ANGIODYNAMICS INC
Form 10-K
August 01, 2016

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended May 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 0-50761

AngioDynamics, Inc.
(Exact name of registrant as specified in its charter)

Delaware	11-3146460
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

14 Plaza Drive Latham, New York	12110
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (518) 795-1400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

files). Yes x No ¨

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

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨

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

As of November 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates was approximately $431,798,128 computed by reference to the last sale price of the common stock on that date as reported by The NASDAQ Global Select Market.

As of July 22, 2016, there were 36,422,398 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required for Part III of this annual report on Form 10-K is incorporated by reference to the registrant’s Proxy Statement for its 2016 Annual Meeting of Stockholders to be filed within 120 days of the registrant's fiscal year ended May 31, 2016.

AngioDynamics, Inc. and Subsidiaries
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Part I
Item 1. Business.

Overview

AngioDynamics, Inc. (together with its subsidiaries, "AngioDynamics," the "Company," "we," "our" or "us") designs, manufactures and sells a wide range of medical, surgical and diagnostic devices used by professional healthcare providers for vascular access, for the treatment of peripheral vascular disease and for use in oncology and surgical settings. Our devices are generally used in minimally invasive, image-guided procedures.

History

AngioDynamics was founded in 1988 and we completed our initial public offering in 2004, raising net proceeds of approximately $21.7 million at an offering price of $11.00 per share. In 2006 we completed a follow-on offering, raising net proceeds of approximately $61.9 million at a public offering price of $24.07 per share.

Products

Our product offerings fall within three product groupings: Peripheral Vascular, Vascular Access and Oncology/Surgery. All products discussed below have been cleared for sale in the United States by the FDA. International regulatory clearances vary by product and jurisdiction.

Peripheral Vascular Products

Our Peripheral Vascular products include Fluid Management, Venous, Thrombus Management, as well as other core products.

Fluid Management Products

Our Fluid Management product offering includes the NAMIC® Fluid Management portfolio. Since 1969, the NAMIC product line has been a leader in providing clinicians high quality, dependable devices that help in the diagnosis and treatment of cardiovascular and peripheral vascular disease. The NAMIC product line includes an extensive offering of manifolds, contrast management systems, closed fluid systems, guidewires, disposable transducers and interventional accessories. These devices are utilized together and allow clinicians to aspirate or inject contrast, saline, remove waste and monitor invasive blood pressures throughout the procedure.

Venous Products

Our venous products focus on the treatment of varicose veins and consist of our VenaCure EVLT® laser system, Asclera® (polidocanol) injection and Sotradecol®.

Our VenaCure EVLT laser system products are used in endovascular laser procedures to treat superficial venous disease (varicose veins). Superficial venous disease is a malfunction of one or more valves in the leg veins whereby blood refluxes or does not return to the heart. Venous laser treatment is an outpatient procedure that generally allows the patient to quickly return to normal activities with minimal post-operative pain.

With our VenaCure EVLT laser system, laser energy is used to stop the reflux by ablating, or collapsing and destroying, the affected vein. The body subsequently re-routes the blood to other healthy veins. Our products are sold as a system that includes diode laser hardware with our family of disposable laser fiber components, training and

marketing materials. The disposable components in the system include a laser fiber system featuring our NeverTouch® gold-tip technology, an access sheath, access wires and needles. The procedure kits come in a variety of lengths and configurations to accommodate varied patient anatomies. Our VenaCure EVLT 1470 nanometer wavelength laser allows physicians to more efficiently heat the vein wall using lower power settings thereby reducing the risk of collateral damage.

Asclera® (polidocanol) injection is an FDA approved sclerosing drug that we distribute through a global agreement with the manufacturer and their distributor. Asclera is used for sclerotherapy to treat uncomplicated spider veins and uncomplicated reticular veins in the lower extremity. In a clinical study, it was proven to be 95% successful and patients were more satisfied with Asclera than alternative sclerosants.

Sotradecol® (sodium tetradecyl sulfate injection) is an FDA approved sclerosing drug that we distribute through a global agreement with the manufacturer. Sotradecol® has been shown to be an effective non-surgical treatment of small, uncomplicated varicose veins of the lower extremities that show simple dilation with competent valves.

Thrombus Management

Our Thrombus Management product offerings include our AngioVac and thrombolytic products.

AngioVac

In fiscal 2013, we released our AngioVac venous drainage system which includes a Venous Drainage Cannula and Cardiopulmonary Bypass Circuit. The AngioVac devices are for use with other manufacturer's off-the-shelf pump, filter, and reinfusion cannula, to facilitate venous drainage as part of an extracorporeal bypass procedure. The cannula is indicated for use as a venous drainage cannula and for removal of fresh, soft thrombi or emboli during extracorporeal bypass. The cardiopulmonary bypass circuit is indicated for use in procedures requiring extracorporeal circulatory support for periods of up to six hours.

The AngioVac venous drainage cannula is a 22F coil-reinforced cannula designed with a balloon actuated, expandable funnel shaped distal tip. The proprietary funnel shaped tip enhances venous drainage flow when the balloon is inflated, prevents clogging of the cannula with commonly encountered undesirable intravascular material, and facilitates en bloc removal of such extraneous material.

Thrombolytic Products

Thrombolytic catheters are used to deliver thrombolytic agents, which are drugs that dissolve blood clots in hemodialysis access grafts, arteries, veins and surgical bypass grafts.

Core Products

Our other core peripheral vascular products include Angiographic products and accessories, drainage, micro access and other products.

Angiographic Products and Accessories

Angiographic products and accessories are used during peripheral vascular interventional procedures. These products permit interventional physicians to reach targeted locations within the vascular system to deliver contrast media for visualization purposes and therapeutic agents and devices, such as percutaneous transluminal angioplasty (PTA) balloons. Angiographic products consist primarily of angiographic catheters, but also include entry needles and guidewires specifically designed for peripheral interventions and fluid management products. We manufacture angiographic catheters and guidewires that are available in more than 500 tip configurations and lengths.

Drainage Products

Drainage products percutaneously drain abscesses and other fluid pockets. An abscess is a tender inflamed mass that typically must be drained by a physician.

Our line of drainage products, The Total Abscession® Family of Drainage Catheters, consists of our Total Abscession General, Biliary, and Nephrostomy drainage catheters. These products feature our proprietary soft shaft with Blue Silk™

finish for a more comfortable patient fit. The kink-resistant shaft recovers rapidly, even if severely bent, knotted, or twisted. This is particularly beneficial when patients roll over and risk a potential kinking of the catheter during sleep. The thermal molded tip allows for less buckling and kinking upon insertion. Also important is that the shaft diameter equals the inner diameter of the catheter hub to maximize flow. Our Total Abscession drainage catheters feature a tamper-resistant locking mechanism called the Vault® which securely fixes the pigtail and prevents tampering or accidental removal. This locking mechanism helps to prevent the drain from becoming unlocked during routine use, thus reducing a physician's time by avoiding a possible "redo" case, and increasing patient satisfaction by not having to repeat the procedure. The Total Abscession catheter permits aspiration in the locked or unlocked position thus allowing more accurate placement and greater versatility for draining complex situations.

Micro Access Kits

Our Micro Access sets provide interventional physicians a smaller introducer system for minimally-invasive procedures. Our Micro Access product line provides physicians with the means to build a custom set from the wide selection of configurations available, including four wires in two different lengths, seven needle options and three sheath dilator options.

Vascular Access

Image-guided vascular access, or IGVA, involves the use of advanced imaging equipment to guide the placement of catheters that deliver primarily short-term drug therapies, such as chemotherapeutic agents and antibiotics, into the central venous system. Delivery to the circulatory system allows drugs to mix with a large volume of blood as compared to intravenous drug delivery into a superficial vessel. IGVA procedures include the placement of PICC lines, implantable ports and central venous catheters, or CVCs.

BioFlo®

Our BioFlo products incorporate Endexo Technology into the manufacturing and design of our Vascular Access products. Endexo is a fluorine based additive that creates a non-eluting (permanent), non-heparin based catheter material that is designed to reduce thrombus accumulation and platelet adhesion to all surfaces of the catheter. BioFlo's long-term durability and efficacy is intended to provide clinicians a high degree of safety and confidence in providing better patient care and improved patient outcomes.

PICC Products

A peripherally inserted central catheter, or PICC, is a long thin catheter that is inserted into a peripheral vein, typically in the upper arm, and advanced until the catheter tip terminates in a large vein in the chest near the heart to obtain intravenous access. PICCs can typically be used for prolonged periods of time and provide an alternative to central venous catheters. Our PICC product offerings include:

- BioFlo® PICC: Our BioFlo line is the only power injectable PICC available that incorporates Endexo Technology into the manufacturing and design of the catheter. Advanced features such as large lumen diameters allow the BioFlo® PICC to deliver the power injection flow rates required for contrast-enhanced computed tomography (CT) scans compatible with up to 325 psi CT injections.
- Xcela PICC: The Xcela® PICC line is designed to provide a high degree of safety, ease and confidence in patient care. Advanced features such as large lumen diameters allow the Xcela® PICC to deliver the power injection flow rates required for contrast-enhanced CTs compatible with up to 325 psi CT injections.
- PASV® Valve Technology: The PASV® Valve Technology is available in both BioFlo and Xcela lines and is designed to automatically resist backflow and reduce blood reflux that could lead to catheter-related complications.

Port Products

Ports are implantable devices utilized for the central venous administration of a variety of medical therapies and for blood sampling and diagnostic purposes. Central venous access facilitates a more systemic delivery of treatment agents, while mitigating certain harsh side effects of certain treatment protocols and eliminating the need for repeated access to peripheral veins. Depending upon needle gauge size and the port size, a port can be utilized for up to approximately 2,000 accesses once implanted in the body. Our ports are used primarily in systemic or regional short and long-term cancer treatment protocols that require frequent infusions of highly concentrated or toxic medications (such as chemotherapy agents, antibiotics or analgesics) and frequent blood samplings.

Our port products and accessories include:

- BioFlo® Port: Our BioFlo line is the only port available that incorporates Endexo Technology into the manufacturing and design of the catheter. Advanced features include multiple profile and catheter options, a large septum area for ease of access and the ability to administer contrast through a CT (Computed Tomography) injection for purposes of imaging.
- SmartPort®: The Smart Port power-injectable port with Vortex technology offers the ability for a clinician to access a vein for both the delivery of medications or fluids and for administering power-injected contrast to perform a Computed Tomography (CT) scan. The ability to access a port for power-injected contrast studies

eliminates the need for additional needle sticks in the patient's arm and wrist veins. Once implanted, repeated access to the bloodstream can be accomplished with greater ease and less discomfort. Our Smart Port is available in mini and low-profiles to accommodate more patient anatomies.

- Vortex®: Our Vortex port technology line of ports is a clear-flow port technology that, we believe, revolutionized port design. With its rounded chamber, the Vortex port is designed to have no sludge-harboring corners or dead spaces. This product line consists of titanium, plastic and dual-lumen offerings.
- PASV® Valve Technology: The PASV® Valve Technology is designed to automatically resist backflow and reduce blood reflux that could lead to catheter-related complications.
- LifeGuard®: The LifeGuard Safety Infusion Set and The LifeGuard Vision are used to infuse our ports and complement our port and vascular access catheters. The needles' low profile design is intended to allow clinicians to easily dress the site.

Dialysis Products

We market a complete line of dialysis products that provide short and long-term vascular access for dialysis patients. Dialysis, or cleaning of the blood, is necessary in conditions such as acute renal failure, chronic renal failure and end-stage renal disease (ESRD).

We currently offer a wide variety of dialysis catheters, including:

- BioFlo®: Our BioFlo line is the only dialysis catheter available that incorporates Endexo Technology into the manufacturing and design of the catheter. Advanced features include large inner diameter lumens designed for long term patency, a proprietary guidewire lumen to facilitate catheter exchanges and Curved Tip Technology that allows the catheter to self-center in the SVC (Superior Vena Cava).
- DuraMax®. The DuraMax catheter is a stepped-tip catheter designed to improve ease of use, dialysis efficiency and overall patient outcomes.

Oncology / Surgery Products

Our Oncology/Surgery product offerings include our Microwave Ablation products, our Radiofrequency Ablation (RFA) and our NanoKnife product lines.

Microwave Ablation Products

The Acculis Microwave Tissue Ablation (MTA) System complements the full range of ablative technologies we offer. When configured for use with the Accu2i pMTA Applicators, it includes the Sulis VpMTA Generator, optional MTA Temperature Probes, Acculis Local Control Station (LCS) and Accu2i pMTA Applicators. Designed for physicians trained in image-guided ablation procedures, intraoperative ultrasound and/or CT guided needle placement, the system is used for thermal coagulation of soft tissue. By utilizing 2.45 GHz of microwave energy, the Acculis MTA System can complete ablations up to 5 cm in six minutes with a single applicator. Applicators are available in 14 cm, 19 cm and 29 cm lengths, offering flexibility in selecting the appropriate length for the procedure. Additionally, an antenna transmits energy directly to the targeted tissue, eliminating the need for electrosurgical grounding pads, while the single, simple to place insertion applicator eliminates the need to deploy an active array.

Radiofrequency Ablation Products

Radiofrequency Ablation (RFA) products use radiofrequency energy to provide a minimally invasive approach to ablating solid cancerous or benign tumors. Our system delivers radiofrequency energy to raise the temperature of cells above 45-50°C, causing cellular death.

The physician inserts the disposable needle electrode device into the targeted body tissue, typically under ultrasound, computed tomography or magnetic resonance imaging guidance. Once the device is inserted, pushing on the handle of the device causes a group of curved wires to be deployed from the tip of the electrode. When the power is turned on, these wires deliver radiofrequency energy throughout the tumor. In addition, temperature sensors on the tips of the wires measure tissue temperature throughout the procedure.

During the procedure, our system automatically adjusts the amount of energy delivered in order to maintain the temperature necessary to ablate the targeted tissue. For a typical 5cm ablation using our StarBurst ® Xli-enhanced disposable

device, the ablation process takes approximately ten minutes. When the ablation is complete, pulling back on the handle of the device causes the curved wire array to be retracted into the device so it can be removed from the body.

The RFA system consists of a radiofrequency generator and a family of disposable devices. We also market the Habib ® 4X ® resection device under a distribution agreement with EMcision Limited. In addition to the intra-operative (open surgery) device Habib 4X, AngioDynamics markets a minimally-invasive version of the Habib 4X device, a Laparoscopic 4X unit, which is used in minimally invasive laparoscopic surgery (MILS) procedures in surgical specialties such as: Hepato-Biliary, GI, Surgical Oncology, Transplant Surgery and Urology (Partial Nephrectomy Resections). It is clinically indicated to assist in coagulation of tissue during intraoperative and laparoscopic procedures.

NanoKnife® Ablation System Products

The NanoKnife® Ablation System is for the surgical ablation of soft tissue. The NanoKnife Ablation System utilizes low energy direct current electrical pulses to permanently open pores in target cell membranes. These permanent pores or nano-scale defects in the cell membranes result in cell death. The treated tissue is then removed by the body's natural processes in a matter of weeks, mimicking natural cell death. Unlike other ablation technologies, NanoKnife Ablation System does not achieve tissue ablation using thermal energy.

The NanoKnife Ablation System consists of two major components: a Low Energy Direct Current, or LEDC Generator and needle-like electrode probes. Up to six (6) electrode probes can be placed into or around the targeted soft tissue. Once the probes are in place, the user enters the appropriate parameters for voltage, number of pulses, interval between pulses, and the pulse length into the generator user interface. The generator then delivers a series of short electric pulses between each electrode probe. The energy delivery is hyperechoic and can be monitored under real-time ultrasound.

Research & Development

Our growth depends in large part on the continuous introduction of new and innovative products, together with ongoing enhancements to our existing products, through internal product development, technology licensing and strategic alliances. We recognize the importance of, and intend to continue to make investments in, research and development.

Our R&D development teams work closely with our sales force to incorporate customer feedback into our development and design process. We believe that we have a reputation among interventional physicians as a strong partner for product development because of our tradition of close physician collaboration, dedicated market focus, responsiveness and execution capabilities for product development and commercialization.

Competition

We encounter significant competition across our product lines and in each market in which our products are sold. These markets are characterized by rapid change resulting from technological advances and scientific discoveries. We face competitors ranging from large manufacturers with multiple business lines to small manufacturers that offer a limited selection of products.

Our primary device competitors include: Boston Scientific Corporation; Cook Medical; C.R. Bard; Medical Components, Inc. (Medcomp); TeleFlex Medical; Smiths Medical, a subsidiary of Smiths Group plc; Vascular Solutions; Medtronic; Merit Medical; Terumo Medical Corporation; Johnson and Johnson and Total Vein Systems.

Many of our competitors have substantially greater financial, technological, research and development, regulatory, marketing, sales and personnel resources than we do. Competitors may also have greater experience in developing products, obtaining regulatory approvals, and manufacturing and marketing such products. Additionally, competitors may obtain patent protection or regulatory approval or clearance, or achieve product commercialization before us, any of which could materially adversely affect us.

We believe that our products compete primarily on the basis of their quality, clinical outcomes, ease of use, reliability, physician familiarity and cost-effectiveness. In the current environment of managed care, which is characterized by economically motivated buyers, consolidation among health care providers, increased competition and declining reimbursement rates, we have been increasingly required to compete on the basis of price. We believe that our continued competitive success will depend upon our ability to develop or acquire scientifically advanced technology, apply our technology cost-effectively across product lines and markets, develop or acquire proprietary products, attract and retain skilled development personnel, obtain patent or other protection for our products, obtain required regulatory and reimbursement

approvals, manufacture and successfully market our products either directly or through outside parties and maintain sufficient inventory to meet customer demand.

Sales and Marketing

We sell our broad line of quality devices in the United States primarily through a direct sales force and internationally through a combination of direct sales and distributor relationships. We support our customers and sales organization with a marketing staff that includes product managers, customer service representatives and other marketing specialists.

We focus our sales and marketing efforts on interventional radiologists, interventional cardiologists, vascular surgeons, urologists and interventional and surgical oncologists.

Backlog

Historically, we ship the majority of products within 24-48 hours of receipt of the orders, and accordingly our backlog is not significant.

Manufacturing

We manufacture certain proprietary components and products and assemble, inspect, test and package our finished products. By designing and manufacturing many of our products from raw materials, and assembling and testing our subassemblies and products, we believe that we are able to maintain better quality control, ensure compliance with applicable regulatory standards and our internal specifications, and limit outside access to our proprietary technology. We have custom-designed proprietary manufacturing and processing equipment and have developed proprietary enhancements for existing production machinery.

We own or lease four primary manufacturing properties providing capabilities which include manufacturing, service, engineering and research, distribution warehouses and offices. These facilities are registered with the FDA and have been certified to ISO 13485 standards, as well as the CMD/CAS Canadian Medical Device Regulations. ISO 13485 is a quality system standard that satisfies European Union regulatory requirements, thus allowing us to market and sell our products in European Union countries. Our manufacturing facilities are subject to periodic inspections by regulatory authorities to ensure compliance with domestic and non-U.S. regulatory requirements. See “Government Regulation” section of this report for additional information. See Item 2 "Properties" for details on each manufacturing location.

Intellectual Property

Patents, trademarks and other proprietary rights are very important to our business. We also rely upon trade secrets, manufacturing know-how, technological innovations and licensing opportunities to maintain and improve our competitive position. We regularly monitor and review third-party proprietary rights, including patents and patent applications, as available, to aid in the development of our intellectual property strategy, avoid infringement of third-party proprietary rights, and identify licensing opportunities.

The company owns an extensive portfolio of patents and patent applications in the United States and in certain foreign countries. The portfolio also includes exclusive licenses to third party patents and applications.

Most of our products are sold under the AngioDynamics trade name or trademark. Additionally, many are also sold under product trademarks and/or registered product trademarks owned by AngioDynamics, Inc., or an affiliate or

subsidiary. Some products contain trademarks of companies other than AngioDynamics.

See Part I. Item 3 of this report for additional details on litigation regarding proprietary technology.

Litigation

We operate in an industry characterized by extensive patent litigation. Patent litigation can result in significant damage awards and injunctions that could prevent the manufacture and sale of affected products or result in significant royalty payments in order to continue selling the products. While it is not possible to predict the outcome of patent litigation incidents to our business, we believe the costs associated with this type of litigation could have a material adverse impact on our consolidated results of operations, financial position, or cash flows. The medical device industry is also susceptible to significant product liability claims. These claims may be brought by individuals seeking relief on their own behalf or

purporting to represent a class. In addition, product liability claims may be asserted against us in the future based on events we are not aware of at the present time. At any given time, we are involved in a number of product liability actions. For additional information, see both Part I. Item 3 of this report and Note O to the consolidated financial statements in this annual report on Form 10-K.

Government Regulation

The products we manufacture and market are subject to regulation by the FDA under the Federal Food, Drug, and Cosmetic Act, or FDCA, and international regulations to our specific target markets.

United States FDA Regulation - Before a new medical device can be introduced into the market, a manufacturer generally must obtain marketing clearance or approval from the FDA through either a 510(k) submission (a premarket notification) or a premarket approval application (PMA).

The 510(k) procedure is available only in particular circumstances. The 510(k) clearance procedure is available only if a manufacturer can establish that its device is “substantially equivalent” in intended use and in safety and effectiveness to a “predicate device,” which is a legally marketed device with 510(k) clearance in class I or II or preamendment status based upon products commercially distributed on or before May 28, 1976. After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance. The 510(k) clearance procedure including questions and responses, may take up to 12 months. In some cases, supporting clinical data may be required. The FDA may determine that a new or modified device is not substantially equivalent to a predicate device or may require that additional information, including clinical data, be submitted before a determination is made, either of which could significantly delay the introduction of new or modified device products. If a device cannot demonstrate substantial equivalence it may be subject to either a de novo submission or a PMA.

The PMA application procedure is more comprehensive than the 510(k) procedure and typically takes several years to complete. The PMA application must be supported by scientific evidence providing pre-clinical and clinical data relating to the safety and efficacy of the device and must include other information about the device and its components, design, manufacturing and labeling. The FDA will approve a PMA application only if a reasonable assurance that the device is safe and effective for its intended use can be provided. As part of the PMA application review, the FDA will inspect the manufacturer’s facilities for compliance with its Quality System Regulation, or QSR. As part of the PMA approval the FDA may place restrictions on the device, such as requiring additional patient follow-up for an indefinite period of time. If the FDA’s evaluation of the PMA application or the manufacturing facility is not favorable, the FDA may deny approval of the PMA application or issue a “not approvable” letter. The FDA may also require additional clinical trials, which can delay the PMA approval process by several years. After the PMA is approved, if significant changes are made to a device, its manufacturing or labeling, a PMA supplement containing additional information must be filed for prior FDA approval.

Historically, our products have been introduced into the market using the 510(k) procedure and we have never had to use the PMA procedure.

The process of FDA submissions requires extensive and expensive validations and testing. The financial outlay for this is large and requires a significant time period. Recent changes in both regulations and FDA perspectives have increased both time and testing requirements, this has caused significant delays and increased costs for approvals. The parameters for increased testing have and will continue to cause severe delays. The increased focus by the FDA on such issues as chemical identification of all colorants, non-acceptance of certain colorants (certain forms of carbon black) continue to cause problems and delays. In addition changes to existing products call into question previously approved devices and result in additional costs for testing and material analysis.

After a product is placed on the market, the product and its manufacturer are subject to pervasive and continuing regulation by the FDA. The FDA enforces these requirements by inspection and market surveillance. Our suppliers also may be subject to FDA inspection, this has resulted in several suppliers altering price structures for medical device companies. The additional costs due to testing and potential for lawsuits due to material contamination or unforeseen chemical/allergenic reactions has led to some manufacturers actively refusing to supply to medical device companies. The financial expenditure needed to maintain compliance to the requirements of the FDA are extensive and ever increasing. Specific systems are needed to maintain compliance to baseline requirements. In addition complex systems are needed to ensure that specific violations such as ‘off label promotion’ are avoided. The FDA has specific requirements for labeling and marketing materials. These need extensive policing and evaluation in order to avoid falling foul of the vague FDA constraints. Penalties for breach of off label promotion can result in fines of several million dollars.

The devices manufactured by us also are subject to the QSR, which imposes elaborate testing, control, documentation and other quality assurance procedures. Every phase of production, including raw materials, components and subassembly, manufacturing, testing, quality control, labeling, tracing of consignees after distribution and follow-up and reporting of complaint information is governed by the FDA's QSR. Device manufacturers are required to register their facilities and list their products with the FDA and certain state agencies. The FDA periodically inspects manufacturing facilities and, if there are alleged violations, the operator of a facility must correct them or satisfactorily demonstrate the absence of the violations or face regulatory action. Penalties for failure to maintain compliance to the QSR include warning letters and potentially consent decrees. AngioDynamics has recently removed three warning letters, and the failure to maintain the QSR appropriately could result in the development of further warning letters. In addition non-compliance with applicable FDA requirements can result in, among other things, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, failure of the FDA to grant marketing approvals, withdrawal of marketing approvals, a recommendation by the FDA to disallow us to enter into government contracts, and criminal prosecutions. The FDA also has the authority to request repair, replacement or refund of the cost of any device manufactured or distributed by us.

Other - We and our products are also subject to a variety of state and local laws in those jurisdictions where our products are or will be marketed, and federal, state and local laws relating to matters such as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. In addition, we are subject to various federal and state laws governing our relationships with the physicians and others who purchase or make referrals for our products. For instance, federal law prohibits payments of any form that are intended to induce a referral for any item payable under Medicare, Medicaid or any other federal healthcare program. Many states have similar laws. There can be no assurance that we will not be required to incur significant costs to comply with such laws and regulations now or in the future or that such laws or regulations will not have a material adverse effect upon our ability to do business.

International Regulation - Internationally, all of our current products are considered medical devices under applicable regulatory regimes, and we anticipate that this will be true for all of our future products. Sales of medical devices are subject to regulatory requirements in many countries. The regulatory review process may vary greatly from country to country. For example, the European Union has a dedicated set of regulations regarding medical devices, specifically regulating their design, manufacturing, clinical trials, labeling and adverse event reporting. Devices that comply with those requirements are entitled to bear a Conformité Européenne, or CE Mark, indicating that the device conforms to the essential requirements of the applicable directives and can be commercially distributed in countries that are members of the European Union. Similar regulations are in place for Canada, Japan, China and most other countries.

In some cases, we rely on our international distributors to obtain regulatory approvals, complete product registrations, comply with clinical trial requirements and complete those steps that are customarily taken in the applicable jurisdictions.

International sales of medical devices manufactured in the United States that are not approved or cleared by the FDA for use in the United States, or are banned or deviate from lawful performance standards, are subject to FDA export requirements. Before exporting such products to a foreign country, we must first comply with the FDA's regulatory procedures for exporting unapproved devices.

The process of obtaining approval to distribute medical products is costly and time-consuming in virtually all of the major markets where we sell medical devices. We cannot assure that any new medical devices we develop will be approved in a timely or cost-effective manner or approved at all. There can be no assurance that new laws or regulations regarding the release or sale of medical devices will not delay or prevent sale of our current or future products.

Third-Party Reimbursement and Anti-Fraud and Corrupt Practices Regulation

United States - The delivery of our devices is subject to regulation by the Department of Health and Human Services (HHS) and comparable state and non-U.S. agencies responsible for reimbursement and regulation of health care items and services. U.S. laws and regulations are imposed primarily in connection with the Medicare and Medicaid programs, as well as the government's interest in regulating the quality and cost of health care. Foreign governments also impose regulations in connection with their health care reimbursement programs and the delivery of health care items and services.

U.S. federal health care laws apply when we or customers submit claims for items or services that are reimbursed under Medicare, Medicaid, or other federally-funded health care programs. The principal U.S. federal laws include: (1) the Anti-kickback Statute which prohibits offers to pay or receive remuneration of any kind for the purpose of including or rewarding referrals of items or services reimbursable by a federal health care program; (2) the False Claims Act which prohibits the submission of false or otherwise improper claims for payment to a federally-funded health care program, including claims resulting from a violation

of the Anti-kickback Statute; (3) the Stark law which prohibits physicians from referring Medicare or Medicaid patients to a provider that bills these programs for the provision of certain designated health services if the physician (or a member of the physician's immediate family) has a financial relationship with that provider; and (4) health care fraud statutes that prohibit false statements and improper claims to any third-party payer. There are often similar state false claims, anti-kickback, and anti-self-referral and insurance laws that apply to state-funded Medicaid and other health care programs and private third-party payers. In addition, the U.S. Foreign Corrupt Practices Act (FCPA) can be used to prosecute companies in the U.S. for arrangements with physicians or other parties outside the U.S. if the physician or party is a government official of another country and the arrangement violates the law of that country.

International - Our success in international markets will depend largely upon the availability of reimbursement from the third-party payors through which healthcare providers are paid in those markets. Reimbursement and healthcare payment systems vary significantly by country. The main types of healthcare payment systems are government sponsored healthcare and private insurance. Reimbursement approval must be obtained individually in each country in which our products are marketed. Outside the United States, we generally rely on our distributors to obtain reimbursement approval in the countries in which they will sell our products. There can be no assurance that reimbursement approvals will be received.

Insurance

Our product liability insurance coverage is limited to a maximum of $10,000,000 per product liability claim and an annual aggregate policy limit of $10,000,000, subject to a self-insured retention of $500,000 per occurrence and $2,000,000 in the aggregate. The policy covers, subject to policy conditions and exclusions, claims of bodily injury and property damage from any product sold or manufactured by us.

There is no assurance that this level of coverage is adequate. We may not be able to sustain or maintain this level of coverage and cannot assure you that adequate insurance coverage will continue to be available on commercially reasonable terms, or at all. A successful product liability claim or other claim with respect to uninsured or underinsured liabilities could have a material adverse effect on our business.

Environmental

We are subject to federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain hazardous and potentially hazardous substances used in connection with our operations. Although we believe that we have complied with these laws and regulations in all material respects and, to date, have not been required to take any action to correct any noncompliance, there can be no assurance that we will not be required to incur significant costs to comply with environmental regulations in the future.

Employees
(6.1
)
Net change in accumulated other comprehensive loss
(1.5
)

(3.2
)

(7.0

)

(6.1
)
Comprehensive income (loss)
$
1.3

$
(7.3
)

$
(4.4
)

$
(5.9
)

See accompanying notes to consolidated financial statements.

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LUMENTUM HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share data)
(unaudited)

	December 26, 2015	June 27, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$161.9	$14.5
Accounts receivable, net	159.1	150.5
Inventories	107.3	99.7
Prepayments and other current assets	50.4	46.1
Total current assets	478.7	310.8
Property, plant and equipment, net	151.4	143.2
Goodwill and intangibles, net	23.6	27.4
Deferred income taxes, net	27.7	30.3
Other non-current assets	0.6	0.9
Total assets	$682.0	$512.6
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$95.2	$77.9
Accrued payroll and related expenses	30.7	17.7
Income taxes payable	4.0	3.7
Accrued expenses	15.7	11.5
Other current liabilities	11.8	11.4
Total current liabilities	157.4	122.2
Derivative liability	9.9	—
Other non-current liabilities	8.0	9.8
Total liabilities	175.3	132.0
Commitments and contingencies (Note 13)		
Mezzanine equity:		
Non-controlling Interest Redeemable convertible Series A preferred stock, $0.001 par value, 10,000,000 authorized shares; 35,805 shares issued and outstanding as of December 26, 2015, and no shares issued and outstanding as of June 27, 2015	35.8	—
Total mezzanine equity	35.8	—
Stockholders' equity:		
Viavi net investment	—	368.1
Common stock, $0.001 par value, 990,000,000 authorized shares, 59,081,186 shares issued and outstanding as of December 26, 2015, and no shares issued and outstanding as of June 27, 2015	0.1	—
Additional paid-in capital	451.3	—
Retained earnings	14.0	—
Accumulated other comprehensive income	5.5	12.5
Total stockholders' equity	470.9	380.6
Total liabilities, mezzanine equity and stockholders' equity	$682.0	$512.6

See accompanying notes to consolidated financial statements.

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LUMENTUM HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Six Months Ended	
	December 26, 2015	December 27, 2014
OPERATING ACTIVITIES:		
Net income	$2.6	$0.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	23.8	21.2
Stock-based compensation	12.3	9.2
Unrealized loss on derivative liability	0.2	—
Amortization of acquired technologies and other intangibles	3.6	4.0
Disposal of property, plant and equipment	0.5	(0.1)
Changes in operating assets and liabilities:		
Accounts receivable	(11.1)	(16.9)
Inventories	(9.7)	(1.0)
Prepayments and other current and non-currents assets	(5.2)	(7.9)
Deferred taxes, net	0.4	2.2
Accounts payable	18.2	3.0
Accrued payroll and related expenses	13.6	3.7
Income taxes payable	0.5	(0.3)
Accrued expenses, other current and non-current liabilities	3.3	(1.3)
Net cash provided by operating activities	53.0	16.0
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(35.7)	(24.7)
Net cash (used in) investing activities	(35.7)	(24.7)
FINANCING ACTIVITIES:		
Net transfers from Viavi	132.2	9.8
Payment of financing obligation related to acquisition	(2.3)	—
Proceeds from the exercise of stock options	0.2	—
Net cash provided by financing activities	130.1	9.8
Effect of exchange rates on cash and cash equivalents	—	(1.5)
Increase (decrease) in cash and cash equivalents	147.4	(0.4)
Cash and cash equivalents at beginning of period	14.5	19.9
Cash and cash equivalents at end of period	$161.9	$19.5
Non-cash financing activities:		
Cumulative dividends on Series A preferred stock	$0.3	$—
Accretion of Series A preferred stock	11.7	—

See accompanying notes to consolidated financial statements.

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LUMENTUM HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business and Summary of Significant Accounting Policies
Description of Business
Lumentum Holdings Inc. (“we”, “our” or “Lumentum”) is an industry leading provider of optical and photonic products defined by revenue and market share addressing a range of end market applications including data communications (“Datacom”) and telecommunications (“Telecom”) networking and commercial lasers (“commercial lasers”) for manufacturing, inspection and life-science applications. We are using our core optical and photonic technology and our volume manufacturing capability to expand into attractive emerging markets that benefit from advantages that optical or photonics-based solutions provide, including 3-D sensing for consumer electronics and diode light sources for a variety of consumer and industrial applications. The majority of our customers tend to be original equipment manufacturers (“OEMs”) that incorporate our products into their products which then address end-market applications. For example, we sell fiber optic components that our network equipment manufacturer (“NEM”) customers assemble into communications networking systems, which they sell to network service providers or enterprises with their own networks. Similarly, many of our customers for our Lasers products incorporate our products into tools they produce, which are used for manufacturing processes by their customers.
Basis of Presentation
On August 1, 2015, Lumentum became an independent publicly-traded company through the distribution by JDSU to its stockholders of 80.1% of our outstanding common stock (the “Separation”). Each JDSU stockholder of record as of the close of business on July 27, 2015 received one share of Lumentum common stock for every five shares of JDSU common stock held on the record date. JDSU was renamed Viavi and at the time of the distribution retained ownership of 19.9% of Lumentum’s outstanding shares. Lumentum was incorporated in Delaware as a wholly owned subsidiary of Viavi on February 10, 2015 and is comprised of the former communications and commercial optical products (“CCOP”) segment and WaveReady product lines of Viavi. Lumentum’s Registration Statement on Form 10 was declared effective by the U.S. Securities and Exchange Commission (“SEC”) on July 16, 2015. Lumentum’s common stock began trading “regular-way” under the ticker “LITE” on the NASDAQ stock market on August 4, 2015.
On July 31, 2015, prior to the Separation, Viavi transferred substantially all of the assets and liabilities and operations of the communications and commercial optical products (“CCOP”) segment and WaveReady product lines to Lumentum (the “Capitalization"). Combined financial statements for periods prior to the Capitalization were prepared on a stand-alone basis and were derived from Viavi’s consolidated financial statements and accounting records. For the period from June 28, 2015 to August 1, 2015, expenses were allocated to us using estimates that we consider to be a reasonable reflection of the utilization of services provided to or benefits received by us.
The preparation of the consolidated financial statements in accordance with GAAP in the U.S. requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management’s best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition, inventory valuation, allocation methods and allocated expenses from Viavi, valuation of goodwill and other intangible assets, share-based compensation, retirement and post-retirement plan assumptions, restructuring, warranty and accounting for income taxes.
See "Note 3. Related Party Transactions" in the consolidated financial statements for further information regarding the relationships we had with Viavi and other Viavi entities.
Our consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC and are in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”). In the opinion of management, these consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair statement of the consolidated financial statements for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full year or for any future periods.
Fiscal Years

We utilize a 52-53 week fiscal year ending on the Saturday closest to June 30th. Our fiscal 2016 is a 53-week year ending on July 2, 2016 and our third quarter of fiscal 2016 will include one additional week. Our fiscal 2015 ended on June 27, 2015 and was a 52-week year.

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LUMENTUM HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Principles of Combination and Consolidation
The consolidated financial statements include certain assets and liabilities that were historically held at the Viavi level which were specifically identifiable or otherwise attributable to us. All intra-company transactions within our business were eliminated. All material transactions between us and other businesses of Viavi prior to separation were reflected as net transfers to and from Viavi as a component of financing activities in the consolidated statement of cash flows.
Use of Estimates
The preparation of our consolidated financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the reported amount of net revenue and expenses and the disclosure of commitments and contingencies during the reporting periods. We base estimates on historical experience and on various assumptions about the future believed to be reasonable based on available information. Our reported financial position or results of operations may be materially different under changed conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies. If estimates or assumptions differ from actual results, subsequent periods are adjusted to reflect more current information.
Accounting Policies
There have been no material changes in our significant accounting policies during the six months ended December 26, 2015 compared to the significant accounting policies described in our Annual Report on Form 10-K/A for the fiscal year ended June 27, 2015. The accompanying unaudited interim consolidated financial statements and accompanying related notes should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K/A for the fiscal year ended June 27, 2015.
Correction of Immaterial Error
During the three and six months ended December 26, 2015, we identified an error relating to the determination of the accretion amount of Series A preferred stock for the three months ended September 26, 2015 in which the accretion of the discount related to issuance cost of $2.0 million was excluded. As a result, our net loss attributable to common stockholders and basic and diluted net loss per share attributable to common stockholders included in our quarterly report on Form 10-Q ("Form 10-Q") for the three months ended September 26, 2015 was understated by $2.0 million and $0.03 per basic and diluted share, respectively, and the correction of the error in the three months ended December 26, 2015 was an understatement of net income per share attributable to common stockholders by $2.0 million and $0.03 per basic and diluted share. In addition, this error resulted in an understatement of our mezzanine equity and an overstatement of our stockholders' equity by $2.0 million as of September 26, 2015 as included in the Form 10-Q. This error did not impact any annual or other interim periods and has no impact to the net income. We assessed the materiality of this error on the three and six months ended December 26, 2015 and as of September 26, 2015 and the three months ended September 26, 2015 unaudited consolidated financial statements in accordance with the SEC's Staff Accounting Bulletin No.99 and No.108, based on an analysis of quantitative and qualitative factors, determined that this error was not material to our unaudited consolidated financial statements as of September 30, 2015 and for the three months ended September 26, 2015 and the three and six months ended December 26, 2015. Therefore, our unaudited consolidated financial statements as of September 26, 2015 and for the three months ended September 26, 2015 can continue to be relied upon and an amendment of our previously filed Form 10-Q is not required. However, for comparability, the corrected amounts will be revised in the fiscal 2017 Form 10-Qs that will contain such financial information.
Note 2. Recently Issued Accounting Pronouncements
In January 2016, the Financial Accounting Standards Board (“FASB”) issued guidance related to recognition and measurement of financial assets and financial liabilities. This guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial statements. The guidance is effective for us in the first quarter of fiscal 2019. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In November 2015, the FASB issued guidance related to balance sheet classification of deferred taxes. This guidance will require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The guidance is effective for us in the first quarter of fiscal 2018. Earlier application is permitted as of the beginning of an interim or annual reporting period. We early adopted this guidance effective December 26, 2015 on a prospective basis. No prior periods were retrospectively adjusted. Refer to "Note 11. Income Taxes" for more information.

In July 2015, the FASB issued guidance to change the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. The guidance is effective for us in the first quarter of fiscal 2018. Earlier application is permitted as of the beginning of an interim or annual reporting period. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In May 2015, the FASB issued guidance to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using a net asset value per share practical expedient. The guidance is effective for us in the first quarter of fiscal 2017 and may apply to certain pension assets. The guidance will be applied retrospectively and earlier adoption is permitted. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In April 2015, the FASB issued new authoritative guidance to provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. This guidance is effective for us in the first quarter of fiscal 2017. Prospective application is required, and early adoption is permitted. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In May 2014, the FASB issued new authoritative guidance related to revenue recognition. This guidance will replace current U.S. GAAP guidance on this topic and eliminate industry-specific guidance. The new revenue recognition guidance provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance allows for either full retrospective adoption or modified retrospective adoption. The FASB deferred the effective date for this guidance by one year to December 15, 2017 for annual reporting periods beginning after that. Earlier application of this guidance is permitted but not before the original date of December 15, 2016. We are evaluating the impact that this new accounting guidance will have on our consolidated financial statements and the related disclosures.

Note 3. Related Party Transactions

Transactions with Viavi

Agreements with Viavi

On July 31, 2015, the Company entered into a Supply Agreement with Viavi providing that each party will supply certain products at pre-determined prices, and providing Viavi with research and development services at cost plus a specified markup. The Company has also agreed to supply office space via a sublease agreement to Viavi. The sublease income and research and development cost reimbursements are each recorded as contra operating expenses in the Consolidated Statements of Operations for the six months ended December 26, 2015.

The Supply Agreement contains a $15.0 million purchase commitment with Viavi for certain products, and for the three and six months ended December 26, 2015, the Company purchased $6.5 million in product from Viavi against the $15.0 million purchase commitment. During the three and six months ended December 26, 2015, the Company recognized revenue of $0.7 million and $1.5 million, respectively, due to products sold to Viavi. For the three and six months ended December 26, 2015, the Company recorded $0.7 million and $1.2 million, respectively, in research and development cost reimbursement and $0.2 million and $0.3 million, respectively, in sublease rental income. As of December 26, 2015, the Company had $1.0 million in accounts receivable due from Viavi.

On July 31, 2015, the Company also entered into the following agreements with Viavi:

a) Contribution Agreement which identifies the assets to be transferred, the liabilities to be assumed and the contracts to be assigned and it provides for when and how these transfers, assumptions and assignments will occur.

b) Separation and Distribution Agreement which governs the separation of the Lumentum business and other matters related to Lumentum's relationship with Viavi.

c) Tax Matters Agreement which governs the respective rights, responsibilities and obligations of Lumentum and Viavi with respect to tax liabilities and benefits, attributes, proceedings, returns and certain other tax matters.

d) Employee Matters Agreement which governs the compensation and employee benefit obligations with respect to the current and former employees of Lumentum and Viavi, the treatment of equity based compensation and generally allocates

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LUMENTUM HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

liabilities and responsibilities relating to employee compensation, benefit plans and programs. The Employee Matters Agreement provides that employees of Lumentum will participate in benefit plans sponsored or maintained by Lumentum.

e) Securities Purchase Agreement, which also includes Amada Holdings Co., Ltd. ("Amada") as a party, which sets forth the terms for the sale by Viavi to Amada of shares of Series A Preferred Stock of Lumentum Inc., our wholly-owned subsidiary, following the Separation.

f) Intellectual Property Matters Agreement which outlines the intellectual property rights of Lumentum and Viavi following the Separation, as well as non-compete restrictions between Viavi and Lumentum.

Allocated Costs

The consolidated statements of operations includes our direct expenses for cost of sales, research and development, sales and marketing, and administration as well as allocations of expenses arising from shared services and infrastructure provided by Viavi to us. These allocated expenses include costs of information technology, human resources, accounting, legal, real estate and facilities, corporate marketing, insurance, treasury and other corporate and infrastructure services. In addition, other costs allocated to us include restructuring and stock-based compensation related to Viavi's corporate and shared services employees and are included in the table below. These expenses are allocated to us using estimates that we consider to be a reasonable reflection of the utilization of services or benefits received by our business. The allocation methods include revenue, headcount, square footage, actual consumption and usage of services and others.

Allocated costs included in the accompanying consolidated statements of operations are as follows (in millions):

	Three Months Ended		Six Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Selling, general and administrative	$—	$19.8	$11.7	$36.6
Restructuring and related charges	—	3.2	—	3.2
Interest and other (income) expenses, net	—	(0.1)	(0.1)	—
Interest expense	—	0.2	0.1	0.4
Total allocated costs	$—	$23.1	$11.7	$40.2

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LUMENTUM HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Earnings Per Share

The following table sets forth the computation of basic and diluted net (loss) income per share (in millions, except per share data):

	Three Months Ended		Six Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Numerator:				
Net income (loss)	$2.8	$(4.1)	$2.6	$0.2
Less: Cumulative dividends on Series A Preferred Stock	(0.2)	—	(0.3)	—
Less: Accretion of Series A Preferred Stock	(2.0)	—	(11.7)	—
Net income (loss) available to common stockholders	$0.6	$(4.1)	$(9.4)	$0.2
Denominator:				
Weighted-average number of common shares outstanding				
Basic	59.0	58.8	58.9	58.8
Effect of dilutive securities from stock-based benefit plans	0.2	—	—	—
Diluted	59.2	58.8	58.9	58.8
Net income (loss) per share attributable to common stockholders:				
Basic	$0.01	$(0.07)	$(0.16)	$—
Diluted	$0.01	$(0.07)	$(0.16)	$—

On August 1, 2015, JDS Uniphase Corporation (“JDSU”) distributed 47.1 million shares, or 80.1% of the outstanding shares of common stock of Lumentum Holdings Inc. (“we”, “our” or “Lumentum”) to existing holders of JDSU common stock. JDSU was renamed Viavi Solutions Inc. (“Viavi”) and at the time of the distribution, retained 11.7 million shares, or 19.9% of Lumentum's outstanding shares. The weighted average number of common shares outstanding is calculated as the number of shares of common stock outstanding immediately following the Separation, and the weighted average number of shares outstanding following the Separation through December 26, 2015. Diluted earnings per share is calculated by dividing net income for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding for the period beginning after the Separation. Basic and diluted net income (loss) per share for the three and six months ended December 27, 2014 is calculated using the shares of Lumentum common stock outstanding on August 1, 2015, as if such shares were outstanding for the entire period.

The dilutive effect of share-based awards is reflected in diluted earnings per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense, the tax benefits or shortfalls recorded to additional paid-in capital and the dilutive effect of in-the-money options and non-vested restricted stock units. Under the treasury stock method, the amount the employee must pay for exercising stock options and unamortized share-based compensation expense and tax benefits or shortfalls collectively are assumed proceeds to be used to repurchase hypothetical shares. An increase in the fair market value of the company's common stock can result in a greater dilutive effect from potentially dilutive awards.

The dilutive effect of the redeemable convertible preferred stock is reflected in diluted earnings per share by the application of the if-converted method. The number of shares is increased for the assumed conversion of the instrument. Additionally, cumulative dividends and accretion from measuring the instrument at its redemption value are added back to net income.

We excluded from the calculation of diluted earnings per share all anti-dilutive instruments.

The following table sets forth the weighted-average potentially dilutive securities excluded from the computation of the diluted net income (loss) per share because the effect would have been anti-dilutive (in millions):

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LUMENTUM HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended December 26, 2015	Six Months Ended December 26, 2015
Restricted stock units	—	0.1
Redeemable convertible preferred stock	1.5	1.2
Stock options and employee stock purchase plan	—	0.1
Total potentially dilutive securities	1.5	1.4

Note 5. Accumulated Other Comprehensive (Loss) Income

Our accumulated other comprehensive (loss) income consists of the cumulative foreign currency translation adjustments and defined benefit obligation adjustments.

At December 26, 2015 and June 27, 2015, balances for the components of accumulated other comprehensive income were as follows (in millions):

	Foreign currency translation adjustments, net of tax	Defined benefit obligation, net of tax	Total
Beginning balance as of June 27, 2015	$13.7	$(1.2)	$12.5
Other comprehensive loss	(7.0)	—	(7.0)
Ending balance as of December 26, 2015	$6.7	$(1.2)	$5.5

Note 6. Mergers and Acquisitions

Holdback Payments Related to Fiscal 2014 Acquisitions

On January 27, 2014 ("Time-Bandwidth Closing Date"), we completed the acquisition of Time-Bandwidth Products, Inc. ("Time-Bandwidth"), a privately-held company headquartered in Switzerland. Time-Bandwidth is a provider of high-powered and ultrafast lasers for industrial and scientific markets. We acquired all outstanding shares of Time-Bandwidth for a purchase price consideration of $15.0 million in cash, including a holdback amount of approximately $2.3 million which had been withheld to satisfy potential breaches of representations and warranties. During the first quarter of fiscal 2016, and after the separation from Viavi, we released the holdback amount of $2.3 million following the eighteen-month anniversary of the Time-Bandwidth Closing Date. The payment is classified as a financing activity within the consolidated statements of cash flows for the six months ended December 26, 2015.

Note 7. Balance Sheet Components

Accounts receivable allowances

As of December 26, 2015, our accounts receivable allowance was $0.7 million. Our accounts receivable allowance as of June 27, 2015 was $1.2 million.

Inventories

The components of inventories were as follows (in millions):

	December 26, 2015	June 27, 2015
Finished goods	$50.8	$60.1
Work in process	26.3	23.4
Raw materials and purchased parts	30.2	16.2
Inventories	$107.3	$99.7

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LUMENTUM HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the three and six months ended December 26, 2015, we wrote off $0.6 million and $1.1 million of inventory, respectively.
During the three and six months ended December 27, 2014, we wrote off $1.4 million and $2.0 million of inventory, respectively.
Prepayments and other current assets
The components of prepayments and other current assets were as follows (in millions):

	December 26, 2015	June 27, 2015
Prepayments	$28.5	$20.4
Advances to contract manufacturers	8.7	9.5
Due from Viavi, net	1.0	—
Other current assets	12.2	16.2
Prepayments and other current assets	$50.4	$46.1

Amount due from Viavi, net represents certain obligations to be reimbursed from Viavi, net of payables, pursuant to the Separation and Distribution Agreement and Contribution Agreement.
Property, plant and equipment, net
The components of property, plant and equipment, net were as follows (in millions):

	December 26, 2015	June 27, 2015
Land	$5.9	$5.9
Buildings and improvement	28.7	28.6
Machinery and equipment	335.2	326.4
Furniture and fixtures and software	31.4	8.0
Leasehold improvements	28.7	20.5
Construction in progress	35.0	26.8
	464.9	416.2
Less: Accumulated depreciation	(313.5)	(273.0)
Property, plant and equipment, net	$151.4	$143.2

Other current liabilities
The components of other current liabilities were as follows (in millions):

	December 26, 2015	June 27, 2015
Restructuring accrual and related charges	$4.3	$3.2
Warranty accrual	3.1	2.8
Others	4.4	5.4
Other current liabilities	$11.8	$11.4

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LUMENTUM HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other non-current liabilities
The components of other non-current liabilities were as follows (in millions):

	December 26, 2015	June 27, 2015
Asset retirement obligation	2.1	1.8
Pension and related accruals	2.6	2.1
Deferred rent	1.5	1.7
Restructuring accrual and related charges	—	1.7
Other non-current liabilities	1.8	2.5
Other non-current liabilities	$8.0	$9.8

Note 8. Derivative Liability
We estimate the fair value of the embedded derivative for the Series A preferred stock using the binomial lattice model. We applied the binomial lattice model to value the embedded derivative using a "with-and-without method," where the value of the Series A preferred stock including the embedded derivative, is defined as the "with", and the value of the Series A preferred stock excluding the embedded derivative, is defined as the "without". This method estimates the value of the embedded derivative by looking at the difference in the values between the Series A preferred stock with the embedded derivative and the value of the Series A preferred stock without the embedded derivative. The lattice model requires the following inputs: (i) the Company's common stock price; (ii) conversion price; (iii) term; (iv) yield; (v) recovery rate; (vi) estimated stock volatility; and (vii) risk-free rate. The fair value of the embedded derivative was determined using level 3 inputs under the fair value hierarchy (unobservable inputs). Changes in the inputs into this valuation model have a significant impact in the estimated fair value of the embedded derivative. For example, a decrease (increase) in the stock price results in a decrease (increase) in the estimated fair value of the embedded derivative. The changes in the fair value of the bifurcated embedded derivative of $2.4 million and $0.2 million for the three and six months ended December 26, 2015, respectively, is primarily related to the change in the price of the Company's underlying common stock and is reflected in the consolidated statements of operations as "Unrealized loss on derivative liability".

Note 9. Goodwill and Other Intangible Assets
Goodwill
The following table presents the changes in goodwill allocated to the Lasers reportable segment during the six months ended December 26, 2015 (in millions):

	Lasers	Total
Balance as of June 27, 2015	$5.6	$5.6
Currency translation and other adjustments	(0.1)	(0.1)
Balance as of December 26, 2015	$5.5	$5.5

We review goodwill for impairment during the fourth quarter of each fiscal year or more frequently if events or circumstances indicate that an impairment loss may have occurred. In the fourth quarter of fiscal 2015, we completed the annual impairment test of goodwill, which indicated there was no goodwill impairment. During the six months ended December 26, 2015, there have been no events or circumstances that have required us to perform an interim assessment of goodwill for impairment.

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Acquired Developed Technology and Other Intangibles
The following tables present details of our acquired developed technology and other intangibles (in millions):

As of December 26, 2015	Gross Carrying Amount	Accumulated Amortization	Net
Acquired developed technology	$103.1	$(85.6)	$17.5
Other	9.4	(8.8)	0.6
Total Intangibles	$112.5	$(94.4)	$18.1

As of June 27, 2015	Gross Carrying Amount	Accumulated Amortization	Net
Acquired developed technology	$103.2	$(82.2)	$21.0
Other	9.4	(8.6)	0.8
Total Intangibles	$112.6	$(90.8)	$21.8

During the three and six months ended December 26, 2015, the Company recorded $1.8 million and $3.6 million, respectively, of amortization expense relating to acquired developed technology and other intangibles.
During the three and six months ended December 27, 2014, the Company recorded $2.0 million and $4.0 million, respectively, of amortization expense relating to acquired developed technology and other intangibles.
The following table presents details of our amortization relating to acquired developed technology and other intangibles (in millions):

	Three Months Ended		Six Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Cost of sales	$1.7	$1.9	$3.4	$3.8
Operating expense	0.1	0.1	0.2	0.2
Total	$1.8	$2.0	$3.6	$4.0

Based on the carrying amount of acquired developed technology and other intangibles as of December 26, 2015, and assuming no future impairment of the underlying assets, the estimated future amortization is as follows (in millions):

Fiscal Years	
Remainder of 2016	$3.5
2017	6.7
2018	2.8
2019	2.6
2020	1.0
Thereafter	1.5
Total amortization	$18.1

Note 10. Restructuring and Related Charges
We have initiated various strategic restructuring events primarily intended to reduce costs and align our business in response to the market conditions. As of December 26, 2015 and June 27, 2015, our total restructuring and related charges accrual was $4.3 million and $4.9 million, respectively. During the three and six months ended December 26, 2015, we recorded $1.1 million and $2.1 million, respectively, in restructuring and related charges in the consolidated statements of operations. During the three and

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six months ended December 27, 2014, we recorded $3.8 million and $5.6 million, respectively, in restructuring and related charges in the consolidated statements of operations. Our restructuring charges include severance and benefit costs to eliminate a specified number of positions, facilities and equipment costs to vacate facilities and consolidate operations, and lease termination costs. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over multiple periods.

Summary of Restructuring Plans

The adjustments to the accrued restructuring expenses related to all of our restructuring plans described below for the three and six months ended December 26, 2015, were as follows (in millions):

	Balance June 27, 2015	Accrued	Cash Settlements	Balance December 26, 2015
Fiscal 2015 Plans				
Separation Restructuring Plan (Workforce Reduction)	$4.6	$0.7	$(1.4)	$3.9
Fiscal 2013 Plans				
Other Plans	0.3	0.1	—	0.4
Total	$4.9	$0.8	$(1.4)	$4.3

As of December 26, 2015, all of the $4.3 million accrual was included in other current liabilities on the consolidated balance sheets. As of June 27, 2015, $3.2 million was included in other current liabilities, and $1.7 million was included in other non-current liabilities on the consolidated balance sheets.

Fiscal 2015 Plans

Separation Restructuring Plan

During the second and fourth quarter of fiscal 2015, Management approved restructuring plans impacting our Optical Communications (“OpComms”) segment to optimize manufacturing operations and gain efficiencies which include closing the Bloomfield, Connecticut site and consolidating roles and responsibilities across functions as we move forward with our separation plan. As a result, approximately 200 employees in manufacturing, R&D and SG&A functions located in North America, Europe and Asia will be impacted. For the three and six months ended December 26, 2015, the Company recorded $(0.3) million and $0.7 million, respectively, of expenses for adjusting severance and retention costs related to the restructuring plan implemented in the fourth quarter of 2015. Payments related to the remaining severance and benefits accrual are expected to be paid through fiscal year 2017.

Ottawa Lease Exit Costs

During fiscal 2008, we recorded lease exit charges, net of assumed sub-lease income related to our Ottawa facility which was included in selling, general and administrative expenses as the space was never occupied and we had no need for the space in the foreseeable future due to changes in business requirements. For the three and six months ended December 26, 2015, we had cash settlements of $0.2 million and $0.3 million, respectively. The fair value of the remaining contractual obligations, net of sublease income is $0.8 million and $1.1 million as of December 26, 2015 and June 27, 2015, respectively. As of December 26, 2015 and June 27, 2015, $0.5 million and $0.6 million was included in other current liabilities, and $0.3 million and $0.5 million in other non-current liabilities, respectively, on the consolidated balance sheets. The payments related to these lease costs are expected to be paid by the end of the third quarter of fiscal 2018.

Note 11. Income Taxes

The Company recorded a tax provision of $0.5 million and $0.2 million for the three and six months ended December 26, 2015, respectively. The Company recorded a tax provision of $0.8 million and $1.4 million for the three and six months ended December 27, 2014. The quarterly provision for income taxes is based on the estimated annual effective tax rate, plus any discrete items for the respective year. During the three months ended September 26, 2015, we recognized a net benefit of $0.3 million of true-up adjustments in our foreign jurisdictions.

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The Company updates its estimated annual effective tax rate at the end of each quarterly period. The estimate takes into account the estimates for annual pre-tax income, the geographic mix of pre-tax income and interpretations of tax laws. The difference between the provision for income taxes that would be derived by applying the statutory rate to the Company's income (loss) before income taxes and the provision for income taxes recorded for the three and six months ended December 26, 2015 and December 27, 2014 was primarily attributable to the difference in foreign tax rates, utilization of US tax attributes that were subject to a full valuation allowance, and certain Canadian tax incentives.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes", which simplifies the presentation of deferred income taxes. This ASU requires that deferred tax assets and liabilities be classified as non-current in a statement of financial position. We early adopted ASU 2015-17 effective December 26, 2015 on a prospective basis. Adoption of this ASU resulted in the reclassification of our net current deferred tax asset of $0.1 million to the net non-current deferred tax asset, and the current deferred tax liability of $0.5 million to the non-current deferred tax liability on our Consolidated Balance Sheet as of December 26, 2015. No prior periods were retrospectively adjusted.

The Company's net deferred tax assets relate predominantly to the Canadian tax jurisdiction and the Company has a partial valuation allowance against these deferred tax assets. The Company weighed both positive and negative evidence and determined that due to the limited carryover period of certain tax attributes in Canada, there is a continued need for a partial valuation allowance against these deferred tax assets as of December 26, 2015. Should the Company determine that it needs to adjust the valuation allowance, the adjustment may have a material impact to net income in the period such determination is made.

The Company also evaluates the realizability of its U.S. net deferred tax assets based on all available evidence, both positive and negative, on a quarterly basis. The realization of net deferred tax assets is dependent on the Company's ability to generate sufficient future taxable income during periods prior to the expiration of tax attributes to fully utilize these assets. The Company weighed both positive and negative evidence and determined that due to cumulative losses in the U.S., there is a continued need for a full valuation allowance against the U.S. deferred tax assets as of December 26, 2015.

In connection with the Separation, JDSU contributed all of the assets and liabilities related to the Lumentum business to an entity owned by Lumentum. For tax purposes, this contribution is treated as a taxable transaction and the gross tax basis for the Company increased by approximately $715 million. The corresponding deferred tax asset is currently subject to a full valuation allowance.

In addition, the Company is in the process of evaluating its international operational footprint, which could result in future changes to the Company's legal entity structure and operating model. A wholly-owned foreign subsidiary of the Company acquired certain rights to sell the existing products and also those products to be developed or licensed in the future and will also share in the research and development cost. The existing rights were transferred to its wholly-owned foreign subsidiary prior to the Separation. As a result of these changes, the Company expects that an increasing percentage of its consolidated pre-tax income will be derived from, and reinvested in, its foreign operations. The Company anticipates that this pre-tax income will be subject to foreign tax at relatively lower tax rates when compared to the U.S. federal statutory tax rate and as a consequence, the Company's effective income tax rate is expected to be lower than the U.S. federal statutory rate.

Note 12. Stock-Based Compensation

Overview

Prior to the Separation, we participated in Viavi's stock-based benefit plans and recorded stock-based compensation based on the equity awards granted to our employees as well as an allocation of expenses from Viavi's employees in shared services functions. Upon the Separation, outstanding employee stock options, Restricted Stock Units (RSUs) and Restricted Stock Units based on market conditions previously issued to our employees under the Viavi equity plans were converted into proportionately equivalent Lumentum equity awards under our 2015 Equity Incentive Plan,

using a formula designed to preserve the fair value of the awards immediately prior to the Separation. All other terms of the awards remain unchanged. During the first quarter of fiscal 2016, the Restricted Stock Units based on market conditions were modified to performance-based RSUs, and the impact of the modification resulted in additional expenses of $0.1 million.

The impact on our results of operations of recording stock-based compensation by function for the three and six months ended December 26, 2015 and December 27, 2014 was as follows (in millions):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended		Six Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Cost of sales	$1.5	$1.2	$2.7	$2.6
Research and development	2.3	1.8	4.2	3.7
Selling, general and administrative	2.5	3.7	5.9	7.3
	$6.3	$6.7	$12.8	$13.6

Approximately $1.1 million of stock-based compensation was capitalized in inventory at December 26, 2015. The table above includes allocated stock-based compensation from Viavi of $1.9 million for the three months ended December 27, 2014, and $0.5 million and $3.9 million for the six months ended December 26, 2015 and December 27, 2014, respectively.

Stock Option Activity

We granted no stock options during fiscal 2016 and 2015. The total intrinsic value of options exercised by our employees during the three and six months ended December 26, 2015 was $0.1 million.

Restricted Stock Units Activity

During the six months ended December 26, 2015, we granted 1.8 million RSUs, of which 41,000 also have performance conditions. The aggregate grant-date fair value of time-based RSUs and performance-based RSUs are $35.0 million and $0.8 million, respectively. The majority of the time-based RSUs vests over three years, with 33.3% vesting after one year and the balance vesting quarterly over the remaining two years. The vesting of the performance based RSUs is over three years and contingent upon the achievement of specific revenue targets and the employee's continued service. The performance based RSU shares have a target number of shares, and the actual number of shares awarded upon vesting may be higher or lower depending upon the level of achievement of the performance conditions.

A summary of the status of our outstanding RSUs as of December 26, 2015 and changes during the six months ended December 26, 2015 is presented below (amount in millions):

	Full Value Awards		
	Time-based shares	Performance-based shares	Total number of shares
Outstanding at June 27, 2015, as converted	1.5	0.2	1.7
Awards granted	1.8	—	1.8
Awards vested	(0.4)	(0.1)	(0.5)
Awards cancelled	(0.1)	—	(0.1)
Outstanding at December 26, 2015	2.8	0.1	2.9

As of December 26, 2015, $49.1 million of unrecognized stock-based compensation cost related to RSUs remains to be amortized. That cost is expected to be recognized over an estimated amortization period of 2.3 years.

RSUs are converted into shares upon vesting. Shares equivalent in value to the minimum statutory withholding tax on the vested shares are withheld by the Company at the employees discretion for the payment of such taxes. During the six months ended December 26, 2015 and December 27, 2014, the Company paid $3.9 million and $4.5 million for employee withholding taxes, respectively, and classified the payments as operating cash outflows in the consolidated statements of cash flows.

Employee Stock Purchase Plans

In June 2015, the Company adopted the 2015 Employee Stock Purchase Plan (the "Plan"). The Plan, which became effective June 23, 2015, provides eligible employees, consultants and directors of the Company and one or more of its parent or subsidiary companies with the opportunity to acquire a proprietary interest in the Company through participation in a plan designed to qualify as an employee stock purchase plan under Section 423 of the Internal

Revenue Code. The Plan will terminate on the date on which all shares available for issuance have been sold. The first offering period is from November 17, 2015 to May 15, 2016. The Plan provides a 15% discount on the lesser of (i) the fair market value of a share on the date of purchase or (ii) the fair market value of a share on the commencement date of the purchase period.

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Note 13. Commitments and Contingencies

Operating Leases

We lease certain real and personal property from unrelated third parties under non-cancellable operating leases that expire at various dates through fiscal 2026. Certain leases require us to pay property taxes, insurance and routine maintenance, and include escalation clauses. As of December 26, 2015 the future minimum annual lease payments under non-cancellable operating leases were as follows (in millions):

Remainder of 2016	$2.9
2017	5.6
2018	4.6
2019	3.0
2020	1.9
Thereafter	5.0
Total minimum operating lease payments	$23.0

Included in the future minimum lease payments table above is $0.8 million related to lease commitments in connection with our restructuring and related activities. Refer to "Note 10. Restructuring and Related Charges" for more information.

Purchase Obligations

Purchase obligations of $145.5 million as of December 26, 2015, represent legally-binding commitments to purchase inventory and other commitments made in the normal course of business to meet operational requirements. Although open purchase orders are considered enforceable and legally binding, the terms generally allow the option to cancel, reschedule and adjust the requirements based on our business needs prior to the delivery of goods or performance of services. Obligations to purchase inventory and other commitments are generally expected to be fulfilled within one year.

We depend on a limited number of contract manufacturers, subcontractors and suppliers for raw materials, packages and standard components. We generally purchase these single or limited source products through standard purchase orders or one-year supply agreements and have no significant long-term guaranteed supply agreements with such vendors. While we seek to maintain a sufficient safety stock of such products and maintain on-going communications with our suppliers to guard against interruptions or cessation of supply, our business and results of operations could be adversely affected by a stoppage or delay of supply, substitution of more expensive or less reliable products, receipt of defective parts or contaminated materials, increases in the price of such supplies, or our inability to obtain reduced pricing from our suppliers in response to competitive pressures.

Product Warranties

We provide reserves for the estimated costs of product warranties at the time revenue is recognized. We typically offer a twelve month warranty for most of our products. However, in some instances depending upon the product, product component or application of our products by the end customer, our warranties can vary and generally range from six to thirty-six months. We estimate the costs of our warranty obligations on an annualized basis based on our historical experience of known product failure rates, use of materials to repair or replace defective products and service delivery costs incurred in correcting product failures. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise with specific products. We assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

The following table presents the changes in our warranty reserve during the three and six months ended December 26, 2015 and December 27, 2014 (in millions):

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	Three Months Ended		Six Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Balance as of beginning of period	$2.5	$2.4	$2.8	$2.7
Provision for warranty	0.8	0.9	1.7	1.5
Utilization of reserve	(0.3)	(1.2)	(1.5)	(2.1)
Adjustments related to pre-existing warranties (including changes in estimates)	0.1	(0.1)	0.1	(0.1)
Balance as of end of period	$3.1	$2.0	$3.1	$2.0

Environmental Liabilities

Our R&D, manufacturing and distribution operations involve the use of hazardous substances and are regulated under international, federal, state and local laws governing health and safety and the environment. We apply strict standards for protection of the environment and occupational health and safety to sites inside and outside the United States, even if not subject to regulation imposed by foreign governments. We believe that our properties and operations at our facilities comply in all material respects with applicable environmental laws and occupational health and safety laws. However, the risk of environmental liabilities cannot be completely eliminated and there can be no assurance that the application of environmental and health and safety laws will not require us to incur significant expenditures. We are also regulated under a number of international, federal, state and local laws regarding recycling, product packaging and product content requirements. The environmental, product content/disposal and recycling laws are gradually becoming more stringent and may cause us to incur significant expenditures in the future.

In connection with the Separation, we agreed to indemnify Viavi for any liability associated with contamination from past operations at all properties transferred to us from Viavi, to the extent the resulting issues primarily related to our business.

Legal Proceedings

We are subject to a variety of claims and suits that arise from time to time in the ordinary course of our business. While Management currently believes that resolving claims against us, individually or in the aggregate, will not have a material adverse impact on our financial position, results of operations or statement of cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. Were an unfavorable final outcome to occur, there exists the possibility of a material adverse impact on our financial position, results of operations or cash flows for the period in which the effect becomes reasonably estimable.

Note 14. Operating Segments and Geographic Information

Our chief executive officer is our Chief Operating Decision Maker ("CODM"). The CODM allocates resources to the segments based on their business prospects, competitive factors, net revenue and gross margin.

We are an industry leading provider of optical and photonic products defined by revenue and market share addressing a range of end-market applications including optical communications and commercial lasers. We have two operating segments, OpComms and Commercial Lasers ("Lasers"). The two operating segments were primarily determined based on how the CODM views and evaluates our operations. Operating results are regularly reviewed by the CODM to make decisions about resources to be allocated to the segments and to assess their performance. Other factors, including market separation and customer specific applications, go-to-market channels, products and manufacturing, are considered in determining the formation of these operating segments.

Our reportable segments are:

(i) OpComms: Our OpComms portfolio includes products used by Telecom and Datacom network equipment manufacturers (“NEMs”) and both traditional and cloud/data center service providers. These products enable the transmission and transport of video, audio and text data over high-capacity fiber optic cables. Transmission products primarily consist of optical transceivers, optical transponders, and their supporting components such as modulators and source lasers, including innovative products such as the Tunable Small Form-factor Pluggable Plus

transceiver. Transport products primarily consist of modules or sub-systems containing optical amplifiers, reconfigurable optical add/drop multiplexers (“ROADMs”) or Wavelength Selective Switches, Optical Channel Monitors and their supporting components. Our products for 3-D sensing applications, formerly referred to as our gesture recognition products, include light source

products. Customer solutions containing our 3-D sensing products let a person control electronic or computer devices with natural body or hand gestures instead of using a remote, mouse or other device.

(ii) Commercial Lasers: Our Lasers products serve customers in markets and applications such as manufacturing, biotechnology, graphics and imaging, remote sensing, and precision machining such as drilling in printed circuit boards, wafer singulation and solar cell scribing. These products include diode, direct-diode, diode-pumped solid-state, fiber and gas lasers. In addition, our photonic power products include fiber optic-based systems for delivering and measuring electrical power.

The CODM evaluates segment performance to make financial decisions and allocate resources based on gross margin. We do not allocate research and development, sales and marketing, or general and administrative expenses to our segments because Management does not include the information in its measurement of the performance of the operating segments. In addition, we do not allocate amortization and impairment of acquisition-related intangible assets, stock-based compensation and certain other non-recurring charges impacting the gross margin of each segment because Management does not include this information in its measurement of the performance of the operating segments.

Information on reportable segments utilized by our CODM is as follows (in millions):

	Three Months Ended		Six Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net revenue:				
OpComms	$185.8	$171.1	$362.9	$348.0
Lasers	32.5	39.4	68.0	81.5
Net revenue	$218.3	$210.5	$430.9	$429.5
Gross profit:				
OpComms	57.1	50.4	112.7	103.2
Lasers	14.2	20.1	28.4	41.4
Total segment gross profit	71.3	70.5	141.1	144.6
Unallocated amounts:				
Stock-based compensation	(1.5)	(1.2)	(2.7)	(2.6)
Amortization of intangibles	(1.7)	(1.9)	(3.4)	(3.8)
Other charges related to non-recurring activities	—	(0.5)	—	(1.0)
Gross profit	$68.1	$66.9	$135.0	$137.2

The table below discloses the percentage of our total net revenue attributable to each of our two reportable segments. In addition, it discloses the percentage of our total net revenue attributable to our product offerings which serve the Telecom, Datacom and consumer and industrial ("Consumer and Industrial"):

	Three Months Ended		Six Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015 [a]	December 27, 2014
Optical Communications:	85.1%	81.3%	84.2%	81.0%
Telecom	63.1%	59.8%	62.8%	60.8%
Datacom	16.0%	16.8%	16.4%	15.3%
Consumer and Industrial	6.0%	4.7%	5.0%	4.9%
Lasers	14.9%	18.7%	15.8%	19.0%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We operate in three geographic regions: Americas, Asia-Pacific and Europe, Middle East and Africa ("EMEA"). Net revenue is assigned to the geographic region and country where our product is initially shipped. For example, certain customers may request shipment of our product to a contract manufacturer in one country, which may differ from the location of their end customers. The following table presents net revenue by the three geographic regions we operate in and net revenue from countries that exceeded 10% of our total net revenue (in millions, except for percentages) :

	Three Months Ended						Six Months Ended					
	December 26, 2015			December 27, 2014			December 26, 2015			December 27, 2014		
Net revenue:												
Americas:												
United States	$28.0	12.8	%	$41.1	19.5	%	$62.5	14.5	%	$83.5	19.4	%
Mexico	36.5	16.7		23.6	11.2		78.3	18.2		50.1	11.7	
Other Americas	5.0	2.3		7.5	3.6		12.8	3.0		13.8	3.2	
Total Americas	$69.5	31.8	%	$72.2	34.3	%	$153.6	35.7	%	$147.4	34.3	%
Asia-Pacific:												
Hong Kong	$51.8	23.8	%	$34.0	16.1	%	$82.6	19.1	%	$62.7	14.6	%
Japan	21.0	9.6		34.9	16.6		46.0	10.7		70.8	16.5	
Thailand	25.5	11.7		14.7	7.0		44.0	10.2		29.7	6.9	
Other Asia-Pacific	20.8	9.5		23.9	11.4		42.3	9.8		50.0	11.7	
Total Asia-Pacific	$119.1	54.6	%	$107.5	51.1	%	$214.9	49.8	%	$213.2	49.7	%
EMEA	$29.7	13.6	%	$30.8	14.6	%	$62.4	14.5	%	$68.9	16.0	%
Total net revenue	$218.3			$210.5			$430.9			$429.5		

During the six months ended December 26, 2015 and December 27, 2014, net revenue from customers outside the U.S., based on customer shipping location, represented 85.5% and 80.6% of net revenue, respectively. During the three months ended December 26, 2015 and December 27, 2014, net revenue from customers outside the U.S., based on customer shipping location, represented 87.2% and 80.5% of net revenue, respectively. Our net revenue is primarily denominated in U.S. dollars, including our net revenue from customers outside the United States as presented above.

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

Forward-Looking Statements

Statements contained in this Form 10-Q which are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). A forward-looking statement may contain words such as "anticipates," "believes," "can," "can impact," "could," "continue," "estimates," "expects "intends," "may," "ongoing," "plans," "potential," "projects," "should," "will," "will continue to be," "would," or the negative other comparable terminology regarding beliefs, plans, expectations or intentions regarding the future.

Forward-looking statements include statements such as:

- our expectations regarding demand for our products, including continued trends in end-user behavior and technological advancements that may drive such demand;
- our belief that we are well positioned to benefit from certain industry trends and advancements, and our expectations of the role we will play in those advancements;
- our plans for growth and innovation opportunities;
- our corporate and financial reporting structure;
- expectations regarding our expenses and cost structure;
- financial projections and expectations, including profitability of certain business units, plans to reduce costs and improve efficiencies, the effects of seasonality on certain business units, continued reliance on key customers for a significant portion of our revenue, future sources of revenue, competition and pricing pressures, future revenue from international customers, our future liquidity and cash flow requirements, the future impact of certain accounting pronouncements and our estimation of the potential impact and materiality of litigation;
- our expectations related to our net revenue mix, including net revenue growth opportunities;
- our plans for continued development, use and protection of our intellectual property;
- our strategies for achieving our current business objectives, including related risks and uncertainties;
- our plans or expectations relating to investments, acquisitions, partnerships and other strategic opportunities;
- our research and development plans and the expected impact of such plans on our financial performance;
- our expectations related to our products, including costs associated with the development of new products, product yields, quality and other issues; and
- market risks facing our business and our market-risk management strategies.

Management cautions that forward-looking statements are based on current expectations and assumptions and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected in such forward-looking statements. These forward-looking statements are only predictions and are subject to risks and uncertainties including those set forth in Part II, Item 1A "Risk Factors" and elsewhere in this Form 10-Q and in other documents we file with the Securities and Exchange Commission. Forward-looking statements are made only as of the date of this Form 10-Q and subsequent facts or circumstances may contradict, obviate, undermine or otherwise fail to support or substantiate such statements. Except as required by law, we are under no duty to update any of the forward-looking statements after the date of this Form 10-Q to conform such statements to actual results or to changes in our expectations.

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Separation from JDSU

Lumentum Holdings Inc. ("we", "us" and "Lumentum") was incorporated in Delaware as a wholly owned subsidiary of JDS Uniphase Corporation ("JDSU") on February 10, 2015 and comprises the former communications and commercial optical products ("CCOP") segment and WaveReady product lines of JDSU. Our Registration Statement on Form 10 was declared effective by the U.S. Securities and Exchange Commission on July 16, 2015. On August 1, 2015, we became an independent publicly-traded company through the distribution by JDSU to its stockholders of 80.1% of our outstanding common stock (the "Separation"). Each JDSU stockholder of record as of the close of business on July 27, 2015 received one share of Lumentum common stock for every five shares of JDSU common stock held on the record date. JDSU was renamed Viavi Solutions Inc. ("Viavi") in connection with the Separation and retained ownership of 19.9% of Lumentum's outstanding shares. Our common stock began trading "regular-way" under the ticker "LITE" on the NASDAQ stock market on August 4, 2015.

On July 31, 2015, prior to the Separation, Viavi transferred substantially all of the assets and liabilities and operations of the communications and commercial optical products ("CCOP") segment and WaveReady product lines to Lumentum (the "Capitalization"). Combined financial statements for periods prior to the Capitalization were prepared on a stand-alone basis and were derived from Viavi's consolidated financial statements and accounting records. For the period from June 28, 2015 to August 1, 2015, expenses were allocated to us using estimates that we consider to be a reasonable reflection of the utilization of services provided to or benefits received by us.

The consolidated financial statements include certain assets and liabilities that were historically held at the Viavi level but which were transferred to us in the Capitalization. Viavi's debt and related interest expense were not attributed or allocated to us for the periods presented since we are not the legal obligor of the debt and Viavi's borrowings were not directly attributable to us. Certain intercompany transactions between us and Viavi were considered to be effectively settled in the consolidated financial statements at the time the transactions were recorded. The total net effect of the settlement of these intercompany transactions is reflected in the consolidated statements of cash flows as a financing activity and on the consolidated balance sheets as Viavi net investment.

The consolidated statements of operations includes our direct expenses for cost of sales, R&D, sales and marketing, and administration as well as allocations of expenses arising from shared services and infrastructure provided by Viavi to us through the Separation. These allocated expenses include costs of information technology, human resources, accounting, legal, real estate and facilities, corporate marketing, insurance, treasury and other corporate and infrastructure services. In addition, other costs allocated to us include restructuring and stock-based compensation related to Viavi's corporate and shared services employees as well as other public company costs. These expenses were allocated to us using estimates that we consider to be a reasonable reflection of the utilization of services provided to or benefits received by our business. The allocation methods include revenue, headcount, square footage, actual consumption and usage of services and others.

Our Industries and Developments

We are an industry leading provider of optical and photonic products defined by revenue and market share addressing a range of end-market applications including Datacom and Telecom networking and commercial lasers for manufacturing, inspection and life-science applications. We are using our core optical and photonic technology and our volume manufacturing capability to expand into attractive emerging markets that benefit from advantages that optical or photonics-based solutions provide, including 3-D sensing for consumer electronics and diode light sources for a variety of consumer and industrial applications.

We operate in two reportable segments:

•Optical Communications ("OpComms")

•Commercial Lasers ("Lasers")

Our operations for these reportable segments are not distinct and separate; rather this segmentation reflects different end-markets with their own unique dynamics.

OpComms

Our OpComms products address the following markets: Telecom, Datacom and Consumer and Industrial.

Our OpComms products include a wide range of components, modules and subsystems to support and maintain customers in our two primary markets: Telecom and Datacom. The Telecom market includes carrier networks for

access (local), metro (intracity), long-haul (city-to-city and worldwide) and submarine (undersea) networks. The Datacom market addresses enterprise, cloud and data center applications, including storage-access networks (“SANs”), local-area networks (“LANs”) and Ethernet wide-area networks (“WANs”). These products enable the transmission and transport of video, audio and text data over high-capacity

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fiber-optic cables. We maintain leading positions in the fastest-growing OpComms markets, including reconfigurable optical add/drop multiplexers (“ROADMs”), tunable 10-gigabit small form-factor pluggable transceivers and tunable small form-factor pluggables. Our growing portfolio of pluggable transceivers supports LAN/SAN needs and the cloud for customers building proprietary data center networks.

In the Consumer and Industrial markets, our OpComms products include our light source product which is integrated into 3-D sensing platforms being used in applications for gaming, computing, mobile devices and home entertainment. These systems simplify the way people interact with technology by enabling the use of natural body gestures, like the wave of a hand, to control a product or application. Emerging applications for this technology include in-cabin tracking in cars, self-navigating robotics and drones in industrial applications and 3-D capture of objects coupled with 3-D printing.

Our OpComms customers include Ciena Corporation, Cisco Systems, Inc., Coriant GmbH, Fujitsu Network Communications, Inc., Google Inc., Huawei Technologies Co Ltd., Microsoft Corporation, and Nokia Corporation.

Lasers

Our Lasers products serve our customers in markets and applications such as manufacturing, biotechnology, graphics and imaging, remote sensing, and precision machining such as drilling in printed circuit boards, wafer singulation and solar cell scribing. Our Lasers products are used in a variety of original equipment manufacturer (“OEM”) applications. OEM applications use our products including diode-pumped solid-state, fiber, diode, direct-diode and gas lasers such as argon-ion and helium-neon lasers. Diode-pumped solid-state and fiber lasers provide excellent beam quality, low noise and exceptional reliability and are used in biotechnology, graphics and imaging, remote sensing, materials processing and precision machining applications. Diode and direct-diode lasers address a wide variety of applications, including laser pumping, thermal exposure, illumination, ophthalmology, image recording, printing, plastic welding and selective soldering. Gas lasers such as argon-ion and helium-neon lasers provide a stable, low-cost and reliable solution over a wide range of operating conditions, making them well suited for complex, high-resolution OEM applications such as flow cytometry, DNA sequencing, graphics and imaging and semiconductor inspection.

During the third quarter of fiscal 2014, we acquired Time-Bandwidth, a provider of high-powered and ultrafast lasers for the industrial and scientific markets. Manufacturers use high-power, ultrafast lasers to create micro parts for consumer electronics and to process semiconductor chips. Use of ultrafast lasers for micromachining applications is being driven primarily by the increasing use of consumer electronics and connected devices globally.

Our Lasers customers include Amada Co., Ltd., ASML Holding N.V., Beckman Coulter, Inc., Becton, Dickinson and Company, DISCO Corporation, Electro Scientific Industries, Inc., EO Technics Co., Ltd. and KLA-Tencor Corporation.

Critical Accounting Policies and Estimates

In the opinion of Management, the consolidated financial statements included in this Form 10-Q contain all normal recurring adjustments necessary to state fairly our consolidated balance sheet as of December 26, 2015, our consolidated statements of operations and consolidated statements of comprehensive income (loss) for the three and six months ended December 26, 2015 and December 27, 2014, and our consolidated statements of cash flows for the six months ended December 26, 2015 and December 27, 2014.

The preparation of the consolidated financial statements in accordance with GAAP in the U.S. requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management’s best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are revenue recognition, inventory valuation, allocation methods and allocated expenses from Viavi, valuation of goodwill and other intangible assets, share-based compensation, retirement and post-retirement plan assumptions, restructuring, warranty and accounting for income taxes.

For a description of the critical accounting policies that affect our more significant judgments and estimates used in the preparation of our consolidated financial statements, refer to Item 7 "Management’s Discussion and Analysis of Financial Condition and Results of Operations" in our Amendment No. 1 to Fiscal 2015 Annual Report on

Form 10-K/A filed with the Securities and Exchange Commission (“SEC”) and “Note 1. Description of Business and Summary of Significant Accounting Policies” to the consolidated financial statements included in this Form 10-Q. Recently Issued Accounting Pronouncements

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Refer to “Note 2. Recently Issued Accounting Pronouncements" to the consolidated financial statements included in this Form 10-Q regarding the effect of certain recent accounting pronouncements on our consolidated financial statements.

RESULTS OF OPERATIONS

The results of operations for the periods presented are not necessarily indicative of results to be expected for future periods or for the full fiscal year. The following table summarizes selected Consolidated Statements of Operations items as a percentage of net revenue:

	Three Months Ended		Six Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Segment net revenue:				
OpComms	85.1 %	81.3 %	84.2 %	81.0 %
Lasers	14.9	18.7	15.8	19.0
Net revenue	100.0	100.0	100.0	100.0
Cost of sales	68.0	67.3	67.9	67.2
Amortization of acquired technologies	0.8	0.9	0.8	0.9
Gross profit	31.2	31.8	31.3	31.9
Operating expenses:				
Research and development	16.1	16.7	16.1	16.3
Selling, general and administrative	11.8	14.8	13.9	13.9
Restructuring and related charges	0.5	1.8	0.5	1.3
Total operating expenses	28.4	33.3	30.5	31.5
Income (loss) from operations	2.8	(1.5)	0.9	0.5
Unrealized loss on derivative liability	(1.1)	—	—	—
Interest and other (expense) income, net	(0.2)	—	(0.2)	(0.1)
Income (loss) before taxes	1.5	(1.6)	0.6	0.4
Provision for income taxes	0.2	0.4	—	0.3
Net income (loss)	1.3 %	(1.9)%	0.6 %	0.0 %

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Financial Data for the three and six months ended December 26, 2015 and December 27, 2014

The following table summarizes selected Consolidated Statement of Operations items (in millions, except for percentages):

	Three Months Ended				Six Months Ended			
	December 26, 2015	December 27, 2014	Change	Percentage Change	December 26, 2015	December 27, 2014	Change	Percentage Change
Segment net revenue:								
OpComms	$185.8	$ 171.1	$14.7	8.6 %	$362.9	$ 348.0	$14.9	4.3 %
Lasers	32.5	39.4	(6.9)	(17.5)%	68.0	81.5	(13.5)	(16.6)
Net revenue	$218.3	$ 210.5	$7.8	3.7 %	$430.9	$ 429.5	$1.4	0.3 %
Gross profit	$68.1	$ 66.9	$1.2	1.8 %	$135.0	$ 137.2	$(2.2)	(1.6)%
Gross margin	31.2 %	31.8 %			31.3 %	31.9 %		
Research and development	35.0	35.1	(0.1)	(0.3)%	69.4	70.1	(0.7)	(1.0)%
Percentage of net revenue	16.0 %	16.7 %			16.1 %	16.3 %		
Selling, general and administrative	25.8	31.2	(5.4)	(17.3)%	59.8	59.5	0.3	0.5 %
Percentage of net revenue	11.8 %	14.8 %			13.9 %	13.9 %		
Restructuring and related charges	1.1	3.8	(2.7)	(71.1)%	2.1	5.6	(3.5)	(62.5)%
Percentage of net revenue	0.5 %	1.8 %			0.5 %	1.3 %		

Net Revenue

Net revenue increased by $7.8 million, or 3.7%, during the three months ended December 26, 2015 compared to the same period a year ago. This increase was primarily due to an increase in net revenue from our OpComms segment, partially offset by a decrease in net revenue from our Lasers segment.

OpComms net revenue increased $14.7 million, or 8.6%, during the three months ended December 26, 2015 compared to the same period a year ago. This increase was primarily driven by $15.0 million of net revenue increases resulting primarily from increased sales of Transport and 3D Sensing products for the telecom and Consumer and Industrial end markets.

Lasers net revenue decreased $6.9 million, or 17.5%, during the three months ended December 26, 2015 compared to the same period a year ago. This decrease was primarily due to lower revenue from our fiber laser products.

Net revenue increased by $1.4 million, or 0.3%, during the six months ended December 26, 2015 compared to the same period a year ago. This increase was primarily due to an increase in net revenue from our OpComms segment, partially offset by a decrease in net revenue from our Lasers segment.

OpComms net revenue increased $14.9 million, or 4.3%, during the six months ended December 26, 2015 compared to the same period a year ago. This increase was driven by $14.4 million of net revenue increases resulting primarily from increased sales of products for the telecom and datacom end markets.

Lasers net revenue decreased $13.5 million, or 16.6%, during the six months ended December 26, 2015 compared to the same period a year ago. This decrease was primarily due to decreased revenue from solid-state lasers driven by lower market demand.

Revenue by Region

We operate in three geographic regions: Americas, Asia-Pacific and EMEA. Net revenue is assigned to the geographic region and country where our product is initially shipped. However, this location may differ from the location of their end customers. The following table presents net revenue by the three geographic regions we operate in and net revenue from countries that exceeded 10% of our total net revenue (in millions, except for percentages):

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	Three Months Ended						Six Months Ended					
	December 26, 2015			December 27, 2014			December 26, 2015			December 27, 2014		
Net revenue:												
Americas:												
United States	$28.0	12.8	%	$41.1	19.5	%	$62.5	14.5	%	$83.5	19.4	%
Mexico	36.5	16.7		23.6	11.2		78.3	18.2		50.1	11.7	
Other Americas	5.0	2.3		7.5	3.6		12.8	3.0		13.8	3.2	
Total Americas	$69.5	31.8	%	$72.2	34.3	%	$153.6	35.7	%	$147.4	34.3	%
Asia-Pacific:												
Hong Kong	$51.8	23.8	%	$34.0	16.1	%	$82.6	19.1	%	$62.7	14.6	%
Japan	21.0	9.6		34.9	16.6		46.0	10.7		70.8	16.5	
Thailand	25.5	11.7		14.7	7.0		44.0	10.2		29.7	6.9	
Other Asia-Pacific	20.8	9.5		23.9	11.4		42.3	9.8		50.0	11.7	
Total Asia-Pacific	$119.1	54.6	%	$107.5	51.1	%	$214.9	49.8	%	$213.2	49.7	%
EMEA	$29.7	13.6	%	$30.8	14.6	%	$62.4	14.5	%	$68.9	16.0	%
Total net revenue	$218.3			$210.5			$430.9			$429.5		

Net revenue from customers outside the United States, based on customer shipping location, during the three months ended December 26, 2015 and December 27, 2014, represented 87.2% and 80.5% of net revenue, respectively. Net revenue from customers outside the United States, based on customer shipping location, during the six months ended December 26, 2015 and December 27, 2014, represented 85.5% and 80.6% of net revenue, respectively. Our net revenue is primarily denominated in U.S. dollars, including our net revenue from customers outside the United States as presented above. We expect revenue from customers outside of the United States to continue to be an important part of our overall net revenue and an increasing focus for net revenue growth opportunities.

Gross Margin and Segment Gross Margin

The following table summarizes segment gross margin and combined gross margin for the three and six months ended December 26, 2015 and December 27, 2014 (in millions, except for percentages):

	Gross Profit Three Months Ended		Gross Margin Three Months Ended				Gross Profit Six Months Ended		Gross Margin Six Months Ended			
	December 26, 2015	December 27, 2014	December 26, 2015		December 27, 2014		December 26, 2015	December 27, 2014	December 26, 2015		December 27, 2014	
OpComms	$57.1	$50.4	30.7	%	29.5	%	$112.7	$103.2	31.1	%	29.7	%
Lasers	14.2	20.1	43.7	%	51.0	%	28.4	41.4	41.8	%	50.8	%
Segment total	$71.3	$70.5	32.7	%	33.5	%	$141.1	$144.6	32.7	%	33.7	%
Unallocated corporate items [1]	(3.2)	(3.6)					(6.1)	(7.4)				
Total	$68.1	$66.9	31.2	%	31.8	%	$135.0	$137.2	31.3	%	31.9	%

(1) The unallocated corporate items for the periods presented include the effects of amortization of acquired developed technology, intangible assets, share-based compensation and certain other charges related to non-recurring activities. We do not allocate these items to the gross margin for each segment because Management does not include such information in measuring the performance of the operating segments.

Gross Margin

Gross margin decreased 0.6 percentage points from 31.8% in the same period a year ago to 31.2% in the three months ended

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December 26, 2015. This decrease was primarily due to decreases in Lasers gross margins, partially offset by an increase in OpComms gross margins.

Gross margin decreased 0.6 percentage points from 31.9% in the same period a year ago to 31.3% in the six months ended December 26, 2015. This decrease was primarily due to decreases in Lasers gross margins, partially offset by an increase in OpComms gross margins.

We sell products in certain markets that are consolidating, undergoing product, architectural and business model transitions, have high customer concentrations, are highly competitive (increasingly due to Asia-Pacific-based competition), are price sensitive and/or are affected by customer seasonal and mix variant buying patterns. We expect these factors to continue to result in variability of our gross margin.

Segment Gross Margin

OpComms

OpComms gross margin increased 1.2 percentage points to 30.7% in the three months ended December 26, 2015 from 29.5% in the same period a year ago. This increase was primarily due to cost reductions and higher volume leading to better absorption.

OpComms gross margin increased 1.4 percentage points to 31.1% in the six months ended December 26, 2015 from 29.7% in the same period a year ago. This increase was primarily due to improved manufacturing cost absorption from higher volume and cost reductions.

Lasers

Lasers gross margin decreased 7.3 percentage points to 43.7% in the three months ended December 26, 2015 from 51.0% in the same period a year ago. This decrease was primarily due to product mix and lower revenue volume.

Lasers gross margin decreased 9.0 percentage points to 41.8% in the six months ended December 26, 2015 from 50.8% in the same period a year ago. This decrease was primarily due to product mix and lower revenue volume.

Research and Development (“R&D”)

R&D expense decreased $0.1 million, or 0.3%, for the three months ended December 26, 2015 compared to the same period a year ago. The decrease was primarily due to a decrease in employee-related costs resulting from the lower headcount from the closure of the Serangoon office in Singapore and a reduction of employees in North America.

R&D expense decreased $0.7 million, or 1.0%, for the six months ended December 26, 2015 compared to the same period a year ago. The decrease was primarily due to a decrease in employee-related costs resulting from the lower headcount from the closure of the Serangoon office in Singapore and a reduction of employees in North America.

We believe that continuing our investments in R&D is critical to attaining our strategic objectives. We plan to continue to invest in R&D and new products that we believe will further differentiate us in the marketplace and expect our investment to increase in absolute dollars in future quarters.

Selling, General and Administrative (“SG&A”)

SG&A expense decreased by $5.4 million, or 17.3%, in the three months ended December 26, 2015 compared to the same period a year ago. This decrease was primarily due to our stand-alone SG&A expense during the three months ended December 26, 2015 being lower than Viavi's SG&A allocation for the three months ended December 27, 2014.

SG&A expense increased by $0.3 million, or 0.5%, in the six months ended December 26, 2015 compared to the same period a year ago. This increase was primarily due to separation-related costs allocated to us from Viavi that were only present in the six months ended December 26, 2015.

We intend to continue to focus on reducing our SG&A expenses as a percentage of net revenue. However, we may experience certain non-core expenses in the future, such as mergers and acquisitions-related expenses and litigation expenses, which could increase our SG&A expenses and potentially impact our profitability expectations in any particular quarter.

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Restructuring and Related Charges

Beginning in fiscal Q4 2014, we consolidated our operations in order to drive operational efficiencies and align our business with market conditions.

As of December 26, 2015, our total restructuring accrual was $4.3 million. During the three and six months ended December 26, 2015, we recorded $1.1 million and $2.1 million, respectively, in restructuring charges. These charges are primarily due to a previously announced restructuring plan for our Bloomfield, Connecticut site for severance and benefits. Refer to “Note 10. Restructuring and Related Charges” to the consolidated financial statements included in this Form 10-Q for more information.

During the three and six months ended December 27, 2014, we recorded $3.8 million and $5.6 million, respectively, in restructuring and related charges. The charges are primarily due to the allocated costs of restructuring and related charges related to Viavi's corporate and shared services employees and the severance and benefit costs for Robbinsville Closure Plan approved in the first quarter of fiscal 2015.

Our Ottawa lease obligation is net of sublease income of approximately $0.8 million. Our ability to generate sublease income, as well as our ability to terminate lease obligations and recognize the anticipated related savings, is highly dependent upon economic conditions, particularly commercial real estate market conditions in certain geographies, at the time we negotiate the lease termination and sublease arrangements with third parties, as well as the performances by such third parties of their respective obligations. While the amount we have accrued represents the best estimate of the remaining obligations we expect to incur in connection with these plans, estimates are subject to change. Routine adjustments may be required in the future as conditions and facts change through the implementation period. If macroeconomic conditions decline, particularly as they pertain to the commercial real estate market, or if, for any reason, tenants under subleases fail to perform their obligations, we may be required to reduce estimated future sublease income and adjust the estimated amounts of future settlement agreements, and accordingly, increase estimated costs to exit certain facilities. Amounts related to the lease expense, net of anticipated sublease proceeds, will be paid over the respective lease terms through the third quarter of fiscal 2018.

Unrealized Loss on Derivative Liability

The Series A Preferred Stock includes a conversion feature that was bifurcated and separately accounted for as a derivative liability measured at fair value upon inception with subsequent changes in fair value recognized in earnings. The proceeds from issuance was allocated first to the separated conversion feature based on its fair value, with the residual proceeds allocated to the Series A Preferred Stock. The unrealized loss on derivative liability relates to the subsequent changes in the fair value of the derivative liability. During the three and six months ended December 26, 2015, the unrealized loss was $2.4 million and $0.2 million, respectively, and is reflected in our consolidated statements of operations.

Interest and Other Income (Expense), Net

Interest and other income (expense), net is comprised substantially of gains and losses associated with the re-measurement of non-functional currency denominated monetary assets and liabilities, an allocation from Viavi of gains and losses on the foreign currency forward contracts utilized in Viavi’s balance sheet hedging program, as well as other non-recurring transactions outside of the normal course of business.

Interest and other income (expense), net was $(0.5) million during the three months ended December 26, 2015 as compared to $(0.1) million during the same period a year ago.

Interest and other income (expense), net was $(0.7) million during the six months ended December 26, 2015 as compared to $(0.4) million during the same period a year ago.

Provision for Income Taxes

We recorded a tax provision of $0.5 million and $0.2 million for the three and six months ended December 26, 2015, and $0.8 million and $1.4 million for the three and six months ended December 27, 2014. The quarterly provision for income taxes is based on the estimated annual effective tax rate, plus any discrete items for the respective year. During the three months ended September 26, 2015, we recognized a net benefit of $0.3 million of true-up adjustments in our foreign jurisdictions.

The difference between the provision for income taxes that would be derived by applying the statutory rate to our income (loss) before income taxes and the provision for income taxes recorded was primarily attributable to the

difference in foreign tax rates, utilization of US tax attributes that were subject to a full valuation allowance, and certain Canadian tax incentives.

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Contractual Obligations

The following table summarizes our contractual obligations at December 26, 2015, and the effect such obligations are expected to have on our liquidity and cash flow over the next five years (in millions):

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Contractual Obligations					
Asset retirement obligations—expected cash payments	$2.3	$0.2	$0.6	$0.3	$1.2
Purchase obligations [1]	145.5	130.3	13.8	1.4	—
Operating lease obligations [1]	23.0	2.9	10.2	4.9	5.0
Pension and post-retirement benefit payments	2.6	—	0.1	0.1	2.4
Total	$173.4	$133.4	$24.7	$6.7	$8.6

(1) Refer to “Note 13. Commitments and Contingencies” to the consolidated financial statements included in this Form 10-Q for more information.

As of December 26, 2015, other current liabilities and other non-current liabilities on the consolidated balance sheets includes $0.5 million and $0.3 million, respectively, for restructuring and related activities in connection with our operating lease obligations disclosed above.

Purchase obligations represent legally-binding commitments to purchase inventory and other commitments made in the normal course of business to meet operational requirements. Of the $145.5 million of purchase obligations as of December 26, 2015, $57.7 million are related to inventory and the other $87.8 million are non-inventory items of which $8.7 million is committed to Viavi.

As of December 26, 2015, our other non-current liabilities primarily relate to asset retirement obligations and pension which are presented in various lines in the preceding table.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as such term is defined in rules promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Financial Condition

Liquidity and Capital Resources

As of December 26, 2015 and June 27, 2015, our cash and cash equivalents of $161.9 million and $14.5 million, respectively, were held predominantly in the United States, Cayman Islands, Canada, China and Japan. Although the cash generated in the United States from future operations is expected to cover our normal operating requirements, a substantial amount of additional cash could be required for other purposes, such as dividends that may be declared, future stock repurchase programs or acquisitions. Our intent is to indefinitely reinvest these funds outside the United States and our current plans do not demonstrate a need to repatriate them to fund our domestic operations. However, if in the future, we encounter a significant need for liquidity domestically or at a particular location that we cannot fulfill through borrowings, equity offerings, or other internal or external sources, we may determine that cash repatriations are necessary. Repatriation could result in additional material U.S. federal and state income tax payments in future years. Such adverse consequences would occur, for example, if the transfer of cash into the United States is taxed and no foreign tax credit is available to offset the U.S. tax liability, resulting in higher taxes. These factors may cause us to have an overall tax rate higher than other companies or higher than our tax rates have been in the past.

As of December 26, 2015, our consolidated balance of cash and cash equivalents increased by $147.4 million, to $161.9 million from $14.5 million as of June 27, 2015. The increase in cash and cash equivalents was a result of the initial capitalization from Viavi and cash generated from operations.

Operating Cash Flow

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Cash provided by operating activities was $53.0 million during the six months ended December 26, 2015, primarily resulting from $2.6 million of net income and $40.4 million of non-cash items such as depreciation, stock-based compensation, amortization of intangibles and unrealized loss on derivative liability, and changes in operating assets and liabilities of $10.0 million. Changes in our operating assets and liabilities related primarily to an increase in accounts payable of $18.2 million, an increase in accrued payroll and related expenses of $13.6 million, an increase in accrued expenses and other current and non-current liabilities of $3.3 million, an increase in accounts receivable of $11.1 million, an increase in inventories of $9.7 million, and an increase in other current and non-current assets of $5.2 million.

Cash provided by operating activities was $16.0 million during the six months ended December 27, 2014, primarily resulting from $0.2 million of net income and $34.3 million of non-cash items such as depreciation, stock-based compensation, and amortization of intangibles, offset by changes in operating assets and liabilities of $18.5 million. Changes in our operating assets and liabilities related primarily to an increase in accounts receivable of $16.9 million, an increase in other current and non-currents assets of $7.9 million, a decrease in accrued expenses and other current and non-current liabilities of $1.3 million, an increase in inventories of $1.0 million, an increase in accrued payroll and related expenses of $3.7 million, an increase in accounts payable of $3.0 million, and an increase in deferred taxes of $2.2 million.

Investing Cash Flow

Cash used in investing activities was for capital expenditures of $35.7 million and $24.7 million during the six months ended December 26, 2015 and December 27, 2014, respectively.

Financing Cash Flow

Cash provided by financing activities was $130.1 million during the six months ended December 26, 2015 resulting primarily from net transfers from Viavi.

Cash provided by financing activities was $9.8 million during the six months ended December 27, 2014 resulting primarily from net transfers from Viavi.

Liquidity and Capital Resources Requirement

We believe that the cash on hand of $161.9 million as of December 26, 2015, combined with expected cash flows from our operating activities, will be sufficient to meet our liquidity and capital spending requirements for at least the next 12 months. However, there are a number of factors that could positively or negatively impact our liquidity position, including:

- global economic conditions which affect demand for our products and services and impact the financial stability of our suppliers and customers;
- changes in accounts receivable, inventory or other operating assets and liabilities which affect our working capital;
- increase in capital expenditures to support the revenue growth opportunity of our business;
- the tendency of customers to delay payments or to negotiate favorable payment terms to manage their own liquidity positions;
- timing of payments to our suppliers;
- factoring or sale of accounts receivable;
- volatility in fixed income and credit which impact the liquidity and valuation of our investment portfolios;
- volatility in foreign exchange markets which impacts our financial results;
- possible investments or acquisitions of complementary businesses, products or technologies;
- issuance of debt or equity securities; and
- potential funding of pension liabilities either voluntarily or as required by law or regulation.

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Item 3. Quantitative and Qualitative Disclosures About Market Risks

Foreign Exchange Risk

We conduct our business and sell our products to customers primarily in Asia, Europe, and North America. In the normal course of business, our financial position is routinely subject to market risks associated with foreign currency rate fluctuations due to balance sheet positions in foreign currencies which is mainly due to cash held in banks. As of December 26, 2015, our foreign denominated cash was principally in the following currencies: Japanese Yen, Chinese Yuan and Canadian Dollar. Due to the impact of changes in foreign currency exchange rates between the U.S. Dollar and these other currencies, for the three and six months ended December 26, 2015, we recorded unrealized gain (loss) of $0.4 million and $(0.1) million, respectively, in the interest and other income (expense), net in the Consolidated Statements of Operations included in this Form 10-Q. If the exchange rate between the U.S. Dollar and Japanese Yen, Chinese Yuan and Canadian Dollar had increased or decreased by 10%, our local currency expenses would have increased or decreased by $2.7 million during the six months ended December 26, 2015.

In the future, we intend to implement a program to hedge balance sheet exposures that are not denominated in the functional currencies of our subsidiaries. We will evaluate foreign exchange risks and utilization of foreign currency forward contracts to reduce such risks on our behalf, hedging the gains or losses generated by the re-measurement of significant foreign currency denominated monetary assets and liabilities.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures: Management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our principle executive officer and principal financial officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective.

Internal Control Over Financial Reporting: There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to a variety of claims and suits that arise from time to time in the ordinary course of our business. While Management currently believes that resolving claims against us, individually or in the aggregate, will not have a material adverse impact on our financial position, results of operations or statement of cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. Were an unfavorable final outcome to occur, there exists the possibility of a material adverse impact on our financial position, results of operations or cash flows for the period in which the effect becomes reasonably estimable.

Item 1A. Risk Factors

You should carefully consider the following risks and other information in this Form 10-Q in evaluating us and our common stock. Any of the following risks could materially and adversely affect our results of operations or financial condition. The risk factors generally have been separated into three groups: risks related to our business, risks related to the Separation and risks related to our common stock.

Risks Related to Our Business

Our operating results may be adversely affected by unfavorable economic and market conditions.

The uncertain state of the global economy has contributed and continues to contribute to decreases in demand and spending in the technology industry at large, as well as to the specific markets in which we operate. The slow pace of global economic recovery and the resulting effects on global credit markets has created uncertainty in the timing and overall demand from our customers. This uncertainty may lead to revenue fluctuations, increased price competition for our products, and may increase the risk of excess and obsolete inventories and higher overhead costs as a percentage of revenue. Continued economic challenges in the global financial markets could further negatively impact our operations by affecting the solvency of our customers, the solvency of our key suppliers or the ability of our customers to obtain credit to finance purchases of our products. If economic conditions do not improve or if they deteriorate, our financial condition and results of operations would likely be materially and adversely impacted.

Changing technology and intense competition require us to continuously innovate while controlling product costs, and our failure to do so may result in decreased revenues and profitability.

The markets in which we operate are dynamic and complex, and our success depends upon our ability to deliver both our current product offerings and new products and technologies on time and at acceptable prices to our customers. The markets for our products are characterized by rapid technological change, frequent new product introductions, substantial capital investment, changes in customer requirements, continued price pressures and a constantly evolving industry. Our future performance will depend on the successful development, introduction and market acceptance of new and enhanced features and products that address these issues and provide solutions that meet our customers' current and future needs.

The market for optical communications products in particular has matured over time and optical communications products have increasingly become subject to commoditization. Both legacy competitors as well as new entrants, predominantly Asia-based competitors, have intensified market competition in recent years leading to pricing pressure. To preserve our revenues and product margin structures, we will remain reliant on an integrated customer and market approach that anticipates end customer needs as Telecom and Datacom requirements evolve. We also must continue to develop more advanced, differentiated products that command a premium with customers, while conversely continuing to focus on streamlining product costs for legacy established products. However, our competitors may continue to enter markets or gain or retain market share through aggressive low pricing strategies that may impact the efficacy of our approach. Additionally, if significant competitors were to merge or consolidate, they may be able to offer a lower cost structure through economies of scale that we may be unable to match. Although historically we have emphasized a robust program of technical innovation and streamlining manufacturing operations, if we fail to continue to develop enhanced or new products, or over time are unable to adjust our cost structure to continue to competitively price more mature technologies, our revenue and profits and results of operations could be materially and adversely affected.

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

The end markets for optical products have experienced significant industry consolidation during the past few years. As a result, the markets for optical subsystems and components are highly competitive. Our current competitors include a number of domestic and international companies, many of which have substantially greater financial, technical, marketing and distribution resources and brand name recognition than we have. These competitors include Applied Optoelectronics, Inc., Coherent, Inc.,

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Finisar Corporation, Fujitsu Optical Components, Furukawa Electric Co., Ltd., InnoLight Technology Corporation, IPG Photonics Corporation, Neophotonics Corporation, Newport Corporation, Oclaro, Inc., Rofin-Sinar Technologies Inc. and Sumitomo Electric Industries, Ltd. We may not be able to compete successfully against either current or future competitors. Increased competition could result in significant price erosion, reduced revenue, lower margins or loss of market share, any of which would significantly harm our business.

The manufacture of our products may be adversely affected if our contract manufacturers and suppliers fail to meet our production requirements or if we are unable to manufacture certain products in our manufacturing facilities.

We rely on several independent contract manufacturers to supply us with certain products. For many products, a particular contract manufacturer may be the sole source of the finished good product. We depend on these manufacturers to meet our production requirements and to provide quality products to our customers. Despite rigorous testing for quality, both by us and our customers, we may receive defective products. We may incur significant costs to correct defective products which could include lost future sales, as well as potentially cause customer relations problems, litigation and damage to our reputation. Additionally, the ability of our contract manufacturers to fulfill their obligations may be affected by natural disasters or economic, political or other forces that are beyond our control. Any such failure could have a material impact on our ability to meet our customers' expectations and may materially impact our operating results. In addition, some of our purchase commitments with contract manufacturers are not cancellable which may impact our earnings if customer forecasts driving these purchase commitments do not materialize and we are unable to sell the products to other customers. Furthermore, it would be costly and require a long period of time to move products from one contract manufacturer to another and could result in interruptions in supply, which would likely materially impact our financial condition and results of operations.

We manufacture some of the components that we provide to our contract manufacturers, along with our own finished goods, in our Bloomfield, Connecticut (which the Company has announced will be closing) and San Jose, California manufacturing facilities. For some of the components and finished good products we are the sole manufacturer. Our manufacturing processes are highly complex and issues are often difficult to detect and correct. From time to time we have experienced problems achieving acceptable yields in our manufacturing facilities, resulting in delays in the availability of our products. In addition, if we experience problems with our manufacturing facilities, it would be costly and require a long period of time to move the manufacture of these components and finished good products to a different facility or contract manufacturer which could then result in interruptions in supply, and would likely materially impact our financial condition and results of operations.

In addition, the closing of the Bloomfield, Connecticut manufacturing facility will require the transfer to other manufacturing sites of complex technologies and processes. If we are unable to transfer the technology and processes for the products we currently manufacture in the Bloomfield facility in a timely manner, it could result in interruptions in supply and would likely impact our financial condition and results of operations.

Changes in manufacturing processes are often required due to changes in product specifications, changing customer needs and the introduction of new products. These changes may reduce manufacturing yields at our contract manufacturers and at our own manufacturing facilities resulting in reduced margins on those products.

We depend on a limited number of suppliers for raw materials, packages and components, and any failure or delay by these suppliers in meeting our requirements could have an adverse effect on our business and results of operations.

We are dependent on a limited number of suppliers, who are often small and specialized, for raw materials, packages and standard components. Our business and results of operations have been, and could continue to be, adversely affected by this dependency. Specific concerns we periodically encounter with our suppliers include stoppages or delays of supply, insufficient resources to supply our requirements, substitution of more expensive or less reliable materials, receipt of defective parts or contaminated materials, increases in the price of supplies, and an inability to obtain reduced pricing from our suppliers in response to competitive pressures.

We rely on a limited number of customers for a significant portion of our sales; our business is subject to seasonality; and the majority of our customers do not have contractual purchase commitments.

We have consistently relied on a small number of customers for a significant portion of our sales and we expect that this customer concentration will continue in the future. The majority of our customers purchase products under purchase orders or under contracts that do not contain volume purchase commitments. Changes in the business

requirements, vendor selection, project prioritization, financial prospects, capital resources, and expenditures, or purchasing behavior (including product mix purchased) of our key customers, or any real or perceived quality issues related to the products that we sell to such customers, could significantly decrease our sales to such customers or could lead to delays or cancellations of planned purchases of our products or services, which increases the risk of quarterly fluctuations in our revenues and operating results. In addition, as a result of the seasonality of the business of certain of our customers, our business and results of operations may fluctuate. If forecasted orders do not

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materialize, we may need to reduce investment in R&D activities, we may fail to optimize our manufacturing capacity, or we may have excess inventory. Any of these factors could adversely affect our business, financial condition and results of operations.

We contract with a number of large OEM and end-user service providers that have considerable bargaining power, which may require us to agree to terms and conditions that could have an adverse effect on our business or ability to recognize revenues.

Large OEM and end-user service providers comprise a significant portion of our customer base. These customers generally have greater purchasing power than smaller entities and, accordingly, often request and receive more favorable terms from suppliers. As we seek to expand our sales to existing customers and acquire new customers, we may be required to agree to terms and conditions that are favorable to our customers and that may affect the timing of our ability to recognize revenue, increase our costs and have an adverse effect on our business, financial condition, and results of operations. Furthermore, consolidation among such large customers can further increase their buying power and ability to require onerous terms. Additionally, the terms these large customers require, such as most-favored nation or exclusivity provisions, may impact our ability to do business with other customers and generate revenues from such customers.

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

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

We are subject to continued changes in tax laws; the possible fluctuation of our effective tax rate over time could materially and adversely affect our operating results.

We are subject to taxes in the United States and numerous international jurisdictions. We record tax expense based on current tax payments and our estimates of future tax payments, which may include reserves for estimates of probable settlements of international and domestic tax audits. At any one time, multiple tax years and jurisdictions are subject to audit by various taxing authorities. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. As a result, there could be ongoing variability in our tax rates as taxable events occur and uncertain tax positions are re-evaluated or resolved.

Tax policy reform continues to be a topic of discussion in the United States and in the foreign jurisdictions in which we may conduct business. A significant change to the tax system in the United States or other foreign jurisdictions, including changes to the taxation of international income, could have a material adverse effect on our results of operations. Our effective tax rate in a given financial statement period may be materially impacted by changes in tax laws, changes in the mix and level of earnings by taxing jurisdiction, changes to existing accounting rules or regulations or by changes to our ownership or capital structures. Fluctuations in our tax obligations and effective tax rate could materially and adversely affect our results of business, financial condition and operating results.

We may change our international corporate structure in the near future in order to minimize our effective tax rate; however, if we are unable to adopt this structure or if it is challenged by U.S. or foreign tax authorities, we may be unable to realize such tax savings which could materially and adversely affect our operating results.

We have taken certain preliminary steps to implement an international corporate structure more closely aligned with our international operations. This potential corporate structure may reduce our overall effective tax rate through changes among our wholly-owned subsidiaries in how we use our intellectual property, and how we structure our international procurement and sales operations. The contemplated structure includes legal entities located in jurisdictions with income tax rates lower than the U.S. statutory tax rate. Such intercompany arrangements would be designed to result in income earned by such entities in accordance with arm's-length principles and commensurate with functions performed, risks assumed and ownership of valuable corporate assets. We believe that income taxed in

certain foreign jurisdictions at a lower rate relative to the U.S. statutory rate will have a beneficial impact on our worldwide effective tax rate over the medium to long term.

We have agreed to reimburse Viavi for certain tax liabilities and related costs that may be incurred by Viavi, following application of net operating losses by Viavi, in the event that we implement this revised corporate structure. In addition, the implementation of such a structure has required us to incur expenses, and may require that we incur additional expenses, for which we may not realize related benefits, and in any event, we do not expect to materially realize such benefits for several years .

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If we put the intended structure into effect and it is not accepted by the applicable taxing authorities, if changes in domestic and international tax laws negatively impact the proposed structure, including proposed legislation to reform U.S. taxation of international business activities, or if we do not operate our business consistent with the proposed structure and applicable tax provisions, we may fail to achieve the financial and operational efficiencies that we anticipate as a result of the proposed structure, and our business, financial condition and operating results may be materially and adversely affected.

We are subject to risks arising from our international operations, which may adversely affect our business, financial condition, and results of operations.

We derive a majority of our revenue from our international operations, and we plan to continue expanding our business in international markets in the future. In addition, we have extensive international manufacturing capabilities and facilities, with employees engaged in R&D, administration, manufacturing, support and sales and marketing activities.

As a result of our international operations, we are affected by economic, business regulatory, social, and political conditions in foreign countries, including the following:

- changes in general IT spending;
- the imposition of government controls, inclusive of critical infrastructure protection;
- changes or limitations in trade protection laws or other regulatory requirements, which may affect our ability to import or export our products from various countries;
- varying and potentially conflicting regulations;
- fluctuations in local economies;
- wage inflation or a tightening of the labor market; and
- the impact of the following on service provider and government spending patterns: political considerations, unfavorable changes in tax treaties or laws, natural disasters, epidemic disease, labor unrest, earnings expatriation restrictions, misappropriation of intellectual property, military actions, acts of terrorism, political and social unrest and difficulties in staffing and managing international operations.

Any or all of these factors could have a material adverse impact on our business, financial condition, and results of operations.

Moreover, local laws and customs in many countries differ significantly from or conflict with those in the United States or other countries in which we operate. In many foreign countries, particularly in those with developing economies, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or U.S. regulations applicable to us. There can be no assurance that our employees, contractors, channel partners, and agents will not take actions in violation of our policies and procedures, which are designed to ensure compliance with U.S. and foreign laws and policies. Violations of laws or key control policies by our employees, contractors, channel partners, or agents could result in termination of our relationship, financial reporting problems, fines and/or penalties for us, or prohibition on the importation or exportation of our products, and could have a material adverse effect on our business, financial condition and results of operations.

Our future operating results may be subject to volatility due to fluctuations in foreign currency.

We are exposed to foreign exchange risks with regard to our operating expenses which may affect our operating results. Although we price our products primarily in U.S. dollars, a portion of our operating expenses are incurred in foreign currencies. If the value of the U.S. dollar depreciates relative to certain other foreign currencies, it would increase our costs as expressed in U.S. dollars. Conversely, if the U.S. dollar strengthens relative to other currencies, such strengthening could raise the relative cost of our products to non-U.S. customers, especially as compared to foreign competitors, and could reduce demand.

We intend to engage in currency hedging transactions to reduce our foreign exchange exposure. However, these transactions may not fully eliminate our risk and could have an adverse effect on our financial condition.

Our ability to develop, market, and sell products could be harmed if we are unable to retain or hire key personnel.

Our future success depends upon our ability to recruit and retain the services of executive, engineering, sales and marketing, and support personnel. The supply of highly qualified individuals, in particular engineers in very

specialized technical areas, or sales people specializing in the service provider, enterprise and commercial laser markets, is limited and competition for such individuals is intense. None of our officers or key employees is bound by an employment agreement for any specific term. The loss of the services of any of our key employees, the inability to attract or retain personnel in the future or delays in hiring required personnel and the complexity and time involved in replacing or training new employees, could delay the development and

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introduction of new products, and negatively impact our ability to market, sell, or support our products.

We face a number of risks related to our strategic transactions.

We have made acquisitions of other businesses or technologies, including, most recently, Time-Bandwidth in January 2014 and we will continue to review acquisition opportunities. Such strategic transactions involve numerous risks, including the following:

- diversion of management's attention from normal daily operations of the business;
- unforeseen expenses, delays or conditions imposed upon the acquisition, including due to required regulatory approvals or consents;
- unanticipated changes in the combined business due to potential divestitures or other requirements imposed by antitrust regulators;
- the ability to retain and obtain required regulatory approvals, licenses and permits;
- difficulties and costs in integrating the operations, technologies, products, IT and other systems, facilities and personnel of the purchased businesses;
- potential difficulties in completing projects associated with in-process R&D;
- an acquisition may not further our business strategy as we expected or we may overpay for, or otherwise not realize the expected return on, our investments;
- insufficient net revenue to offset increased expenses associated with acquisitions;
- potential loss of key employees of the acquired companies; and
- difficulty forecasting revenues and margins.

Our business and operations would be adversely impacted in the event of a failure of our information technology infrastructure.

We rely upon the capacity, reliability and security of our information technology infrastructure and our ability to expand and continually update this infrastructure in response to our changing needs. In some cases, we may rely upon third-party hosting and support services to meet these needs. Any failure to manage, expand and update our information technology infrastructure, including our Enterprise Resource Planning ("ERP") system and other applications, any failure in the extension or operation of this infrastructure, or any failure by our hosting and support partners in the performance of their services could materially and adversely harm our business. Despite our implementation of security measures, our systems are vulnerable to damage from computer viruses, natural disasters, unauthorized access and other similar disruptions. Any system failure, accident or security breach could result in disruptions to our operations. To the extent that any disruption or security breach results in a loss or damage to our data or in inappropriate disclosure of confidential information, it could cause significant damage to our reputation, affect our relationships with our customers, and ultimately harm our business. In addition, we may be required to incur significant costs to protect against or mitigate damage caused by these disruptions or security breaches in the future.

Our business and operations may be adversely affected if we fail to adequately implement and maintain our information management systems.

Our business depends significantly on effective and efficient information systems. The information gathered and processed by our information management systems assists us in managing our supply chain and monitoring customer accounts, among other things. We have partnered with third parties to support our information technology systems and to help design, build, test, implement and maintain our information management systems. Our merger, acquisition and divestiture activity also requires transitions to or from, and the integration of, various information management systems within our overall enterprise architecture.

We have recently implemented a new third-party information management system across our worldwide operations. Any disruptions resulting from the transition to this new system could adversely affect our internal and disclosure controls and harm our business, including our ability to forecast or make sales, manage our supply chain and coordinate production. Moreover, such a disruption could result in unanticipated costs or expenditures and a diversion of management's attention and resources.

If we have insufficient proprietary rights or if we fail to protect our rights, our business would be materially harmed.

We seek to protect our products and product roadmaps in part by developing and/or securing proprietary rights relating to those products, including patents, trade secrets, know-how and continuing technological innovation. The steps we take to protect

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our intellectual property may not adequately prevent misappropriation or ensure that others will not develop competitive technologies or products. Other companies may be investigating or developing technologies that are similar to our own. It is possible that patents may not be issued from any of our pending applications or those we may file in the future and, if patents are issued, the claims allowed may not be sufficiently broad to deter or prohibit others from making, using or selling products that are similar to ours. We do not own patents in every country in which we sell or distribute our products, and thus others may be able to offer identical products in countries where we do not have intellectual property protections. In addition, the laws of some territories in which our products are or may be developed, manufactured or sold, including Europe, Asia-Pacific or Latin America, may not protect our products and intellectual property rights to the same extent as the laws of the United States. Any patents issued to us may be challenged, invalidated or circumvented. Additionally, we are currently a licensee for a number of third-party technologies including software and intellectual property rights from academic institutions, our competitors and others, and we are required to pay royalties to these licensors for the use thereof. In the future, if such licenses are unavailable or if we are unable to obtain such licenses on commercially reasonable terms, we may not be able to rely on such third-party technologies which could inhibit our development of new products, impede the sale of some of our current products, substantially increase the cost to provide these products to our customers, and could have a significant adverse impact on our operating results.

We also seek to protect our important trademarks by endeavoring to register them in certain countries. We have not registered our trademarks in every country in which we sell or distribute our products, and thus others may be able to use the same or confusingly similar marks in countries where we do not have trademark registrations. We have adopted Lumentum as a house trademark and trade name for our company, and are in the process of establishing rights in this name and brand. We have also adopted the Lumentum logo as a new house trademark for our company, and are in the process of establishing rights in this brand. The new brands are the subject of trademark applications in the United States or other jurisdictions, but the trademarks have not yet proceeded to registration. The efforts we take to register and protect trademarks, including the new brands, may not be sufficient or effective. Although we will seek to obtain trademark registrations for the new brands, it is possible we may not be able to protect our new brands through registration in one or more jurisdictions, for example, the applicable governmental authorities may not approve the registration. Furthermore, even if the applications are approved, third parties may seek to oppose or otherwise challenge registration. There is the possibility that, despite efforts, the scope of the protection obtained for our trademarks, including the new brands, will be insufficient or that a registration may be deemed invalid or unenforceable in one or more jurisdictions throughout the world.

Our products may be subject to claims that they infringe the intellectual property rights of others, the resolution of which may be time-consuming and expensive, as well as require a significant amount of resources to prosecute, defend, or make our products non-infringing.

Lawsuits and allegations of patent infringement and violation of other intellectual property rights occur regularly in our industry. We have in the past received, and anticipate that we will receive in the future, notices from third parties claiming that our products infringe upon their proprietary rights, with two distinct sources of such claims becoming increasingly prevalent. First, large technology companies, including some of our customers and competitors, are seeking to monetize their patent portfolios and have developed large internal organizations that may approach us with demands to enter into license agreements. Second, patent-holding companies that do not make or sell products (often referred to as “patent trolls”) may claim that our products infringe upon their proprietary rights. We respond to these claims in the course of our business operations. The litigation or settlement of these matters, regardless of the merit of the claims, could result in significant expense and divert the efforts of our technical and management personnel, regardless of whether or not we are successful. If we are unsuccessful, we could be required to expend significant resources to develop non-infringing technology or to obtain licenses to the technology that is the subject of the litigation. We may not be successful in such development, or such licenses may not be available on commercially reasonable terms, or at all. Without such a license, or if we are the subject of an exclusionary order, our ability to make our products could be limited and we could be enjoined from future sales of the infringing product or products, which could adversely affect our revenues and operating results. Additionally, we often indemnify our customers against claims of infringement related to our products and may incur significant expenses to defend against such

claims. If we are unsuccessful defending against such claims, we may be required to indemnify our customers against any damages awarded.

We also face risks that third parties may assert trademark infringement claims against us in one or more jurisdictions throughout the world related to the new brand and/or other trademarks. The litigation or settlement of these matters, regardless of the merit of the claims, could result in significant expense and divert the efforts of our technical and management personnel, regardless of whether or not we are successful. If we are unsuccessful, trademark infringement claims against us could result in significant monetary liability or prevent us from selling some or all of our products or services under the challenged trademark. In addition, resolution of claims may require us to alter our products, labels or packaging, license rights from third parties, or cease using the challenged trademark altogether, which could adversely affect our revenues and operating results.

We face certain litigation risks that could harm our business.

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From time to time we have been, and in the future we may become, subject to various legal proceedings and claims that arise in or outside the ordinary course of business. The results of legal proceedings are difficult to predict. Moreover, many of the complaints filed against us may not specify the amount of damages that plaintiffs seek, and we therefore may be unable to estimate the possible range of damages that might be incurred should these lawsuits be resolved against us. While we may be unable to estimate the potential damages arising from such lawsuits, certain of them assert types of claims that, if resolved against us, could give rise to substantial damages. Thus, an unfavorable outcome or settlement of one or more of these lawsuits could have a material adverse effect on our financial condition, liquidity and results of operations. Even if these lawsuits are not resolved against us, the uncertainty and expense associated with unresolved lawsuits could seriously harm our business, financial condition and reputation. Litigation is costly, time-consuming and disruptive to normal business operations. The costs of defending these lawsuits have been significant in the past, will continue to be costly and may not be covered by our insurance policies. The defense of these lawsuits could also result in continued diversion of our management's time and attention away from business operations, which could harm our business. For additional discussion regarding litigation, see "Part II, Item 1. Legal Proceedings."

Our products incorporate and rely upon licensed third-party technology, and if licenses of third-party technology do not continue to be available to us or are not available on terms acceptable to us, our revenues and ability to develop and introduce new products could be adversely affected.

We integrate licensed third-party technology into certain of our products. From time to time, we may be required to license additional technology from third-parties to develop new products or product enhancements. Third-party licenses may not be available or continue to be available to us on commercially reasonable terms. The failure to comply with the terms of any license, including free open source software, may result in our inability to continue to use such license. Our inability to maintain or re-license any third-party licenses required in our products or our inability to obtain third-party licenses necessary to develop new products and product enhancements, could potentially require us to develop substitute technology or obtain substitute technology of lower quality or performance standards or at a greater cost, any of which could delay or prevent product shipment and harm our business, financial condition, and results of operations.

Environmental and other regulations could increase our expenses and harm our operating results.

Our manufacturing operations and our products are subject to various federal, state and foreign laws and regulations, including those governing pollution and protection of human health and the environment in the jurisdictions in which we operate or sell our products. These laws and regulations govern, among other things, wastewater discharges and the handling and disposal of hazardous materials in our products. Our failure to comply with current and future environmental or health or safety requirements could cause us to incur substantial costs, including significant capital expenditures, to comply with such environmental laws and regulations and to clean up contaminated properties that we own or operate. Such clean-up or compliance obligations could result in disruptions to our operations. Additionally, if we are found to be in violation of these laws, we could be subject to governmental fines or civil liability for damages resulting from such violations. These costs could have a material adverse impact on our financial condition or operating results.

From time to time new regulations are enacted, and it is difficult to anticipate how such regulations will be implemented and enforced. We continue to evaluate the necessary steps for compliance with regulations as they are enacted. These regulations include, for example, the Registration, Evaluation, Authorization and Restriction of Chemicals ("REACH"), the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive ("RoHS") and the Waste Electrical and Electronic Equipment Directive ("WEEE") enacted in the European Union which regulate the use of certain hazardous substances in, and require the collection, reuse and recycling of waste from, certain products we manufacture. These regulations and similar legislation may require us to re-design our products to ensure compliance with the applicable standards, for example by requiring the use of different types of materials, which could have an adverse impact on the performance of our products, add greater testing lead-times for product introductions or other similar effects. We believe we comply with all such legislation where our products are sold and we continuously monitor these laws and the regulations being adopted under them to determine our responsibilities.

In addition, pursuant to Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC has promulgated rules requiring disclosure regarding the use of certain “conflict minerals” that are mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer’s efforts to prevent the sourcing of such minerals. Complying with these disclosure requirements involves substantial diligence efforts to determine the source of any conflict minerals used in our products and may require third-party auditing of our diligence process. These efforts may demand internal resources that would otherwise be directed towards operations activities.

Since our supply chain is complex, we may face reputational challenges if we are unable to sufficiently verify the origins of the conflict minerals used in our products. Additionally, if we are unable to satisfy those customers who require that all of the components of our products are determined to be conflict free, they may choose a competitor’s products which could materially impact our financial condition and operating results.

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Our failure to comply with any of the foregoing regulatory requirements could result in increased costs for our products, monetary penalties, damages to our reputation and legal action. Furthermore, the regulatory requirements that are applicable to our business are subject to change from time to time, which increases our monitoring and compliance costs and the risk that we may fall out of compliance. Additionally, we may be required to ensure that our suppliers comply with such laws and regulations. If we or our suppliers fail to comply with such laws, we could face sanctions for such noncompliance, and our customers may refuse to purchase our products, which would have a material adverse effect on our business, financial condition and results of operations.

Our sales levels may decline if we are unable to obtain government authorization to export certain of our products, and we may be subject to legal and regulatory consequences if we do not comply with applicable export control laws and regulations.

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

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

Risks Related to the Separation and Our Operation as an Independent Public Company

We have a limited history of operating as an independent company, and our pre-separation financial information is not necessarily representative of the results that we would have achieved as a separate, publicly traded company and may not be a reliable indicator of our future results.

The historical information in this Form 10-Q refers in part to our business as operated by and integrated with Viavi. Our historical financial information included in this Form 10-Q is derived from the consolidated financial statements and accounting records of Viavi. Accordingly, the historical financial information through July 31, 2015 included in this Form 10-Q does not necessarily reflect the financial condition, results of operations or cash flows that we would have achieved as a separate, publicly traded company during the periods presented or those that we will achieve in the future primarily as a result of the factors described below.

- Prior to the Separation, our business was operated by Viavi as part of its broader corporate organization, rather than as an independent company. Viavi or one of its affiliates performed various corporate functions for our business such as legal, treasury, accounting, auditing, human resources, finance and other corporate functions. Our historical financial results reflect allocations of corporate expenses from Viavi that may differ from our actual operating expenses for these functions in the future. Therefore, our cost related to such functions previously performed by Viavi may increase following the Separation.
- Our business was integrated with the other businesses of Viavi. Historically, we shared economies of scale in costs, employees, vendor and customer relationships. We will need to enter into new arrangements with certain vendors which may result in us paying higher charges than in the past for these services. This could have an adverse effect on our results of operations and financial condition.
- Our working capital requirements and capital for general corporate purposes, including acquisitions and capital expenditures, were historically satisfied as part of the corporate-wide cash management policies of Viavi. Following the Separation, we may need to obtain additional financing from banks, through public offerings or private placements

of debt or equity securities, strategic relationships or other arrangements.

- After the completion of the Separation, the cost of capital for our business may be higher than Viavi's cost of capital prior to the Separation.

Other significant changes may occur in our cost structure, management, financing and business operations as a result of operating as a company separate from Viavi. For additional information about the past financial performance of our business and

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the basis of presentation of the historical consolidated financial statements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and accompanying notes included elsewhere in this Form 10-Q.

Certain contracts that will need to be transferred or assigned to us from Viavi or its affiliates in connection with the Separation require the consent of the counterparty to such an assignment, and failure to obtain these consents could increase our expenses or otherwise reduce our profitability.

The Separation and Distribution Agreement dated as of July 31, 2015 by and among JDS Uniphase Corporation, Lumentum Holdings Inc. and Lumentum Operations LLC (the "separation agreement") provides that, in connection with the Separation, a number of contracts were transferred or assigned from Viavi or its affiliates to us or our affiliates. Many of these contracts require the contractual counterparty's consent to such an assignment. Similarly, in some circumstances, we are a joint beneficiary of contracts, and we need to enter into a new agreement with the third party to replicate the contract or assign the portion of the contract related to our business. It is possible that some parties may use the requirement of a consent or the fact that the Separation has occurred to seek more favorable contractual terms from us or to seek to terminate the contract. If (i) we are unable to obtain these consents for certain key contracts on commercially and satisfactory terms, (ii) we enter into new agreements on significantly less favorable terms, or (iii) the contracts are terminated, we may be unable to obtain some of the benefits, assets and contractual commitments that are intended to be allocated to us as part of the Separation. Additionally, the loss of these contracts could increase our expenses or otherwise reduce our profitability.

Potential indemnification liabilities to Viavi pursuant to the separation agreement could materially and adversely affect our business, financial condition, results of operations and cash flows.

The separation agreement provides for, among other things, indemnification obligations designed to make us financially responsible for:

- any Lumentum liabilities (as defined in the separation agreement);
- our failure to pay, perform or otherwise promptly discharge any Lumentum liabilities or contracts, in accordance with their respective terms, whether prior to, at or after the distribution;
- any guarantee, indemnification obligation, surety bond or other credit support agreement, arrangement, commitment or understanding by Viavi for our benefit, unless related to a JDSU liability (as defined in the separation agreement);
- any breach by us of the separation agreement or any of the ancillary agreements or any action by us in contravention of our amended and restated certificate of incorporation or amended and restated bylaws; and
- any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the registration statement and information statement filed in connection with the Separation or any other disclosure document that describes the Separation or the distribution, or us and our subsidiaries, or primarily relates to the transactions contemplated by the separation agreement, subject to certain exceptions.

Our indemnification obligations are not subject to maximum loss clauses. If we are required to indemnify Viavi under the circumstances set forth in the separation agreement, we may be subject to substantial liabilities.

In connection with the Separation, Viavi has agreed to indemnify us for certain liabilities. However, there can be no assurance that the indemnity will be sufficient to insure us against the full amount of such liabilities, or that Viavi's ability to satisfy its indemnification obligation will not be impaired in the future.

Pursuant to the separation agreement, Viavi will indemnify us for certain liabilities relating to, arising out of or resulting from:

- the JDSU Liabilities;
- the failure of Viavi or any of its subsidiaries, other than us, to pay, perform or otherwise promptly discharge any of the JDSU Liabilities, in accordance with their respective terms, whether prior to or after the effective time of the distribution;
- any guarantee, indemnification obligation, surety bond or other credit support agreement, arrangement, commitment or understanding by us for the benefit of Viavi, unless related to a Lumentum liability;
- any breach by Viavi or any of its subsidiaries, other than us, of the separation agreement or any of the ancillary agreements; and

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- any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to information contained in the registration statement or information statement filed in connection with the separation or any other disclosure document that describes the separation or the distribution or primarily relates to the transactions contemplated by the separation agreement, subject to certain exceptions.

However, third parties could seek to hold us responsible for any of the liabilities that Viavi agrees to retain, and there can be no assurance that the indemnity from Viavi will be sufficient to protect us against the full amount of such liabilities, or that Viavi will be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from Viavi any amounts for which we are held liable, we may be temporarily required to bear these losses.

We have sought to characterize Viavi's contribution of the CCOP business to us as a taxable transaction. If tax authorities were to take the position that this contribution is not a taxable transaction, then we may face greater than expected income tax liabilities, which would negatively impact our operating results.

In connection with the Separation, Viavi's CCOP business assets were transferred to us in a transaction or transactions intended to be characterized as taxable, which will result in our receiving a fair market value or substantially stepped-up tax basis in the assets. We expect to reduce our cash taxes by depreciation and amortization deductions related to the stepped-up tax basis in the assets. If the IRS or foreign tax authorities disagree with our characterization of the transactions pursuant to which the CCOP business assets will be transferred to us or disallow the depreciation and amortization deductions, and the position were sustained, our financial results would be materially and adversely affected.

We could have an indemnification obligation to Viavi if the distribution were determined not to qualify for non-recognition treatment, which could materially and adversely affect our financial condition.

We have received a private letter ruling from the IRS (the "IRS Ruling"), to the effect that the retention by Viavi of 19.9% of our common stock will not be deemed to be pursuant to a plan having as one of its principal purposes the avoidance of U.S. federal income tax within the meaning of Section 355(a)(1)(D)(ii) of the Internal Revenue Code of 1986, as amended (the "Code"). Notwithstanding the IRS Ruling, the IRS could determine on audit that the retention of our common stock was pursuant to a plan having as one of its principal purposes the avoidance of U.S. federal income tax if it determines that any of the facts, assumptions, representations or undertakings that we or Viavi have made or provided to the IRS are not correct. If the retention is deemed to be pursuant to a plan having as one of its principal purposes the avoidance of U.S. federal income tax, then the distribution could ultimately be determined to be taxable. In addition, Viavi also received a written opinion of PwC, its tax advisor, to the effect that the distribution, together with certain related transactions necessary to effectuate the distribution, should qualify for non-recognition of gain or loss under Sections 368(a)(1)(D) and 355 of the Code. The opinion is not binding on the IRS or the courts, and there can be no assurance that the IRS or any court will not take a contrary position. If the distribution were determined not to qualify for non-recognition of gain and loss, then Viavi would recognize gain in an amount up to the fair market value of our common stock held by it immediately before the distribution, over its tax basis in our stock immediately before the distribution.

If, due to any of our representations being untrue or our covenants being breached, it were determined that the distribution did not qualify for non-recognition of gain or loss under Section 355 of the Code, we could be required to indemnify Viavi for the resulting taxes and related expenses. The indemnification obligation is not expected to be material because Viavi is expected to have a fair market value or substantially stepped-up tax basis in our shares immediately prior to the Separation. If, contrary to our expectation, it were determined that Viavi did not have a fair market value or substantially stepped-up tax basis in our shares, any such indemnification obligation could materially and adversely affect our financial condition.

In addition, