 2013. Consideration, valued at $88.6 million consists of $79.6 million in cash, which was received on November 1, 2013, $4.0 million subject to hold-back by II-VI until December 31, 2014 to address any post-closing claims and $5.0 million related to the exclusive option, which was received on September 12, 2013 and was credited against the purchase price upon closing of the sale.

We classified the sale of our Amplifier Business as a discontinued operation as of September 12, 2013, the date we committed to sell the business. As of September 27, 2014, we had a $4.0 million receivable in prepaid expenses and other current assets from II-VI related to the hold-back for potential post-closing adjustments or claims.
The following table presents the statements of operations for the discontinued operations of the Amplifier Business:

| | Three Months Ended | |
|---|---|---|
| | September 27, 2014 | September 28, 2013 |
| | (Thousands) | |
| Revenues | $— | $28,316 |
| Cost of revenues | — | 20,715 |
| Gross profit | — | 7,601 |
| Operating expenses | 215 | 4,068 |
| Other income (expense), net | — | — |
| Income (loss) from discontinued operations before income taxes | (215) | 3,533 |
| Income tax provision | — | — |
| Income (loss) from discontinued operations | $(215) | $3,533 |

This acquisition is more fully discussed in Note 3, Business Combinations and Dispositions, to our consolidated financial statements included in our 2014 Form 10-K.
Sale of Zurich Business
On September 12, 2013, we completed a share and asset purchase agreement with II-VI, pursuant to which we sold our Oclaro Switzerland GmbH subsidiary and associated laser diodes and pump business to II-VI. We received proceeds of $90.6 million in cash on September 12, 2013, and $2.9 million in cash during the third quarter of fiscal year 2014 which related to a final settlement of the post-closing working capital adjustment. We will also receive an additional $6.0 million subject to hold-back by II-VI until December 31, 2014 to address any post-closing adjustments or claims. In addition, we retained approximately $14.7 million in accounts receivable related to the Zurich Business and approximately $9.6 million of supplier and employee related payables related to the Zurich Business which were not included in the Zurich subsidiary.

As part of the agreement, II-VI purchased our Swiss subsidiary, which includes its GaAs fabrication facility, and also the corresponding high power laser diodes, VCSEL and 980 nm pump laser product lines, including intellectual property, inventory, equipment and a related research and development facility in Tucson, all of which are associated with the business. Also, as part of the agreement, II-VI purchased certain pieces of equipment which are located in our Caswell facility. We continue to operate this equipment on behalf of II-VI, and provide certain wafer processing services in Caswell as part of an ongoing manufacturing services agreement.

We classified the sale of our Zurich Business as a discontinued operation as of September 12, 2013. In connection with this transaction, we transferred $31.4 million in net assets to II-VI and incurred approximately $4.9 million in legal fees, commissions and other administrative costs. During the three months ended September 28, 2013, we initially recognized a gain of $62.8 million. In the third quarter of fiscal year 2014, we recorded an additional $0.4 million primarily related to the final settlement of the post-closing working capital adjustment.

In connection with the sale of our Zurich Business, during the first quarter of fiscal year 2014, we recorded $3.1 million in income from discontinued operations within the condensed consolidated statement of operations related to the cumulative translation adjustment from deconsolidating our Swiss subsidiary. As of September 27, 2014, we recorded a $6.0 million receivable in prepaid expenses and other current assets from II-VI related to the hold-back for potential post-closing adjustments or claims.

The following table presents the statements of operations for the discontinued operations of the Zurich Business:

| | Three Months Ended | |
|---|---|---|
| | September 27, 2014 | September 28, 2013 |
| | (Thousands) | |
| Revenues | $— | $13,896 |
| Cost of revenues | 163 | 11,593 |
| Gross profit | (163) | 2,303 |
| Operating expenses | — | 3,416 |
| Other income (expense), net | — | 61,150 |
| Income (loss) from discontinued operations before income taxes | (163) | 60,037 |
| Income tax provision | — | 163 |
| Income (loss) from discontinued operations | $(163) | $59,874 |

This acquisition is more fully discussed in Note 3, Business Combinations and Dispositions, to our consolidated financial statements included in our 2014 Annual Report on Form 10-K.

NOTE 6. CREDIT LINE AND NOTES

Silicon Valley Bank Credit Facility

On March 28, 2014, Oclaro, Inc. and its subsidiary, Oclaro Technology Limited (the “Borrower”), entered into a loan and security agreement (the “Loan Agreement”) with Silicon Valley Bank (the “Bank”) pursuant to which the Bank provided the Borrower with a three-year revolving credit facility of up to $40.0 million. Under the Loan Agreement, advances are available based on up to 80 percent of “eligible accounts” as defined in the Loan Agreement. The Loan Agreement has a $10.0 million sub-facility for letters of credit, foreign exchange contracts and cash management services.

Borrowings made under the Loan Agreement bear interest at a rate based on either the London Interbank Offered Rate plus 2.25 percent or Wall Street Journal’s prime rate plus 1.00 percent. If the sum of (a) the Borrower’s unrestricted cash and cash equivalents that are subject to the Bank’s liens less (b) the amount outstanding to the Bank under the Loan Agreement (such sum being “Net Cash”) is less than $15.0 million, then the interest rates are increased by 0.75 percent until Net Cash exceeds $15.0 million for a calendar month. If interest paid under the Loan Agreement is less than $45,000 in any fiscal quarter, the Borrower is required to pay the Bank an additional amount equal to the difference between $45,000 and the actual interest paid during such fiscal quarter. The minimum interest payment is in lieu of a stand-by charge.

If the Loan Agreement terminates prior to its maturity date, the Borrower will pay a termination fee equal to 1.00 percent of the total credit facility if such termination occurs in the first year after closing, 0.75 percent of the total credit facility if such

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termination occurs in the second year after closing and 0.50 percent of the total credit facility if such termination occurs in the third year after closing. The maturity date of the Loan Agreement is March 28, 2017. At September 27, 2014, there were no amounts outstanding under the Loan Agreement.

The Loan Agreement is more fully discussed in Note 7, Credit Line and Notes, to our consolidated financial statements included in our 2014 Form 10-K.

Wells Fargo Credit Line and Term Loan

On August 2, 2006, Oclaro, Inc. ("Parent"), along with Oclaro Technology Limited ("Borrower"), Oclaro Photonics, Inc. and Oclaro Technology, Inc., each a wholly-owned subsidiary, entered into a Credit Agreement with Wells Fargo Capital Finance, Inc. ("Wells Fargo") and certain other lenders (the "Credit Agreement").

From time to time, we amended and restated the Credit Agreement, before terminating the agreement on March 14, 2014. The Credit Agreement is more fully discussed in Note 7, Credit Line and Notes, to our consolidated financial statements included in our 2014 Form 10-K.

On May 6, 2013, Wells Fargo and Silicon Valley Bank (collectively, the "Lenders"), Parent, Borrower, Wells Fargo ("Agent") and PECM Strategic Funding LP and Providence TMT Debt Opportunity Fund II LP (the "Term Lenders") entered into Amendment Number Two to the Credit Agreement and the associated guaranties and security agreements (the "Amendment"), which amended the Credit Agreement in pertinent part by adding a $25.0 million term loan (the "Term Loan") to be provided by the Term Lenders; adding an affirmative covenant that Borrower shall have consummated one or more asset sales by July 15, 2013 with a minimum threshold of net proceeds; and providing for payments and proceeds of asset sales to be applied to repay the credit facility and the Term Loan. In connection with the Term Loan, we also issued certain warrants.

On August 21, 2013, Parent, Borrower, Agent, and the Lenders entered into Waiver and Amendment Number Three to the Credit Agreement, which amended the Credit Agreement in pertinent part by extending the date by which the Borrower shall have consummated one or more asset sales with a minimum threshold of net proceeds to September 2, 2013. The Borrower paid the lenders an amendment fee of $650,000. On September 12, 2013, we completed the sale of the Zurich Business and applied the net proceeds to repay the entire credit line and Term Loan. The event of default resulting from not completing the transaction by September 2, 2013, was waived on September 26, 2013.

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

On December 14, 2012, we and our indirect, wholly owned subsidiary, Oclaro Luxembourg S.A., closed the private placement of $25.0 million aggregate principal amount 7.50 percent Exchangeable Senior Secured Second Lien Notes due 2018 ("Convertible Notes"). The sale of the Convertible Notes resulted in net proceeds of approximately $22.8 million. The private placement was completed pursuant to a purchase agreement, dated December 14, 2012 entered into by us, certain of our domestic and foreign subsidiaries (the "Guarantors") and Morgan Stanley & Co. LLC, which is more fully discussed in Note 7, Credit Line and Notes, to our consolidated financial statements included in our 2014 Form 10-K.

We considered the contingent obligation of having to make a make-whole payment in the event of an early conversion by the holders of the Convertible Notes as an embedded derivative. We estimated the fair value of the make-whole payment by using a valuation model to predict the probability and timing of a conversion. At September 28, 2013, the fair value of this contingent obligation was estimated at $0.7 million. In connection with the private placement of the Convertible Notes, we incurred approximately $1.3 million in debt discount and $0.9 million in issuance costs. During the three months ended September 28, 2013, we recorded $0.2 million in debt discount and issuance costs in our condensed consolidated statement of operations.

On December 19, 2013, the holders exercised their rights to exchange the Convertible Notes for our common stock. The exchange rate for the exchanges was 541.7118 shares of common stock per $1,000 in principal amount of Convertible Notes. We issued 13,542,791 shares of common stock in connection with the exchange, with cash payable in lieu of fractional shares. In addition, pursuant to the terms of the indenture governing the Convertible Notes, we made a redemption exchange make-whole payment of $8.3 million during the second quarter of fiscal year 2014.

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NOTE 7. POST-RETIREMENT BENEFITS

Switzerland Defined Benefit Plan

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

Japan Defined Contribution and Benefit Plan

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

Under the defined contribution plan, contributions are provided based on grade level and totaled $0.2 million and $0.2 million for the three months ended September 27, 2014 and September 28, 2013, respectively. Employees can elect to receive the benefit as additional salary or contribute the benefit to the plan on a tax-deferred basis.

Under the defined benefit plan in Japan (the "Japan Plan"), we calculate benefits based on an employee's individual grade level and years of service. Employees are entitled to a lump sum benefit upon retirement or upon certain instances of termination. As of September 27, 2014, there were no plan assets. Net periodic pension costs for the Japan Plan included the following:

| | Three Months Ended | |
|---|---|---|
| | September 27, 2014 | September 28, 2013 |
| | (Thousands) | |
| Service cost | $199 | $248 |
| Interest cost | 20 | 24 |
| Net amortization | 15 | 16 |
| Net periodic pension costs | $234 | $288 |

During the three months ended September 27, 2014, we recorded an adjustment of $0.5 million in accumulated other comprehensive income in connection with revising our methodology for estimating the actuarial present value of accumulated plan benefits under the Japan Plan.

We have $0.2 million in accrued expenses and other liabilities and $7.4 million in other non-current liabilities in our condensed consolidated balance sheet as of September 27, 2014, to account for the projected benefit obligations under the Japan Plan, of which a portion will be transferred as part of the sale of the Komoro Business.

We made benefit payments under the Japan plan of $0.3 million and $0.1 million during the three months ended September 27, 2014 and September 28, 2013, respectively.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Loss Contingencies

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

Guarantees

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

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

Warranty Accrual

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

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

| | Three Months Ended | |
|---|---|---|
| | September 27, 2014 | September 28, 2013 |
| | (Thousands) | |
| Warranty provision—beginning of period | $4,672 | $4,670 |
| Warranties issued | 129 | 972 |
| Warranties utilized or expired | (675) | (983) |
| Currency translation and other adjustments | (72) | 94 |
| Warranty provision—end of period | $4,054 | $4,753 |

Capital Leases

In connection with our acquisition of Opnext, we assumed certain capital leases with Hitachi Capital Corporation, a related party, for certain equipment. The terms of the leases generally range from one to five years and the equipment can be purchased at the residual value upon expiration. We can terminate the leases at our discretion in return for a penalty payment as stated in the lease contracts.

The following table shows the future minimum lease payments due under non-cancelable capital leases with Hitachi Capital Corporation, including $0.5 million in capital leases classified as liabilities in connection with the sale in our condensed consolidated balance sheet at September 27, 2014:

| | Capital Leases |
|---|---|
| | (Thousands) |
| Fiscal Year Ending: | |
| 2015 (remaining) | $4,789 |
| 2016 | 2,753 |
| 2017 | 1,073 |
| 2018 | 43 |
| 2019 | 28 |
| Thereafter | 78 |
| Total minimum lease payments | 8,764 |
| Less amount representing interest | (432) |
| Present value of capitalized payments | 8,332 |
| Less: current portion | (4,911) |
| Long-term portion | $3,421 |

Litigation

Overview

In the ordinary course of business, we are involved in various legal proceedings, and we anticipate that additional actions will be brought against us in the future. The most significant of these proceedings are described below. These legal proceedings, as

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

Raysung Commercial Litigation

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

Raysung initially requested that the court award damages of RMB 4,796,531 (equivalent to approximately $0.8 million at the exchange rate in effect September 27, 2014), and requested that Oclaro Shenzhen take the finished products that are now stored in Raysung's warehouse (the value of the finished product is RMB 13,505,162 (equivalent to approximately $2.2 million at the exchange rate in effect September 27, 2014) and requested that Oclaro Shenzhen pay its court fees in connection with this suit.

