

OCLARO, INC.
Form 10-Q
May 11, 2011

Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 2, 2011

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

(State or other jurisdiction of incorporation or
organization)

20-1303994

(I.R.S. Employer 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 ☒ 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 ☐ 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 ☒

Non-accelerated filer ☐

Smaller reporting
company ☐

(Do not check if a smaller
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes ☐ No ☒

Number of shares of common stock outstanding as of May 4, 2011: 50,463,086

OCLARO, INC.
TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited):</u>	
<u>Condensed Consolidated Balance Sheets as of April 2, 2011 and July 3, 2010</u>	3
<u>Condensed Consolidated Statements of Operations for the three and nine months ended April 2, 2011 and April 3, 2010</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended April 2, 2011 and April 3, 2010</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	30
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	31
<u>Item 1A. Risk Factors</u>	32
<u>Item 6. Exhibits</u>	48
<u>Signature</u>	49
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)**

OCLARO, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	April 2, 2011	July 3, 2010
	(Thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 74,851	\$ 107,176
Restricted cash	854	4,458
Accounts receivable, net	96,447	93,412
Inventories	87,519	62,570
Prepaid expenses and other current assets	17,141	14,905
Total current assets	276,812	282,521
Property and equipment, net	64,786	37,516
Other intangible assets, net	20,423	10,610
Goodwill	30,904	20,000
Other non-current assets	10,041	10,148
Total assets	\$ 402,966	\$ 360,795
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 64,993	\$ 50,103
Accrued expenses and other liabilities	47,042	35,404
Total current liabilities	112,035	85,507
Deferred gain on sale-leaseback	13,176	12,969
Other non-current liabilities	15,894	9,785
Total liabilities	141,105	108,261
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock: 1,000 shares authorized; none issued and outstanding		
Common stock: \$0.01 par value per share; 90,000 shares authorized; 50,460 and 49,396 shares issued and outstanding at April 2, 2011 and July 3, 2010, respectively	505	494
Additional paid-in capital	1,312,179	1,304,779
Accumulated other comprehensive income	38,507	26,907
Accumulated deficit	(1,089,330)	(1,079,646)

Total stockholders' equity	261,861	252,534
Total liabilities and stockholders' equity	\$ 402,966	\$ 360,795

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

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	April 2, 2011	April 3, 2010	April 2, 2011	April 3, 2010
	(Thousands, except per share amounts)			
Revenues	\$ 115,681	\$ 101,152	\$ 357,327	\$ 279,836
Cost of revenues	87,269	73,322	258,346	205,156
Gross profit	28,412	27,830	98,981	74,680
Operating expenses:				
Research and development	17,220	11,288	46,627	29,977
Selling, general and administrative	16,087	14,451	46,049	42,249
Amortization of intangible assets	722	347	2,080	597
Restructuring, acquisition and related costs	1,019	1,610	2,592	6,149
Legal settlements			1,678	
(Gain) loss on sale of property and equipment	4	101	(65)	(502)
Total operating expenses	35,052	27,797	98,961	78,470
Operating income (loss)	(6,640)	33	20	(3,790)
Other income (expense):				
Interest income		11	16	36
Interest expense	(487)	(134)	(1,539)	(255)
Gain (loss) on foreign exchange	(2,032)	794	(6,738)	311
Other income				5,295
Total other income (expense)	(2,519)	671	(8,261)	5,387
Income (loss) from continuing operations before income taxes	(9,159)	704	(8,241)	1,597
Income tax provision	668	499	1,443	1,246
Income (loss) from continuing operations	(9,827)	205	(9,684)	351
Income from discontinued operations, net of tax				1,420
Net income (loss)	\$ (9,827)	\$ 205	\$ (9,684)	\$ 1,771
Basic net income (loss) per share:				
Income (loss) per share from continuing operations	\$ (0.20)	\$	\$ (0.20)	\$ 0.01
Income per share from discontinued operations				0.04
Basic net income (loss) per share	\$ (0.20)	\$	\$ (0.20)	\$ 0.05
Diluted net income (loss) per share:				
Income (loss) per share from continuing operations	\$ (0.20)	\$	\$ (0.20)	\$ 0.01

Edgar Filing: OCLARO, INC. - Form 10-Q

Income per share from discontinued operations				0.03
Diluted net income (loss) per share	\$ (0.20)	\$	\$ (0.20)	\$ 0.04
Shares used in computing net income (loss) per share:				
Basic	48,587	41,095	48,321	38,752
Diluted	48,587	43,829	48,321	40,331

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

4

Table of Contents

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

	Nine Months Ended	
	April 2, 2011	April 3, 2010
	(Thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (9,684)	\$ 1,771
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of deferred gain on sale-leaseback	(693)	(643)
Depreciation and amortization	12,788	8,667
Gain on bargain purchase		(5,267)
Gain on sale of discontinued operations		(1,420)
Stock-based compensation expense	4,629	3,175
Other non-cash adjustments	(65)	(851)
Changes in operating assets and liabilities:		
Accounts receivable, net	6,817	(18,677)
Inventories	(17,908)	6,481
Prepaid expenses and other current assets	(1,018)	(16)
Other non-current assets	141	1,559
Accounts payable	10,204	10,788
Accrued expenses and other liabilities	(3,792)	(7,213)
Net cash provided by (used in) operating activities	1,419	(1,646)
Cash flows from investing activities:		
Purchases of property and equipment	(32,881)	(5,945)
Proceeds from sales of property and equipment	75	691
Sales and maturities of available-for-sale investments		9,258
Transfer (to) from restricted cash	3,703	(103)
Purchase of intangibles and equipment from an asset purchase		(250)
Cash (paid for) received from business combinations	(10,482)	3,277
Net cash provided by (used in) investing activities	(39,585)	6,928
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	2,645	137
Proceeds from borrowings under line of credit		2,500
Repayment of loans		(52)
Net cash provided by financing activities	2,645	2,585
Effect of exchange rate on cash and cash equivalents	3,196	(952)
Net increase (decrease) in cash and cash equivalents	(32,325)	6,915
Cash and cash equivalents at beginning of period	107,176	44,561

Cash and cash equivalents at end of period	\$ 74,851	\$ 51,476
--	-----------	-----------

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

Table of Contents

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

Note 1. Basis of Preparation

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Oclaro, Inc., a Delaware corporation, (Oclaro, we, us or our) as of April 2, 2011 and for the three and nine months ended April 2, 2011 and April 3, 2010 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 its 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 condensed consolidated financial position and results of operations have been included. The condensed consolidated results of operations for the three and nine months ended April 2, 2011 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending July 2, 2011.

The condensed consolidated balance sheet as of July 3, 2010 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 July 3, 2010 (2010 Form 10-K).

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 and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reported periods. These judgments can be subjective and complex, and consequently, actual results could differ materially from those estimates and assumptions. Descriptions of some of the key estimates and assumptions are included in our 2010 Form 10-K.

Fiscal Years

We operate on a 52/53 week year ending on the Saturday closest to June 30. Our fiscal year ended July 3, 2010 was a 53 week year, with the quarter ended January 2, 2010 being a 14 week quarterly period. Our fiscal year ending July 2, 2011 will be a 52 week year.

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 net income (loss), cash flows, cash and cash equivalents or stockholders' equity, as previously reported.

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the three or nine months ended April 2, 2011 that are of significance, or potential significance, to us.

Comprehensive Income (Loss)

For the three and nine months ended April 2, 2011 and April 3, 2010, comprehensive income (loss) is primarily comprised of our net income (loss), changes in the unrealized gain (loss) on currency instruments designated as cash flow hedges, unrealized loss on marketable securities and short-term investments and currency translation adjustments.

Table of Contents

The components of comprehensive income (loss) were as follows for the periods indicated:

	Three Months Ended		Nine Months Ended	
	April 2, 2011	April 3, 2010	April 2, 2011	April 3, 2010
	(Thousands)			
Net income (loss)	\$ (9,827)	\$ 205	\$ (9,684)	\$ 1,771
Other comprehensive income (loss):				
Unrealized gain (loss) on currency instruments designated as cash flow hedges	149	(210)	184	121
Currency translation adjustments	4,062	(1,766)	11,454	(1,320)
Unrealized loss on marketable securities	(38)		(38)	
Unrealized loss on short-term investments				(7)
Comprehensive income (loss)	\$ (5,654)	\$ (1,771)	\$ 1,916	\$ 565

Note 2. Fair Value

We define fair value as the 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; and

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 non-current 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 marketable securities and money market securities. Such instruments are generally classified within Level 1 of the fair value hierarchy. The type of instrument valued based on other observable inputs are foreign currency forward exchange contracts. Such instruments are generally classified within Level 2 of the fair value hierarchy.

We have classified an escrow liability issued in connection with our acquisition of Xtellus Inc. (Xtellus) within Level 2 of the fair value hierarchy, as its value was derived by discounting the total liability of \$7.0 million due 18 months after the acquisition to its present value using our incremental borrowing cost.

During the first quarter of fiscal year 2011, we classified earnout liabilities arising from our acquisition of Mintera Corporation (Mintera) within Level 3 of the fair value hierarchy because their values were primarily derived from management estimates of future operating results. See Note 3, *Business Combinations*, for additional details regarding these liabilities.

Table of Contents

We have a defined benefit pension plan in Switzerland whose assets are classified within Level 1 of the fair value hierarchy for plan assets of cash, equity investments and fixed income investments, and Level 3 of the fair value hierarchy for plan assets of real estate and alternative investments. These pension plan assets are not reflected in the accompanying condensed consolidated balance sheets, and are thus not included in the tables below.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value are shown in the table below by their corresponding balance sheet caption and consisted of the following types of instruments at April 2, 2011:

	Fair Value Measurement at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
				(Thousands)
Assets:				
Cash and cash equivalents (1):				
Money market funds	\$ 40,197	\$	\$	\$ 40,197
Prepaid expenses and other current assets:				
Unrealized gain on currency instruments designated as cash flow hedges		233		233
Other non-current assets:				
Marketable securities	267			267
Total assets measured at fair value	\$ 40,464	\$ 233	\$	\$ 40,697
Liabilities:				
Accrued expenses and other liabilities:				
Escrow liability for Xtellus acquisition (2)	\$	\$ 6,883	\$	\$ 6,883
Earnout liability for Mintera acquisition (2)			4,541	4,541
Other non-current liabilities:				
Earnout liability for Mintera acquisition (2)			11,328	11,328
Total liabilities measured at fair value	\$	\$ 6,883	\$ 15,869	\$ 22,752

(1) Excludes \$34.7 million in cash held in our bank accounts at April 2, 2011.

(2) Includes interest expense accrued during the nine months ended April 2, 2011.

The following table provides details regarding the changes in assets and liabilities classified within Level 3 from July 3, 2010 to April 2, 2011:

Fair Value Measured and

	Recorded Using Significant Unobservable Inputs (Level 3)	
	Accrued Expenses and Other Liabilities	Other Non-Current Liabilities
	(Thousands)	
Balance at July 3, 2010	\$	\$
Earnout liabilities from Mintera acquisition	4,338	10,810
Interest expense on Mintera earnout liabilities	203	518
Balance at April 2, 2011	\$ 4,541	\$ 11,328

Table of Contents

Derivative Financial Instruments

At the end of each accounting period, we mark-to-market all foreign currency forward exchange contracts that have been designated as cash flow hedges and changes in fair value are recorded in accumulated other comprehensive income until the underlying cash flow is settled and the contract is recognized in other income (expense) in our condensed consolidated statements of operations. As of April 2, 2011, we held ten outstanding foreign currency forward exchange contracts to sell U.S. dollars and buy U.K. pounds sterling. All of these contracts have been designated as cash flow hedges. These contracts had an aggregate notional value of approximately \$10.5 million of put and call options which expire, or expired, at various dates ranging from April 2011 through November 2011. To date, we have not entered into any such contracts for longer than 12 months and, accordingly, all amounts included in accumulated other comprehensive income as of April 2, 2011 will generally be reclassified into other income (expense) within the next 12 months. As of April 2, 2011, each of the ten designated cash flow hedges was determined to be fully effective; therefore, we recorded an unrealized gain of \$0.2 million to accumulated other comprehensive income related to recording the fair value of these foreign currency forward exchange contracts.

