OCLARO, INC.
Form 10-Q
November 10, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2011

OR

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

For the transition period from __________ to __________

Commission file number 000-30684

OCLARO, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-1303994**
(State or other jurisdiction of incorporation or organization)	(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No þ

50,561,677 shares of common stock outstanding as of November 4, 2011

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

OCLARO, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	October 1, 2011	July 2, 2011
	(Thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51,051	$ 62,783
Restricted cash	631	574
Accounts receivable, net	81,219	82,868
Inventories	100,535	102,201
Prepaid expenses and other current assets	12,887	16,495
Total current assets	246,323	264,921
Property and equipment, net	69,470	69,374
Goodwill	10,904	10,904
Other intangible assets, net	18,919	19,698
Other non-current assets	13,964	10,277
Total assets	$ 359,580	$ 375,174
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 51,349	$ 66,179
Accrued expenses and other liabilities	47,111	60,703
Line of credit payable	19,500	
Total current liabilities	117,960	126,882
Deferred gain on sale-leaseback	12,345	12,920
Other non-current liabilities	6,196	6,277
Total liabilities	136,501	146,079
Commitments and contingencies (Note 8)		
Stockholders equity:		
Preferred stock: 1,000 shares authorized; none issued and outstanding		
Common stock: $0.01 par value per share; 90,000 shares authorized; 50,560 and 50,476 shares issued and outstanding at October 1, 2011 and July 2, 2011, respectively	506	505
Additional paid-in capital	1,322,663	1,313,931
Accumulated other comprehensive income	36,157	40,730
Accumulated deficit	(1,136,247)	(1,126,071)

Total stockholders equity	223,079	229,095
Total liabilities and stockholders equity	$ 359,580	$ 375,174

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

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

	Three Months Ended October 1, 2011	Three Months Ended October 2, 2010
	(Thousands, except per share amounts)	
Revenues	$ 105,821	$ 121,347
Cost of revenues	81,788	86,521
Gross profit	24,033	34,826
Operating expenses:		
Research and development	17,667	13,711
Selling, general and administrative	17,534	14,813
Amortization of intangible assets	726	619
Restructuring, acquisition and related costs	(1,765)	670
(Gain) loss on sale of property and equipment	60	(21)
Total operating expenses	34,222	29,792
Operating income (loss)	(10,189)	5,034
Other income (expense):		
Interest income (expense), net	(157)	(566)
Gain (loss) on foreign currency translation	1,392	(3,587)
Total other income (expense)	1,235	(4,153)
Income (loss) before income taxes	(8,954)	881
Income tax provision	1,222	525
Net income (loss)	$ (10,176)	$ 356
Net income (loss) per share:		
Basic	$ (0.21)	$ 0.01
Diluted	$ (0.21)	$ 0.01
Shares used in computing net income (loss) per share:		
Basic	49,448	48,115
Diluted	49,448	50,984

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

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

	Three Months Ended October 1, 2011	Three Months Ended October 2, 2010
	(Thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (10,176)	$ 356
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Amortization of deferred gain on sale-leaseback	(228)	(231)
Depreciation and amortization	5,842	3,833
Adjustment in fair value of earnout obligation	(3,789)	
Stock-based compensation expense	1,583	1,358
Other non-cash adjustments	60	(21)
Changes in operating assets and liabilities:		
Accounts receivable, net	(435)	(583)
Inventories	(262)	(4,902)
Prepaid expenses and other current assets	(370)	(258)
Other non-current assets	(337)	86
Accounts payable	(13,833)	6,252
Accrued expenses and other liabilities	(1,564)	(6,896)
Net cash used in operating activities	(23,509)	(1,006)
Cash flows from investing activities:		
Purchases of property and equipment	(6,220)	(6,882)
Proceeds from sales of property and equipment		21
Transfer from (to) restricted cash	(78)	1,696
Cash paid for acquisition		(10,482)
Net cash used in investing activities	(6,298)	(15,647)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	61	516
Proceeds from borrowings under line of credit	19,500	
Net cash provided by financing activities	19,561	516
Effect of exchange rate on cash and cash equivalents	(1,486)	78
Net decrease in cash and cash equivalents	(11,732)	(16,059)
Cash and cash equivalents at beginning of period	62,783	107,176
Cash and cash equivalents at end of period	$ 51,051	$ 91,117
Supplemental disclosures of non-cash transactions:		
Issuance of common stock to settle Xtellus escrow liability	$ 7,000	$

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

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

NOTE 1. BASIS OF PREPARATION

Oclaro, Inc., a Delaware corporation, is sometimes referred to in this Quarterly Report on Form 10-Q as Oclaro, we, us or our. The accompanying unaudited condensed consolidated financial statements of Oclaro as of October 1, 2011 and for the three months ended October 1, 2011 and October 2, 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 our subsidiaries. Accordingly, they do not include all of the information and footnotes required by such accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our consolidated financial position and results of operations have been included. The condensed consolidated results of operations for the three months ended October 1, 2011 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending June 30, 2012.

The condensed consolidated balance sheet as of July 2, 2011 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 2, 2011 (2011 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 2011 Form 10-K.

NOTE 2. RECENT ACCOUNTING STANDARDS

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-09, which updates Accounting Standards Codification (ASC) Subtopic 715-80, *Compensation Retirement Benefits Multiemployer Plans,* enhancing disclosures by requiring transparency about the nature of the commitments and risks involved in participating in multiemployer pension plans. We intend to adopt ASU No. 2011-09 on January 1, 2012, the first day of our third fiscal quarter. The adoption of this update is not expected to have a material effect on our condensed consolidated financial statements, but will require certain additional disclosures.

In September 2011, the FASB issued ASU No. 2011-08, which amends current guidance by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment in order to determine whether it should perform the two-step goodwill impairment test to calculate the fair value of a reporting unit. The update also provides additional examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We intend to adopt ASU No. 2011-08 on January 1, 2012, the first day of our third fiscal quarter. The adoption of this update is not expected to have a material effect on our condensed consolidated financial statements, but may impact amounts we record, if any, as goodwill impairment in the future.

In June 2011, the FASB issued ASU No. 2011-05, which amends current comprehensive income guidance. This update eliminates the option to present the components of other comprehensive income as part of our statement of stockholders equity. Instead, we must report comprehensive income in either a single continuous statement of comprehensive income that contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU No. 2011-05 will be effective for our fiscal year beginning July 1, 2013. The adoption of this update will not have an impact on our condensed consolidated financial statements as it only requires a change in the format of our current presentation.

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In May 2011, the FASB issued ASU No. 2011-04, an amendment to ASC Topic 820, *Fair Value Measurements*, providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU No. 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC Topic 820 disclosure requirements, particularly for Level 3 fair value measurements. This update will be effective for our fiscal quarter beginning January 1, 2012. The adoption of this update is not expected to have a material effect on our consolidated financial statements, but may require certain additional disclosures.

NOTE 3. FAIR VALUE

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

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

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

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

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

Our cash equivalents and 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 most marketable securities and money market securities. Such instruments are generally classified within Level 1 of the fair value hierarchy. The types of instruments 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.

During the three months ended October 1, 2011, we have classified the earnout obligations 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 4, *Business Combination*, for additional details regarding these earnout obligations.