The Xi'an Court delivered an Asset Preservation Order which was served on Oclaro Shenzhen and the local Customs office. According to the Asset Preservation Order, Oclaro Shenzhen was ordered to maintain RMB 15,000,000 (equivalent to approximately $2.4 million  at the exchange rate in effect September 27, 2014) or assets equivalent to the said amount during the litigation process, and the Customs office was ordered to restrict Oclaro Shenzhen's equipment from being exported before the Asset Preservation Order is lifted. On November 11, 2013, Oclaro Shenzhen entered into a settlement agreement. Under the terms of this settlement agreement, Oclaro Shenzhen agreed to pay $500,000 in payment of invoices for certain materials to Raysung and to work with Raysung to requalify it as a vendor for certain Oclaro Shenzhen manufacturing requirements, in consideration of which Raysung agreed to submit the settlement agreement to the Xi'an Court so it could issue a civil mediation agreement, apply for a discharge of the Asset Preservation Order and waive the right to bring any legal actions against Oclaro Shenzhen relating to these matters. Oclaro Shenzhen performed its obligations under the settlement agreement, however, on January 15, 2014, Raysung applied to the Xi'an Court to terminate the settlement agreement and add Oclaro, Inc. as a co-defendant in the original civil suit.

On March 26, 2014, the Xi'an Court froze RMB 15,000,000 (equivalent to approximately $2.4 million at the exchange rate in effect September 27, 2014) of cash held in Oclaro Shenzhen's bank account in China. On April 30, 2014, Oclaro Shenzhen submitted a challenge to the jurisdiction of the Xi'an Court. On May 26, 2014, the Xi'an Court overruled the jurisdictional challenge. On June 4, 2014, Oclaro Shenzhen filed an appeal with the Shaanxi High Court to revoke the civil order of the Xi'an Court overruling Oclaro Shenzhen's jurisdictional challenge. The Shaanxi High Court held hearings on July 15, 2014 and July 30, 2014, and on August 20, 2014 sustained the Xi'an Court's civil order on jurisdiction and transferred the case back to the Xi'an Court for substantive proceedings. On September 22, 2014, Raysung amended its complaint in the Xi'an Court proceeding by increasing its claims to RMB 36.2 million (equivalent to approximately $5.9 million at the exchange rate in effect on September 27, 2014). On October 22, 2014, the Xi'an Court conducted a hearing on the substantive elements of Raysung's claims. At the same hearing, Oclaro Shenzhen filed counterclaims against Raysung for RMB 7.4 million (equivalent to approximately $1.2 million at the exchange rate in effect on September 27, 2014) of losses resulting from supply of products with unqualified materials. The Xi'an Court has not yet established the next hearing date. Oclaro, Inc. and Oclaro Shenzhen believe that they have meritorious defenses to the claims made by Raysung and intend to defend this litigation vigorously.

Class Action and Derivative Litigation

On May 19, 2011, Curtis and Charlotte Westley filed a purported class action complaint in the United States District Court for the Northern District of California, against us and certain of our officers and directors. The Court subsequently appointed the Connecticut Laborers' Pension Fund ("Pension Fund") as lead plaintiff for the putative class. On April 26, 2012, the Pension Fund filed a second amended complaint, captioned as Westley v. Oclaro, Inc., No. 11 Civ. 2448 EMC, allegedly on behalf of persons who purchased our common stock between May 6 and October 28, 2010, alleging that we and certain of our officers and directors issued materially false and misleading statements during this time period regarding our current business and financial condition, including projections for demand for our products, as well as our revenues, earnings, and gross margins, for the first quarter of fiscal year 2011 as well as the full fiscal year. The complaint alleged violations of section 10(b) of the

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Securities Exchange Act and Securities and Exchange Commission Rule 10b-5, as well as section 20(a) of the Securities Exchange Act. The complaint sought damages and costs of an unspecified amount. On September 21, 2012, the Court dismissed the second amended complaint with leave to amend. After the Pension Fund moved for reconsideration, on January 10, 2013, the Court allowed plaintiffs to take discovery regarding statements made in May and June 2010. On March 1, 2013 the Pension Fund filed a third amended complaint, attempting to cure pleading deficiencies with regard to statements allegedly made in July and August 2010. On April 1, 2013, defendants moved to dismiss the third amended complaint with respect to the statements made in July and August 2010. On May 30, 2013, the Court granted Defendants' motion to dismiss the complaint's claims based on statements made in July and August 2010. Although discovery has commenced, no trial was ever scheduled in this action.

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

On September 3, 2013, the parties agreed to settle the Westley, Moskal, and In re Oclaro Derivative matters for a total of $3.95 million, plus certain corporate governance changes. The money will be paid entirely by our directors and officers liability insurance carriers. Any fees awarded to the plaintiffs in these actions, or their respective counsel, are included in this amount. By Order dated August 13, 2014, the Court in the Westley matter gave its final approval to the settlement. By Order dated September 19, 2014, the Court in the In re Oclaro, Inc. Derivative Litigation gave its final approval to the settlement. By Order dated October 1, 2014, the Court approved the voluntary dismissal of the Moskal matter, terminating the state court derivative matters.

## NOTE 9. EMPLOYEE STOCK PLANS

### Stock Incentive Plans

In connection with our acquisition of Opnext, we assumed Opnext's Third Amended and Restated 2001 Long-Term Stock Incentive Plan and the shares reserved for issuance thereunder. After giving effect to the exchange ratio, the unused and converted share reserve thereunder consisted of 6.3 million shares of common stock as of the acquisition date. Subject to compliance with applicable NASDAQ rules, we can only make grants to legacy Opnext employees and employees hired after the close of the merger unless stockholder approval was obtained to permit awards to all our employees. On July 23, 2013, our board of directors approved the Fourth Amended and Restated 2001 Long-Term Stock Incentive Plan (the "Plan") and on January 14, 2014, our shareholders ratified this plan, establishing it as our primary equity incentive plan. The Plan (i) revises the eligibility section to allow us to make grants to all our employees, non-employee directors and consultants, (ii) allows us to grant incentive stock options and awards which may be able to qualify as qualified performance-based compensation under Section 162(m) of the Internal Revenue Code, (iii) extends the term of the Plan to ten years from the effective date of the Plan (the Plan expires in July 2023), and (iv) conforms the share counting provisions of the Plan to provide that full value awards count as 1.25 shares for purposes of the Plan.

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

As of September 27, 2014, there were 2.7 million shares of our common stock available for grant under both plans.

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

In July 2011, our board of directors approved the grant of 0.2 million performance stock units (“PSUs”) to certain executive officers with an aggregate estimated grant date fair value of $0.9 million. In October 2013, the board of directors determined that achievement of the performance conditions was reached at the 100 percent target level. Approximately 0.1 million of the grants outstanding, or 50 percent, vested on October 22, 2013, with the remaining 50 percent scheduled to vest upon a two-year service condition through August 2015. As of September 27, 2014, there were less than 0.1 million PSUs outstanding, after adjustments for forfeitures due to terminations, related to this grant, with an aggregate estimated grant date fair value of less than $0.1 million.

In July 2012, our board of directors approved a grant of 0.6 million PSUs to certain executive officers, subject to shareholder approval of an amendment to our Plan. Prior to shareholder approval, approximately 0.4 million of the PSUs were forfeited as a result of certain executive officer departures. On January 14, 2014, shareholder approval was obtained at our annual general meeting of stockholders. These PSUs were scheduled to vest upon the achievement of certain adjusted earnings before interest, taxes, depreciation and amortization targets through June 30, 2014. During the three months ended September 27, 2014, it was determined that the performance conditions were not achieved, and the corresponding PSUs were forfeited.

In February 2014, our board of directors granted our chief executive officer 0.8 million restricted stock units ("RSUs") in satisfaction of the terms set forth in his employment agreement dated September 11, 2013. The RSUs vested in full on the date of grant, and settled on August 15, 2014. The RSUs have an aggregate grant date fair value of $2.0 million, which was recorded in the third quarter of fiscal year 2014.

In March 2014, our board of directors approved a grant of 0.2 million PSUs to certain executive officers with an aggregate estimated grant date fair value of $0.5 million. These PSUs vest upon the achievement of non-GAAP operating income break-even for calendar year 2015. Vesting is also contingent upon service conditions being met through February 2018. If the performance condition is not achieved, then the corresponding PSUs will be forfeited in the third quarter of fiscal year 2016. As of September 27, 2014, there were 0.1 million PSUs outstanding, after adjustments for forfeitures due to terminations, related to this grant, with an aggregate estimated grant date fair value of $0.4 million.

In August 2014, our board of directors approved a grant of 0.5 million PSUs to certain executive officers with an aggregate estimated grant date fair value of $0.9 million. These PSUs will vest at 100 percent upon the achievement of two consecutive quarters with positive earnings before interest, taxes, depreciation and amortization on or before the end of our fiscal year 2017. If the performance condition is not achieved, then the corresponding PSUs will be forfeited in the first quarter of fiscal year 2018.

In August 2014, our board of directors approved a retention grant of 0.4 million RSUs to certain of our executives, which vest annually over three years. In September 2014, our board of directors also approved a retention grant of 1.4 million RSUs to other employees, which vest over two years.

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The following table summarizes the combined activity under all of our equity incentive plans for the three months ended September 27, 2014:

| | Shares Available For Grant | Stock Options / SARs Outstanding | Weighted-Average Exercise Price | Restricted Stock Awards / Units Outstanding | Weighted-Average Grant Date Fair Value |
|---|---|---|---|---|---|
| | (Thousands) | (Thousands) | | (Thousands) | |
| Balance at June 28, 2014 | 5,703 | 4,156 | $8.43 | 4,273 | $2.59 |
| Granted | (3,280) | 100 | 1.69 | 2,546 | 1.78 |
| Exercised or released | — | (1) | 1.60 | (1,009) | 2.52 |
| Cancelled or forfeited | 289 | (181) | 12.44 | (97) | 2.76 |
| Balance at September 27, 2014 | 2,712 | 4,074 | 8.08 | 5,713 | 2.31 |

Supplemental disclosure information about our stock options and SARs outstanding as of September 27, 2014 is as follows:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| | (Thousands) | | (Years) | (Thousands) |
| Options and SARs exercisable | 3,469 | $9.01 | 4.6 | $21 |
| Options and SARs outstanding | 4,074 | 8.08 | 5.2 | 22 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value, based on the closing price of our common stock of $1.51 on September 26, 2014, which would have been received by the option holders had all option holders exercised their options as of that date. There were less than 0.1 million shares of common stock subject to in-the-money options which were exercisable as of September 27, 2014. We settle employee stock option exercises with newly issued shares of common stock.

NOTE 10. STOCK-BASED COMPENSATION

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

| | Three Months Ended | |
|---|---|---|
| | September 27, 2014 | September 28, 2013 |
| Stock options: | | |
| Expected life | 5.3 years | — |
| Risk-free interest rate | 1.6 % | — |
| Volatility | 77.5 % | — |
| Dividend yield | — | — |

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The amounts included in cost of revenues and operating expenses for stock-based compensation were as follows:

| | Three Months Ended | |
|---|---|---|
| | September 27, 2014 | September 28, 2013 |
| | (Thousands) | |
| Stock-based compensation by category of expense: | | |
| Cost of revenues | $330 | $252 |
| Research and development | 332 | 246 |
| Selling, general and administrative | 624 | 465 |
| | $1,286 | $963 |
| Stock-based compensation by type of award: | | |
| Stock options | $142 | $331 |
| Restricted stock awards | 1,185 | 658 |
| Inventory adjustment to cost of revenues | (41) | (26) |
| | $1,286 | $963 |

As of September 27, 2014 and June 28, 2014, we had capitalized approximately $0.4 million and $0.4 million, respectively, of stock-based compensation as inventory.

As of September 27, 2014, we had $1.0 million in unrecognized stock-based compensation expense related to unvested stock options and SARs, net of estimated forfeitures, that will be recognized over a weighted-average period of 2.2 years, and $10.2 million in unrecognized stock-based compensation expense related to unvested restricted stock awards, net of estimated forfeitures, that will be recognized over a weighted-average period of 1.9 years.

The amount of stock-based compensation expense recognized in any one period related to PSUs can vary based on the achievement or anticipated achievement of the performance conditions. If the performance conditions are not met or not expected be met, no compensation cost would be recognized on the underlying PSUs, and any previously recognized compensation expense related to those PSUs would be reversed. During the three months ended September 27, 2014 and September 28, 2013, we recorded minimal stock-based compensation expense in connection with the issuance of the PSUs from July 2011, March 2014 and August 2014.