Note 3. Business Combinations

During the three and nine months ended April 2, 2011, we recorded nil and \$0.1 million, respectively, in legal and other direct acquisition-related costs in connection with business combinations. During the three and nine months ended April 3, 2010, we recorded \$0.9 million and \$2.5 million, respectively, in legal and other direct acquisition-related costs in connection with business combinations. These costs are recorded within restructuring, acquisition and related costs in our condensed consolidated statement of operations.

Sale of the New Focus Business and Acquisition of Newport's High Power Laser Diodes Business

On July 4, 2009, we sold the net assets of our New Focus business to Newport Corporation (Newport) in exchange for the net assets of Newport's high power laser diodes business and \$3.0 million in cash proceeds. This transaction resulted in the recording of \$1.4 million in income from discontinued operations from the sale of the New Focus business and a \$5.3 million gain on bargain purchase of Newport's high power laser diodes business during the quarter ended September 26, 2009.

Acquisition of Xtellus

On December 17, 2009, we acquired Xtellus and accounted for the assets acquired and liabilities assumed from this acquisition using the purchase method of accounting. During the first quarter of fiscal year 2011, we completed our fair value assessment of the Xtellus acquisition, which resulted in no change to the estimated fair values of the assets acquired and liabilities assumed from the amounts we previously reported in our 2010 Form 10-K.

We are obligated to pay an additional \$7.0 million in consideration to the former Xtellus stockholders after an 18 month escrow period established to secure the indemnification obligations of the Xtellus stockholders under the acquisition agreement. The \$7.0 million, less any indemnified obligations which may be assumed by us, will become payable in cash, or, at our option, in newly issued shares of our common stock, or a combination of cash and stock, in June 2011. The estimated fair value of this obligation was \$6.3 million at the acquisition date, and was recorded in other non-current liabilities in our condensed consolidated balance sheet at July 3, 2010. During the first quarter of fiscal year 2011, we reclassified this escrow liability from other non-current liabilities to accrued expenses and other liabilities. During the three and nine months ended April 2, 2011, we recorded \$0.1 million and \$0.6 million in interest expense related to the Xtellus escrow liability.

We also reassessed the fair value of the Xtellus valuation protection guarantee during the second quarter of fiscal year 2011. Based on the criteria established in the merger agreement for the guarantee with Xtellus, no liability was due. This guarantee expired in December 2010.

Further description of the Xtellus acquisition is included in Note 3, *Business Combinations*, of our 2010 Form 10-K.

Table of Contents***Acquisition of Mintera***

On July 21, 2010, we acquired Mintera, a privately-held company providing high-performance optical transport sub-systems solutions. We accounted for the assets acquired and liabilities assumed from this acquisition using the purchase method of accounting. Under the terms of this agreement, we paid \$10.5 million in cash to the former security holders and creditors of Mintera at the time of close and assumed \$1.5 million in liabilities due by the security holders of Mintera, which we paid during the three months ended October 2, 2010. We also agreed to pay additional revenue-based consideration whereby former security holders of Mintera are entitled to receive up to \$20.0 million, determined based on a set of sliding scale formulas, to the extent revenue from Mintera products is more than \$29.0 million in the 12 months following the acquisition and/or more than \$40.0 million in the 18 months following the acquisition. The earnout consideration, if any, will be payable in cash or, at our option, newly issued shares of our common stock, or a combination of cash and stock, in October 2011 for the 12 month earnout liability and April 2012 for the 18 month earnout liability. Achieving cumulative revenues of \$40.0 million over the next 12 month period and \$70.0 million over the next 18 month period would lead to the maximum \$20.0 million in additional consideration. The estimated fair value of these obligations were determined using management estimates of the total amounts expected to be paid based on estimated future operating results, discounted to their present value using our incremental borrowing cost. The estimated fair value of these obligations were \$15.1 million at the acquisition date, and have been recorded in accrued expenses and other liabilities and other non-current liabilities in our condensed consolidated balance sheet at April 2, 2011. We reassessed the fair value of these obligations during the current quarter, determining that their values as of April 2, 2011 should remain at \$15.1 million (plus accrued interest from the acquisition date). During the three and nine months ended April 2, 2011, we recorded \$0.3 million and \$0.7 million in interest expense related to these liabilities.

For accounting purposes, the total fair value of consideration given in connection with the acquisition of Mintera was \$25.6 million, consisting of the following:

	Total Consideration (Thousands)
Consideration to security holders and creditors of Mintera	\$ 12,000
Less: Unpaid liabilities of Mintera security holders assumed by Oclaro	(1,518)
Net cash paid to security holders and creditors of Mintera	10,482
Estimated fair value for the 12-month earnout liability	4,338
Estimated fair value for the 18-month earnout liability	10,810
Total estimated fair value for the earnout liabilities	15,148
Total consideration	\$ 25,630

Our allocation of the purchase price of Mintera, based on the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date, is as follows:

	Purchase Price (Thousands)
Restricted cash	\$ 41
Accounts receivable, net	3,053
Inventories	2,592
Prepaid expenses and other current assets	130
Property and equipment, net	3,202

Other intangible assets	11,740
Accounts payable	(1,947)
Accrued expenses and other current liabilities	(4,085)
Fair value of assets acquired and liabilities assumed	14,726
Goodwill	10,904
Total purchase price	\$ 25,630

Table of Contents

During the second quarter of fiscal year 2011, we completed our fair value assessment of the Mintera acquisition, which resulted in no change to the estimated fair values of the assets acquired and liabilities assumed from the amounts we previously reported in our Form 10-Q for the period ended October 2, 2010.

Unaudited Pro Forma Financial Information

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition of Mintera had occurred as of June 28, 2009, the first day of our fiscal year 2010:

	Three Months Ended		Nine Months Ended	
	April 2, 2011	April 3, 2010	April 2, 2011	April 3, 2010
	(Thousands)		(Thousands)	
Revenues	\$ 115,681	\$ 104,037	\$ 357,795	\$ 296,445
Loss from continuing operations	\$ (9,827)	\$ (4,438)	\$ (12,042)	\$ (7,186)
Net loss	\$ (9,827)	\$ (4,438)	\$ (12,042)	\$ (5,766)
Net loss per share basic	\$ (0.20)	\$ (0.11)	\$ (0.25)	\$ (0.15)
Net loss per share diluted	\$ (0.20)	\$ (0.11)	\$ (0.25)	\$ (0.15)
Shares used in computing net loss per share basic	48,587	41,095	48,321	38,752
Shares used in computing net loss per share diluted	48,587	41,095	48,321	38,752

This unaudited pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the Mintera acquisition been consummated as of that time, nor is it intended to be a projection of future results. In addition, this unaudited pro forma financial information does not include the impact of additional acquisitions completed in fiscal year 2010.

Note 4. Balance Sheet Details

The following table provides details regarding our cash and cash equivalents at the dates indicated:

	April 2, 2011	July 3, 2010
	(Thousands)	
Cash and cash equivalents:		
Cash-in-bank	\$ 34,654	\$ 23,962
Money market funds	40,197	83,214
	\$ 74,851	\$ 107,176

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

	April 2, 2011	July 3, 2010
	(Thousands)	
Inventories:		
Raw materials	\$ 32,905	\$ 17,732
Work-in-process	35,035	32,491
Finished goods	19,579	12,347
	\$ 87,519	\$ 62,570

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

Table of Contents

	April 2, 2011	July 3, 2010
	(Thousands)	
Property and equipment, net:		
Buildings	\$ 16,660	\$ 16,104
Plant and machinery	134,756	97,186
Fixtures, fittings and equipment	1,627	1,142
Computer equipment	13,729	12,232
	166,772	126,664
Less: Accumulated depreciation	(101,986)	(89,148)
	\$ 64,786	\$ 37,516

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

	April 2, 2011	July 3, 2010
	(Thousands)	
Accrued expenses and other liabilities:		
Trade payables	\$ 7,379	\$ 4,464
Compensation and benefits related accruals	9,899	8,688
Warranty accrual	2,010	2,437
Restructuring accrual	366	4,338
Escrow liability for Xtellus acquisition (1)	6,883	
Earnout liability for Mintera acquisition (2)	4,541	
Other accruals	15,964	15,477
	\$ 47,042	\$ 35,404

(1) Includes interest expense accrued during the nine months ended April 2, 2011. During the first quarter of fiscal year 2011, we reclassified this escrow liability from other non-current liabilities to accrued expenses and other liabilities.

(2) Includes interest expense accrued during the nine months ended April 2, 2011.

The following table presents details regarding our other non-current liabilities at the dates indicated:

	April 2, 2011	July 3, 2010
	(Thousands)	
Other non-current liabilities		
Escrow liability for Xtellus acquisition (1)	\$	\$ 6,324
Earnout liability for Mintera acquisition (2)	11,328	
Other non-current liabilities	4,566	3,461
	\$ 15,894	\$ 9,785

(1) *During the first quarter of fiscal year 2011, we reclassified this escrow liability from other non-current liabilities to accrued expenses and other liabilities.*

(2) *Includes interest expense accrued during the nine months ended April 2, 2011.*

Table of Contents**Note 5. Goodwill and Other Intangible Assets**

In connection with our acquisition of Mintera on July 21, 2010, we recorded \$10.9 million in goodwill and \$11.7 million in other intangible assets. The other intangible assets acquired from Mintera consist of core and current technology assets of \$6.0 million with a weighted-average life of 6 years, a development agreement of \$3.4 million with a weighted-average life of 7 years, customer relationships of \$1.4 million with a weighted-average life of 8.5 years, manufacturing software of \$0.7 million with a weighted-average life of 6 years, patents of \$0.1 million with a weighted-average life of 5.5 years, trade names of \$80,000 with a weighted-average life of 1.5 years and backlog of \$30,000 with a weighted-average life of 1.5 years.

The following table provides details regarding the changes in our goodwill and other intangible assets from July 3, 2010 to April 2, 2011:

	Goodwill	Cost	Other Intangible Assets Accumulated Amortization (Thousands)	Net Book Value
Balance at July 3, 2010	\$ 20,000	\$ 12,815	\$ (2,205)	\$ 10,610
Acquired	10,904	11,740		11,740
Amortization			(2,080)	(2,080)
Exchange rate adjustment		153		153
Balance at April 2, 2011	\$ 30,904	\$ 24,708	\$ (4,285)	\$ 20,423

The following table reflects the components of other intangible assets, net at the dates indicated:

	April 2, 2011	July 3, 2010
	(Thousands)	
Other intangible assets, net		
Core and current technology	\$ 10,939	\$ 4,909
Development agreement	3,350	
Supply agreements	3,209	3,056
Customer relationships	3,200	1,760
Patent portfolio	2,910	2,780
Manufacturing software	680	
Tradename	280	200
Backlog	140	110
	24,708	12,815
Less: Accumulated amortization	(4,285)	(2,205)
	\$ 20,423	\$ 10,610

Amortization of other intangible assets for the three and nine months ended April 2, 2011 was \$0.7 million and \$2.1 million, respectively. Amortization of other intangible assets for the three and nine months ended April 3, 2010 was \$0.3 million and \$0.6 million, respectively. Amortization is recorded as an operating expense within our condensed consolidated statements of operations. Estimated future amortization expense of other intangible assets is \$0.7 million for the remaining three months of fiscal year 2011, \$3.3 million for each of the fiscal years 2012 to 2015 and \$3.0 million for fiscal year 2016.