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 following table.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are shown in the table below by their corresponding balance sheet caption and consisted of the following types of instruments at October 1, 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:				
Money market funds	$ 19,734	$	$	$ 19,734
Prepaid expenses and other current assets:				
Unrealized loss on currency instruments designated as cash flow hedges		(25)		(25)
Other non-current assets:				
Marketable securities	158			158
Total assets measured at fair value	$ 19,892	$ (25)	$	$ 19,867
Liabilities:				
Accrued expenses and other liabilities:				
Earnout obligations for Mintera acquisition	$	$	$ 12,351	$ 12,351
Total liabilities measured at fair value	$	$	$ 12,351	$ 12,351

The following table provides details regarding the changes in assets and liabilities classified within Level 3 from July 2, 2011 to October 1, 2011:

	Accrued Expenses and Other Liabilities
	(Thousands)
Balance at July 2, 2011	$ 16,140
Fair value adjustment to Mintera earnout obligations	(3,789)
Balance at October 1, 2011	$ 12,351

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 October 1, 2011, we held 14 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 $11.5 million of put and call options which expire, or expired, at various dates ranging from October 2011 through September 2012. 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 October 1, 2011 will generally be reclassified into other income (expense) within the next 12 months. As of October 1, 2011, each of the 14 designated cash flow hedges was determined to be fully effective; therefore, we recorded an unrealized loss of $25,000 to accumulated other comprehensive income related to recording the fair value of these foreign currency forward exchange contracts for accounting purposes.

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NOTE 4. BUSINESS COMBINATION

Acquisition of Mintera

On July 21, 2010, we acquired Mintera, a privately-held company providing high-performance optical transport sub-systems solutions. For accounting purposes, the total fair value of consideration given in connection with the acquisition of Mintera was $25.6 million, which we allocated to the assets acquired and liabilities assumed as of the acquisition date based on their estimated fair values. This acquisition is more fully discussed in Note 3, *Business Combinations*, to our consolidated financial statements included in our 2011 Form 10-K.

Under the terms of this agreement, we agreed to pay certain 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 was more than $29.0 million in the 12 months following the acquisition and/or is more than $40.0 million in the 18 months following the acquisition. The earnout consideration is payable in cash or, at our option, newly issued shares of our common stock, or a combination of cash and stock. During the three months ended October 1, 2011, we reviewed the fair value of these obligations and determined that their fair value decreased by $3.8 million based on revised estimates of revenues from Mintera products. This $3.8 million decrease in fair value was recorded as a decrease in restructuring, acquisition and related expenses in the condensed consolidated statement of operations for the three months ended October 1, 2011. During the three months ended October 2, 2010, we recorded $0.2 million in interest expense related to these obligations.

Based on sales in the 12 month period following the acquisition, earnout consideration of $3.3 million became payable for the 12 month obligation during the three months ended October 1, 2011. This amount has been recorded in accrued expenses and other liabilities in our condensed consolidated balance sheet at October 1, 2011. On October 21, 2011, we paid $0.5 million in cash and issued 0.8 million shares of our common stock valued at $2.8 million to settle the 12 month obligation. See Note 15, *Subsequent Events*.

At October 1, 2011, the estimated fair value of the 18 month obligation of $9.0 million was determined using management estimates of the total amounts expected to be paid based on estimated future operating results, discounted to present value using our incremental borrowing cost. This amount has been recorded, along with accrued interest, in accrued expenses and other liabilities in our condensed consolidated balance sheet at October 1, 2011. The 18 month obligation is payable in April 2012.

NOTE 5. BALANCE SHEET DETAILS

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

	October 1, 2011	July 2, 2011
	(Thousands)	
Cash and cash equivalents:		
Cash-in-bank	$ 31,317	$ 42,585
Money market funds	19,734	20,198
	$ 51,051	$ 62,783

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

	October 1, 2011	July 2, 2011
	(Thousands)	
Inventories:		
Raw materials	$ 39,093	$ 38,863
Work-in-process	38,884	37,084
Finished goods	22,558	26,254

$	100,535	$	102,201

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

	October 1, 2011	July 2, 2011
	(Thousands)	
Property and equipment, net:		
Buildings	$ 17,513	$ 17,640
Plant and machinery	154,647	149,120
Fixtures, fittings and equipment	1,779	1,802
Computer equipment	15,467	14,235
	189,406	182,797
Less: Accumulated depreciation	(119,936)	(113,423)
	$ 69,470	$ 69,374

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

	October 1, 2011	July 2, 2011
	(Thousands)	
Accrued expenses and other liabilities:		
Trade payables	$ 3,386	$ 6,241
Compensation and benefits related accruals	8,958	11,097
Earnout obligations for Mintera acquisition	12,351	16,140
Escrow liability for Xtellus acquisition		7,000
Warranty accrual	2,312	2,175
Other accruals	20,104	18,050
	$ 47,111	$ 60,703

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

	October 1, 2011	July 2, 2011
	(Thousands)	
Accumulated other comprehensive income:		
Currency translation adjustments	$ 39,050	$ 43,536
Unrealized gain (loss) on currency instruments designated as cash flow hedges	(25)	54
Unrealized loss on marketable securities	(147)	(139)
Adjustment for Swiss defined benefit plan	(2,721)	(2,721)
	$ 36,157	$ 40,730

NOTE 6. CREDIT AGREEMENT

On July 26, 2011, Oclaro Technology Ltd., as Borrower, and Oclaro, Inc., as Parent, entered into an amendment and restatement to our existing senior secured credit facility (the Credit Agreement) with Wells Fargo Capital Finance, Inc. and other lenders, increasing the facility size from $25 million to $45 million and extending the term thereof to August 1, 2014. This Credit Agreement is more fully discussed in Note 6, *Credit Agreement*, and Note 16, *Subsequent*

Event, to our consolidated financial statements included in our 2011 Form 10-K.

As of October 1, 2011 there was $19.5 million outstanding under the Credit Agreement at an average interest rate of 3.24% and we were in compliance with all covenants. As of July 2, 2011, there were no amounts outstanding under the Credit Agreement. At October 1, 2011 and July 2, 2011, there were $0.1 million and $1.1 million, respectively, in outstanding standby letters of credit secured under the Credit Agreement. These letters of credit expire at various intervals through April 2014.

NOTE 7. POST-RETIREMENT BENEFITS

We have a pension plan covering employees of our Swiss subsidiary (the Swiss Plan). Net periodic pension costs associated with our Swiss Plan for the three months ended October 1, 2011 and October 2, 2010 included the following:

	Three Months Ended	
	October 1, 2011	October 2, 2010
	(Thousands)	
Service cost	$ 628	$ 419
Interest cost	215	176
Expected return on plan assets	(281)	(232)
Net periodic pension costs	$ 562	$ 363

During the three months ended October 1, 2011 and October 2, 2010, we contributed $0.3 million and $0.4 million, respectively, to our Swiss Plan. We currently anticipate contributing an additional $0.9 million to this pension plan during the remainder of fiscal year 2012.

NOTE 8. 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 indemnifications in favor of customers in respect of liabilities they may incur as a result of purchasing our products should such products infringe the intellectual property rights of a third party. We have not historically paid out any material amounts related to these indemnifications, therefore, no accrual has been made for these indemnifications.

Warranty accrual

We 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	
	October 1, 2011	October 2, 2010
	(Thousands)	
Warranty provision beginning of period	$ 2,175	$ 2,437
Warranties assumed in acquisitions		357
Warranties issued	677	432
Warranties utilized or expired	(490)	(564)
Currency translation adjustment	(50)	74
Warranty provision end of period	$ 2,312	$ 2,736

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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 our 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 December 6, 2010, a bankruptcy preferential transfer avoidance action was filed by Nortel Networks Inc. (Nortel) *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. Pursuant to a settlement agreement dated October 6, 2011, Oclaro Technology Ltd. and Oclaro (North America), Inc. settled the preference-related claims with Nortel Networks Inc. without any cash payment by Oclaro Technology Ltd. or Oclaro (North America), Inc.. The settlement agreement is subject to approval by the Delaware Bankruptcy Court, and the hearing to approve the settlement agreement is currently scheduled for November 29, 2011.