## NOTE 11. INCOME TAXES

The income tax provision of $1.0 million and $0.3 million for the three months ended September 27, 2014 and September 28, 2013, respectively, relates primarily to our foreign operations.

The total amount of our unrecognized tax benefits as of September 27, 2014 and June 28, 2014 were approximately $4.1 million and $4.2 million, respectively. As of September 27, 2014, we had $3.6 million of unrecognized tax benefits that, if recognized, would affect our effective tax rate. While it is often difficult to predict the final outcome of any particular uncertain tax position, we believe that unrecognized tax benefits could decrease by approximately $0.5 million in the next twelve months.

## NOTE 12. NET INCOME (LOSS) PER SHARE

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

For the three months ended September 27, 2014 and September 28, 2013, we excluded 8.4 million and 24.7 million, respectively, of outstanding stock options, stock appreciation rights, warrants, shares issuable in connection with convertible notes and unvested restricted stock awards from the calculation of diluted net income per share because their effect would have been anti-dilutive.

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NOTE 13. GEOGRAPHIC INFORMATION, PRODUCT GROUPS AND CUSTOMER CONCENTRATION INFORMATION

Geographic Information

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

| | Three Months Ended | |
|---|---|---|
| | September 27, 2014 | September 28, 2013 |
| | (Thousands) | |
| China | $20,722 | $22,817 |
| Malaysia | 15,700 | 9,511 |
| United States | 14,537 | 7,390 |
| Mexico | 11,991 | 12,854 |
| Germany | 8,154 | 14,395 |
| Italy | 4,135 | 6,387 |
| Japan | 3,744 | 12,488 |
| Thailand | 1,436 | 3,307 |
| Rest of world | 8,822 | 7,499 |
| | $89,241 | $96,648 |

Product Groups

The following table sets forth revenues by product group:

| | Three Months Ended | |
|---|---|---|
| | September 27, 2014 | September 28, 2013 |
| | (Thousands) | |
| 40 Gb/s and 100 Gb/s transmission | $43,496 | $38,892 |
| 10 Gb/s and lower transmission | 38,226 | 50,540 |
| Industrial and consumer | 7,519 | 7,216 |
| | $89,241 | $96,648 |

Significant Customers and Concentration of Credit Risk

For the three months ended September 27, 2014, Coriant GmbH ("Coriant") accounted for 26 percent, Cisco Systems, Inc. (“Cisco”) accounted for 13 percent and Huawei Technologies Co., Ltd. (“Huawei”) accounted for 11 percent of our revenues. For the three months ended September 28, 2013, Coriant accounted for 17 percent and Cisco accounted for 15 percent of our revenues.

As of September 27, 2014, Coriant accounted for 20 percent and Flextronics International Ltd. accounted for 12 percent of our accounts receivable (including amounts reclassified as assets held for sale). As of June 28, 2014, Coriant accounted for 19 percent and Huawei accounted for 13 percent of our accounts receivable.

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NOTE 14. RELATED PARTY TRANSACTIONS

As a result of our acquisition of Opnext on July 23, 2012, Hitachi, Ltd. (Hitachi) holds approximately 11 percent of our outstanding common stock as of September 27, 2014 based on Hitachi’s most recent Schedule 13G filed with the Securities and Exchange Commission on February 12, 2014.
We continue to enter into transactions with Hitachi in the normal course of business. Sales to Hitachi were $1.2 million and $1.3 million for the three months ended September 27, 2014 and September 28, 2013, respectively. Purchases from Hitachi were $3.4 million and $2.7 million for the three months ended September 27, 2014 and September 28, 2013, respectively. At September 27, 2014, we had $1.5 million accounts receivable due from Hitachi and $4.5 million accounts payable due to Hitachi. At June 28, 2014 we had $2.7 million accounts receivable due from Hitachi and $4.5 million accounts payable due to Hitachi. We also have certain capital equipment leases with Hitachi Capital Corporation as described in Note 8, Commitments and Contingencies.

We are party to a research and development agreement and intellectual property license agreements with Hitachi.

NOTE 15. SUBSEQUENT EVENTS

On August 5, 2014, we entered into a separation agreement to sell our industrial and consumer business of Oclaro Japan located at its Komoro, Japan facility to Ushio Opto Semiconductors, Inc. ("Ushio Opto"). On October 27, 2014, the sale was completed. The transaction is more fully discussed in Note 5, Business Combinations and Dispositions.

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

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, about our future expectations, plans or prospects and our business. You can identify these statements by the fact that they do not relate strictly to historical or current events, and contain words such as "anticipate," "estimate," "expect," "project," "intend," "will," "plan," "believe," "should," "outlook," "could," "target,' other words of similar meaning in connection with discussion of future operating or financial performance. We have based our forward looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. There are a number of important factors that could cause our actual results or events to differ materially from those indicated by such forward-looking statements, including (i) our dependence on a limited number of customers for a significant percentage of our revenues, (ii) our ability to maintain strong relationships with certain customers, (iii) the effects of fluctuating product mix on our results, (iv) our ability to timely develop, commercialize and ramp into volume new products, (vi) competition and pricing pressure, (vii) our ability to meet or exceed our gross margin expectations, (viii) our ability to maintain or increase our cash reserves and obtain debt or equity-based financing on terms acceptable to us or at all, (ix) our future performance and our ability to effectively restructure our operations and business following the sale of our Zurich and Amplifier businesses in accordance with our business plan, (x) our ability to respond to evolving technologies and customer requirements and demands, (xi) our ability to effectively compete with companies that have greater name recognition, broader customer relationships and substantially greater financial, technical and marketing resources than we do, (xii) our ability to effectively and efficiently transition to an outsourced back-end assembly and test model, (xiii) our ability to timely capitalize on any increase in market demand, (xiv) the potential inability to realize the expected benefits of asset dispositions, (xv) the sale of businesses which may or may not arise in connection with executing our restructuring plans, including without limitation the pending divestiture of Oclaro's industrial and consumer business to Ushio Opto, (xvi) our ability to reduce costs and operating expenses, (xvii) increased costs related to downsizing and compliance with regulatory and legal requirements in connection with such downsizing, (xviii) the risks associated with our international operations, (xix) the impact of continued uncertainty in world financial markets and any resulting reduction in demand for our products, (xx) the outcome of tax audits or similar proceedings, (xxi) the outcome of pending litigation against the company, and other factors described in other documents we periodically file with the SEC. We cannot guarantee any future results, levels of activity, performance or achievements. You should not place undue reliance on forward-looking statements. Moreover, we assume no obligation to update forward-looking statements or update the reasons actual results could differ materially from those anticipated in forward-looking statements. Several of the important factors that may cause our actual results to differ materially from the expectations we describe in forward-looking statements are identified in the sections captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" in this Quarterly Report on Form 10-Q and the documents incorporated herein by reference.

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

## OVERVIEW

We are one of the leading providers of optical components, modules and subsystems for the core optical transport, service provider, wireless backhaul, enterprise and data center markets. Leveraging over three decades of laser technology innovation, photonic integration, and subsystem design, we provide differentiated solutions for optical networks and high-speed interconnects driving the next wave of streaming video, cloud computing, voice over IP, Software as a Service ("SaaS") and other bandwidth-intensive and high-speed applications.

We have research and development ("R&D") and chip fabrication facilities in the U.K., Italy and Japan. We have in-house and contract manufacturing sites in the U.S., China, Malaysia and Thailand, with design, sales and service organizations in most of the major regions around the world.

Our customers include ADVA Optical Networking ("ADVA"); Alcatel-Lucent; Ciena Corporation ("Ciena"); Cisco Systems, Inc. ("Cisco"); Coriant GmbH ("Coriant"); Huawei Technologies Co. Ltd ("Huawei"); Juniper Networks, Inc. ("Juniper"); Telefonaktiebolaget LM Ericsson ("Ericsson") and ZTE Corporation ("ZTE").

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RECENT DEVELOPMENTS

On August 5, 2014, Oclaro Japan, Inc. our wholly-owned subsidiary ("Oclaro Japan"), entered into a Master Separation Agreement ("MSA") with Ushio Opto Semiconductors, Inc. ("Ushio Opto") and Ushio, Inc. ("Ushio"), whereby Ushio Opto agreed to acquire the industrial and consumer business of Oclaro Japan located at its Komoro, Japan facility (the "Komoro Business"), by means of an absorption-type demerger under the Japanese Companies Act (such transaction, the "Transaction"). On October 27, 2014, the sale was completed. Consideration for the Transaction consisted of 1.85 billion Japanese yen (approximately $17.1 million based on the exchange rate on October 27, 2014) in cash, of which 1.6 billion Japanese yen (approximately $14.8 million based on the exchange rate on October 27, 2014) was paid at the closing and 250 million Japanese yen (approximately $2.3 million) was paid into escrow and will be released to Oclaro Japan upon the earlier of six months after the closing or the completion by Oclaro Japan of certain transition services, subject to a net asset valuation adjustment post-closing and after deduction for any indemnification amounts determined to be owed to Ushio Opto prior to release of the funds from escrow.

RESULTS OF OPERATIONS

On September 12, 2013 we announced the sale of our Zurich Business to II-VI, along with an exclusive option to purchase our Amplifier Business. On October 10, 2013, we entered into an Asset Purchase Agreement with II-VI for the sale of our Amplifier Business, which subsequently closed on November 1, 2013. We have classified the financial results of the Zurich and Amplifier Businesses as discontinued operations for all periods presented. The following presentations relate to continuing operations only and accordingly excludes the financial results of the Zurich and Amplifier Businesses, unless otherwise indicated.

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

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| | Three Months Ended | | | | | Increase |
|---|---|---|---|---|---|---|
| | September 27, 2014 | | September 28, 2013 | | Change | (Decrease) |
| | (Thousands) | % | (Thousands) | % | (Thousands) | % |
| Revenues | $89,241 | 100.0 | $96,648 | 100.0 | $(7,407) | (7.7) |
| Cost of revenues | 74,832 | 83.9 | 85,430 | 88.4 | (10,598) | (12.4) |
| Gross profit | 14,409 | 16.1 | 11,218 | 11.6 | 3,191 | 28.4 |
| Operating expenses: | | | | | | |
| Research and development | 13,913 | 15.6 | 18,087 | 18.7 | (4,174) | (23.1) |
| Selling, general and administrative | 15,414 | 17.3 | 20,950 | 21.7 | (5,536) | (26.4) |
| Amortization of other intangible assets | 418 | 0.5 | 424 | 0.4 | (6) | (1.4) |
| Restructuring, acquisition and related (income) expense, net | 1,730 | 1.9 | 2,877 | 3.0 | (1,147) | (39.9) |
| Loss on sale of property and equipment | 397 | 0.4 | 452 | 0.5 | (55) | (12.2) |
| Total operating expenses | 31,872 | 35.7 | 42,790 | 44.3 | (10,918) | (25.5) |
| Operating loss | (17,463) | (19.6) | (31,572) | (32.7) | 14,109 | (44.7) |
| Other income (expense): | | | | | | |
| Interest income (expense), net | (104) | (0.1) | (553) | (0.6) | 449 | (81.2) |
| Gain (loss) on foreign currency transactions, net | (2,010) | (2.3) | 1,777 | 1.9 | (3,787) | n/m (1) |
| Other income (expense), net | 555 | 0.6 | 521 | 0.5 | 34 | 6.5 |
| Total other income (expense) | (1,559) | (1.7) | 1,745 | 1.8 | (3,304) | n/m (1) |
| Loss from continuing operations before income taxes | (19,022) | (21.3) | (29,827) | (30.9) | 10,805 | (36.2) |
| Income tax provision | 954 | 1.1 | 302 | 0.3 | 652 | 215.9 |
| Loss from continuing operations | (19,976) | (22.4) | (30,129) | (31.2) | 10,153 | (33.7) |
| Income (loss) from discontinued operations, net of tax | (378) | (0.4) | 63,407 | 65.6 | (63,785) | n/m (1) |
| Net income (loss) | $(20,354) | (22.8) | $33,278 | 34.4 | $(53,632) | n/m (1) |

(1) Not meaningful.

## Revenues

Revenues for the three months ended September 27, 2014 decreased by $7.4 million, or 8 percent, compared to the three months ended September 28, 2013. Compared to the three months ended September 28, 2013, revenues from sales of our 40 Gb/s and 100 Gb/s transmission modules increased by $4.6 million, or 12 percent; revenues from sales of our 10 Gb/s transmission modules decreased by $12.3 million, or 24 percent; and revenues from sales of our industrial and consumer products increased by $0.3 million, or 4 percent. This product mix shift reflects the continued growth in the market for higher speed products that are smaller in size and have lower power consumption.

For the three months ended September 27, 2014, Coriant GmbH (“Coriant”) accounted for 26 percent, Cisco Systems, Inc. (“Cisco”) accounted for 13 percent and Huawei Technologies Co., Ltd. (“Huawei”) accounted for 11 percent of our revenues. For the three months ended September 28, 2013, Coriant accounted for 17 percent and Cisco accounted for 15 percent of our revenues.