Note 6. Restructuring Liabilities

The following table summarizes activities related to our restructuring liabilities for the nine months ended April 2, 2011:

13

Table of Contents

	Accrued Restructuring Costs at July 3, 2010	Amounts Charged to Restructuring Costs	Amounts Paid (Thousands)	Adjustments	Accrued Restructuring Costs at April 2, 2011
Lease cancellations and commitments and other charges	\$ 4,107	\$	\$ (3,200)	\$ (541)	\$ 366
Employee separation costs	231	1,103	(1,091)	(243)	
Total accrued restructuring charges	\$ 4,338	\$ 1,103	\$ (4,291)	\$ (784)	\$ 366

We accrued nil and \$0.5 million in additional employee separation costs during the three and nine months ended April 2, 2011 in connection with cost reduction and restructuring plans initiated prior to fiscal year 2011. During the first quarter of fiscal year 2011, we initiated a restructuring plan specific to our acquisition of Mintera. We incurred nil and \$0.6 million in employee separation costs under the Mintera plan during the three and nine months ended April 2, 2011 and do not expect to incur significant additional restructuring costs under this plan. During the three and nine months ended April 2, 2011, we recorded reductions to our restructuring reserve of \$0.3 million and \$0.5 million, respectively, resulting from revised estimates for lease cancellations and commitments and other charges. We also recorded a reduction to our restructuring reserve of \$0.2 million related to employee separation costs during the three and nine months ended April 2, 2011.

Note 7. Credit Facility

As of April 2, 2011, we had a \$25.0 million senior secured revolving credit facility with Wells Fargo Capital Finance, Inc. and other lenders with an expiration date of August 1, 2012. As of April 2, 2011 and July 3, 2010, there were no amounts outstanding under the credit facility. At April 2, 2011, we had a standby letter of credit in the amount of \$1.0 million with a vendor secured under the credit facility. This standby letter of credit expires in June 2011.

Note 8. Post-Retirement Benefits***Switzerland Defined Benefit Plan (Swiss Plan)***

Net periodic pension costs associated with our Swiss Plan for the three and nine months ended April 2, 2011 included the following components:

	Three Months Ended April 2, 2011	Nine Months Ended April 2, 2011
	(Thousands)	
Service cost	\$ 447	\$ 1,302
Interest cost	188	547
Expected return on plan assets	(248)	(721)
Net periodic pension costs	\$ 387	\$ 1,128

During the three and nine months ended April 2, 2011, we contributed \$0.6 million and \$1.5 million, respectively, to our Swiss Plan. We currently anticipate contributing an additional \$0.5 million to this pension plan in the remainder of fiscal year 2011.

Table of Contents**Note 9. Commitments and Contingencies*****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.

We also have indemnification clauses in various contracts that we enter into in the normal course of business, such as those issued by our bankers in favor of certain suppliers or 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.

Warranty accrual

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		Nine Months Ended	
	April	April 3,	April	April 3,
	2,	2010	2,	2010
	2011		2011	
	(Thousands)			
Warranty provision beginning of period	\$ 2,241	\$ 2,486	\$ 2,437	\$ 2,228
Warranties assumed in acquisitions			357	248
Warranties issued	450	1,162	1,326	2,862
Warranties utilized or expired	(741)	(687)	(2,221)	(2,351)
Currency translation adjustment	60	(82)	111	(108)
Warranty provision end of period	\$ 2,010	\$ 2,879	\$ 2,010	\$ 2,879

Litigation

On June 26, 2001, the first of a number of securities class actions was filed in the United States District Court for the Southern District of New York against New Focus, Inc., now known as Oclaro Photonics, Inc. (New Focus), certain of its officers and directors, and certain underwriters for New Focus initial and secondary public offerings. A consolidated amended class action complaint, captioned *In re New Focus, Inc. Initial Public Offering Securities Litigation*, No. 01 Civ. 5822, was filed on April 20, 2002. The complaint generally alleges that various underwriters engaged in improper and undisclosed activities related to the allocation of shares in New Focus initial public offering and seeks unspecified damages for claims under the Exchange Act on behalf of a purported class of purchasers of common stock from May 17, 2000 to December 6, 2000.

The lawsuit against New Focus is coordinated for pretrial proceedings with a number of other pending litigations challenging underwriter practices in over 300 cases, as *In re Initial Public Offering Securities Litigation*, 21 MC 92 (SAS), including actions against Bookham Technology plc, now known as Oclaro Technology Ltd (Bookham Technology) and Avanex Corporation, now known as Oclaro (North America), Inc. (Avanex), and certain of each entity's respective officers and directors, and certain of the underwriters of their public offerings. In October 2002, the claims against the directors and officers of New Focus, Bookham Technology and Avanex were

Table of Contents

dismissed, without prejudice, subject to the directors' and officers' execution of tolling agreements.

The parties have reached a global settlement of the litigation. On October 5, 2009, the Court entered an order certifying a settlement class and granting final approval of the settlement. Under the settlement, the insurers will pay the full amount of the settlement share allocated to New Focus, Bookham Technology and Avanex, and New Focus, Bookham Technology and Avanex will bear no financial liability. New Focus, Bookham Technology and Avanex, as well as the officer and director defendants who were previously dismissed from the action pursuant to tolling agreements, will receive complete dismissals from the case. Certain objectors have appealed the Court's October 5, 2009 order to the Second Circuit Court of Appeals. If for any reason the settlement does not become effective, we believe that Bookham Technology, New Focus and Avanex have meritorious defenses to the claims and therefore believe that such claims will not have a material effect on our financial position, results of operations or cash flows.

On May 27, 2009, a patent infringement action captioned *QinetiQ Limited v. Oclaro, Inc.*, Civil Action No. 1:09-cv-00372 was filed in the United States District Court for the District of Delaware. Additionally, we filed a motion to transfer venue to the Northern District of California, which was granted on December 18, 2009. After transfer, the litigation was assigned Civil Action No. 4:10-cv-00080-SBA by the Northern District Court. On March 17, 2011, the parties entered into a confidential settlement agreement. The litigation has been dismissed with prejudice.

On December 6, 2010, a bankruptcy preferential transfer avoidance action was filed by Nortel Networks Inc. *et al.* against Oclaro Technology Ltd. (formerly Bookham Technology, Plc.) and Oclaro (North America), Inc. (formerly Avanex Corporation) in the United States Bankruptcy Court for the District of Delaware, Adversary Proceeding No. 10-55919-KG. The complaint alleges, among other things, that Nortel Networks Inc., and/or its affiliated debtors in the Chapter 11 bankruptcy cases also pending before the Delaware Bankruptcy Court (Jointly Administered Case No. 09-10138-KG), made at least \$4,593,152 in preferential transfers to the defendants' predecessors, Bookham Technology Plc. and Avanex Corporation, in the 90 days prior to the commencement of the Nortel Chapter 11 bankruptcy cases on January 14, 2009. We intend to vigorously contest the claims set forth in the complaint.

Note 10. Stockholders' Equity**Warrants**

The following table summarizes activity relating to warrants to purchase our common stock for the nine months ended April 2, 2011:

	Warrants Outstanding (Thousands)	Weighted- Average Exercise Price
Balance at July 3, 2010	1,616	\$ 18.78
Expired on January 13, 2011	(217)	35.00
Balance at April 2, 2011	1,399	\$ 16.27

In fiscal year 2006, we issued warrants to investors to purchase 217,206 shares of our common stock. These warrants were exercisable from July 13, 2006 to January 13, 2011 at an exercise price per share of \$35.00. All of these warrants expired on January 13, 2011.

Table of Contents***Accumulated Other Comprehensive Income***

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

	April 2, 2011	July 3, 2010 (Thousands)
Accumulated other comprehensive income:		
Currency translation adjustments	\$ 39,465	\$ 28,011
Unrealized gain on currency instruments designated as cash flow hedges	233	49
Unrealized loss on marketable securities	(38)	
Swiss defined benefit plan	(1,153)	(1,153)
	\$ 38,507	\$ 26,907

Note 11. Employee Stock Plans

Our Amended and Restated 2004 Stock Incentive Plan (Plan) was amended by stockholder approval on October 27, 2010. The primary changes to the Plan resulting from this amendment include: (1) an increase in the number of shares available under the Plan from 3,800,000 shares to 7,800,000 shares, (2) issuance of full value awards being counted as 1.25 shares of common stock for purposes of the share limit, and (3) a prohibition on recycling of repurchased shares in cases where shares are used to exercise an award or shares are withheld for taxes. As amended, the Plan now expires on October 26, 2020.

As of April 2, 2011, there were approximately 3.8 million shares of our common stock available for grant under the Plan. We generally grant stock options that vest over a 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.

The following table summarizes the combined activity under all of our equity incentive plans for the nine months ended April 2, 2011:

	Shares Available For Grant (Thousands)	Stock Options Outstanding (Thousands)	Weighted- Average Exercise Price	Restricted Stock Awards / Units Outstanding (Thousands)	Weighted- Average Grant Date Fair Value
Balances at July 3, 2010	1,089	3,186	\$ 8.78	703	\$ 6.42
Granted	(1,376)	837	11.58	484	8.25
Exercised or released		(502)	4.68	(250)	5.37
Cancelled or forfeited	58	(109)	9.34	(112)	6.25
Increase in available for grant	4,000				
Balances at April 2, 2011	3,771	3,412	\$ 9.46	825	\$ 9.69

Supplemental disclosure information about our stock options outstanding as of April 2, 2011 is as follows:

Shares	Weighted- Average	Weighted- Average Remaining	Aggregate Intrinsic Value
--------	----------------------	-----------------------------------	---------------------------------

		Exercise Price	Contractual Life	
	(Thousands)		(Years)	(Thousands)
Options exercisable at April 2, 2011	1,337	\$ 12.24	6.5	\$ 5,431
Options outstanding at April 2, 2011	3,412	9.46	7.7	13,064
	17			

Table of Contents

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 \$10.90 on April 1, 2011, which would have been received by the option holders had all option holders exercised their options as of that date. There were approximately 1.0 million shares of common stock subject to in-the-money options which were exercisable as of April 2, 2011. We settle employee stock option exercises with newly issued shares of common stock.

Note 12. Stock-based Compensation

We recognize compensation expense in our 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 for the three and nine months ended April 2, 2011 and April 3, 2010 were as follows:

	Three Months Ended		Nine Months Ended	
	April 2, 2011	April 3, 2010	April 2, 2011	April 3, 2010
Expected life	4.5 years	4.5 years	4.5 years	4.5 years
Risk-free interest rate	1.9%	2.2%	1.3%	2.3%
Volatility	97.8%	95.9%	96.8%	99.8%
Dividend yield				

The amounts included in cost of revenues and operating expenses for stock-based compensation for the three and nine months ended April 2, 2011 and April 3, 2010 were as follows:

	Three Months Ended		Nine Months Ended	
	April 2, 2011	April 3, 2010	April 2, 2011	April 3, 2010
	(Thousands)			
Stock-based compensation by category of expense:				
Cost of revenues	\$ 352	\$ 226	\$ 1,012	\$ 640
Research and development	344	332	1,053	831
Selling, general and administrative	901	666	2,564	1,704
	\$ 1,597	\$ 1,224	\$ 4,629	\$ 3,175
Stock-based compensation by type of award:				
Stock options	\$ 988	\$ 629	\$ 2,658	\$ 2,257
Restricted stock awards	639	741	2,109	1,178
Inventory adjustment to cost of revenues	(30)	(146)	(138)	(260)
	\$ 1,597	\$ 1,224	\$ 4,629	\$ 3,175

As of April 2, 2011 and July 3, 2010, we had capitalized approximately \$0.4 million and \$0.2 million, respectively, of stock-based compensation as inventory.