On May 19, 2011, Curtis and Charlotte Westley filed a purported class action complaint in the United States District Court for the Northern District of California, against us and certain of our officers and directors. The Court subsequently appointed the Connecticut Laborers Pension Fund (Pension Fund) as lead plaintiff for the putative class. On October 27, 2011, the Pension Fund filed an Amended Complaint, captioned as Westley v. Oclaro, Inc., No. 11 Civ. 2448 EMC, allegedly on behalf of persons who purchased our common stock between May 6 and October 28, 2010, alleging that defendants issued materially false and misleading statements during this time period regarding our current business and financial condition, including projections for demand for our products, as well as our revenues, earnings, and gross margins, for the first quarter of fiscal year 2011 as well as the full fiscal year. The complaint alleges violations of section 10(b) of the Securities Exchange Act and Securities and Exchange Commission Rule 10b-5, as well as section 20(a) of the Securities Exchange Act. The complaint seeks damages and costs of an unspecified amount. Discovery has not commenced, and no trial has been scheduled in this action. We intend to defend this litigation vigorously.

On June 10, 2011, a purported shareholder, Stanley Moskal, filed a purported derivative action in the Superior Court for the State of California, County of Santa Clara, against us, as nominal defendant, and certain of our current and former officers and directors, as defendants. The case is styled Moskal v. Couder, No. 1:11 CV 202880 (Santa Clara County Super. Ct. filed June 10, 2011). Four other purported shareholders, Matteo Guindani, Jermaine Coney, Jefferson Braman and Toby Aguilar, separately filed substantially similar lawsuits in the United States District Court for the Northern District of California on June 27, June 28, July 7 and July 26, 2011, respectively. By Order dated September 14, 2011, the Guindani, Coney, and Braman actions were consolidated under *In re Oclaro, Inc. Derivative Litigation*, Lead Case No. 11 Civ. 3176 EMC. On October 5, 2011, the Aguilar action was voluntarily dismissed. Each remaining purported derivative complaint alleges that Oclaro has been, or will be, damaged by the actions alleged in the Westley complaint, and the litigation of the Westley action, and any damages or settlement paid in the Westley action. Each purported derivative complaint alleges counts for breaches of fiduciary duty, waste, and unjust enrichment. Each purported derivative complaint seeks damages and costs of an unspecified amount, as well as injunctive relief. Discovery has not commenced, and no trial has been scheduled in any of these actions.

NOTE 9. STOCKHOLDERS EQUITY

Comprehensive Income

For the three months ended October 1, 2011 and October 2, 2010, comprehensive income is primarily comprised of our net income, changes in the unrealized gain (loss) on currency instruments designated as cash flow hedges, unrealized loss on short-term investments and currency translation adjustments. The components of comprehensive income were as follows for the periods indicated:

	Three Months Ended	
	October 1, 2011	October 2, 2010
	(Thousands)	
Net income (loss)	$ (10,176)	$ 356
Other comprehensive income (loss):		
Currency translation adjustments	(4,486)	5,613
Unrealized gain (loss) on currency instruments designated as cash flow hedges	(79)	323
Unrealized loss on marketable securities	(8)	
Comprehensive income (loss)	$ (14,749)	$ 6,292

Warrants

The following table summarizes activity relating to warrants to purchase our common stock:

	Warrants Outstanding	Weighted-Average Exercise Price
	(Thousands)	
Balance at July 2, 2011	1,398	$ 16.18
Expired on September 1, 2011	(580)	20.00
Balance at October 1, 2011	818	$ 13.48

Common Stock

On December 17, 2009, we acquired Xtellus, Inc. (Xtellus). As part of the consideration, we were obligated to pay $7.0 million in consideration to the former Xtellus stockholders after an 18 month escrow period. In the fiscal quarter ended January 2, 2010, we issued approximately 1.0 million shares of our common stock into a third-party escrow account to secure this obligation.

During the quarter ended October 1, 2011, we settled the $7.0 million liability with the former Xtellus stockholders by transferring approximately 0.9 million shares of common stock held in escrow, valued at $7.0 million, to the former Xtellus stockholders. The transfer of the shares resulted in a $7.0 million increase to our additional paid-in capital and a $7.0 million decrease in our accrued expenses and other liabilities within our condensed consolidated balance sheet at October 1, 2011. The balance of 0.1 million shares of common stock held in escrow was returned to us, retired and returned to the status of authorized but unissued common stock in September 2011.

NOTE 10. EMPLOYEE STOCK PLANS

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

As of October 1, 2011, there were approximately 2.7 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.

In July 2011, our board of directors approved the grant of 0.2 million performance stock units (PSUs) to certain executive officers with an aggregate estimated grant date fair value of $0.9 million. These PSUs vest upon the achievement of certain revenue growth targets through June 30, 2013, relative to certain comparable companies. Vesting is also contingent upon service conditions being met through August 2015. If the performance conditions are not achieved, then the corresponding PSUs will be forfeited in the first quarter of fiscal year 2014.

The following table summarizes the combined activity under all of our equity incentive plans for the three months ended October 1, 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 2, 2011	3,727	3,350	$ 9.38	799	$ 10.15
Granted	(906)	359	4.37	438	4.35
Granted performance stock units	(250)			200	4.33
Exercised or released		(23)	2.65	(125)	11.88
Cancelled or forfeited	82	(150)	17.09	(37)	10.01
Balances at October 1, 2011	2,653	3,536	8.93	1,275	7.13

Supplemental disclosure information about our stock options outstanding as of October 1, 2011 is as follows:

	Shares (Thousands)	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life** (Years)	**Aggregate Intrinsic Value** (Thousands)
Options exercisable at October 1, 2011	1,738	$ 9.97	6.4	$ 640
Options outstanding at October 1, 2011	3,536	$ 8.93	7.5	972

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 $3.64 on September 30, 2011, which would have been received by the option holders had all option holders exercised their options as of that date (our closing stock price was $4.37 on November 4, 2011). There were approximately 0.6 million shares of common stock subject to in-the-money options which were exercisable as of October 1, 2011. We settle employee stock option exercises with newly issued shares of common stock.

NOTE 11. 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 months ended October 1, 2011 and October 2, 2010 were as follows:

	Three Months Ended	
	October 1, 2011	October 2, 2010
Expected life	4.8 years	4.5 years
Risk-free interest rate	1.0%	1.3%
Volatility	92.8%	96.6%
Dividend yield		

The amounts included in cost of revenues and operating expenses for stock-based compensation for the three months ended October 1, 2011 and October 2, 2010 were as follows:

	Three Months Ended	
	October 1, 2011	October 2, 2010
	(Thousands)	
Stock-based compensation by category of expense:		
Cost of revenues	$ 309	$ 310
Research and development	367	318
Selling, general and administrative	907	730
	$ 1,583	$ 1,358
Stock-based compensation by type of award:		
Stock options	$ 884	$ 763
Restricted stock awards	788	642
Inventory adjustment to cost of revenues	(89)	(47)
	$ 1,583	$ 1,358

As of October 1, 2011 and July 2, 2011, we had capitalized approximately $0.5 million and $0.4 million, respectively, of stock-based compensation as inventory.

Included in stock-based compensation for the three months ended October 1, 2011, is approximately $27,000 in compensation cost related to the issuance of PSUs. As of October 1, 2011, we have determined that the achievement of the performance conditions associated with the PSUs is probable at the 100 percent target level. The amount of stock-based compensation expense recognized in any one period can vary based on the achievement or anticipated achievement of the performance conditions. If the performance conditions are not met or not expected to be met, no compensation cost would be recognized on the underlying PSUs, and any previously recognized compensation expense related to those PSUs would be reversed.

NOTE 12. INCOME TAXES

The total amount of our unrecognized tax benefits as of October 1, 2011 and July 2, 2011 were approximately $6.9 million. For the three months ended October 1, 2011, we had $1.8 million in unrecognized tax benefits that, if recognized, would affect our effective tax rate. We are currently under tax audit in France and the United States. We believe that an adequate provision has been made for any adjustments that may result from tax audits. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in our tax audits are resolved in a manner not consistent with our expectations, we could be required to adjust our income tax provision in the period such resolution occurs. Although timing of the resolution and/or closure of audits is not certain, we do not believe it is reasonably possible that our unrecognized tax benefits will materially change in the next 12 months.