## Gross Profit

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

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

Our gross margin rate increased to approximately 16 percent for the three months ended September 27, 2014, compared to 12 percent for the three months ended September 28, 2013. Our 40G and above product mix of sales contributed the majority of this improvement. Favorable foreign currency exchange movements, lower warranty charges and the completion of our outsource transition costs combined to contribute an additional 2 percentage points of improvement. These improvements were offset by a 2 percentage point decrease resulting from out of period adjustments relating to our inventory valuation and purchase commitment accrual.

Research and Development Expenses

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

Research and development expenses decreased to $13.9 million for the three months ended September 27, 2014 from $18.1 million for the three months ended September 28, 2013. The decline was primarily related to a decrease of $2.6 million as a result of our restructuring plan which was initiated during the first quarter of fiscal year 2014, a decrease of $1.1 million related to our decision to no longer develop the WSS product line, and a decrease of $0.4 million related to the impact of the depreciation of the Japanese yen.

Selling, General and Administrative Expenses

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

Selling, general and administrative expenses decreased to $15.4 million for the three months ended September 27, 2014, from $21.0 million for the three months ended September 28, 2013. The decline was primarily related to a decrease of $3.8 million as a result of our restructuring plan which was initiated during the first quarter of fiscal year 2014, a decrease of $1.5 million in audit and legal costs, and a decrease of $0.2 million related to the impact of the depreciation of the Japanese yen.

Amortization of Other Intangible Assets

Amortization of other intangible assets remained relatively flat during the three months ended September 27, 2014 as compared to the three months ended September 28, 2013. With the sale of our Komoro Business, we expect the amortization of intangible assets to be $0.9 million for fiscal year 2015, $0.8 million for each fiscal year 2016 through 2017, $0.7 million for fiscal year 2018, $0.1 million for fiscal year 2019 and $0.1 million thereafter, based on the current level of our other intangible assets as of September 27, 2014.

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Restructuring, Acquisition and Related Costs

During the first quarter of fiscal year 2014, we initiated a restructuring plan to simplify our operating footprint, reduce our cost structure and focus our research and development investment in the optical communications market where we can leverage our core competencies. During the three months ended September 27, 2014 and September 28, 2013, we recorded restructuring charges of $0.8 million and $0.2 million, respectively, in connection with this restructuring plan. The restructuring charges for the three months ended September 27, 2014 included $0.2 million related to workforce reductions and $0.6 million related to revised estimates related to lease cancellations and commitments. The restructuring charges for the three months ended September 28, 2013 related to workforce reductions in our research and development facility in Israel. During the three months ended September 27, 2014 and September 28, 2013, we made scheduled payments of $1.4 million and $2.0 million, respectively, to settle a portion of these restructuring liabilities. As of September 27, 2014, we had $1.4 million in accrued restructuring liabilities related to this restructuring plan.

In connection with the acquisition of Opnext, we initiated a restructuring plan to integrate our acquisition of Opnext. During the three months ended September 27, 2014 and September 28, 2013, we recorded restructuring charges of zero and $0.9 million, respectively, in connection with this restructuring plan. The restructuring charges recorded in fiscal year 2014 included $0.9 million in external consulting charges and professional fees associated with reorganizing the infrastructure. During the three months ended September 28, 2013, we made scheduled payments of $2.0 million to settle these restructuring liabilities. As of September 27, 2014, we had no further accrued restructuring liabilities related to this restructuring plan.

During fiscal year 2012, we initiated a restructuring plan in connection with the transfer of a portion of our Shenzhen, China manufacturing operations to Venture Corporation Limited ("Venture"). This transition is scheduled to occur in a phased and gradual transfer of certain products, which is scheduled to be completed in fiscal year 2015. In connection with this transition, during the three months ended September 27, 2014 and September 28, 2013, we recorded restructuring charges related to employee separation charges of $0.9 million and $1.0 million, respectively. During the three months ended September 27, 2014 and September 28, 2013, we made scheduled payments of $1.3 million and $0.5 million,, respectively, to settle a portion of these restructuring liabilities. As of September 27, 2014, we had $0.2 million in accrued restructuring liabilities related to this restructuring plan.

We expect to incur an additional $3.0 million to $9.0 million, in aggregate, in restructuring charges over the course of fiscal year 2015 in connection with these restructuring plans.

Other Income (Expense)

Other income (expense) was $1.6 million in expense for the three months ended September 27, 2014 as compared to $1.7 million in income for the three months ended September 28, 2013. This decrease in other income (expense) was primarily related to recording a $2.0 million foreign currency transaction loss during the three months ended September 27, 2014, as compared to recording a $1.8 million foreign currency transaction gain during the three months ended September 28, 2013. The $2.0 million foreign currency transaction loss during the three months ended September 27, 2014 was predominantly a result of revaluing intercompany receivables denominated in Japanese yen. The decrease in other income (expense) was partially offset as a result of recording $0.4 million in lower interest expense during the current quarter as compared to the three months ended September 28, 2013 as a result of the conversion of the 7.50% Exchangeable Senior Secured Second Lien Notes due 2018 ("Convertible Notes") into common stock in the second quarter of fiscal year 2014 and the repayment of the credit facility and Term Loan in the first quarter of fiscal year 2014.

Income Tax Provision

For the three months ended September 27, 2014 and September 28, 2013, our income tax provision of $1.0 million and $0.3 million, respectively, related primarily to our foreign operations.

Income from Discontinued Operations, Net of Tax

During the three months ended September 27, 2014 we recorded a loss from discontinued operations from the Zurich and Amplifier Businesses of $0.4 million, During the three months ended September 28, 2013, we recorded a gain on the sale of the

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Zurich Business of $62.8 million and income from discontinued operations from the Zurich and Amplifier Businesses of $63.4 million, including the gain on sale of the Zurich Business.

The following table sets forth the results of the discontinued operations of our Zurich and Amplifier Businesses and the year-over-year increases (decreases) in our results:

| | Three Months Ended | | |
|---|---|---|---|
| | September 27, 2014 | September 28, 2013 | Change |
| | (Thousands) | | |
| Revenues | $— | $42,212 | $(42,212) |
| Cost of revenues | 163 | 32,308 | (32,145) |
| Gross profit | (163) | 9,904 | (10,067) |
| Operating expenses | 215 | 7,484 | (7,269) |
| Other income (expense), net | — | 61,150 | (61,150) |
| Income (loss) from discontinued operations before income taxes | (378) | 63,570 | (63,948) |
| Income tax provision | — | 163 | (163) |
| Income (loss) from discontinued operations | $(378) | $63,407 | $(63,785) |

RECENT ACCOUNTING STANDARDS

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

APPLICATION OF CRITICAL ACCOUNTING POLICIES

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

We identified our critical accounting policies in our Annual Report on Form 10-K for the year ended June 28, 2014 (2014 Form 10-K) related to revenue recognition and sales returns, inventory valuation, business combinations, impairment of goodwill and other intangible assets, accounting for stock-based compensation and income taxes. It is important that the discussion of our operating results be read in conjunction with the critical accounting policies discussed in our 2014 Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flows from Operating Activities

Net cash used in operating activities for the three months ended September 27, 2014 was $5.7 million, primarily resulting from a net loss of $20.4 million, partially offset by non-cash adjustments of $6.6 million and a $8.1 million increase in cash due to changes in operating assets and liabilities. The $6.6 million increase in cash resulting from non-cash adjustments primarily consisted of $5.1 million in depreciation and amortization, $1.3 million of expense related to stock-based compensation, a loss of $0.4 million on the disposal of property and equipment, partially offset by $0.2 million from the amortization of a deferred gain from sales-leaseback transaction. The $8.1 million increase in cash due to changes in operating assets and liabilities was comprised of a $13.9 million increase in accrued expenses and other liabilities and a $2.5 million decrease in accounts

receivable, partially offset by a $6.6 million increase in inventories, a $1.6 million decrease in accounts payable and a $0.1 million increase in prepaid expenses and other current assets.

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

Cash Flows from Investing Activities

Net cash used in investing activities for the three months ended September 27, 2014 was $4.3 million, primarily consisting of $4.7 million used in capital expenditures, partially offset by $0.4 million reduction in restricted cash.

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

Cash Flows from Financing Activities

Net cash used in financing activities for the three months ended September 27, 2014 was $1.1 million, primarily consisting of $1.1 million in payments on capital lease obligations.

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

Credit Line and Notes

As of September 27, 2014, we had a $40.0 million revolving credit facility with Silicon Valley Bank. As of September 27, 2014, there were no amounts outstanding under this credit facility. See Note 6, Credit Line and Notes, for additional information regarding this credit facility.

Prior to establishing our credit facility with Silicon Valley Bank, we maintained a credit facility with Wells Fargo Capital Finance, Inc. ("Wells Fargo") and certain other lenders, which was terminated on March 14, 2014. All amounts outstanding under this credit facility were repaid during fiscal year 2014. See Note 6, Credit Line and Notes, for additional information regarding this credit facility.

Future Cash Requirements

As of September 27, 2014, we held $94.0 million in cash and short-term investments, comprised of $89.3 million in cash and cash equivalents, $4.7 million in restricted cash and $0.1 million of short-term investments; and we had working capital of $162.1 million.

On September 12, 2013, we completed the sale of our Zurich Business under which we expect to receive $6.0 million in additional proceeds which are subject to hold-back by II-VI until December 31, 2014 to address any post-closing adjustments or claims. On November 1, 2013, we completed the sale of our Amplifier Business under which we expect to receive $4.0 million in additional proceeds which are subject to hold-back by II-VI until December 31, 2014 to address any post-closing claim.

Based on our current cash and cash equivalent balances, we believe that we have sufficient funds to support our operations through the next 12 months, including costs associated with the implementation of our restructuring activities.

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

We have incurred significant operating losses from continuing operations and generated negative cash flows from operations for fiscal year 2014. Recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon us having sufficient resources to operate our business. In addition to the availability of our cash resources as of September 27, 2014, the continued operation of our business is dependent upon our achieving cash flows expected to be generated from the execution of our current operating plan, including anticipated restructuring plans, together with amounts expected to be available under our Credit Agreement and from the sale of our Komoro, Japan industrial and consumer business. The transaction is more fully discussed in Note 5, Business Combinations and Dispositions. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should we be unable to continue in existence.

In addition, we have been operating in China for an extended period of time and have accumulated significant intercompany balances with our related entities. Our ability to repay or collect these balances may be restricted by Chinese laws and, as a result, we may be unable to successfully pay down or collect on these balances. As a consequence, we may be assessed additional taxes in China if we are unable to claim bad debt deductions or incur debt forgiveness income from the cancellation of these intercompany balances. Additionally, if we are found not to have complied with the various local laws surrounding cross border payments, we may incur penalties and fines for non-compliance. Any such taxes, penalties and/or fines could be significant in amount and, as a result, could have a material adverse effect on our financial condition, including our cash and cash equivalent balances.

For additional information on the risks we face related to future cash requirements, see Item 1A. Risk Factors under "— Risks Related to Our Business — We have a history of large operating losses and we may not be able to achieve profitability in the future and maintain sufficient levels of liquidity," and Note 1, Basis of Preparation, included elsewhere in this Quarterly Report on Form 10-Q.

As of September 27, 2014, $66.1 million of the $89.3 million of our cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the United States, we could be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S., except for our Shanghai, China; Korean; and Japanese entities where closure will eventually follow our decision to exit certain businesses in fiscal year 2015.

Off-Balance Sheet Arrangements

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

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk affecting us, see “Quantitative and Qualitative Disclosures About Market Risk” in Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended June 28, 2014, which is incorporated herein by reference. Our exposure to market risk has not changed materially since June 28, 2014.

INTEREST RATES

We finance our operations through a mixture of issuances of equity securities, finance leases, working capital and by drawing on our Credit Agreement. We have exposure to interest rate fluctuations on our cash deposits and for amounts borrowed under our Credit Agreement and through our capital leases. At September 27, 2014, there were no amounts outstanding under our credit facility and $7.8 million outstanding under capital leases. An increase in our average interest rate by 1.0 percent would increase our annual interest expense by $0.1 million.

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

FOREIGN CURRENCY

As our business is multinational in scope, we are subject to fluctuations based upon changes in the exchange rates between the currencies in which we collect revenues and pay expenses. We expect that a majority of our revenues will continue to be denominated in U.S. dollars, while a significant portion of our expenses will continue to be denominated in U.K. pounds sterling and the Japanese yen. Fluctuations in the exchange rate between the U.S. dollar, the U.K. pound sterling, the Japanese yen and, to a lesser extent, other currencies in which we collect revenues and pay expenses could affect our operating results. This includes the Chinese yuan and the Euro in which we pay expenses in connection with operating our facilities in Shenzhen and Shanghai, China; and San Donato, Italy. To the extent the exchange rate between the U.S. dollar and these currencies were to fluctuate more significantly than experienced to date, our exposure would increase.