Note 13. Income Taxes

The total amount of our unrecognized tax benefits as of April 2, 2011 and July 3, 2010 was approximately \$9.4 million and \$8.4 million, respectively. For the three and nine months ended April 2, 2011, we had \$1.8 million in 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, management does not expect that changes to our

unrecognized tax benefits will be significant in the next twelve months. We are currently under audit in France. We do not anticipate any significant adjustment to our financial position or results of operations as a result of this examination.

Table of Contents**Note 14. Net Income (Loss) Per Share**

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

	Three Months Ended		Nine Months Ended	
	April 2, 2011	April 3, 2010	April 2, 2011	April 3, 2010
	(Thousands, except per share amounts)			
Net income (loss)	\$ (9,827)	\$ 205	\$ (9,684)	\$ 1,771
Weighted-average shares basic	48,587	41,095	48,321	38,752
Effect of dilutive potential common shares from:				
Stock options		1,472		914
Restricted stock awards		760		473
Obligations under escrow agreement		502		192
Weighted-average shares diluted	48,587	43,829	48,321	40,331
Basic net income (loss) per share	\$ (0.20)	\$	\$ (0.20)	\$ 0.05
Diluted net income (loss) per share	\$ (0.20)	\$	\$ (0.20)	\$ 0.04

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 (loss) per share is computed assuming conversion of all potentially dilutive securities, such as stock options, unvested restricted stock awards, warrants and obligations under escrow agreements during such period.

For the three months ended April 2, 2011, we excluded 5.0 million of outstanding stock options, warrants and restricted stock units from the calculation of diluted net income per share because their effect would have been anti-dilutive. For the three months ended April 3, 2010, we excluded 2.4 million of outstanding stock options and warrants from the calculation of diluted net income per share because their effect would have been anti-dilutive. For the nine months ended April 2, 2011, we excluded 4.7 million of outstanding stock options and warrants from the calculation of diluted net income per share because their effect would have been anti-dilutive. For the nine months ended April 3, 2010, we excluded 3.5 million of outstanding stock options and warrants from the calculation of diluted net income per share because their effect would have been anti-dilutive.

Note 15. Operating Segments and Related Information

Up to and through the second quarter of fiscal year 2011, we were organized and operated as two operating segments: (i) telecom and (ii) advanced photonics solutions (APS). Our telecom segment was responsible for the design, development, chip and filter level manufacturing, marketing and selling of high performance core optical network components, module and subsystem products to telecommunications systems vendors. Our advanced photonics solutions segment was responsible for the design, manufacture, marketing and selling of optics and photonics solutions for markets including material processing, printing, medical and consumer applications.

In late 2010, we aligned our APS portfolio to more fully leverage the assets of our telecom business. This was the culmination of our 2009 transaction to acquire the laser diodes assets of Newport in exchange for our New Focus photonics tools business. Our APS products, strategies and infrastructure support are now more closely aligned with the rest of our telecom business, and beginning in the third quarter of fiscal year 2011 we operate our business accordingly, under the same management. As a result, beginning in the third quarter of fiscal year 2011 we are no longer reporting APS as a separate operating segment. In January 2011, we also announced the further realignment of our four telecom business units into two business units, one of which contains our former APS product lines. The intent is to simplify our organizational structure to focus on ramping new products, simplifying our customer interface, and strengthening our execution of product development and other key initiatives. Our new photonics components business unit is focused on delivering component level solutions to our customers, and it includes our former APS products. Our new optical networks solutions business unit is focused on delivering module and

Table of Contents

subsystem level solutions to substantially the same telecom customers. Single sales and operation functions support all of the products in each business unit.

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

	Three Months Ended		Nine Months Ended	
	April 2, 2011	April 3, 2010	April 2, 2011	April 3, 2010
	(Thousands)			
United States	\$ 18,222	\$ 19,542	\$ 55,778	\$ 54,529
Canada	3,838	3,563	10,022	12,302
Europe	30,744	23,424	101,027	66,417
Asia	58,558	47,234	169,220	125,792
Rest of world	4,319	7,389	21,280	20,796
	\$ 115,681	\$ 101,152	\$ 357,327	\$ 279,836

Significant Customers and Concentration of Credit Risk

For the three months ended April 2, 2011, Huawei Technologies Co., Ltd. (Huawei) accounted for 19 percent and Alcatel-Lucent accounted for 10 percent of our revenues. For the nine months ended April 2, 2011, Huawei accounted for 17 percent, Alcatel-Lucent accounted for 12 percent and Ciena Corporation accounted for 10 percent of our revenues. For the three months ended April 3, 2010, Huawei accounted for 13 percent and Alcatel-Lucent accounted for 10 percent of our revenues. For the nine months ended April 3, 2010, Huawei accounted for 13 percent of our revenues.

As of April 2, 2011, Huawei accounted for 22 percent and Alcatel-Lucent accounted for 11 percent of our accounts receivable. As of July 3, 2010, Alcatel-Lucent accounted for 15 percent and Huawei accounted for 14 percent of our accounts receivable.

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

This Quarterly Report on Form 10-Q contains 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, in will, plan, believe, should, outlook, could, target and other words of similar meaning in connection with our future operating or financial performance. These forward-looking statements include statements concerning (i) potential future financial results, (ii) the impact of acquisitions on our financial performance, including without limitation, accretion or dilution, gross margin, operating income and cash usage, (iii) future expense levels and sources for improvement of gross margin and operating expenses, including supply chain synergies, optimizing mix of product offerings, transition to higher margin product offerings, benefits of combined research and development and sales organizations, (iv) the expected financial opportunities after mergers or acquisitions and the expected synergies related thereto, (v) opportunities to grow in adjacent markets, (vi) our organizational restructuring with the formation of two new business units focused on photonic components and optical networks solutions and (vii) the assumptions underlying such statements. 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 the impact of continued uncertainty in world financial markets and any resulting or other reduction in demand for our products, our ability to maintain our gross margin, our ability to respond to evolving technologies and customer requirements, our ability to protect our intellectual property rights and the resolution of allegations that we infringe the intellectual property rights of others, our dependence on a limited number of customers for a significant percentage of our revenues, 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, the effect of fluctuating product mix, currency prices and consumer demand on our financial results, our performance following the closing of acquisitions, our potential inability to realize the expected benefits and synergies from our acquisitions, increased costs related to downsizing and compliance with regulatory requirements in connection with such downsizing, the impact of events beyond our control such as natural disasters and political unrest, the outcome of our currently pending litigation and future litigation that may be brought by or against us, the potential lack of availability of credit or opportunity for equity-based financing and the risks associated with our international operations. You should not place undue reliance on forward-looking statements. We cannot guarantee any future results, levels of activity, performance or achievements. 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. The factors discussed 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 also identify important factors that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

Overview

We are a leading provider of high-performance core optical network components, modules and subsystems to global telecom equipment manufacturers. We leverage our proprietary core technologies and vertically integrated product development to provide our customers with cost-effective and innovative optical solutions in metro and long-haul network applications. In addition, we utilize our optical expertise to address new and emerging optical product opportunities in selective non-telecom markets, such as materials processing, consumer, medical, industrial, printing and biotechnology. We offer our customers a differentiated solution that is designed to make it easier for our customers to do business by combining optical technology innovation, photonic integration, and a vertical approach to manufacturing and product development.

In late 2010, we aligned our advanced photonics solutions (APS) portfolio to more fully leverage the assets of our telecom business. This was the culmination of our 2009 transaction to acquire the laser diodes assets of Newport Corporation in exchange for our New Focus photonics tools business. Our APS products, strategies and infrastructure support are now more closely aligned with the rest of our telecom business, and beginning in the third quarter of fiscal

year 2011 we operate our business accordingly, under the same management. As a result, beginning in the third quarter of fiscal year 2011 we are no longer reporting APS as a separate operating segment. In January

Table of Contents

2011, we also announced the further realignment of our four telecom business units into two business units, one of which contains our former APS product lines. The intent is to simplify our organizational structure to focus on ramping new products, simplifying our customer interface, and strengthening our execution of product development and other key initiatives. Our new photonics components business unit is focused on delivering component level solutions to our customers, and it includes our former APS products. Our new optical networks solutions business unit is focused on delivering module and subsystem level solutions to substantially the same telecom customers. Single sales and single operation functions support all of the products in each business unit.

Effective January 3, 2011, our common stock is now traded on the NASDAQ Global Select Market under the symbol OCLR. We previously traded on the NASDAQ Global Market under the same symbol.

Results of Operations

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

	Three Months Ended				Increase	
	April 2, 2011		April 3, 2010		Change	(Decrease)
	(Thousands)	%	(Thousands)	%	(Thousands)	%
Revenues	\$ 115,681	100.0	\$ 101,152	100.0	\$ 14,529	14.4
Cost of revenues	87,269	75.4	73,322	72.5	13,947	19.0
Gross profit	28,412	24.6	27,830	27.5	582	2.1
Operating expenses:						
Research and development	17,220	14.9	11,288	11.2	5,932	52.6
Selling, general and administrative	16,087	13.9	14,451	14.3	1,636	11.3
Amortization of intangible assets	722	0.6	347	0.3	375	108.1
Restructuring, acquisition and related costs	1,019	0.9	1,610	1.6	(591)	(36.7)
Legal settlements						
Loss on sale of property and equipment	4		101	0.1	(97)	(96.0)
Total operating expenses	35,052	30.3	27,797	27.5	7,255	26.1
Operating income (loss)	(6,640)	(5.7)	33		(6,673)	n/m(1)
Other income (expense):						
Interest income			11		(11)	(100.0)
Interest expense	(487)	(0.4)	(134)	(0.1)	(353)	263.4
Gain (loss) on foreign exchange	(2,032)	(1.8)	794	0.8	(2,826)	n/m(1)
Other income						
Total other income (expense)	(2,519)	(2.2)	671	0.7	(3,190)	n/m(1)
Income (loss) from continuing operations before income taxes	(9,159)	(7.9)	704	0.7	(9,863)	n/m(1)
Income tax provision	668	0.6	499	0.5	169	33.9
Income (loss) from continuing operations	(9,827)	(8.5)	205	0.2	(10,032)	n/m(1)
Income from discontinued operations, net of tax						

Net income (loss)	\$	(9,827)	(8.5)	\$	205	0.2	\$ (10,032)	n/m ⁽¹⁾
-------------------	----	---------	-------	----	-----	-----	-------------	--------------------

(1) Not meaningful.

Table of Contents

	Nine Months Ended				Change (Thousands)	Increase (Decrease) %
	April 2, 2011 (Thousands)	%	April 3, 2010 (Thousands)	%		
Revenues	\$ 357,327	100.0	\$ 279,836	100.0	\$ 77,491	27.7
Cost of revenues	258,346	72.3	205,156	73.3	53,190	25.9
Gross profit	98,981	27.7	74,680	26.7	24,301	32.5
Operating expenses:						
Research and development	46,627	13.0	29,977	10.7	16,650	55.5
Selling, general and administrative	46,049	12.9	42,249	15.1	3,800	9.0
Amortization of intangible assets	2,080	0.6	597	0.2	1,483	248.4
Restructuring, acquisition and related costs	2,592	0.7	6,149	2.2	(3,557)	(57.8)
Legal settlements	1,678	0.5			1,678	n/m ⁽¹⁾
Gain on sale of property and equipment	(65)		(502)	(0.1)	437	(87.1)
Total operating expenses	98,961	27.7	78,470	28.1	20,491	26.1
Operating income (loss)	20		(3,790)	(1.4)	3,810	n/m ⁽¹⁾
Other income (expense):						
Interest income	16		36		(20)	(55.6)
Interest expense	(1,539)	(0.4)	(255)	(0.1)	(1,284)	503.5
Gain (loss) on foreign exchange	(6,738)	(1.9)	311	0.1	(7,049)	n/m ⁽¹⁾
Other income			5,295	1.9	(5,295)	(100.0)
Total other income (expense)	(8,261)	(2.3)	5,387	1.9	(13,648)	n/m ⁽¹⁾
Income (loss) from continuing operations before income taxes	(8,241)	(2.3)	1,597	0.5	(9,838)	n/m ⁽¹⁾
Income tax provision	1,443	0.4	1,246	0.4	197	15.8
Income (loss) from continuing operations	(9,684)	(2.7)	351	0.1	(10,035)	n/m ⁽¹⁾
Income from discontinued operations, net of tax			1,420	0.5	(1,420)	(100.0)
Net income (loss)	\$ (9,684)	(2.7)	\$ 1,771	0.6	\$ (11,455)	n/m ⁽¹⁾

(1) Not meaningful.