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NOTE 13. NET INCOME (LOSS) PER SHARE

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

	Three Months Ended	
	October 1, 2011	October 2, 2010
	(Thousands,except per share amounts)	
Net income (loss)	$ (10,176)	$ 356
Weighted-average shares basic	49,448	48,115
Effect of dilutive potential common shares from:		
Stock options		1,657
Restricted stock awards		770
Obligations under escrow agreement		442
Weighted-average shares diluted	49,448	50,984
Net income (loss) per share basic	$ (0.21)	$ 0.01
Net income (loss) per share diluted	$ (0.21)	$ 0.01

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

For the three months ended October 1, 2011 and October 2, 2010, respectively, we excluded 4.6 million and 1.8 million of outstanding stock options, warrants and unvested restricted stock awards from the calculation of diluted net income per share because their effect would have been anti-dilutive.

NOTE 14. GEOGRAPHIC AND CUSTOMER CONCENTRATION INFORMATION

Geographic Information

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

	Three Months Ended	
	October 1, 2011	October 2, 2010
	(Thousands)	
United States	$ 16,902	$ 19,664
Canada	5,909	3,401
Europe	26,294	35,424
Asia	49,306	54,329
Rest of world	7,410	8,529
	$ 105,821	$ 121,347

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Significant Customers and Concentration of Credit Risk

For the three months ended October 1, 2011, Huawei Technologies Co., Ltd. (Huawei) accounted for 13 percent, Cisco Systems, Inc. accounted for 11 percent, Fujitsu Limited accounted for 11 percent and Alcatel-Lucent accounted for 10 percent of our revenues. For the three months ended October 2, 2010, Huawei accounted for 15 percent and Alcatel-Lucent accounted for 13 percent of our revenues.

As of October 1, 2011, Alcatel-Lucent accounted for 15 percent and Huawei accounted for 13 percent of our accounts receivable. As of July 2, 2011, no customer accounted for 10 percent or more of our accounts receivable.

NOTE 15. SUBSEQUENT EVENTS

In connection with our July 2010 acquisition of Mintera, on October 21, 2011 we paid $0.5 million in cash and issued 0.8 million shares of our common stock valued at $2.8 million to settle the 12 month earnout obligation. See Note 4, *Business Combination*.

On October 22, 2011, Fabrinet, our primary contract manufacturer, announced that, as a result of the flooding in Thailand, it has suspended operations at two factories located in Chokchai and Pinehurst. Fabrinet manufactures approximately 30 percent of our total finished goods in these factories. Subsequently, on October 24, Fabrinet announced its Chokchai factory suffered extensive flood damage and is now largely inaccessible due to high water levels inside and surrounding the manufacturing facility. Although our management cannot yet quantify the possible impact of the flooding in Thailand on our business, it is likely that the supply disruption will materially and adversely affect our results of operations, including our revenue, for at least the next two fiscal quarters. Our current evaluation is that revenues for the second quarter of fiscal 2012 could be $25 million to $30 million less as a result of this disruption than would otherwise be expected. While we maintain both property and business interruption insurance coverage, there can be no assurance as to the extent or timing of insurance recoveries.

On October 26, 2011, our 2011 Employee Stock Purchase Plan (ESPP) was approved by our stockholders. Under the ESPP, we have reserved 1.7 million shares of our common stock for issuance. The ESPP will be effective on a date determined by our board of directors within 12 months following stockholder approval.

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

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, about our future expectations, plans or prospects and our business. You can identify these statements by the fact that they do not relate strictly to historical or current events, and contain words such as anticipate, estimate, expect, project, intend, will, plan, believe, should, outlook, could, of similar meaning in connection with discussion of 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 and 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, (vii) the potential impact of the flooding in Thailand on our product supply and on results of operations (viii) the potential outsourcing of our Shenzhen assembly and test operations to a major contract manufacturer and the expected proceeds to us from such transaction, and the entrance into a supply agreement in connection with such transaction, and (ix) 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 (i) the impact to our operations and financial condition attributable to the flooding in Thailand, (ii) our inability to reach final terms, enter into a definitive agreement or consummate the outsourcing of our Shenzhen assembly and test operations to a major contract manufacturer (and no guarantee can be provided that such transaction will occur, the supply agreement will result in the benefits that we expect or the transaction will result in us receiving the anticipated cash proceeds and the timing of receipt of such proceeds), (iii) the impact of continued uncertainty in world financial markets and any resulting or other reduction in demand for our products, (iv) our ability to maintain our gross margin, (v) our ability to respond to evolving technologies and customer requirements, (vi) our ability to develop and commercialize new products in a timely manner, (vii) our ability to protect our intellectual property rights and the resolution of allegations that we infringe the intellectual property rights of others, (viii) our dependence on a limited number of customers for a significant percentage of our revenues, (ix) 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, (x) the effect of fluctuating product mix, currency prices and consumer demand on our financial results, (xi) our performance following the closing of acquisitions, (xii) our potential inability to realize the expected benefits and synergies from our acquisitions, (xiii) increased costs related to downsizing and compliance with regulatory requirements in connection with such downsizing, (xiv) the impact of events beyond our control such as natural disasters, including additional information that will become available in the future regarding the impact of the flooding in Thailand on our results of operations, and political unrest, (xv) the outcome of our currently pending litigation and future litigation that may be brought by or against us, (xvi) the potential lack of availability of credit or opportunity for equity-based financing and (xvii) 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. Several of the important factors that may cause our actual results to differ materially from the expectations we describe in forward-looking statements are identified in the sections captioned Management s Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors in this Quarterly Report on Form 10-Q and the documents incorporated herein by reference.

OVERVIEW

We are a leading provider of high-performance core optical network components, modules and subsystems to global telecommunications (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. In all markets, our approach is to offer 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 vertically integrated approach to manufacturing and product development.

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RECENT DEVELOPMENTS

On October 22, 2011, Fabrinet, our primary contract manufacturer, announced that, as a result of the flooding in Thailand, it has suspended operation at two factories located in Chokchai and Pinehurst. Fabrinet manufactures approximately 30 percent of our total finished goods in these factories. As a result, we immediately began to deploy our contingency planning to assess alternative manufacturing options. Subsequently, on October 24, Fabrinet announced its Chokchai factory suffered extensive flood damage and is now largely inaccessible due to high water levels inside and surrounding the manufacturing facility. Our assessment of the damage to equipment and inventory on site is affected by the limited site accessibility at this time. Our and Fabrinet s management teams are actively investigating alternative production locations and have enacted business continuity plans. Fabrinet s Pinehurst facility remains secure from flood water at this time, but remains closed. Shipments continue from our Shenzhen, China manufacturing facility, and other locations which account for approximately 70 percent of our finished goods output. However, we are still evaluating the broader supply chain implications of the flooding in Thailand across our entire manufacturing operations. Although our management cannot yet quantify the possible impact of the flooding in Thailand on our business, it is likely that the supply disruption will materially and adversely affect our results of operations, including our revenue, for at least the next two fiscal quarters. Our current evaluation is that revenues for the second quarter of fiscal 2012 could be $25 million to $30 million less as a result of this disruption than would otherwise be expected. There is no assurance that the disruption in our second quarter fiscal 2012 revenues will be limited to this range, nor can it be assured that the adverse impact will be limited to the next two fiscal quarters. In addition, certain of our customers may seek alternative sources of supply if we are unable to meet their supply needs as a result of the flooding in Thailand. While we believe our insurance coverage, both property and business interruption, will mitigate a portion of the adverse impact, there can be no assurance as to the extent or timing of insurance recoveries.

We are currently in negotiations to outsource our Shenzhen assembly and test operations to a major contract manufacturer in a transaction which we expect could generate $30 million to $40 million in net cash proceeds in our third fiscal quarter of 2012, with potential additional consideration to be received in the future, and would include a long term supply agreement with the contract manufacturer. We are also evaluating selling our building in Shenzhen. No guarantee can be provided that such transactions will occur, the supply agreement will result in the benefits that we expect or the transactions will result in us receiving the anticipated cash proceeds and the timing of receipt of such proceeds.