As of September 27, 2014, our U.K. subsidiary had $4.5 million, net, in U.S. dollar denominated operating intercompany payables, $31.5 million in U.S. dollar denominated accounts receivable, net of accounts payable, related to sales to external customers and purchases from suppliers, and $37.8 million in U.S. dollar denominated cash accounts. It is estimated that a 10 percent fluctuation in the U.S. dollar relative to the U.K. pound sterling would lead to a profit of $6.5 million (U.S. dollar strengthening), or loss of $6.5 million (U.S. dollar weakening) on the translation of these receivables and other cash balances, which would be recorded as gain (loss) on foreign currency transactions, net, in our condensed consolidated statement of operations.

As of September 27, 2014, our Japan subsidiary had $47.1 million, net, in U.S. dollar denominated operating intercompany payables, $12.3 million in U.S. dollar denominated accounts payable, net of accounts receivable, related to sales to external customers and purchases from suppliers, and $6.2 million in U.S. dollar denominated cash accounts. It is estimated that a 10 percent fluctuation in the U.S. dollar relative to the Japanese yen would lead to a profit of $5.3 million (U.S. dollar weakening), or loss of $5.3 million (U.S. dollar strengthening) on the translation of these balances, which would be recorded as gain (loss) on foreign currency transactions, net, in our condensed consolidated statement of operations.

BANK LIQUIDITY RISK

As of September 27, 2014, we have approximately $89.3 million in operating accounts that are held with domestic and international financial institutions. These cash balances could be lost or become inaccessible if the underlying financial institutions fail or if they are unable to meet the liquidity requirements of their depositors and they are not supported by the the national government of the country in which such financial institution is located. Notwithstanding, we have not incurred any losses and have had full access to our operating accounts to date. See also Note 3, Balance Sheet Details. We believe any failures of domestic and international financial institutions could impact our ability to fund our operations in the short term.

HEDGING PROGRAM

We are currently party to foreign currency forward contracts in an effort to mitigate a portion of our exposure to fluctuations between the U.S. dollar and the Japanese yen and between the U.S. dollar and the U.K. pound sterling. We do not currently hedge our exposure to the Chinese yuan or the Euro, but we may in the future if conditions warrant. We also do not currently hedge our exposure related to our U.S. dollar denominated intercompany payables and receivables. We may be required to convert currencies to meet our obligations. Under certain circumstances, foreign currency forward contracts can have an adverse effect on our financial condition. During the three months ended September 27, 2014, we entered into two foreign currency forward exchange contracts which expired during the quarter. In connection with these hedges, during the three months ended September 27, 2014, we recorded a $0.3 million loss in gain (loss) in foreign currency transactions, net within our condensed consolidated statement of operations. As of September 27, 2014, we did not have any outstanding foreign currency forward contracts.

## ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 27, 2014. The term “disclosure controls and procedures,” as defined in Rules13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 27, 2014, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were not effective at the reasonable assurance level.

As disclosed in our Annual Report on Form 10-K for the year ended June 28, 2014, we identified a material weakness in our internal control over financial reporting such that the our processes, procedures, and controls related to the review and analysis of inventory and property and equipment were not effective to ensure that certain amounts related to these financial statement accounts were accurately reported in a timely manner. Over the past quarter, we have started to implement several measures, including developing new comprehensive global inventory policies and procedures to ensure inventory is valued timely and accurately and assigning new personnel to inventory accounting roles that have the experience and expertise to ensure control deficiencies do not reoccur. In addition, we plan on developing a global fixed asset policy which will establish requirements and guidelines for the performance of physical counts and valuation of fixed assets. Pursuant to this new policy, we will perform a full fixed asset count in fiscal year 2015. We will also take steps to ensure that personnel assigned to fixed asset accounting roles have the experience and expertise to ensure control deficiencies do not reoccur. Our remediation efforts, including the testing of these controls, will continue throughout our fiscal year 2015. We expect that the material weakness will be remediated during fiscal year 2015 once these controls have been operational for a sufficient period of time to allow management to conclude that these controls are operating effectively.

Notwithstanding the ineffectiveness of our disclosure controls and procedures as of September 27, 2014 and the material weakness in our internal control over financial reporting that existed as of that date as described above, management believes that (i) this Form 10-Q does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading with respect to the periods covered by this Report and (ii) the condensed consolidated financial statements, and other financial information, included in this Report fairly present in all material respects in accordance with U.S. GAAP our financial condition, results of operations and cash flows as of, and for, the dates and periods presented.

Except as noted in the preceding paragraphs of this Item 4, there was no change in our internal control over financial reporting during the three months ended September 27, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS
Overview
In the ordinary course of business, we are involved in various legal proceedings, and we anticipate that additional actions will be brought against us in the future. The most significant of these proceedings are described below. These legal proceedings, as well as other matters, involve various aspects of our business and a variety of claims in various jurisdictions. Complex legal proceedings frequently extend for several years, and a number of the matters pending against us are at very early stages of the legal process. As a result, some pending matters have not yet progressed sufficiently through discovery and/or development of important factual information and legal issues to enable us to determine whether the proceeding is material to us or to estimate a range of possible loss, if any. Unless otherwise disclosed, we are unable to estimate the possible loss or range of loss for the legal proceedings described below. While it is not possible to accurately predict or determine the eventual outcomes of these items, an adverse determination in one or more of these items currently pending could have a material effect on our results of operations, financial position or cash flows.
Raysung Commercial Litigation
On October 23, 2013, Xi’an Raysung Photonics Inc., or Raysung, filed a civil suit against our wholly-owned subsidiary, Oclaro Technology (Shenzhen) Co., Ltd. (formerly known as Bookham Technology (Shenzhen) Co., Ltd.), or Oclaro Shenzhen, in the Xi’an Intermediate People’s Court in Shaanxi Province of the People’s Republic of China, or the Xi’an Court. The complaint filed by Raysung alleges that Oclaro Shenzhen terminated its purchase order pursuant to which Raysung had supplied certain products and was to supply certain products to Oclaro Shenzhen.
Raysung initially requested that the court award damages of RMB 4,796,531 (equivalent to approximately $0.8 million at the exchange rate in effect September 27, 2014), and requested that Oclaro Shenzhen take the finished products that are now stored in Raysung’s warehouse (the value of the finished product is RMB 13,505,162 (equivalent to approximately $2.2 million at the exchange rate in effect September 27, 2014) and requested that Oclaro Shenzhen pay its court fees in connection with this suit.
The Xi’an Court delivered an Asset Preservation Order which was served on Oclaro Shenzhen and the local Customs office. According to the Asset Preservation Order, Oclaro Shenzhen was ordered to maintain RMB 15,000,000 (equivalent to approximately $2.4 million at the exchange rate in effect September 27, 2014) or assets equivalent to the said amount during the litigation process, and the Customs office was ordered to restrict Oclaro Shenzhen's equipment from being exported before the Asset Preservation Order is lifted. On November 11, 2013, Oclaro Shenzhen entered into a settlement agreement. Under the terms of this settlement agreement, Oclaro Shenzhen agreed to pay $500,000 in payment of invoices for certain materials to Raysung and to work with Raysung to requalify it as a vendor for certain Oclaro Shenzhen manufacturing requirements, in consideration of which Raysung agreed to submit the settlement agreement to the Xi’an Court so it could issue a civil mediation agreement, apply for a discharge of the Asset Preservation Order and waive the right to bring any legal actions against Oclaro Shenzhen relating to these matters. Oclaro Shenzhen performed its obligations under the settlement agreement, however, on January 15, 2014, Raysung applied to the Xi’an Court to terminate the settlement agreement and add Oclaro, Inc. as a co-defendant in the original civil suit.

On March 26, 2014, the Xi’an Court froze RMB 15,000,000 (equivalent to approximately $2.4 million at the exchange rate in effect September 27, 2014) of cash held in Oclaro Shenzhen’s bank account in China. On April 30, 2014, Oclaro Shenzhen submitted a challenge to the jurisdiction of the Xi'an Court. On May 26, 2014, the Xi'an Court overruled the jurisdictional challenge. On June 4, 2014, Oclaro Shenzhen filed an appeal with the Shaanxi High Court to revoke the civil order of the Xi'an Court overruling Oclaro Shenzhen's jurisdictional challenge. The Shaanxi High Court held hearings on July 15, 2014 and July 30, 2014, and on August 20, 2014 sustained the Xi'an Court's civil order on jurisdiction and transferred the case back to the Xi'an Court for substantive proceedings. On September 22, 2014, Raysung amended its complaint in the Xi'an Court proceeding by increasing its claims to RMB 36.2 million (equivalent to approximately $5.9 million at the exchange rate in effect on September 27, 2014). On October 22, 2014, the Xi'an Court conducted a hearing on the substantive elements of Raysung's claims. At the same hearing, Oclaro Shenzhen filed counterclaims against Raysung for RMB 7.4 million (equivalent to approximately $1.2 million at the exchange rate in effect on September 27, 2014) of losses resulting from supply of products with unqualified materials. The Xi'an Court has not yet established the next hearing date. Oclaro, Inc. and Oclaro Shenzhen believe that they have meritorious defenses to the claims made by Raysung and intend to defend this litigation vigorously.

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Class Action and Derivative Litigation

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

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

On September 3, 2013, the parties agreed to settle the Westley, Moskal, and In re Oclaro Derivative matters for a total of $3.95 million, plus certain corporate governance changes. The money will be paid entirely by our directors and officers liability insurance carriers. Any fees awarded to the plaintiffs in these actions, or their respective counsel, are included in this amount. By Order dated August 13, 2014, the Court in the Westley matter gave its final approval to the settlement. By Order dated September 19, 2014, the Court in the In re Oclaro, Inc. Derivative Litigation gave its final approval to the settlement. By Order dated October 1, 2014, the Court approved the voluntary dismissal of the Moskal matter, terminating the state court derivative matters.

ITEM 1A. RISK FACTORS

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

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We depend on a limited number of customers for a significant percentage of our revenues and the loss of a major customer could have a materially adverse impact on our financial condition.

Historically, we have generated most of our revenues from a limited number of customers. Our dependence on a limited number of customers is due to the fact that the optical telecommunications systems industry is dominated by a small number of large companies. These companies in turn depend primarily on a limited number of major telecommunications carrier customers to purchase their products that incorporate our optical components. For example, during the three months ended September 27, 2014 and during the fiscal years ended June 28, 2014 and June 29, 2013, our three largest customers accounted for 50 percent, 43 percent and 38 percent of our revenues, respectively. Because we rely on a limited number of customers for significant percentages of our revenues, a decrease in demand for our products from any of our major customers for any reason (including due to market conditions, catastrophic events or otherwise) could have a materially adverse impact on our financial conditions and results of operations. For example, during the second half of fiscal 2012, our revenues were adversely impacted by a significant change in demand expectations from a particular major customer. Further, the industry in which our customers operate is subject to a trend of consolidation. To the extent this trend continues, we may become dependent on even fewer customers to maintain and grow our revenues.

Sales of older legacy products continue to represent a significant percentage of our total revenues and, if we do not increase the percentage of sales associated with new products, our revenues may not grow in the future.

The markets for our products are characterized by changing technology and continuing process development. The future of our business will depend in large part upon the continuing relevance of our technological capabilities, and our ability to introduce new products that address our customers' requirements for more cost-effective and higher bandwidth solutions. Our inability to successfully launch or sustain new or next generation programs or product features that anticipate or adequately address future market trends and market transitions in a timely manner could materially adversely affect our financial results. We may also encounter competition from new or revised technologies that render our products less profitable or obsolete in our chosen markets, and our operating results may suffer. Furthermore, we cannot assure you that we will introduce new or next generation products in a timely manner, that these products will gain market acceptance, or that new product revenues will increase at a rate sufficient to replace declining legacy product revenues, and failure to do so could materially affect our operating results.

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

We have historically incurred losses and negative cash flows from operations since our inception. As of September 27, 2014, we had an accumulated deficit of $1,317.9 million. We incurred a loss from continuing operations of $20.0 million and negative cash flows from operations of $5.7 million during the three months ended September 27, 2014, and we incurred losses from continuing operations for the years ended June 28, 2014 and June 29, 2013 of $102.1 million and $120.3 million, respectively.

As of September 27, 2014, we held $94.0 million in cash and short-term investments, comprised of $89.3 million in cash and cash equivalents, $4.7 million in restricted cash and $0.1 million of short-term investments; and we had working capital, including cash, of $162.1 million. At September 27, 2014, we had debt of $7.8 million, consisting of capital leases.

During fiscal year 2013 and 2014, we executed a number of financing transactions in order to generate funds to help sustain our operations: we sold our interleaver and thin film filter business, executed a convertible debt transaction, and executed sales of product lines in order to generate additional capital. On May 6, 2013, we secured a short term loan from Providence Equity of $25.0 million (with net proceeds to us of $20.5 million after discounts and expenses) as a bridge to the conclusion of certain asset sales. In order to obtain the short term loan, we amended our Credit Agreement to add Providence as a term lender. In connection with this amendment, we agreed to complete certain asset sales and use the proceeds to repay amounts we have borrowed under the Credit Agreement by July 15, 2013. On August 21, 2013, we amended our Credit Agreement to extend the time frame within which we must complete such asset sales to make such repayments to September 2, 2013. The corresponding sale of our Zurich Business to II-VI was closed on September 12, 2013. We received proceeds of $90.6 million in cash on September 12, 2013 and an additional $2.9 million subject to a potential post-closing working capital adjustment, which was calculated based on the level of working capital in the Oclaro Switzerland GmbH subsidiary at the September 12, 2013 close versus a target based on working capital at June 29, 2013. We will also receive $6.0 million subject to hold-back by II-VI until December 31, 2014 to address any post-closing adjustments or claims. We also received $5.0 million for a 30 day option to sell our Amplifier Business for $88.0 million inclusive of the option amount. On November 1, 2013, we sold our Amplifier Business to II-VI and certain of its affiliates for $88.6 million in cash, consisting of $79.6 million in cash, subject to inventory valuation adjustments after closing, and $4.0 million, subject to hold-back by II-VI until December 31, 2014 to address any post-closing claims. In accordance with the option agreement we entered into with II-VI, the $5.0 million paid by II-VI was credited against the $88.6 million purchase price for the Amplifier Business.

Following the sale of the Zurich Business, we repaid all amounts outstanding under the Credit Agreement as required. The event of default resulting from not completing the sale of the Zurich Business on September 2, 2013 was waived on September 26, 2013. This waiver eliminated the requirement for the Agent and Lenders to make any advances, issue any letters of credit or provide any other extension of credit until the Agent and Lenders agree otherwise and prevents us from exercising any right or action set forth in the applicable loan documents that is conditioned on the absence of any event of default. If the Agent and Lenders do not agree to make amounts under the Credit Agreement available to us within 30 days of the waiver (or such later time as the Agent agrees), then the Agent and Lenders will have the option to immediately terminate the Credit Agreement. On March 14, 2014, we terminated the Credit Agreement. On March 28, 2014, we entered into a loan and security agreement (the "Loan Agreement") with Silicon Valley Bank (the "Bank") pursuant to which the Bank provided us with a three-year revolving credit facility of up to $40.0 million. Under the Loan Agreement, advances are available based on up to 80 percent of "eligible accounts" as defined in the Loan Agreement.

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

We may not be able to ramp the production of our new products to customer required volumes, which could result in delayed or lost revenue.

Many of our new product samples for metro and long haul 100GHz communication applications have been well received by potential customers of these products. As a result, we anticipate significant backlog for these new generation products. These newer generation products typically will have greater functionality and a smaller footprint, resulting in more complexity in the manufacturing process. This increased complexity will result in lower manufacturing yields or more difficult production to manufacture in volume. If we experience large demand for these products and are unable to manufacture them in sufficient volume, we would fall short of the planned output and revenue targets as we move from low volume sampling to manufacturing for commercial production. Our failure to meet our customer's requirements for these products could result in our customers postponing or canceling orders or seeking alternative suppliers for these products, which would adversely affect our results of operations.

Customer requirements for new products are increasingly challenging, which could lead to significant executional risk in designing such products.

Across the entire network, our customers are demanding increased performance from our products, at lower prices and in smaller and lower power designs. These requirements push the envelope of what is possible from our optical chips, packages and electronics. In addition these demands are often customer specific leading to numerous product variations. We enter our new product introduction (NPI) process with clear performance and cost goals. Because of the complexity of design requirements, executing on these goals is becoming increasingly difficult and less predictable. These difficulties could result in product sampling delays and/or missing targets on key specifications and customer requirements, leading to design losses. Our failure to meet our customer's requirements for these products could result in our customers seeking alternative suppliers for these products, which would adversely affect our results of operations.

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The majority of our long-term customer contracts do not commit customers to specified buying levels, and our customers may decrease, cancel or delay their buying levels at any time with little or no advance notice to us.
The majority of our customers typically purchase our products pursuant to individual purchase orders or contracts that do not contain purchase commitments. Some customers provide us with their expected forecasts for our products several months in advance, but many of these customers may decrease, cancel or delay purchase orders already in place, and the impact of any such actions may be intensified given our dependence on a small number of large customers. If any of our major customers decrease, stop or delay purchasing our products for any reason, our business and results of operations would be harmed. Cancellation or delays of such orders may cause us to fail to achieve our short-term and long-term financial and operating goals and result in excess and obsolete inventory.
Our results of operations may suffer if we do not effectively manage our inventory, and we may continue to incur inventory-related charges.
We need to manage our inventory of component parts and finished goods effectively to meet changing customer requirements. Accurately forecasting customers' product needs is difficult. Some of our products and supplies have in the past, and may in the future, become obsolete or be deemed excess while in inventory due to rapidly changing customer specifications or a decrease in customer demand. We also have exposure to contractual liabilities to our contract manufacturers for inventories purchased by them on our behalf, based on our forecasted requirements, which may become excess or obsolete. Our inventory balances also represent an investment of cash. To the extent our inventory turns are slower than we anticipate based on historical practice, our cash conversion cycle extends and more of our cash remains invested in working capital. If we are not able to manage our inventory effectively, we may need to write down the value of some of our existing inventory or write off non-saleable or obsolete inventory. We have from time to time incurred significant inventory-related charges. Any such charges we incur in future periods could materially and adversely affect our results of operations.
We may not be able to maintain or improve gross margin levels.
We may not be able to maintain or improve our gross margins, due to slow introductions of new products, the failure to effectively reduce the cost of existing products, the failure to improve our product mix, the potential for future macroeconomic or market volatility reducing sales volumes, changes in customer demand (including a change in product mix between different areas of our business) and pricing pressure from increased competition or other factors. Our gross margins can also be adversely impacted for reasons including, but not limited to, fixed manufacturing costs that would not be expected to decrease in proportion to any decrease in revenues; unfavorable production yields or variances; increases in costs of input parts and materials; the timing of movements in our inventory balances; warranty costs and related returns; changes in foreign currency exchange rates; possible exposure to inventory valuation reserves; the sale of our Komoro, Zurich and Amplifier Businesses, including procuring certain parts that were previously internally sourced; and failure to realize benefits of the transfer of certain manufacturing functions to Venture Corporation Limited ("Venture"). Any failure to maintain, or improve, our gross margins will adversely affect our financial results, including our goal to achieve sustainable cash flow positive operations.
We may experience low manufacturing yields.
Manufacturing yields depend on a number of factors, including the volume of production due to customer demand and the nature and extent of changes in specifications required by customers for which we perform design-in work. Higher volumes due to demand for a fixed, rather than continually changing, design generally results in higher manufacturing yields, whereas lower volume production generally results in lower yields. In addition, lower yields may result, and have in the past resulted, from commercial shipments of products prior to full manufacturing qualification to the applicable specifications. Changes in manufacturing processes required as a result of changes in product specifications, changing customer needs, introduction of new product lines and changes in contract manufacturers have historically caused, and may in the future cause, significantly reduced manufacturing yields, resulting in low or negative margins on those products. Moreover, an increase in the rejection rate of products during the quality control process, before, during or after manufacture, results in lower yields and margins. Finally, manufacturing yields and margins can also be lower if we receive or inadvertently use defective or contaminated materials from our suppliers. Any reduction in our manufacturing yields will adversely affect our gross margins and could have a material impact

on our operating results.

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The markets in which we operate are highly competitive, which could result in lost sales and lower revenues.
The market for optical components and modules is highly competitive and this competition could result in our existing customers moving their orders to our competitors. We are aware of a number of companies that have developed or are developing optical component products, including tunable lasers, pluggables, modulators and subsystems, among others, that compete directly with our current and proposed product offerings.
Certain of our competitors may be able to more quickly and effectively:

- develop or respond to new technologies or technical standards;
- react to changing customer requirements and expectations;
- devote needed resources to the development, production, promotion and sale of products;
- attain high manufacturing yields on new product designs; and
- deliver competitive products at lower prices.

Some of our current competitors, as well as some of our potential competitors, have longer operating histories, greater name recognition, broader customer relationships and industry alliances and substantially greater financial, technical and marketing resources than we do. In addition, market leaders in industries such as semiconductor and data communications, who may also have significantly more resources than we do, may in the future enter our market with competing products. Our competitors and new Chinese companies are establishing manufacturing operations in China to take advantage of comparatively low manufacturing costs. All of these risks may be increased if the market were to further consolidate through mergers or other business combinations between our competitors.
We may not be able to compete successfully with our competitors and aggressive competition in the market may result in lower prices for our products and/or decreased gross margins. Any such development could have a material adverse effect on our business, financial condition and results of operations.
A lack of effective internal control over our financial reporting could result in an inability to report our financial results accurately, which could lead to a loss of investor confidence in our financial reports and have an adverse effect on our stock price.
In fiscal year 2013, in connection with establishing the fair values of certain assets and liabilities associated with our acquisition of Opnext, we identified a material weakness over controls related to our recording of the purchase under Accounting Standards Codification Topic 805, Business Combinations. In the fourth quarter of fiscal year 2013, we made adjustments to the fair value of certain items, including property and equipment, capital leases and intangible assets. As a result of these adjustments, management concluded that we did not maintain effective internal control over financial reporting as of June 29, 2013, because the potential impact of these adjustments could have been material to our financial position and results of operations. During the year ended June 28, 2014, we hired new finance personnel and added oversight for the accounting of acquisitions and dispositions. Our remediation efforts, including the testing of these controls, continued throughout fiscal year 2014. This material weakness was considered remediated in the fourth quarter of fiscal year 2014, once these controls were shown to be operational for a sufficient period of time to allow management to conclude that these controls were operating effectively.
In fiscal year 2014, we also identified control deficiencies relating to inventory and property and equipment, which in the aggregate constituted a material weakness. We determined that our processes, procedures and controls related to the review and analysis of inventory and property and equipment were not effective to ensure that certain amounts related to these financial statement accounts were accurately reported in a timely manner. As a result of these adjustments, management concluded that we did not maintain effective internal controls over financial reporting as of June 28, 2014. Our remediation efforts, including the testing of these controls, are expected to continue throughout our fiscal year 2015.
In addition, we have in the past, and may in the future, acquire companies that have either experienced material weaknesses in their internal controls over financial reporting or have had no previous reporting obligations under Sarbanes-Oxley. Failure to integrate acquired businesses into our internal controls over financial reporting could cause those controls to fail.

We cannot assure you that similar material weaknesses will not recur in the future. If additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results.
Effective internal controls over financial reporting are necessary for us to provide reliable financial reports. Our failure to implement and maintain effective internal control over financial reporting could result in a material misstatement of our

financial statements or otherwise cause us to fail to meet our financial reporting obligations. This, in turn, could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our business, financial condition, operating results and our stock price, and we could be subject to stockholder litigation and our common stock may be delisted as a result. Even if we are able to implement and maintain effective internal control over financial reporting, the costs of doing business may increase and our management may be required to dedicate greater time and resources to that effort.

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

We may experience delays, disruptions or quality control problems in our manufacturing operations or the manufacturing operations of our subcontractors. As a result, we could incur additional costs that would adversely affect our gross margins, and our product shipments to our customers could be delayed beyond the shipment schedules requested by our customers, which would negatively affect our revenues, competitive position and reputation. Furthermore, even if we are able to deliver products to our customers on a timely basis, we may be unable to recognize revenues at the time of delivery based on our revenue recognition policies. Exposures to these risks could increase during the transition of portions of our Shenzhen product lines to Venture, which is scheduled to be completed in fiscal year 2015.

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

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

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

For instance, during fiscal year 2014 and 2013, we incurred $3.5 million and $5.1 million in restructuring charges, respectively, in connection with the transition of certain portions of our Shenzhen, China assembly and test operations to Venture. During the year ended June 28, 2014, we also incurred $13.2 million in restructuring charges in connection with the restructuring plan we initiated in the first quarter of fiscal year 2014 to simplify our operating footprint, reduce our cost structure and focus our research and development investment in the optical communications market where we can leverage our core competencies. We expect to incur an additional $3.0 million to $9.0 million, in aggregate, in restructuring charges over the remainder of fiscal year 2015 in connection with these restructuring plans.

We have a large amount of intercompany balances with our China entities which may be subject to taxes and penalties when we try to pay them down or collect them.

Payments for goods and services into and out of China are subject to numerous and over-lapping government regulation with respect to foreign exchange controls, banking controls, import and export controls, and taxes. We have been operating in China for an extended period of time and have accumulated significant intercompany balances with our related entities. Our ability to repay or collect these balances may be restricted by Chinese laws and, as a result, we may be unable to successfully pay down or collect on these balances. As a consequence, we may be assessed additional taxes in China if we are unable to claim bad debt deductions or incur debt forgiveness income from the cancellation of these intercompany balances. Additionally, if we are found not to have complied with the various local laws surrounding cross border payments, we may incur penalties and fines for non-compliance. Any such taxes, penalties and/or fines could be significant in amount and, as a result, could have a material adverse effect on our financial condition, including our cash and cash equivalent balances.