Revenues

Revenues for the three months ended April 2, 2011 increased by \$14.5 million, or 14 percent, compared to the three months ended April 3, 2010. The increase was primarily from increased product sales attributable to our acquisition of Mintera Corporation (Mintera) in July 2010. In the quarter ended April 2, 2011, short term decreases in demand, including a slowdown of 40 Gb/s deployments in China, and reduced sales as a result of inventory adjustments with many of our customers offset the improved market conditions we have otherwise seen since the quarter ended April 3, 2010. We expect these conditions to continue and to have a greater negative impact on revenues in our fiscal quarter ending July 2, 2011.

For the three months ended April 2, 2011, Huawei Technologies Co., Ltd. (Huawei) accounted for \$21.5 million, or 19 percent and Alcatel-Lucent accounted for \$12.0 million, or 10 percent, of our revenues. For the three months ended April 3, 2010, Huawei accounted for \$12.9 million, or 13 percent, of our revenues, and Alcatel-Lucent accounted for \$9.8 million, or 10 percent, of our revenues.

Revenues for the nine months ended April 2, 2011 increased by \$77.5 million, or 28 percent, compared to the nine months ended April 3, 2010. The increase was primarily from increased product sales attributable to improved

Table of Contents

market conditions, as compared to the market conditions of calendar year 2009 as a result of the economic downturn, and from our acquisitions of Mintera in July 2010 and Xtellus, Inc. (Xtellus) in December 2009.

For the nine months ended April 2, 2011, Huawei accounted for \$60.6 million, or 17 percent, Alcatel-Lucent accounted for \$41.5 million, or 12 percent, and Ciena Corporation accounted for \$35.7 million, or 10 percent, of our revenues. For the nine months ended April 3, 2010, Huawei accounted for \$37.6 million, or 13 percent, of our revenues.

Cost of Revenues

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 on the products they manufacture for us. Charges for excess and obsolete inventory, including inventories procured by contract manufacturers on our behalf, the cost of product returns and warranty costs 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 expense.

Our cost of revenues for the three months ended April 2, 2011 increased by \$13.9 million, or 19 percent, compared to the three months ended April 3, 2010. The increase was primarily related to increased costs associated with product sales from our acquisition of Mintera in July 2010 and from a \$1.1 million increase in depreciation expense. Our cost of revenues were also unfavorably impacted by approximately \$0.6 million as a result of the Swiss franc strengthening relative to the U.S. dollar, offset in part by a favorable impact of approximately \$0.1 million as a result of the U.K. pound sterling weakening relative to the U.S. dollar.

Our cost of revenues for the nine months ended April 2, 2011 increased by \$53.2 million, or 26 percent, compared to the nine months ended April 3, 2010. The increase was primarily related to costs associated with increased product sales resulting from improved market conditions in calendar year 2010 and increased costs associated with product sales from Mintera and Xtellus, and from a \$1.7 million increase in depreciation expense. Our cost of revenues were also unfavorably impacted by approximately \$0.9 million as a result of the Swiss franc strengthening relative to the U.S. dollar, offset in part by a favorable impact of approximately \$0.4 million as a result of the U.K. pound sterling weakening relative to the U.S. dollar.

Gross Profit

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

Our gross margin rate decreased to 25 percent for the three months ended April 2, 2011, compared to 28 percent for the three months ended April 3, 2010. The decrease in gross margin rate was primarily due to a lower mix of relatively higher margin industrial products in the quarter ended April 2, 2011 and from a \$1.1 million increase in depreciation expense, offset in part by higher revenue volumes, synergies from previous acquisitions, as well as the impact of other cost reduction efforts during the third quarter of fiscal year 2011 and earlier. Our gross profit was also unfavorably impacted by approximately \$0.6 million as a result of the Swiss franc strengthening relative to the U.S. dollar, offset in part by a favorable impact of approximately \$0.1 million as a result of the U.K. pound sterling weakening relative to the U.S. dollar. A decrease in demand in our fiscal quarter ending July 2, 2011, including decreases in demand for component level products, could negatively impact our gross margin rate in the three months ending July 2, 2011.

Our gross margin rate increased to 28 percent for the nine months ended April 2, 2011, compared to 27 percent for the nine months ended April 3, 2010. The increase in gross margin rate was primarily due to operating leverage from higher revenue volumes, synergies from previous acquisitions, as well as the impact of other cost reduction efforts during the first nine months of fiscal year 2011 and earlier, offset in part by a lower mix of relatively higher margin industrial products and from a \$1.7 million increase in depreciation expense. Our gross profit was also unfavorably impacted by approximately \$0.9 million as a result of the Swiss franc strengthening relative to the U.S. dollar, offset in part by a favorable impact of approximately \$0.4 million as a result of the U.K. pound sterling weakening relative to the U.S. dollar.

Table of Contents

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 increased by \$5.9 million, or 53 percent, for the three months ended April 2, 2011, compared to the three months ended April 3, 2010. Compared to the three months ended April 3, 2010, our research and development expenses have increased as we have been investing to match the rate of our anticipated revenue growth. This includes increased spending on personnel and on materials associated with our product development efforts. The increase was also attributable to research and development associated with increased personnel and product development efforts related to our acquisitions of Mintera in July 2010 and Xtellus in December 2009. While we have recently decreased the rate of our investment in research and development in response to changing short term revenue growth expectations, we do expect research and development expenses to increase in the three months ending July 2, 2011, as compared to the three months ended July 3, 2010. Personnel-related costs increased to \$9.6 million for the three months ended April 2, 2011, compared with \$7.4 million for the three months ended April 3, 2010. Other costs, including engineering materials, the costs of design tools and facilities-related costs increased to \$7.6 million for the three months ended April 2, 2011, compared with \$3.9 million for the three months ended April 3, 2010.

Research and development expenses increased by \$16.7 million, or 56 percent, for the nine months ended April 2, 2011, compared to the nine months ended April 3, 2010. The increase was primarily due to increased investment in research and development resources, primarily personnel-related, as we had been investing to match the rate of our anticipated revenue growth. The increase was also due to our acquisitions of Mintera and Xtellus. We are also spending more on materials associated with our product development efforts. The increase was offset in part by having an additional week of expenses during the nine months ended April 3, 2010 compared to the nine months ended April 2, 2011. Personnel-related costs increased to \$26.6 million for the nine months ended April 2, 2011, compared with \$19.8 million for the nine months ended April 3, 2010. Other costs, including engineering materials, the costs of design tools and facilities-related costs increased to \$20.0 million for the nine months ended April 2, 2011, compared with \$10.2 million for the nine months ended April 3, 2010. Research and development expenses were favorably impacted by approximately \$0.6 million as a result of the U.K. pound sterling weakening relative to the U.S. dollar, offset in part by an unfavorable impact of approximately \$0.2 million as a result of the Swiss franc strengthening relative to the U.S. dollar.

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 (excluding research and development focused sites), insurance expenses and certain information technology costs.

Selling, general and administrative expenses increased by \$1.6 million, or 11 percent, for the three months ended April 2, 2011, compared to the three months ended April 3, 2010. This increase was partially due to the increase in costs as a result of our acquisition of Mintera. Personnel-related costs increased to \$9.2 million for the three months ended April 2, 2011, compared with \$8.4 million for the three months ended April 3, 2010. Other costs, including legal and professional fees, facilities expenses and other miscellaneous expenses, increased to \$6.9 million for the three months ended April 2, 2011, compared with \$6.1 million for the three months ended April 3, 2010.

Selling, general and administrative expenses increased by \$3.8 million, or 9 percent, for the nine months ended April 2, 2011, compared to the nine months ended April 3, 2010. The increase was primarily due to the increase in costs incurred in connection with recent acquisitions, offset in part by the additional week of expenses during the nine months ended April 3, 2010. Personnel-related costs increased to \$25.5 million for the nine months ended April 2, 2011, compared with \$23.5 million for the nine months ended April 3, 2010. Other costs, including legal and professional fees, facilities expenses and other miscellaneous expenses, increased to \$20.6 million for the nine

Table of Contents

months ended April 2, 2011, compared with \$18.8 million for the nine months ended April 3, 2010. Selling, general and administrative expenses were favorably impacted by approximately \$0.6 million as a result of the U.K. pound sterling weakening relative to the U.S. dollar, offset in part by an unfavorable impact of approximately \$0.2 million as a result of the Swiss franc strengthening relative to the U.S. dollar.

Restructuring, Acquisition and Related Costs

During the three months ended April 2, 2011, we reduced our restructuring reserve by \$0.5 million due to revised estimates for employee separation cost estimates, lease cancellation and commitments and other charges. We do not expect to incur significant additional restructuring costs in connection with previously announced restructuring plans. We also incurred \$1.5 million during the three months ended April 2, 2011 in external consulting charges associated with our next phase of optimization of past acquisitions as we focus on the associated infrastructure and processes required to support sustainable growth.

For the three months ended April 3, 2010, we accrued \$1.0 million in expenses for revised estimates related to employee separation charges, asset impairments and costs to exit certain facilities. During this period, we also recorded \$0.9 million for acquisition-related costs, which include \$0.5 million of professional fees and \$0.4 million in employee retention payments payable in connection with our acquisition of Xtellus. During the third quarter of fiscal year 2010, we also reassessed the fair value of the value protection liability related to our Xtellus acquisition determining that the fair value of this liability declined from \$0.9 million at January 2, 2010 to \$0.6 million at April 3, 2010. This \$0.3 million change in fair value was recognized as a reduction to acquisition-related costs during the three months ended April 3, 2010.

We accrued \$1.1 million in employee separation costs during the nine months ended April 2, 2011 in connection with previously announced restructuring plans, offset by reductions to our restructuring reserve of \$0.8 million from revised estimates for employee separation costs, lease cancellation and commitments and other charges. We also incurred \$2.1 million during the nine months ended April 2, 2011 in external consulting charges associated with our next phase of optimization of past acquisitions as we focus on the associated infrastructure and processes required to support sustainable growth. In addition, we recorded \$0.2 million in acquisition-related professional fees during this same period.

For the nine months ended April 3, 2010, we accrued \$4.0 million in expenses for revised estimates related to employee separation charges and costs to exit certain facilities. During this period, we also recorded \$2.5 million for acquisition-related costs, which include \$1.5 million of professional fees and \$1.0 million in employee retention payments payable in connection with our acquisition of Xtellus. During the third quarter of fiscal year 2010, we reassessed the fair value of the value protection liability related to our Xtellus acquisition determining that the fair value of this liability declined from \$0.9 million at January 2, 2010 to \$0.6 million at April 3, 2010. This \$0.3 million change in fair value was recognized as a reduction to acquisition-related costs during this period.

Legal Settlements

Legal settlements expense of \$1.7 million during the nine months ended April 2, 2011 includes amounts reserved in connection with a memorandum of understanding with QinetiQ Limited and in anticipation of other legal settlements and related legal costs. On March 17, 2011, we entered into a confidential settlement agreement with QinetiQ Limited, and the related litigation has been dismissed with prejudice.

Gain on Sale of Property and Equipment

For the nine months ended April 3, 2010, we recorded a net gain of \$0.5 million, primarily related to the sale of certain fixed assets in Villebon, France in connection with the closing of that facility.