RESULTS OF OPERATIONS

The following tables set forth our condensed consolidated results of operations for the three 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**
	October 1,2011		**October 2, 2010**		**Change**	**(Decrease)**
	(Thousands)	%	(Thousands)	%	(Thousands)	%
Revenues	$ 105,821	100.0	$ 121,347	100.0	$ (15,526)	(12.8)
Cost of revenues	81,788	77.3	86,521	71.3	(4,733)	(5.5)
Gross profit	24,033	22.7	34,826	28.7	(10,793)	(31.0)
Operating expenses:						
Research and development	17,667	16.7	13,711	11.3	3,956	28.9
Selling, general and administrative	17,534	16.6	14,813	12.2	2,721	18.4
Amortization of intangible assets	726	0.7	619	0.5	107	17.3
Restructuring, acquisition and related costs	(1,765)	(1.7)	670	0.6	(2,435)	n/m(1)
	60		(21)		81	n/m(1)

(Gain) loss on sale of property and equipment						
Total operating expenses	34,222	32.3	29,792	24.6	4,430	14.9
Operating income (loss)	(10,189)	(9.6)	5,034	4.1	(15,223)	n/m(1)
Other income (expense):						
Interest income (expense), net	(157)	(0.1)	(566)	(0.5)	409	(72.3)
Gain (loss) on foreign currency translation	1,392	1.3	(3,587)	(2.9)	4,979	n/m(1)
Total other income (expense)	1,235	1.2	(4,153)	(3.4)	5,388	n/m(1)
Income (loss) before income taxes	(8,954)	(8.4)	881	0.7	(9,835)	n/m(1)
Income tax provision	1,222	1.2	525	0.4	697	132.8
Net income (loss)	$ (10,176)	(9.6)	$ 356	0.3	$ (10,532)	n/m(1)

(1) Not meaningful.

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Revenues

Revenues for the three months ended October 1, 2011 decreased by $15.5 million, or 13 percent, compared to the three months ended October 2, 2010. The decrease was primarily due to inventory corrections and a decrease in demand in our telecommunications related markets, largely associated with uncertain global macroeconomic conditions. See "Recent Developments" for a discussion of the impact on our future results of operations as a result of the flooding in Thailand.

For the three months ended October 1, 2011, Huawei Technologies Co., Ltd. (Huawei) accounted for $13.3 million, or 13 percent, of our revenues; Cisco Systems, Inc. accounted for $11.6 million, or 11 percent, of our revenues; Fujitsu Limited accounted for $11.4 million, or 11 percent, of our revenues; and Alcatel-Lucent accounted for $10.5 million, or 10 percent of our revenues. For the three months ended October 2, 2010, Huawei accounted for $18.3 million, or 15 percent, of our revenues and Alcatel-Lucent accounted for $16.0 million, or 13 percent, of our revenues.

Cost of Revenues

Our cost of revenues for the three months ended October 1, 2011 decreased by $4.7 million, or 5 percent, from the three months ended October 2, 2010. The decrease was primarily related to reduced costs associated with lower volumes of revenue.

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 23 percent for the three months ended October 1, 2011, compared to 29 percent for the three months ended October 2, 2010. The decrease in gross margin rate was primarily due to the impact of our fixed costs on lower revenues, centered around a lower mix of relatively higher margin 10 G/bps transmission products, a higher mix of less mature 40 G/bps transmission products that are not yet margin optimized, and a $1.5 million increase in depreciation expense. Our gross profit was also favorably impacted by approximately $1.8 million as a result of the U.K. pound sterling and the Swiss franc weakening relative to the U.S. dollar.

Research and Development Expenses

Research and development expenses increased to $17.7 million for the three months ended October 1, 2011 from $13.7 million for the three months ended October 2, 2010. The increase was primarily due to increased investment in research and development resources, primarily personnel-related. Personnel-related costs increased to $10.5 million for the three months ended October 1, 2011, compared with $8.2 million for the three months ended October 2, 2010. Other costs, including the costs of design tools and facilities-related costs increased to $7.2 million for the three months ended October 1, 2011, compared with $5.5 million for the three months ended October 2, 2010. Research and development expenses were favorably impacted by approximately $0.6 million as a result of the U.K. pound sterling and the Swiss franc weakening relative to the U.S. dollar.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $17.5 million for the three months ended October 1, 2011, from $14.8 million for the three months ended October 2, 2010. Personnel-related costs increased to $10.0 million for the three months ended October 1, 2011, compared with $7.8 million for the three months ended October 2, 2010. Other costs, including legal and professional fees, facilities expenses and other miscellaneous expenses, increased to $7.5 million for the three months ended October 1, 2011, compared with $7.0 million for the three months ended October 2, 2010. Selling, general and administrative expenses were favorably impacted by approximately $0.6 million as a result of the U.K. pound sterling and the Swiss franc weakening relative to the U.S. dollar.

Restructuring, Acquisition and Related Costs

During each of the three months ended October 1, 2011 and October 2, 2010, we accrued $0.6 million in employee separation costs related to previously announced restructuring plans. We also incurred $1.1 million of expenses during the three months ended October 1, 2011 in external consulting charges associated with the next phase of our optimization of past acquisitions as we focus on the associated infrastructure and processes required to support sustainable growth.

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During the three months ended October 1, 2011, we reviewed the fair value of certain remaining earnout obligations arising from the acquisition of Mintera Corporation (Mintera) and determined that their fair value decreased by $3.8 million based on revised estimates of revenues from Mintera products. This $3.8 million decrease in fair value was recorded as a decrease in restructuring, acquisition and related expenses in the first quarter of fiscal year 2012.

Other Income (Expense)

Other income (expense) for the three months ended October 1, 2011 was $1.2 million in income, an increase of $5.4 million from an expense of $4.2 million for the three months ended October 2, 2010. This increase was primarily due to recording income of $2.3 million 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 three months ended October 1, 2011, as compared to a $2.3 million expense for the three months ended October 2, 2010. In addition, there was also a $0.5 million decrease in interest expense, which related to reduced interest expense related to liabilities recognized in the acquisitions of Xtellus, Inc. (Xtellus) and Mintera.

Income Tax Provision (Benefit)

For the three months ended October 1, 2011 and October 2, 2010, our income tax provisions of $1.2 million and $0.5 million, respectively, primarily related to our foreign operations.

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 October 1, 2011.

RECENT ACCOUNTING STANDARDS

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

APPLICATION OF CRITICAL ACCOUNTING POLICIES

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

We identified our critical accounting policies in our Annual Report on Form 10-K for the year ended July 2, 2011 (2011 Form 10-K) related to revenue recognition and sales returns, inventory valuation, business combinations, 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 2011 Form 10-K.

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

Net cash used by operating activities for the three months ended October 1, 2011 was $23.5 million, primarily resulting from a net loss of $10.2 million and a $16.8 million decrease in cash due to changes in operating assets and liabilities, partially offset by non-cash adjustments of $3.5 million. The $16.8 million decrease in cash due to changes in operating assets and liabilities was comprised of a $13.8 million decrease in accounts payable, $1.6 million decrease in accrued expenses and other liabilities, a $0.4 million increase in accounts receivable, a $0.4 million increase in prepaid expense and other current assets, a $0.3 million increase in other non-current assets, and a $0.3 million increase in inventory. The $3.5 million increase in cash resulting from non-cash adjustments primarily consisted of $5.8 million of expense related to depreciation and amortization and $1.6 million of expense related to stock-based compensation, offset in part by $3.8 million due to the revaluation of the Mintera earnout liability and $0.2 million from the amortization of deferred gain from a sales-leaseback transaction.