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

We depend on a limited number of suppliers of raw materials and equipment used to manufacture our products. We currently also depend on a limited number of contract manufacturers, principally Fabrinet in Thailand, to manufacture certain of our products. We will also increasingly depend on Venture, having transferred portions of our Shenzhen assembly and test operations to Venture. Some of these suppliers are sole sources. We typically have not entered into long-term agreements with our suppliers other than Fabrinet and Venture. As a result, these suppliers generally may stop supplying us materials and equipment at any time. Our reliance on a sole supplier or limited number of suppliers could result in delivery problems, reduced control over product pricing and quality, and an inability to identify and qualify another supplier in a timely manner. Some of our suppliers that may be small or undercapitalized may experience financial difficulties that could prevent them from supplying us materials and equipment. In addition, our suppliers, including our sole source suppliers, may experience manufacturing delays or shut downs due to circumstances beyond their control such as earthquakes, floods, fires, political unrest or other natural disasters. Fabrinet's manufacturing operations are located in Thailand. In October 2011, due to flooding in Thailand, Fabrinet suspended operations at both of their factories that supply us with finished goods. Thailand has also been subject to political unrest in the recent past, including the temporary interruption of service at one of its international airports, and may again experience such political unrest in the future. If Fabrinet is unable to supply us with materials or equipment, or if they are unable to ship our materials or equipment out of Thailand due to future flooding or political unrest, this could materially adversely affect our ability to fulfill customer orders and our results of operations.

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

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

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

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

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

Our future success depends, in part, on our ability to attract and retain key personnel. Competition for highly skilled technical personnel is extremely intense and we continue to face difficulty identifying and hiring qualified engineers in many areas of our business. We may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure. Our future success also depends on the continued contributions of our executive management team and other key management and technical personnel, each of whom would be difficult to replace. The loss of services of these or other executive officers or key personnel or the inability to continue to attract qualified personnel could have a material adverse effect on our business.

We have recently announced significant changes at Oclaro relating to our operations, strategic plan and management team. The operation of our business could be adversely affected by the transition of key personnel as we rebuild our executive leadership team and make additional organizational changes.

Beginning in June 2013, we have announced a series of events, transactions and restructuring plans, which have had a significant impact on our business. Among other things, we sold our Komoro, Zurich and Amplifier Businesses and announced a restructuring plan to focus our business on our core competencies. While we believe these events, transactions and plans will have a positive impact on our financial condition and results of operations, these changes will result in at least a significant near-term reduction in our revenues, could lead to a disruption in our operations and employee morale, could lead to unplanned attrition of employees, and adversely affect our ability to attract highly skilled employees. In addition, many of our senior management are relatively new. Since June 2013, we have appointed a new Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, and have hired a new Chief Commercial Officer, a new General Counsel, a new Principal Accounting Officer, and a new President of our Integrated Photonics Division. We have also decreased the size of our Board of Directors from nine to seven. It is important to our success that our Chief Executive Officer continues building an effective management team and global organization. It may take some time for each of the new members of our management team to become fully integrated into our business. Our failure to manage these transitions, or to find and retain experienced management personnel, could adversely affect our ability to compete effectively and could adversely affect our operating results. If we experience these or other adverse consequences, fail to manage these transitions, do not find and retain experienced management personnel, or are otherwise unable to realize the expected benefits of our restructuring plan, our business, results of operations and financial condition would be materially and adversely affected and we may not be able to continue as a going concern over the long term.

In the future we may need to access the capital markets to raise additional equity, which could dilute our shareholder base.

We may need additional liquidity beyond our current expectations, such as to fund future growth, strengthen our balance sheet or to fund the cost of restructuring activities, and will continue to explore other sources of additional liquidity. These additional sources of liquidity could include one, or a combination, of the following: (i) issuing equity securities, (ii) incurring indebtedness secured by our assets, (iii) issuing debt and/or convertible debt securities, or (iv) selling product lines, other assets and/or portions of our business. There can be no guarantee that we will be able to raise additional funds on terms acceptable to us, or at all.

If we raise funds through the issuance of equity, equity-linked or convertible debt securities, our stockholders may be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of securities held by existing stockholders. If we raise funds through the issuance of debt instruments, such as we did in 2013 when we issued convertible debt, the agreements governing such debt instruments may contain covenant restrictions that limit our ability to, among other things: (i) incur additional debt, assume obligations in connection with letters of credit, or issue guarantees; (ii) create liens; (iii) make certain investments or acquisitions; (iv) enter into transactions with our affiliates; (v) sell certain assets; (vi) redeem capital stock or make other restricted payments; (vii) declare or pay dividends or make other distributions to stockholders; and (viii) merge or consolidate with any entity. The convertible debt we issued in 2013 was subsequently exchanged for common stock. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations, develop or enhance our products, or otherwise respond to competitive pressures and operate effectively could be significantly limited.

We may have to incur substantially more debt in the future, which may subject us to restrictive covenants that could limit our ability to operate our business.

In the future, we may incur additional indebtedness through arrangements such as credit agreements or term loans that may impose restrictions and covenants that limit our ability to respond appropriately to market conditions, make capital investments or take advantage of business opportunities. In addition, any debt arrangements we may enter into would likely require us to make regular interest payments, which would adversely affect our results of operations.

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

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

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

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

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

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

We may undertake divestitures of portions of our business, such as the divestiture of our Komoro Business, Zurich Business and our Amplifier Business, that require us to continue providing substantial post-divestiture transition services and support, which may cause us to incur unanticipated costs and liabilities and adversely affect our financial condition and results of operations.

From time to time, we consider divestitures of product lines or portions of our assets in order to streamline our business, focus on our core operations and raise cash. For example, on October 27, 2014, we sold our Komoro Business to Ushio. In addition, on September 12, 2013, we sold our Zurich Business to II-VI and on November 1, 2013, we sold our Amplifier Business to II-VI (See Note 5, Business Combinations and Dispositions, elsewhere in this Quarterly Report on Form 10-Q for further details). In connection with these divestitures, we entered into transition service, manufacturing service and supply agreements with both Ushio and II-VI to facilitate the ownership transition, collectively referred to as “transition agreements.” Pursuant to these transition agreements, we continue to manufacture certain products for II-VI and perform certain administrative functions for

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Ushio and II-VI. From time to time, substantial amounts of executive resources have been diverted from our core ongoing business to manage these transitions. For each of these divestitures, a material portion of the purchase price was held back to address post-closing claims, including claims related to our performance of the transition agreements. Although we received a portion of the holdback from the sale of the Zurich Business during the third quarter of fiscal year 2014, significant amounts of the Komoro Business holdback, Zurich Business holdback and the Amplifier Business holdback could be affected by our ability to properly discharge our transition agreement obligations. In order to perform under these transition agreements, on an interim basis, we have been required to retain certain employees and contractors, continue operating certain facilities, dedicate certain manufacturing capacity and maintain certain supplier agreements that have added additional costs and delayed our ability to fully restructure our operations to efficiently focus on our core ongoing business. If we fail to perform under any of these transition agreements, or if we do not successfully execute the restructuring of our operations after our transition agreement obligations have been fulfilled, our financial condition and results of operations could be harmed.

We may undertake mergers or acquisitions, that do not prove successful, which would materially and adversely affect our business, prospects, financial condition and results of operations.

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

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

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

All acquisitions involve potential risks and uncertainties, including the following, any of which could harm our business and adversely affect our results of operations:

- failure to realize the potential financial or strategic benefits of the acquisition;
- increased costs associated with merged or acquired operations;
- increased indebtedness obligations;
- economic dilution to gross and operating profit (loss) and earnings (loss) per share;
- failure to successfully further develop the combined, acquired or remaining technology, which could, among other things, result in the impairment of amounts recorded as goodwill or other intangible assets;
- unanticipated costs and liabilities and unforeseen accounting charges;
- difficulty in integrating product offerings;
- difficulty in coordinating and rationalizing research and development activities to enhance introduction of new products and technologies with reduced cost;
- difficulty in coordinating and integrating the manufacturing activities, including with respect to third-party manufacturers, including coordination, integration or transfers of any manufacturing activities associated with our acquisition of Opnext in 2012;

- delays and difficulties in delivery of products and services;
- failure to effectively integrate or separate management information systems, personnel, research and development, marketing, sales and support operations;
- difficulty in maintaining internal control procedures and disclosure controls that comply with the requirements of the Sarbanes-Oxley Act of 2002, or poor integration of a target's procedures and controls;
- difficulty in preserving important relationships of our acquired businesses and resolving potential conflicts between business cultures;

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- uncertainty on the part of our existing customers, or the customers of an acquired company, about our ability to operate effectively after a transaction, and the potential loss of such customers;
- loss of key employees;
- difficulty in coordinating the international activities of our acquired businesses, including Opnext, which has substantial operations in Japan as well as the United States, and which uses contract manufacturing suppliers in Southeast Asia;
- the effect of tax laws and other legal and regulatory regimes due to increasing complexities of our global operating structure;
- greater exposure to the impact of foreign currency changes on our business;
- the effect of employment law or regulations or other limitations in foreign jurisdictions that could have an impact on timing, amounts or costs of achieving expected synergies; and
- substantial demands on our management as a result of these transactions that may limit their time to attend to other operational, financial, business and strategic issues.

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

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

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

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

Our intellectual property rights may not be adequately protected.

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

Our intellectual property portfolio is an important corporate asset. The steps we have taken and may take in the future to protect our intellectual property may not adequately prevent misappropriation or ensure that others will not develop competitive technologies or products. We cannot assure you that our competitors will not successfully challenge the validity of our patents or design products that avoid infringement of our proprietary rights with respect to our technology. There can be no assurance that other companies are not investigating or developing other similar technologies, that any patents will be issued from any application pending or filed by us, or that, if patents are issued, that the claims allowed will be sufficiently broad to deter or prohibit others from marketing similar products. In addition, we cannot assure you that any patents issued to us will not be challenged, invalidated or circumvented, or that the rights under those patents will provide a competitive advantage to us or that our products and technology will be adequately covered by our patents and other intellectual property. Further, the laws of certain regions in which our products are or may be developed, manufactured or sold, including Asia-Pacific, Southeast Asia and Latin America, may not be enforceable to protect our products and intellectual property rights to the same extent as the laws of the United States, the United Kingdom and continental European countries. This is especially relevant since we have transferred our assembly and test operations and chip-on-carrier operations, including certain engineering-related functions, to Shenzhen, China, and have recently signed an agreement to transition portions of these assembly and test operations to Venture in Malaysia. Opnext historically relied on Hitachi, one of our major shareholders, for assistance with the research and development efforts related to Opnext's product portfolio. Any failure of Hitachi to continue to provide these services could have a material adverse effect on our business. Opnext's product expertise is based on the research ability developed within their Hitachi heritage and through joint research and development in lasers and optical technologies. A key factor to Opnext's business success and strategy is fundamental laser research. Opnext relied on access to Hitachi's research laboratories pursuant to a research and development agreement with Hitachi, which includes access to Hitachi's research facilities and engineers, to conduct research and development activities that are important to the establishment of new technologies and products vital to their current and future business. Should access to Hitachi's research laboratories become unavailable or available at less attractive terms in the future, this may impede development of new technologies and products, and our financial condition and operating results could be materially adversely affected.

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

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

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

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

- qualify our manufacturing lines and the products we produce in Shenzhen, as required by our customers; and
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attract and retain qualified personnel to operate our Shenzhen facility, as we transition selected manufacturing activities to Venture.

We cannot assure you that we will be able to achieve these objectives.

Employee turnover in China is high due to the intensely competitive and fluid market for skilled labor. To operate our Shenzhen facility under these conditions, we need to continue to hire direct manufacturing personnel, administrative personnel and technical personnel; obtain and retain required legal authorization to hire such personnel; and incur the time and expense to hire and train such personnel. On March 28, 2012, shortly after announcing our agreement with Venture to transition certain manufacturing operations, certain of our employees in Shenzhen initiated a work stoppage. The work stoppage impacted our

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Shenzhen manufacturing capabilities temporarily up to and including April 4, 2012. Revenues for the three months ended March 31, 2012 were adversely impacted by approximately $4.0 million due to the work stoppage.

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

Operations in China are subject to greater political, legal and economic risks than our operations in other countries. In particular, the political, legal and economic climate in China, both nationally and regionally, is fluid and unpredictable. For example, we have been subject to commercial litigation in China initiated by a former supplier. For a description of this lawsuit, see Part II, Item 1, Legal Proceedings, "Raysung Commercial Litigation," in this Quarterly Report on Form 10-Q. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations such as those related to, among other things, taxation, import and export tariffs, environmental regulations, land use rights, intellectual property, currency controls, employee benefits and other matters. In addition, we may not obtain or retain the requisite legal permits to continue to operate in China, and costs or operational limitations may be imposed in connection with obtaining and complying with such permits.

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

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

Companies in the industry in which we operate frequently are sued or receive informal claims of patent infringement or infringement of other intellectual property rights. We have, from time to time, received such claims, including from competitors and from companies that have substantially more resources than us. For example, see Part I, Item 3, Legal Proceedings, "Furukawa Patent Litigation," in our 2014 Annual Report on Form 10-K.

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

Fluctuations in our operating results could adversely affect the market price of our common stock.
Our revenues and other operating results are likely to fluctuate significantly in the future. The timing of order placement, size of orders and satisfaction of contractual customer acceptance criteria, changes in the pricing of our products due to competitive pressures as well as order or shipment delays or deferrals, with respect to our products, acquisitions and asset sales may cause material fluctuations in revenues. Our lengthy sales cycle, which may extend to more than one year, may cause our revenues

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and operating results to vary from period to period and it may be difficult to predict the timing and amount of any variation. Delays or deferrals in purchasing decisions by our customers may increase as we develop new or enhanced products for new markets, including data communications, industrial, research, consumer and biotechnology markets. Our current and anticipated future dependence on a small number of customers increases the revenue impact of each such customer's decision to delay or defer purchases from us, or decision not to purchase products from us. Our expense levels in the future will be based, in large part, on our expectations regarding future revenue sources and, as a result, operating results for any quarterly period in which material orders fail to occur, or are delayed or deferred, could vary significantly.

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

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

The sale of our Komoro Business in 2014, the sale of our Zurich and Amplifier Businesses in 2013, and any future strategic disposition of assets or businesses or reduction in the number of our locations, each involve numerous risks. These risks include: (i) potential disruption of our ongoing business and distraction of management; (ii) difficulty segregating assets or businesses to be disposed of or consolidated; (iii) exposure to unknown, contingent or other liabilities, including litigation arising in connection with the disposition; (iv) changing our business profile in ways that could have unintended negative consequences; (v) the failure to achieve anticipated benefits; (vi) accounting charges that may affect our financial condition and results of operations; (vii) significant fluctuations in our revenues and operating results; (viii) our ability to support manufacturing services and transition services and the risk to the rest of our business resulting from resources focusing on those services. These asset sales contributed to a decrease in our total revenues during 2014 compared to 2013, and may contribute to a further decrease of revenues during 2015 compared to 2014. These decreases have and may continue to adversely impact our operating results. Additional asset sales that we may consider in the future could cause us to face similar risks, which could weaken our financial condition and adversely impact our operating results.

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

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

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

For fiscal years ended June 28, 2014, June 29, 2013 and June 30, 2012, 11 percent, 9 percent and 11 percent of our revenues, respectively, were derived from sales to customers located in the United States and 89 percent, 91 percent and 89 percent of our revenues, respectively, were derived from sales to customers located outside the United States. We are subject to additional risks related to operating in foreign countries, including:

- currency fluctuations, which could result in increased operating expenses and reduced revenues;
- greater difficulty in accounts receivable collection and longer collection periods;

- difficulty in enforcing or adequately protecting our intellectual property;
- ability to hire qualified candidates;
- foreign taxes;
- political, legal and economic instability in foreign markets;
- foreign regulations;
- changes in, or impositions of, legislative or regulatory requirements;
- trade restrictions, including restrictions imposed by the United States government on trading with parties in foreign countries;
- transportation delays;
- epidemics and illnesses;
- terrorism and threats of terrorism;
- work stoppages and infrastructure problems due to adverse weather conditions or natural disasters;
- work stoppages related to employee dissatisfaction;
- changes in import/export regulations, tariffs, and freight rates; and
- the effective protections of, and the ability to enforce, contractual arrangements.

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

We may face product liability claims.

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

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

The market price of our common stock has been, and is likely to continue to be, highly volatile. For example, between June 30, 2013 and June 28, 2014, the market price of our common stock ranged from a low of $0.88 per share to a high of $3.57 per share. Many factors could cause the market price of our common stock to rise and fall.

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

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

- low trading volume in our stock;
- developments relating to patents or property rights; and
- government regulatory changes.

In connection with our acquisition of Xtellus, during the first quarter of fiscal year 2012 we issued 0.9 million shares of our common stock to settle our escrow liability. In connection with our acquisition of Mintera, during the second quarter of fiscal year 2012, we issued 0.8 million shares of our common stock to pay portions of the 12 month earnout obligations. In connection with our acquisition of Opnext, during the first quarter of fiscal year 2013, we issued 38.4 million shares of our common stock. In addition, during the second quarter of fiscal year 2014, we issued 13.5 million shares of our common stock in connection with the exercise of the Convertible Notes. In May 2013, we also issued 1.8 million warrants to purchase our common stock at an exercise price of $1.50 per share in connection with the Term Loan we received in May 2013 (See Note 6, Credit Line and Notes in this Quarterly Report on Form 10-Q for further details). On May 2, 2014, these warrants were exercised, resulting in the issuance of 978,457 shares of our common stock. The issuance of these shares and their subsequent sale will dilute our existing stockholders and could potentially have a negative impact on our stock price.

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

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

We have been named as a party to derivative action lawsuits, and we may be named in additional litigation in the future, all of which would require significant management time and attention and result in significant legal expenses and may result in an unfavorable outcome which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

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

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

Litigation may substantially increase our costs and harm our business.

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

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

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

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

Many of our present and future business activities are subject to licensing by the United States government under the Export Administration Act, the Export Administration Regulations and other laws, regulations and requirements governing international trade and technology transfer. We presently manufacture products in China and Thailand that require such licenses. The profitable operations of our business may require the continuity of these licenses and may require further licenses and approvals for future products in these and other countries. However, there is no certainty to the continuity of these licenses, nor that further desired licenses and approvals may be obtained.

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

Opnext was initially created as a stand-alone entity by acquiring certain assets of Hitachi through various transactions. In connection with these transactions, Opnext acquired a number of patents and know-how from Hitachi, but also granted Hitachi and its wholly owned subsidiaries a perpetual right to continue to use those patents and know-how, as well as other patents and know-how that Opnext developed during a period which ended in July 2011 (or October 2012 in certain cases). This license back to Hitachi is broad and permits Hitachi to use this intellectual property for any products or services anywhere in the world, including licensing this intellectual property to our competitors. Additionally, while significant intellectual property owned by Hitachi was assigned to Opnext when Opnext was formed, Hitachi retained and only licensed to Opnext the intellectual property rights to underlying technologies used in both Opnext products and the products of Hitachi. Under the agreement, Hitachi remains free to license these intellectual property rights to the underlying technologies to any party, including competitors. The intellectual property that has been retained by Hitachi and that can be licensed in this manner does not relate solely or primarily to one or more of Opnext's products, or groups of products; rather, the intellectual property that is licensed to Opnext by Hitachi is generally used broadly across Opnext's entire product portfolio. Competition by third parties using the underlying technologies retained by Hitachi could harm the Opnext business, financial condition and results of

operations.
We may record additional impairment charges that will adversely impact our results of operations.
As of September 27, 2014, we had $3.3 million in other intangible assets and $44.3 million of property and equipment, net on our condensed consolidated balance sheet. If we make changes in our business strategy or if market or other conditions

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

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

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

Our business and operating results are vulnerable to natural disasters, such as earthquakes, fires, tsunami, volcanic activity and floods, as well as other events beyond our control such as power loss, telecommunications failures and uncertainties arising out of terrorist attacks in the United States and armed conflicts overseas. For example, in the latter three quarters of fiscal year 2012, our results of operations were materially and adversely impacted by the flooding in Thailand. Additionally, our corporate headquarters and a portion of our research and development and manufacturing operations are located in Silicon Valley, California, and select manufacturing facilities are located in Japan. These regions in particular have been vulnerable to natural disasters, such as the 2011 earthquake and subsequent tsunami that occurred in Japan. The occurrence of any of these events could pose physical risks to our property and personnel, which may adversely affect our ability to produce and deliver products to our customers. Although we presently maintain insurance against certain of these events, we cannot be certain that our insurance will be adequate to cover any damage sustained by us or by our customers.

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

We handle hazardous materials as part of our manufacturing activities. Consequently, our operations are subject to environmental laws and regulations governing, among other things, the use and handling of hazardous substances and waste disposal. We may incur costs to comply with current or future environmental laws. As with other companies engaged in manufacturing activities that involve hazardous materials, a risk of environmental liability is inherent in our manufacturing activities, as is the risk that our facilities will be shut down in the event of a release of hazardous waste, or that we would be subject to extensive monetary liabilities. The costs associated with environmental compliance or remediation efforts or other environmental liabilities could adversely affect our business. Under applicable European Union regulations, we, along with other electronics component manufacturers, are prohibited from using lead and certain other hazardous materials in our products. We could lose business or face product returns if we fail to maintain these requirements properly.

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

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

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

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

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

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

We may in the future issue shares of authorized preferred stock at any time.

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

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

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

We are subject to the provisions of Section 203 of the Delaware General Corporation Law which limit the right of a corporation to engage in a business combination with a holder of 15 percent or more of the corporation's outstanding voting securities, or certain affiliated persons. We do not currently have a stockholder rights plan in place.

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

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ITEM 6. EXHIBITS

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

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SIGNATURE

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 authorize

OCLARO, INC.
(Registrant)

| | | |
|---|---|---|
| November 6, 2014 | By: | /s/ GREG DOUGHERTY<br>Greg Dougherty<br>Chief Executive Officer<br>(Principal Executive Officer) |
| November 6, 2014 | By: | /s/ PETE MANGAN<br>Pete Mangan<br>Chief Financial Officer<br>(Principal Financial Officer) |

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EXHIBIT INDEX

| Exhibit Number | Description of Exhibit |
|---|---|
| 2.1 | Agreement and Plan of Merger dated March 26, 2012, among Oclaro, Inc., Tahoe Acquisition Sub, Inc. and Opnext, Inc. (previously filed as Exhibit 2.1 to Registrant's Current Report on Form 8-K filed on March 26, 2012 and incorporated herein by reference.) |
| 2.2 | Agreement of Merger among: Oclaro, Inc., a Delaware corporation; Nikko Acquisition Corp., a Delaware corporation; Mintera Corporation, a Delaware corporation; and Shareholder Representative Services LLC, as the Stockholders' Agent. Dated as of July 20, 2010 (previously filed as Exhibit 2.1 to Registrant's Current Report on Form 8-K filed on July 26, 2010 and incorporated herein by reference.) |
| 2.3 | Agreement of Merger among: Oclaro, Inc., a Delaware corporation; Rio Acquisition corp., a Delaware corporation; Xtellus Inc., a Delaware corporation; and Alta Berkeley LLP, as the Stockholders' Agent. Dated as of December 16, 2009 (previously filed as Exhibit 2.1 to Registrant's Current Report on Form 8-K filed on December 22, 2009 and incorporated herein by reference.) |
| 2.4 (3) | Master Separation Agreement, dated August 5, 2014, entered into by Oclaro Japan, Inc., Ushio Opto Semiconductors, Inc., and Ushio, Inc. (previously filed as Exhibit 2.4 to Registrant's Annual Report on Form 10-K on September 10, 2013 and incorporated herein by reference.) |
| 3.1 | Amended and Restated By-Laws of Oclaro, Inc. (previously filed as Exhibit 3.1 to Registrant's Current Report on Form 8-K filed on October 29, 2014 and incorporated herein by reference.) |
| 3.2 | Oclaro, Inc. Restated Certificate of Incorporation (previously filed as Exhibit 3.1 to Registrant's Current Report on Form 8-K filed on August 1, 2014 and incorporated herein by reference.) |
| 10.58(1)(2) | Form of Amended and Restated Indemnification Agreement between Oclaro, Inc. and its directors and executive officers |
| 10.59(1)(2) | Oclaro, Inc. Fourth Amended and Restated Long-Term Stock Incentive Plan, Form of Restricted Stock Agreement for Directors |
| 10.60(1)(2) | Oclaro, Inc. Fourth Amended and Restated Long-Term Stock Incentive Plan, Form of Restricted Stock Agreement |
| 10.61(1)(2) | Oclaro, Inc. Fourth Amended and Restated Long-Term Stock Incentive Plan, Form of Restricted Stock Unit Agreement |
| 10.62(1)(2) | Oclaro, Inc. Fourth Amended and Restated Long-Term Stock Incentive Plan, Form of Stock Option Agreement |
| 10.63(1)(2) | Oclaro, Inc. Fourth Amended and Restated Long-Term Stock Incentive Plan, Form of Performance Stock Unit Agreement |
| 31.1(1) | Certification of Chief Executive Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 |
| 31.2(1) | Certification of Chief Financial Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 |
| 32.1(1) | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 |
| 32.2(1) | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

(1) Filed herewith.
(2) Management contract or compensatory plan or arrangement.
(3) Portions of this exhibit have been omitted pursuant to a request for confidential treatment submitted to the Securities and Exchange Commission.

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