Other Income (Expense)

Other income (expense) for the three months ended April 2, 2011 decreased by \$3.2 million compared to the three months ended April 3, 2010. This decrease was primarily due to a \$2.8 million increase in foreign exchange loss from the re-measurement of short term receivables and payables among certain of our wholly-owned international

Table of Contents

subsidiaries for fluctuations in the U.S. dollar relative to our other local functional currencies during the corresponding periods and from a \$0.4 million increase in interest expense related to liabilities recognized in the acquisitions of Xtellus and Mintera.

Other income (expense) for the nine months ended April 2, 2011 decreased by \$13.6 million compared to the nine months ended April 3, 2010. This decrease was primarily due to a \$7.0 million increase in foreign exchange loss from the re-measurement of short term receivables and payables among certain of our wholly-owned international subsidiaries for fluctuations in the U.S. dollar relative to our other local functional currencies during the corresponding periods. This decrease was also due to a \$5.3 million in gain from our purchase of Newport's high power laser diodes business being recorded during the nine months ended April 3, 2010 and from a \$1.3 million increase in interest expense during the nine months ended April 2, 2011 related to liabilities recognized in the acquisitions of Xtellus and Mintera.

Income Tax Provision

For the three months ended April 2, 2011, our income tax provision of \$0.7 million primarily related to our foreign operations. For the three months ended April 3, 2010, our income tax provision of \$0.5 million primarily related to income taxes on our operations in Italy and China.

For the nine months ended April 2, 2011, our income tax provision of \$1.4 million primarily related to our foreign operations. For the nine months ended April 3, 2010, our income tax provision of \$1.2 million primarily related to income taxes on our operations in Italy and China.

In the fourth quarter of fiscal year 2010, we determined that it is more-likely-than-not that we will utilize net operating losses in one of our foreign jurisdictions due to current earnings and projections of future profitability. Accordingly, we released \$1.3 million of our valuation allowance against \$1.3 million of previously unrecognized deferred tax assets during the fourth quarter of fiscal year 2010. This amount represented the entire remaining deferred tax asset related to the accumulated net operating losses of the foreign jurisdiction. Due to the uncertainty surrounding the realization of the tax attributes in other jurisdictions, we have recorded a full valuation allowance against our remaining foreign and domestic deferred tax assets as of April 2, 2011.

Income from Discontinued Operations

During the nine months ended April 3, 2010, we recorded income of \$1.4 million from discontinued operations from the sale of our New Focus business. For further details, refer to Note 3, *Business Combinations*, to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

See Note 1, *Basis of Preparation*, 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 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 standard.

We identified our critical accounting policies in our Annual Report on Form 10-K for the year ended July 3, 2010 (2010 Form 10-K) related to revenue recognition and sales returns, inventory valuation, business combinations,

Table of Contents

impairment of goodwill and other intangible assets, accounting for share-based payments 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 2010 Form 10-K.

Liquidity and Capital Resources***Cash Flows from Operating Activities***

Net cash provided by operating activities for the nine months ended April 2, 2011 was \$1.4 million, primarily resulting from a \$16.7 million increase in cash due to non-cash adjustments, partially offset by net loss of \$9.7 million and a \$5.6 million decrease in cash due to changes in operating assets and liabilities. The \$16.7 million increase in cash resulting from non-cash adjustments primarily consisted of \$12.8 million of expense related to depreciation and amortization and \$4.6 million of expense related to stock-based compensation, offset in part by \$0.7 million from the amortization of deferred gain from a sales-leaseback transaction. The \$5.6 million decrease in cash due to changes in operating assets and liabilities was comprised of a \$17.9 million increase in inventory as we are investing to match the rate of our anticipated revenue growth and to provide us with strategic flexibility, a \$3.8 million decrease in accrued expenses and other liabilities and a \$1.0 million increase in prepaid expenses and other current assets, offset in part by cash generated from a \$10.2 million increase in accounts payable, a \$6.8 million decrease in accounts receivable and a \$0.1 million decrease in other non-current assets.

Net cash used in operating activities for the nine months ended April 3, 2010 was \$1.6 million, resulting from a \$7.1 million decrease in cash from the change in operating assets and liabilities, partially offset by a \$3.7 million increase in cash due to non-cash adjustments and from net income of \$1.8 million. The \$7.1 million decrease in cash resulting from the change in operating assets and liabilities was due to cash used by an accounts receivable increase of \$18.7 million and by accrued expenses and other liabilities decrease of \$7.2 million, offset in part by cash generated from inventory decreases of \$6.5 million, other non-current assets decreases of \$1.6 million, and accounts payable increases of \$10.8 million. The \$3.7 million increase in cash resulting from non-cash adjustments primarily consisted of the \$8.7 million of expense related to depreciation and amortization and \$3.2 million of expense related to stock-based compensation, offset in part by the \$5.3 million gain from the bargain purchase of the high-power laser diodes business from Newport, \$1.4 million gain from the sale of the New Focus business, \$0.6 million from the amortization of deferred gain from a sales-leaseback transaction, \$0.5 million in gain from the sale of property and equipment and \$0.3 million from the change in fair value of the value protection guarantee related to the acquisition of Xtellus.

Cash Flows from Investing Activities

Net cash used in investing activities for the nine months ended April 2, 2011 was \$39.6 million, primarily consisting of \$32.9 million used in capital expenditures to support new product introductions and our anticipated revenue growth and \$10.5 million used in the acquisition of Mintera, partially offset by a reduction of \$3.7 million in restricted cash related to a facility lease from which we exited during the first quarter of the current fiscal year.

Net cash provided by investing activities for the nine months ended April 3, 2010 was \$6.9 million, primarily consisting of \$9.3 million in sales and maturities of available-for-sale investments, \$3.0 million in cash proceeds from the exchange of assets with Newport, \$0.3 million in cash proceeds from the acquisition of Xtellus, and \$0.7 million in proceeds from the sale of certain fixed assets, which were partially offset by \$5.9 million used in capital expenditures and \$0.3 million used to acquire intangible assets, equipment and inventory through an asset purchase.

Cash Flows from Financing Activities

Net cash provided by financing activities of \$2.6 million for the nine months ended April 2, 2011 resulted from \$2.3 million received from issuance of common stock, primarily through stock option exercises, and from \$0.3 million in additional proceeds related to our May 2010 follow-on stock offering due to finalization of our previous estimates of offering related expenses.

Net cash provided by financing activities of \$2.6 million for the nine months ended April 3, 2010 primarily resulted from \$2.5 million in net proceeds from borrowings under our Amended Credit Agreement. There were no other

Table of Contents

significant cash flows from financing activities for the nine months ended April 3, 2010.

Effect of Exchange Rates on Cash and Cash Equivalents for the Nine Months Ended April 2, 2011 and April 3, 2010

The effect of exchange rates on cash and cash equivalents for the nine months ended April 2, 2011 was an increase of \$3.2 million, primarily consisting of \$1.3 million in net gain due to the revaluation of foreign currency cash balances to the functional currency of the respective subsidiaries and from gains of approximately \$2.4 million related to the revaluation of U.S. dollar denominated operating intercompany payables of our subsidiaries.

The effect of exchange rates on cash and cash equivalents for the nine months ended April 3, 2010 was a decrease of \$1.0 million, primarily consisting of a loss of approximately \$1.4 million related to the revaluation of U.S. dollar denominated operating intercompany payables on the books of our U.K. subsidiary, offset by \$0.2 million in net gain from the revaluation of foreign currency denominated intercompany balances on the books of a foreign subsidiary and \$0.2 million in net gain due to the revaluation of foreign currency cash balances to the functional currency of the foreign subsidiaries.

Credit Facility

As of April 2, 2011, we had a \$25.0 million senior secured revolving credit facility with Wells Fargo Capital Finance, Inc. and other lenders with an expiration date of August 1, 2012. As of April 2, 2011 and July 3, 2010, there were no amounts outstanding under the credit facility. At April 2, 2011, we had a standby letter of credit in the amount of \$1.0 million with a vendor secured under the credit facility. This standby letter of credit expires in June 2011.

Future Cash Requirements

As of April 2, 2011, we held \$74.9 million in cash and cash equivalents and \$0.9 million in restricted cash. We believe that existing funds, cash generated from operations and existing sources of and access to financing are adequate to satisfy our working capital and capital expenditure requirements for the foreseeable future.

In the future, in order to strengthen our financial position, in the event of unforeseen circumstances, or in the event we need to fund our growth in future financial periods, we may need to raise additional funds by any one or a combination of the following: issuing equity securities, debt or convertible debt or the sale of certain product lines 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.

From time to time, we have engaged in discussions with third parties concerning potential acquisitions of product lines, technologies and businesses, and we continue to consider potential acquisition candidates. Any such transactions could involve the issuance of a significant number of new equity securities, debt, and/or cash consideration. We may also be required to raise additional funds to complete any such acquisition, through either the issuance of equity securities or borrowings. If we raise additional funds or acquire businesses or technologies through the issuance of equity securities, our existing stockholders may experience significant dilution.

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 those issued by our bankers in favor of certain suppliers or 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

Table of Contents

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.

Other than as set forth above, we are not currently party to any material off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rates

We finance our operations through a mixture of the issuance of equity securities, finance leases, working capital and by drawing on our Amended Credit Agreement. Our only exposure to interest rate fluctuations is on our cash equivalents. We monitor our interest rate risk on cash balances primarily through cash flow forecasting. Cash that is surplus to immediate requirements is generally invested in short-term deposits with banks accessible within one day's notice and invested in overnight money market accounts. We believe our 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. In the future we expect that a majority of our revenues will be denominated in U.S. dollars, while a significant portion of our expenses related to our operations in the United Kingdom will be denominated in U.K. pounds sterling. Fluctuations in the exchange rate between the U.S. dollar and the U.K. pound sterling 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, the Korean won, the Israeli shekel, the Swiss franc and the Euro in which we pay expenses in connection with operating our facilities in Shenzhen and Shanghai, China; Daejeon, South Korea; Jerusalem, Israel; Zurich, Switzerland and San Donato, Italy, respectively. 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 April 2, 2011, our U.K. subsidiary had \$48.5 million, net, in U.S. dollar denominated operating intercompany payables and \$73.8 million in U.S. dollar denominated accounts receivable related to sales to external customers. 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 \$2.5 million (U.S. dollar strengthening), or loss of \$2.5 million (U.S. dollar weakening) on the translation of these receivables, which would be recorded as gain (loss) on foreign exchange in our condensed consolidated statement of operations.

Hedging Program

We enter into foreign currency forward exchange contracts in an effort to mitigate a portion of our exposure to such fluctuations between the U.S. dollar and the U.K. pound sterling. We do not currently hedge our exposure to the Chinese yuan, the Korean won, the Israeli shekel, the Swiss franc 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 exchange contracts can have an adverse effect on our financial condition. As of April 2, 2011, we held ten outstanding foreign currency forward exchange contracts with a notional value of \$10.5 million which include put and call options which expire, or expired, at various dates from April 2011 to November 2011 and we have recorded an unrealized gain of \$0.2 million to accumulated other comprehensive income in connection with marking these contracts to fair value as of April 2, 2011. It is estimated that a 10 percent fluctuation in the dollar between April 2, 2011 and the maturity dates of the put and call instruments underlying these contracts would lead to a profit of \$1.1 million dollars (U.S. dollar weakening) or loss of \$0.1 million dollars (U.S. dollar strengthening) on our outstanding foreign currency forward exchange contracts, should they be held to maturity.