Net cash used by operating activities for the three months ended October 2, 2010 was $1.0 million, primarily resulting from a $6.3 million decrease in cash due to changes in operating assets and liabilities, partially offset by net income of $0.4 million and non-cash adjustments of $4.9 million. The $6.3 million decrease in cash due to changes in operating assets and liabilities was comprised of a $6.9 million decrease in accrued expenses and other liabilities, a $4.9 million increase in inventory, a $0.6 million increase in accounts receivable and a $0.3 million increase in prepaid expense and other current assets, offset in part by cash generated from a $6.3 million increase in accounts payable and a $0.1 million decrease in other non-current assets. The $4.9 million increase in cash resulting from non-cash adjustments primarily consisted of $3.8 million of expense related to depreciation and amortization and $1.4 million of expense related to stock-based compensation, offset in part by $0.2 million from the amortization of deferred gain from a sales-leaseback transaction.

Cash Flows from Investing Activities

Net cash used in investing activities for the three months ended October 1, 2011 was $6.3 million, primarily consisting of $6.2 million used in capital expenditures and a $0.1 million increase in restricted cash related to contractual commitments.

Net cash used in investing activities for the three months ended October 2, 2010 was $15.6 million, primarily consisting of $10.5 million used in the acquisition of Mintera and $6.9 million used in capital expenditures, which were partially offset by a reduction of $1.7 million in restricted cash related to a facility lease from which we exited during the quarter.

Cash Flows from Financing Activities

Net cash provided by financing activities of $19.6 million for the three months ended October 1, 2011 primarily consisted of $19.5 million in borrowings under our revolving credit facility and $0.1 million in proceeds from the issuance of common stock through stock option exercises.

Net cash provided by financing activities of $0.5 million for the three months ended October 2, 2010 primarily resulted from $0.3 million in additional proceeds related to our May 2010 follow-on stock offering and $0.2 million received from the issuance of common stock through stock option exercises.

Effect of Exchange Rates on Cash and Cash Equivalents for the Three Months Ended October 1, 2011 and October 2, 2010

The effect of exchange rates on cash and cash equivalents for the three months ended October 1, 2011 was a decrease of $1.5 million, primarily consisting of $0.9 million in net loss due to the revaluation of foreign currency cash balances to the functional currency of the respective subsidiaries and from a loss of approximately $0.6 million related to the revaluation of U.S. dollar denominated operating intercompany balances on the books of our subsidiaries.

The effect of exchange rates on cash and cash equivalents for the three months ended October 2, 2010 was an increase of $0.1 million, primarily consisting of $0.9 million in net gain due to the revaluation of foreign currency cash balances to the functional currency of the respective subsidiaries and from a loss of approximately $1.1 million related to the revaluation of U.S. dollar denominated operating intercompany payables on the books of our subsidiaries.

Credit Facility

As of October 1, 2011, we had a $45.0 million senior secured revolving credit facility with Wells Fargo Capital Finance, Inc. and other lenders (the Credit Agreement) with an expiration date of August 1, 2014. See Note 6, *Credit Facility*, for additional information regarding this credit facility. As of October 1, 2011 there was $19.5 million outstanding under the Credit Agreement and we were in compliance with all covenants. As of July 2, 2011, there were no amounts outstanding under the Credit Agreement. At October 1, 2011 and July 2, 2011, there were $0.1 million and $1.1 million, respectively, in outstanding standby letters of credit secured under the Credit Agreement. These letters of credit expire at various intervals through April 2014.

Future Cash Requirements

As of October 1, 2011, we held $51.1 million in cash and cash equivalents and $0.6 million in restricted cash. In the future, in order to strengthen our financial position, in the event of unforeseen circumstances, in the event we need to fund our growth in future financial periods, or in the event insurance proceeds are not sufficient or timely enough to offset our expenses or lost revenue associated with the Thailand floods, we may need to raise additional funds by any one or a combination of the following: (i) issuing equity securities, (ii) incurring indebtedness secured by our assets, (iii) issuing debt and/or convertible debt securities, or (iv) selling product lines and/or portions of our business. There can be no guarantee that we will be able to raise additional funds on terms acceptable to us, or at all. We are currently in negotiations to outsource our Shenzhen assembly and test operations to a major contract manufacturer, in a transaction which we expect could generate $30 million to $40 million in proceeds in our third fiscal quarter of 2012, with potential additional consideration to be received in the future, and would include a long term supply agreement with the contract manufacturer. We are also evaluating selling our building in Shenzhen. We also expect to receive advance payments under insurance coverage associated with the Thailand flooding, although neither the amounts nor the timing of such payments can be reasonably estimated at this time.

From time to time, we have engaged in discussions with third parties concerning potential acquisitions of product lines, technologies and businesses, such as our merger with Avanex, our acquisitions of Xtellus and Mintera, and our exchange of assets agreement with Newport. We continue to consider potential acquisition candidates. Any such transactions could result in us issuing a significant number of new equity or debt securities (including promissory notes), the incurrence or assumption of debt, and the utilization of our cash and cash equivalents. We may also be required to raise additional funds to complete any such acquisition, through either the issuance of equity securities and/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 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.

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 Credit Agreement. Our primary exposure to interest rate fluctuations is on our cash deposits and for amounts borrowed under our Credit Agreement. As of October 1, 2011, we had $19.5 million in outstanding borrowings at an average interest rate of 3.25% and $0.1 million in outstanding standby letters of credit secured under our Credit Agreement. An increase in our average interest rate on our Credit Agreement of 1.0% would increase our annual interest expense by $0.2 million.

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 has grown and become multinational in scope, we have become increasingly 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 will be denominated in U.K. pounds sterling and the Swiss franc. Fluctuations in the exchange rate between the U.S. dollar, the U.K. pound sterling and the Swiss franc 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 and the Euro in which we pay expenses in connection with operating our facilities in Shenzhen and Shanghai, China; Daejeon, South Korea; Jerusalem, Israel and San Donato, Italy. To the extent the exchange rate between the U.S. dollar and these currencies were to fluctuate more significantly than experienced to date, our exposure would increase.

As of October 1, 2011, our U.K. subsidiary had $53.0 million, net, in U.S. dollar denominated operating intercompany payables and $65.1 million in U.S. dollar denominated net 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 $1.3 million (U.S. dollar strengthening), or a loss of $1.3 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 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 October 1, 2011, we held 14 outstanding foreign currency forward exchange contracts with a notional value of $11.5 million which include put and call options which expire, or expired, at various dates from October 2011 to September 2012 and we have recorded an unrealized loss of $25,000 to accumulated other comprehensive income in connection with marking these contracts to fair value as of October 1, 2011. It is estimated that a 10 percent fluctuation in the dollar between October 1, 2011 and the maturity dates of the put and call instruments underlying these contracts would lead to a profit of $0.9 million dollars (U.S. dollar weakening) or loss of $0.6 million dollars (U.S. dollar strengthening) on our outstanding foreign currency forward exchange contracts, should they be held to maturity.

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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 October 1, 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 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 October 1, 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 October 1, 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 our 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 December 6, 2010, a bankruptcy preferential transfer avoidance action was filed by Nortel Networks Inc. (Nortel) *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. Pursuant to a settlement agreement dated October 6, 2011, Oclaro Technology Ltd. and Oclaro (North America), Inc. settled the preference-related claims with Nortel Networks Inc. without any cash payment by Oclaro Technology Ltd. or Oclaro (North America), Inc.. The settlement agreement is subject to approval by the Delaware Bankruptcy Court, and the hearing to approve the settlement agreement is currently scheduled for November 29, 2011.

On May 19, 2011, Curtis and Charlotte Westley filed a purported class action complaint in the United States District Court for the Northern District of California, against us and certain of our officers and directors. The Court subsequently appointed the Connecticut Laborers Pension Fund (Pension Fund) as lead plaintiff for the putative class. On October 27, 2011, the Pension Fund filed an Amended Complaint, captioned as Westley v. Oclaro, Inc., No. 11 Civ. 2448 EMC, allegedly on behalf of persons who purchased our common stock between May 6 and October 28, 2010, alleging that defendants issued materially false and misleading statements during this time period regarding our current business and financial condition, including projections for demand for our products, as well as our revenues, earnings, and gross margins, for the first quarter of fiscal year 2011 as well as the full fiscal year. The complaint alleges violations of section 10(b) of the Securities Exchange Act and Securities and Exchange Commission Rule 10b-5, as well as section 20(a) of the Securities Exchange Act. The complaint seeks damages and costs of an unspecified amount. Discovery has not commenced, and no trial has been scheduled in this action. We intend to defend this litigation vigorously.

On June 10, 2011, a purported shareholder, Stanley Moskal, filed a purported derivative action in the Superior Court for the State of California, County of Santa Clara, against us, as nominal defendant, and certain of our current and former officers and directors, as defendants. The case is styled Moskal v. Couder, No. 1:11 CV 202880 (Santa Clara County Super. Ct. filed June 10, 2011). Four other purported shareholders, Matteo Guindani, Jermaine Coney, Jefferson Braman and Toby Aguilar, separately filed substantially similar lawsuits in the United States District Court for the Northern District of California on June 27, June 28, July 7 and July 26, 2011, respectively. By Order dated September 14, 2011, the Guindani, Coney, and Braman actions were consolidated under *In re Oclaro, Inc. Derivative Litigation*, Lead Case No. 11 Civ. 3176 EMC. On October 5, 2011, the Aguilar action was voluntarily dismissed. Each remaining purported derivative complaint alleges that Oclaro has been, or will be, damaged by the actions alleged in the Westley complaint, and the litigation of the Westley action, and any damages or settlement paid in the Westley action. Each purported derivative complaint alleges counts for breaches of fiduciary duty, waste, and unjust enrichment. Each purported derivative complaint seeks damages and costs of an unspecified amount, as well as injunctive relief. Discovery has not commenced, and no trial has been scheduled in any of these actions.

ITEM 1A. RISK FACTORS

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

RISKS RELATED TO OUR BUSINESS

Our results of operations will be materially and adversely affected by the flooding in Thailand.

On October 22, 2011, Fabrinet, our primary contract manufacturer, announced that, as a result of the flooding in Thailand, it has suspended operations at two factories located in Chokchai and Pinehurst. Fabrinet manufactures approximately 30 percent of our total finished goods in these factories. Subsequently, on October 24, Fabrinet announced its Chokchai factory suffered extensive flood damage and is now largely inaccessible due to high water levels inside and surrounding the manufacturing facility. It is possible that our customers could experience other supply chain disruptions as a result of the flooding in Thailand that could impact their demand, or the timing of their demand, for our products. It is also possible that our customers will seek alternative suppliers of comparable products if we are unable to meet their supply needs as a result of the flooding in Thailand. Although our management cannot yet definitively quantify the possible impact of the flooding in Thailand on our business, it is likely that the supply disruption will materially and adversely affect our results of operations, including our revenue, for at least the next two fiscal quarters. Our current evaluation is that revenues for the second quarter of fiscal 2012 could be $25 million to $30 million less as a result of this disruption than would otherwise be expected. There is no assurance that the disruption in our second quarter fiscal 2012 revenues will be limited to this range, nor can it be assured that the adverse impact will be limited to the next two fiscal quarters. While we believe our insurance coverage, both property and business interruption, will mitigate a portion of the adverse impact, there can be no assurance as to the extent or timing of insurance recoveries.

We are negotiating the outsourcing of our Shenzhen assembly and test operations, and a corresponding long term supply agreement, with a major contract manufacturer

There can be no assurance that our negotiations to outsource our Shenzhen assembly and test operations and to enter into a corresponding long term supply agreement with a major contract manufacturer will result in definitive agreements, the closing of such agreements or result in the benefits that we expect. There can be no assurance, therefore, that we will receive the net cash proceeds of $30 million to $40 million we would expect from the outsourcing transaction, or the potential additional consideration to be received in the future, or enter into a long term supply agreement on terms acceptable to us. In addition, there can be no assurance that announcing these negotiations will not have an adverse impact on the efficiency of our Shenzhen manufacturing facility prior to, or subsequent to, resolution of these negotiations, which could have an adverse impact on our production output and/or the levels and gross margins of the corresponding product revenues supported by the production output.

In addition, during a similar transaction by a competitor, the competitor experienced a work stoppage by their employees. There can be no assurance that outsourcing our Shenzhen assembly and test operations will not result in similar adverse impacts, which may negatively impact our revenues and ability to deliver products to our customers.

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 October 1, 2011, we had an accumulated deficit of $1,136.2 million. For the three months ended October 1, 2011, we incurred a net loss of $10.2 million. For the year ended July 2, 2011 we incurred a loss from continuing operations of $46.4 million. Even though we generated income of $11.0 million from continuing operations for the year ended July 3, 2010, 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, due to the current economic uncertainty, changes in customer demand (including a change in product mix between different areas of our business) and pricing pressure from increased competition or other factors. During fiscal year 2011, our gross margin decreased as compared to fiscal year 2010. 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 yields or variances, increases in costs of input parts and materials, the timing of movements in our inventory balances, warranty costs and related returns, changes in foreign currency exchange rates, 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 few years, the world s financial markets have experienced significant turmoil, resulting in reductions in available credit, increased costs of credit, extreme volatility in security prices, potential changes to existing credit terms, 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. These actions could have an adverse impact on our revenues. In addition, the financial downturn affected the financial strength of certain of our customers, including their ability to obtain credit to finance purchases of our products, and could adversely affect additional customers in the future. Our suppliers may also be adversely affected by economic conditions that may impact their ability to provide important components used in our manufacturing processes on a timely basis, or at all.

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.

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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, for the three months ended October 1, 2011 and the years ended July 2, 2011 and July 3, 2010, our three largest customers accounted for 35 percent, 36 percent and 29 percent of our revenues, respectively. Because we rely on a limited number of customers for significant percentages of our revenues, a decrease in demand for our products from any of our major customers for any reason (including due to market conditions, catastrophic events or otherwise) could have a materially adverse impact on our financial conditions and results of operations. For example, our revenues for the fiscal quarter ended July 2, 2011 were 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 and grow 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 July 2, 2011 were adversely impacted by a change in customer demand expectations, including a significant change in demand expectations from a particular major customer.

We have significant manufacturing and research and development 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. In addition, 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 be assured 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.

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

Operations in China are subject to greater political, legal and economic risks than our operations in other countries. In particular, the political, legal and economic climate in China, both nationally and regionally, is fluid and unpredictable. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations such as those related to, among other things, taxation, import and export tariffs, environmental regulations, land use rights, intellectual property, currency controls, employee benefits and other matters. In addition, we may not obtain or retain the requisite legal permits to continue to operate in China, and costs or operational limitations may be imposed in connection with obtaining and complying with such permits.

We intend to continue to export the products manufactured at our Shenzhen facility, whether we own and operate the Shenzhen facility or whether we contract with a provider that owns and operates the 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. Even though our inventory balances decreased to $100.5 million as of October 1, 2011 from $102.2 million as of July 2, 2011, our quarterly revenues also decreased, to $105.8 million for the fiscal quarter ended October 1, 2011 from $109.2 million for the fiscal quarter ended July 2, 2011. Although, the decrease was partly as a result of actual customer demand decreasing from earlier forecast expectations. 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. Our inventory balances also represent an investment of cash. To the extent our inventory turns are slower than we anticipate based on historical practice, our cash conversion cycle extends and more of our cash remains invested in working capital. If we are not able to manage our inventory effectively, we may need to write down the value of some of our existing inventory or write off non-saleable or obsolete inventory. We have from time to time incurred significant inventory-related charges. Any such charges we incur in future periods could materially and adversely affect our results of operations.

We may 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 acquisition of Xtellus required an immediate issuance of a significant number of newly issued shares of our common stock. In addition, during the first quarter of fiscal year 2012, we issued 0.9 million shares of our common stock related to the settlement of our Xtellus escrow liability. In October 2011, we also issued 0.8 million shares of our common stock to pay a portion of the

12 month Mintera earnout obligation. We could also choose to use shares of our common stock to pay a portion the 18 month Mintera earnout obligation, should all, or a portion, of this earnout be achieved in the eighteen month period 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.

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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;
- 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.

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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 October 1, 2011, we had approximately 2,888 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 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.

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. For example during fiscal year 2011, the Swiss franc appreciated approximately 28 percent relative to the U.S. dollar, and the U.K. pound sterling appreciated 7 percent relative to the U.S. dollar, causing increases of approximately $3.1 million related to the Swiss franc and $4.4 million related to the U.K. pound sterling, respectively, in our annual manufacturing overhead and operating expenses. If the U.S. dollar maintains the same value or depreciates relative to the Swiss franc and/or 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, 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 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 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. For example, in October 2011, due to flooding in Thailand, Fabrinet suspended operations at both of their factories that supply us with finished goods.

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.

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. We are currently evaluating the capabilities of additional potential contract manufacturing partners to ensure we have a scalable and cost effective manufacturing strategy appropriate for executing our business objectives over a long-term horizon. To the extent we introduce additional contract manufacturing partners, introduce new products with new partners and/or move existing internal or external production lines to new partners, we could experience supply disruptions during the transition process.

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 fourth quarter of fiscal year 2011 we completed our annual first step analysis for potential impairment of our goodwill, which included examining the impact of current general economic conditions on our future prospects and the current level of our market capitalization. Based on this analysis, we concluded that goodwill related to our WSS reporting unit was impaired. Our WSS reporting unit s goodwill was originally recorded in connection with our acquisition of Xtellus. During the fourth quarter of fiscal year 2011 we also completed our second step analysis of goodwill impairment, determining that the $20.0 million of goodwill related to our WSS reporting unit was fully impaired. Based upon this evaluation, we recorded $20.0 million for the goodwill impairment loss in our consolidated statement of operations for the fiscal year ended July 2, 2011.

As of October 1, 2011, we had $10.9 million in goodwill and $18.9 million in other intangible assets on our condensed consolidated balance sheet. In the event that we determine in a future period that impairment of our goodwill, other 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.

For instance, we accrued $2.2 million in restructuring charges during fiscal year 2010 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. During fiscal year 2011, we incurred $0.6 million in restructuring charges related to a restructuring plan specific to our acquisition of Mintera.

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. We are currently evaluating the capabilities of additional potential contract manufacturing partners to ensure we have a scalable and cost effective manufacturing strategy appropriate for executing to our business objectives over a long-term horizon. To the extent we introduce new contract manufacturing partners and move any production lines from existing internal or external facilities the new production lines will likely need to be requalified with customers.

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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.

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.

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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.

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.

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The markets in which we operate are highly competitive, which could result in lost sales and lower revenues.

The market for optical components and modules is highly competitive and this competition could result in our existing customers moving their orders to our competitors. We are aware of a number of companies that have developed or are developing optical component products, including tunable lasers, pluggables, 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. Our competitors and new Chinese companies are establishing manufacturing operations in China to take advantage of comparatively low manufacturing costs. All of these risks may be increased if the market were to further consolidate through mergers or other business combinations between 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 the three months ended October 1, 2011 and the fiscal years ended July 2, 2011 and July 3, 2010, 16 percent, 17 percent and 19 percent of our revenues, respectively, were derived from sales to customers located in the United States and 84 percent, 83 percent and 81 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;

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- 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.

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

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 export our products for sale internationally. This puts us in frequent contact with persons who may be considered foreign officials under the FCPA, resulting in an elevated risk of potential FCPA violations. If we are not in compliance with the FCPA and other laws governing the conduct of business with government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, financial condition, results of operations and liquidity. Any investigation of any potential violations of the FCPA or other 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 as a result. Even if we are able to implement and maintain effective internal control over financial reporting, the costs of doing business may increase and our management may be required to dedicate greater time and resources to that effort. 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.

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

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

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

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 release of hazardous waste, or that we would be subject to extensive monetary liabilities. The costs associated with environmental compliance or remediation efforts or other environmental liabilities could adversely affect our business. Under applicable European Union regulations, we, along with other electronics component manufacturers, are prohibited from using lead and certain other hazardous materials in our products. We could lose business or face product returns if we fail to maintain these requirements properly.

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

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;

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- adverse judgments or settlements obligating us to pay damages;
- future issuances of common stock in connection with acquisitions or other transactions;
- acts of war, terrorism, or natural disasters;
- industry, domestic and international market and economic conditions, including the global macroeconomic downturn over the last three years and related sovereign debt issues in certain parts of the world;
- low trading volume in our stock;
- developments relating to patents or property rights; and
- government regulatory changes.

In connection with our acquisition of Xtellus, during the first quarter of fiscal year 2012 we issued 0.9 million shares of our common stock to settle our escrow liability. In October 2011, we also issued 0.8 million shares of our common stock to pay a portion of the 12 month earnout obligation associated with our acquisition of Mintera. These issuances and the subsequent sale of these shares will dilute our existing stockholders and could potentially have a negative impact on our stock price.

We could also choose to use shares of our common stock to pay a portion the 18 month earnout obligation associated with our acquisition of Mintera, should all, or a portion, of this earnout be achieved in the eighteen month period subsequent to the acquisition date. The issuance, if any, and subsequent sale of these shares, would dilute our existing stockholders and potentially have a negative impact on our stock price.

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

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

When the market price of a stock experiences a sharp decline, as our stock price recently has, holders of that stock have occasionally brought securities class action litigation against the company that issued the stock. Several securities class action lawsuits have been filed against us and certain of our current and former officers and directors. Each purported derivative complaint alleges, among other things, counts for breaches of fiduciary duty, waste, and unjust enrichment. For a description of these lawsuits, see Part II, Item 1 *Legal Proceedings* of this Quarterly Report on Form 10-Q. These lawsuits will likely divert the time and attention of our management. In addition, if these suits are resolved in a manner adverse to us, the damages we could be required to pay may be substantial and could have an adverse impact on our results of operations and our ability to operate our business.

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, 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 our $45.0 million senior secured revolving credit facility, 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 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.

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

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

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

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

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

ITEM 6. EXHIBITS

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

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SIGNATURE

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

OCLARO, INC.
(Registrant)

Date: November 10, 2011

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

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Bylaws of Oclaro, Inc., including Amendments No. 1 and No. 2 thereto (formerly Bookham, Inc.) (previously filed as Exhibit 3.1 to Registrant s Registration Statement on Form S-8 dated May 5, 2009 and incorporated herein by reference)
3.2	Amendment No. 3 to Amended and Restated By-Laws of Oclaro, Inc. (previously filed as Exhibit 3.1 to Registrant s Current Report on Form 8-K filed on July 28, 2011 and incorporated herein by reference).
3.3	Restated Certificate of Incorporation of Oclaro, Inc. (previously filed as Exhibit 3.2 to Registrant s Annual Report on Form 10-K filed on September 1, 2010 and incorporated herein by reference)
10.1	2011 Employee Stock Purchase Plan (previously filed as Appendix A to our Proxy Statement for our 2011 Annual Meeting of Stockholders, filed with the SEC on September 9, 2011 and incorporated herein by reference)
10.2	Variable Pay Program (previously filed as Appendix B to our Proxy Statement for our 2011 Annual Meeting of Stockholders, filed with the SEC on September 9, 2011 and incorporated herein by reference)
10.3(1)	Form of Executive Severance and Retention Agreement, between Oclaro, Inc. and its executive officers.
31.1(1)	Certification of Chief Executive Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2(1)	Certification of Chief Financial Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1(1)	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2(1)	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
101.INS(2)	XBRL Instance Document
101.SCH(2)	XBRL Taxonomy Extension Schema Document
101.CAL(2)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF(2)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB(2)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE(2)	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Filed herewith.

(2) Pursuant to Rule 406T of Regulation S-T, XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.