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 April 2, 2011. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or the

Table of Contents

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 necessarily 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 April 2, 2011, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

There was no change in our internal control over financial reporting during the three months ended April 2, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On June 26, 2001, the first of a number of securities class actions was filed in the United States District Court for the Southern District of New York against New Focus, Inc., now known as Oclaro Photonics, Inc. (New Focus), certain of its officers and directors, and certain underwriters for New Focus' initial and secondary public offerings. A consolidated amended class action complaint, captioned *In re New Focus, Inc. Initial Public Offering Securities Litigation*, No. 01 Civ. 5822, was filed on April 20, 2002. The complaint generally alleges that various underwriters engaged in improper and undisclosed activities related to the allocation of shares in New Focus' initial public offering and seeks unspecified damages for claims under the Exchange Act on behalf of a purported class of purchasers of common stock from May 17, 2000 to December 6, 2000.

The lawsuit against New Focus is coordinated for pretrial proceedings with a number of other pending litigations challenging underwriter practices in over 300 cases, as *In re Initial Public Offering Securities Litigation*, 21 MC 92 (SAS), including actions against Bookham Technology plc, now known as Oclaro Technology Ltd (Bookham Technology) and Avanex Corporation, now known as Oclaro (North America), Inc. (Avanex), and certain of each entity's respective officers and directors, and certain of the underwriters of their public offerings. In October 2002, the claims against the directors and officers of New Focus, Bookham Technology and Avanex were dismissed, without prejudice, subject to the directors' and officers' execution of tolling agreements.

The parties have reached a global settlement of the litigation. On October 5, 2009, the Court entered an order certifying a settlement class and granting final approval of the settlement. Under the settlement, the insurers will pay the full amount of the settlement share allocated to New Focus, Bookham Technology and Avanex, and New Focus, Bookham Technology and Avanex will bear no financial liability. New Focus, Bookham Technology and Avanex, as well as the officer and director defendants who were previously dismissed from the action pursuant to tolling agreements, will receive complete dismissals from the case. Certain objectors have appealed the Court's October 5, 2009 order to the Second Circuit Court of Appeals. If for any reason the settlement does not become effective, we believe that Bookham Technology, New Focus and Avanex have meritorious defenses to the claims and therefore believe that such claims will not have a material effect on our financial position, results of operations or cash flows.

On May 27, 2009, a patent infringement action captioned *QinetiQ Limited v. Oclaro, Inc.*, Civil Action No. 1:09-cv-00372, was filed in the United States District Court for the District of Delaware. Additionally, we filed a motion to transfer venue to the Northern District of California, which was granted on December 18, 2009. After transfer, the litigation was assigned Civil Action No. 4:10-cv-00080-SBA by the Northern District Court. On March 17, 2011, the parties entered into a confidential settlement agreement. The litigation has been dismissed with prejudice.

On December 6, 2010, a bankruptcy preferential transfer avoidance action was filed by Nortel Networks Inc. *et al.* against Oclaro Technology Ltd. (formerly Bookham Technology Plc.) and Oclaro (North America), Inc. (formerly

Table of Contents

Avanex Corporation) in the United States Bankruptcy Court for the District of Delaware, Adversary Proceeding No. 10-55919-KG. The complaint alleges, among other things, that Nortel Networks Inc., and/or its affiliated debtors in the Chapter 11 bankruptcy cases also pending before the Delaware Bankruptcy Court (Jointly Administered Case No. 09-10138-KG), made at least \$4,593,152 in preferential transfers to the defendants' predecessors, Bookham Technology Plc. and Avanex Corporation, in the 90 days prior to the commencement of the Nortel Chapter 11 bankruptcy cases on January 14, 2009. We intend to vigorously contest the claims set forth in the complaint.

Item 1A. Risk Factors

Investing in our common stock 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 materially. In that case, the trading price of our common stock could fall and you could lose all or part of your investment.

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.

We have historically incurred losses and negative cash flows from operations since our inception. As of April 2, 2011, we had an accumulated deficit of \$1,089.3 million. Although we generated income of \$11.0 million from continuing operations for the year ended July 3, 2010, we incurred losses from continuing operations for the nine months ended April 2, 2011 and for the years ended June 27, 2009 and June 28, 2008 of \$9.7 million, \$25.8 million and \$23.3 million, respectively. We may not be able to achieve profitability in any future periods. If we are unable to do so, we may need additional financing, which may not be available to us on commercially acceptable terms or at all, to execute on our current or future business strategies.

We may not be able to maintain gross margin levels.

We may not be able to maintain or improve our gross margins, to the extent that current economic uncertainty, changes in customer demand, including a change in product mix between different areas of our business, pricing pressure due to increased competition or other factors, affects our overall revenue, and we are unable to adjust our expenses as necessary. We attempt to reduce our product costs and improve our product mix to offset price competition and erosion expected in most product categories, but there is no assurance that we will be successful. Our gross margins can also be adversely impacted for reasons including, but not limited to, unfavorable production variances, increases in costs of input parts and materials, the timing of movements in our inventory balances, warranty costs and related returns, and possible exposure to inventory valuation reserves. 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.

Our business and results of operations may be negatively impacted by general economic and financial market conditions and such conditions may increase the other risks that affect our business.

Over the past two 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, rating downgrades of investments and reduced valuations of securities generally. 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. In future quarters, these actions could have an adverse impact on our own 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

Table of Contents

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.

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.

Our success will depend on our ability to anticipate and respond to evolving technologies and customer requirements.

The market for telecommunications equipment is characterized by substantial capital investment, rapid and unpredictable changes in customer demand and diverse and evolving technologies. For example, the market for optical components is currently characterized by a trend toward the adoption of pluggable components and tunable transmitters that do not require the customized interconnections of traditional fixed wavelength gold box devices and the increased integration of components on subsystems. Our ability to anticipate and respond to these and other changes in technology, industry standards, customer requirements and product offerings and to develop and introduce new and enhanced products will be significant factors in our ability to succeed. We expect that new technologies will continue to emerge as competition in the telecommunications industry increases and the need for higher and more cost efficient bandwidth expands. The introduction of new products embodying new technologies or the emergence of new industry standards could render our existing products or products in development uncompetitive from a pricing standpoint, obsolete or unmarketable, which would negatively affect our financial condition and results of operations.

We depend on a limited number of customers for a significant percentage of our revenues.

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, in the years ended July 3, 2010, June 27, 2009 and June 28, 2008, our three largest customers accounted for 29 percent, 38 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. Our revenues for the fiscal quarter ended April 2, 2011, and our revenue expectations for the fiscal quarter ending July 2, 2011, have been adversely impacted by a change in customer demand expectations, including 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 our revenues.

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. For example, in mid-September 2010, we did experience certain deferrals and cancellation of orders which adversely impacted our financial results. In addition, our revenues for the fiscal quarter ended April 2, 2011, and our revenue expectations for the fiscal quarter ending July 2, 2011, have been adversely impact by a change in customer demand expectations, including a significant change in demand expectations from a particular major customer.

Table of Contents

We may undertake mergers or acquisitions that do not prove successful.

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. However, 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. Our management may not be able to effectively implement our acquisition plans and internal growth strategy simultaneously.

We cannot readily predict the timing, size or success of our future acquisitions. Failure to successfully implement our 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, our recent acquisition of Xtellus required an immediate issuance of a significant number of newly issued shares of our common stock. We could also choose to use shares of our common stock to pay certain earnouts associated with our acquisition of Mintera, should all, or portions, of these earnouts be achieved in the twelve and/or eighteen month periods subsequent to the acquisition date. We cannot predict with certainty which strategic, financial or operating synergies or other benefits, if any, will actually be achieved from any transaction we undertake, 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 identify, consummate or integrate suitable acquisitions could adversely affect our business and results of operations.

Acquisitions could involve a number of other potential risks to our business, including the following, any of which could harm our business:

- failure to realize the potential financial or strategic benefits of the acquisition;

- increased costs associated with acquired operations;

- economic dilution to gross and operating profit 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 of our acquired businesses, including with respect to third-party manufacturers, including executing a production capacity ramp up of our South Korea facility and our contract manufacturers to support the potential revenue demand for the WSS-related products of Xtellus, managing the manufacturing activities of the laser diode business acquired from Newport while these activities are being transferred from Tucson, Arizona to Europe and Asia, and transferring certain production of Mintera products to our internal facilities;

- 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;

Table of Contents

difficulty in preserving important relationships of our acquired businesses and resolving potential conflicts between business cultures;

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;

the effect of tax laws due to increasing complexities of our global operating structure;

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 acquisition of these businesses will be realized. We may have difficulty, and may incur unanticipated expenses related to, integrating management and personnel from these acquired entities with our management and personnel. Our failure to achieve the strategic objectives of our 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 business or assets we might undertake.

Sales of our products could decline if customer and/or supplier relationships are disrupted by our recent acquisition activities.

The customers of acquired businesses, and/or of predecessor companies, may not continue their historical buying patterns. Customers may defer purchasing decisions as they evaluate the likelihood of successful integration of our products and our future product strategy, or consider purchasing products of our competitors.

Customers may also seek to modify or terminate existing agreements, or prospective customers may delay entering into new agreements or purchasing our products or may decide not to purchase any products from us. In addition, by increasing the breadth of our business, the transactions may make it more difficult for us to enter into relationships, including customer relationships, with strategic partners, some of whom may view us as a more direct competitor than any of the predecessor and/or acquired businesses as independent companies.

Competitive positions in the market, including relative to suppliers who are also competitors, could change as a result of an acquisition, and this could impact supplier relationships, including the terms under which we do business with such suppliers.

As a result of our recent business combinations, we have become a larger and more geographically diverse organization, with greater available market opportunities. If our management is unable to manage the combined organization efficiently, including the challenges of managing the growth potentially available from expanded market opportunities, our operating results will suffer.

As of April 2, 2011, we had approximately 3,235 employees in a total of 15 facilities around the world. As a result, we face challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs. Our inability to manage successfully the geographically more diverse (including from a cultural perspective) and substantially larger combined organization could have a material adverse effect on our operating results and, as a

Table of Contents

result, on the market price of our common stock. Certain of these acquisitions have increased our serviceable available markets and scaling the company to address the growth potentially available from addressing these markets, and potentially available within our previously existing markets, creates additional challenges of a similar nature.

We may not realize the anticipated benefits from the transfer of wafer production from our Tucson, Arizona manufacturing operations we acquired from Newport to our European fabrication facilities.

Achieving the potential benefits of our July 4, 2009 acquisition from Newport of the laser diodes manufacturing operations in Tucson, Arizona depends in substantial part on the successful transfer of those manufacturing operations to our European fabrication facilities. We have faced significant challenges in transferring these operations in a timely and efficient manner. As a result of certain of these challenges, our opportunities to increase revenues in the corresponding business were limited in the quarter ended April 2, 2011, and the nine months ended April 2, 2011, and we expect certain of these limitations to continue into the fourth quarter of fiscal year 2011.

While we have now successfully transferred those manufacturing facilities to our European fabrication facilities, we have not yet achieved the desired yields and related cost savings. Any delays in achieving desired yields may cause us not to achieve expected synergies from leveraging our existing global manufacturing infrastructure, and our ability to grow related revenues could continue to be limited by the fully yielded output of production.

Our products are complex and may take longer to develop than anticipated and we may not recognize revenues from new products until after long field testing and customer acceptance periods.

Many of our new products must be tailored to customer specifications. As a result, we are developing new products and using new technologies in those products. For example, while we currently manufacture and sell discrete gold box technology, we expect that many of our sales of gold box technology will soon be replaced by pluggable modules. New products or modifications to existing products often take many quarters or even years to develop because of their complexity and because customer specifications sometimes change during the development cycle. We often incur substantial costs associated with the research and development, design, sales and marketing activities in connection with products that may be purchased long after we have incurred such costs. In addition, due to the rapid technological changes in our market, a customer may cancel or modify a design project before we begin large-scale manufacture of the product and receive revenues from the customer. It is unlikely that we would be able to recover the expenses for cancelled or unutilized design projects. It is difficult to predict with any certainty, particularly in the present economic climate, the frequency with which customers will cancel or modify their projects, or the effect that any cancellation or modification would have on our results of operations.

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 substantially all of our revenues are denominated in U.S. dollars.

Fluctuations in the exchange rate between these two 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. From the end of our fiscal year ended June 27, 2009 to the end of our fiscal year ended July 3, 2010, the U.S. dollar appreciated 8 percent relative to the U.K. pound sterling, which favorably impacted our operating results for fiscal year 2010. If the U.S. dollar stays the same or depreciates relative to the U.K. pound sterling 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, the South Korean won, the Israeli shekel, the Swiss franc or the Euro vary more significantly than they have to date.

We 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. These

Table of Contents

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

The majority 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. We have substantial research and development related activities in Shenzhen and Shanghai, 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;

attract and retain qualified personnel to operate our Shenzhen facility; and

attract and retain research and development employees at our Shenzhen and Shanghai facilities.

We cannot assure you that we will be able to do any of these.

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 will 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.

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. 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, 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 have, in the past, been advised that power may be rationed in the location of our Shenzhen facility, and were power rationing to be implemented, it could have an adverse impact on our ability to complete manufacturing commitments on a timely basis or, alternatively, could require significant investment in generating capacity to sustain uninterrupted operations at the facility, which we may not be able to do successfully.

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 results of operations may suffer if we do not effectively manage our inventory, and we may 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 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. If we are not able to manage our inventory effectively, we may need to write down the

Table of Contents

value of some of our existing inventory or write off non-saleable or obsolete inventory, which would adversely affect our results of operations. 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 depend on a limited number of suppliers who could disrupt our business if they stopped, decreased, delayed or were unable to meet our demand for shipments of their products.

We depend on a limited number of suppliers of raw materials and equipment used to manufacture our products. We also depend on a limited number of contract manufacturers, principally Fabrinet in Thailand, to manufacture certain of our products. Some of these suppliers are sole sources. We typically have not entered into long-term agreements with our suppliers other than Fabrinet and, therefore, 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. Given the recent macroeconomic downturn, 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 or other natural disasters.

Any supply deficiencies relating to the quality or quantities of materials or equipment we use to manufacture our products could materially 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. These conditions have been exacerbated by suppliers, customers and companies reducing their inventory levels in response to the recent macroeconomic downturn.

In addition, Fabrinet's manufacturing operations are located in Thailand. Thailand has 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 political unrest, this could materially adversely affect our ability to fulfill customer orders and our results of operations.

We may record additional impairment charges that will adversely impact our results of operations.

We review our goodwill, intangible assets and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable, and also review goodwill annually. During the year ended June 27, 2009, we determined that the goodwill related to our previous New Focus and Avalon reporting units was fully impaired. Impairment of goodwill and other intangible assets for fiscal year 2009, net of \$2.8 million associated with the discontinued operations of the New Focus business, amounted to \$9.1 million.

During year ended July 3, 2010, we recorded goodwill of \$20.0 million and other intangible assets of \$9.8 million primarily in connection with our acquisitions of the Newport high-power laser diodes business and Xtellus. During the first quarter of fiscal year 2011, we also recorded goodwill of \$10.9 million and other intangible assets of \$11.7 million in connection with our acquisition of Mintera. In the event that we determine in a future period that impairment of our goodwill, intangible assets or long-lived assets exists for any reason, we would record additional impairment charges in the period such determination is made, which would adversely impact our financial position and results of operations.

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

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.

Table of Contents

For instance, we accrued \$5.4 million and \$2.2 million in restructuring charges during fiscal years 2009 and 2010, respectively, in connection with our merger with Avanex. On July 4, 2009, we completed the exchange of our New Focus business to Newport in exchange for Newport's high powered laser diode business, which resulted in us incurring \$0.5 million in restructuring charges in fiscal year 2010 in connection with the transfer of the Tucson manufacturing operations to our European facilities.

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.

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.

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 and the introduction of new product lines 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.

Table of Contents

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 U.K. and continental European countries. This is especially relevant now that we have transferred all of our assembly and test operations and chip-on-carrier operations, including certain engineering-related functions, from our facilities in the U.K. to Shenzhen, China.

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.

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. The recent economic downturn could result in holders of intellectual property rights becoming 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.

Table of Contents

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.

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.

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, wavelength selective switches and thin film filter products, 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; 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. Also relevant is that our competitors and new Chinese companies are establishing manufacturing operations in China to take advantage of comparatively low manufacturing costs. All of these risks

Table of Contents

may be increased if the market were to further consolidate through mergers or other business combinations between 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.

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 July 3, 2010, June 27, 2009 and June 28, 2008, 19 percent, 20 percent and 18 percent of our revenues, respectively, were derived from sales to customers located in the United States and 81 percent, 80 percent and 82 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.

Changes in effective tax rates or adverse outcomes resulting from examination of our income tax returns could adversely affect our results.

Table of Contents

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 subject to the continuous examination of our income tax returns 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 continuous examinations will not have an adverse effect on our operating results and financial condition.

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.

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.

In addition, certain employees of companies we have acquired that are now employed by us may decide to no longer work for us with little or no notice for a number of reasons, including dissatisfaction with our corporate culture, compensation, and new roles or responsibilities, among others.

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 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. Our corporate headquarters and a portion of our research and development and manufacturing operations are located in Silicon Valley, California. This region in particular has been vulnerable to natural disasters, such as earthquakes. 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.

Risks Related to Regulatory Compliance and Litigation

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 historically handled 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

Table of Contents

release of hazardous waste, or that we would be subject to extensive monetary liability. The costs associated with environmental compliance or remediation efforts or other environmental liabilities could adversely affect our business. Under applicable EU 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.

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 anticorruption laws. Although we have implemented policies and procedures designed to ensure that we, our employees and other intermediaries comply with the FCPA and other anticorruption 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 then export such 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 anticorruption 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.

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.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed. 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. 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. 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.

Litigation may substantially increase our costs and harm our business.

On June 26, 2001, the first of a number of securities class actions was filed in the United States District Court for the Southern District of New York against New Focus, Inc., now known as Oclaro Photonics, Inc. (New Focus), certain of its officers and directors, and certain underwriters for New Focus initial and secondary public offerings. A consolidated amended class action complaint, captioned *In re New Focus, Inc. Initial Public Offering Securities Litigation*, No. 01 Civ. 5822, was filed on April 20, 2002. The complaint generally alleges that various underwriters

engaged in improper and undisclosed activities related to the allocation of shares in New Focus' initial public offering and seeks unspecified damages for claims under the Exchange Act on behalf of a purported class of purchasers of common stock from May 17, 2000 to December 6, 2000.

The lawsuit against New Focus is coordinated for pretrial proceedings with a number of other pending litigations challenging underwriter practices in over 300 cases, as *In re Initial Public Offering Securities Litigation*, 21 MC 92 (SAS), including actions against Bookham Technology plc, now known as Oclaro Technology Ltd (Bookham Technology) and Avanex Corporation, now known as Oclaro (North America), Inc. (Avanex), and certain of each entity's respective officers and directors, and certain of the underwriters of their public offerings. In October 2002, the claims against the directors and officers of New Focus, Bookham Technology and Avanex were dismissed, without prejudice, subject to the directors' and officers' execution of tolling agreements.

The parties have reached a global settlement of the litigation. On October 5, 2009, the Court entered an order certifying a settlement class and granting final approval of the settlement. Under the settlement, the insurers will pay the full amount of the settlement share allocated to New Focus, Bookham Technology and Avanex, and New Focus, Bookham Technology and Avanex will bear no financial liability. New Focus, Bookham Technology and Avanex, as well as the officer and director defendants who were previously dismissed from the action pursuant to tolling agreements, will receive complete dismissals from the case. Certain objectors have appealed the Court's October 5, 2009 order to the Second Circuit Court of Appeals. If for any reason the settlement does not become effective, we believe that Bookham Technology, New Focus and Avanex have meritorious defenses to the claims, but litigation is

Table of Contents

inherently uncertain and we cannot assure you of a positive outcome.

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.*

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. Any litigation to which we are subject may be costly and, further, could require significant involvement of our senior management and may divert management's attention from our business and operations.

Risks Related to Our Common Stock

A variety of factors could cause the trading price of our common stock to be volatile or to decline and we may incur significant costs from class action litigation due to our expected stock volatility.

The trading price of our common stock has been, and is likely to continue to be, highly volatile. 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 herein, some of the reasons for the fluctuations in 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 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 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 two years;

low trading volume in our stock;

developments relating to patents or property rights; and

government regulatory changes.

In connection with our acquisition of Mintera in July 2010, we may pay up to \$20.0 million in additional revenue-based consideration to former stockholders of Mintera, determined based on a set of sliding scale formulas, to the extent revenue from Mintera products is more than \$29.0 million in the twelve months following the acquisition and/or more than \$40.0 million in the 18 months following the acquisition. Achieving cumulative revenues of

\$40 million over the next 12 months and \$70.0 million over the next 18 month period would lead to the maximum \$20.0

Table of Contents

million in additional consideration. This earnout consideration, if any, will be payable in cash or, at our option, newly issued shares of our common stock, or a combination of cash and stock. The issuance, if any, and subsequent sale of these shares could also negatively impact 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.

When the market price of a stock has been volatile, as our stock price may be, holders of that stock have occasionally brought securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit of this type against us, even if the lawsuit were without merit, we could incur substantial costs defending the lawsuit. The lawsuit could also divert the time and attention of our management. In addition, if the suit were resolved in a manner adverse to us, the damages we could be required to pay may be substantial and would have an adverse impact on our ability to operate our business.

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, 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, military, 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 may not be able to raise capital when desired on favorable terms without dilution to our stockholders, or at all.

The rapidly changing industry in which we operate, the length of time between developing and introducing a product to market and frequent changing customer specifications for products, among other things, makes our prospects difficult to evaluate. It is possible that we may not generate sufficient cash flow from operations, or be able to draw down on the \$25.0 million senior secured revolving credit facility with Wells Fargo Capital Finance, Inc. and other lenders, or otherwise have sufficient capital resources to meet our future capital needs. If this occurs, we may need additional financing to execute on our current or future business strategies.

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, 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

Table of Contents

other distributions to stockholders; and (viii) merge or consolidate with any entity. 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.

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 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 1,000,000 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;

Table of Contents

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.

Item 6. Exhibits

See the Exhibit Index on the page immediately preceding the exhibits for a list of exhibits filed as part of this Quarterly Report on Form 10-Q, which Exhibit Index is incorporated herein by reference.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OCLARO, INC.

Date: May 11, 2011

By: **/s/ Jerry Turin**
Jerry Turin
Chief Financial Officer
(Principal Financial and Accounting
Officer)

49

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
2.1	Agreement of Merger, dated as of July 20, 2010, by and among Oclaro, Inc., Nikko Acquisition Corp., Mintera Corporation and Shareholder Representative Services LLC (previously filed as Exhibit 2.1 to our current report on Form 8-K, filed with the SEC on July 26, 2010, and incorporated herein by reference).
10.1	Oclaro, Inc. Amended and Restated 2004 Stock Incentive Plan (previously filed as Exhibit 10.1 to our current report on Form 8-K, filed with the SEC on October 28, 2010, and incorporated herein by reference).
10.2	First Amendment to the Executive Severance and Retention Agreement, dated as of December 14, 2010, by and between Oclaro, Inc., a Delaware corporation, and Catherine Hunt Rundle (also known as Kate Rundle) (previously filed as Exhibit 10.4 to our quarterly report on Form 10-Q, filed with the SEC on February 10, 2011, and incorporated herein by reference).
10.3	First Amendment to the Executive Severance and Retention Agreement, dated as of December 14, 2010, by and between Oclaro, Inc., a Delaware corporation, and Jerry Turin (previously filed as Exhibit 10.5 to our quarterly report on Form 10-Q, filed with the SEC on February 10, 2011, and incorporated herein by reference).
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.
(1)	Filed herewith.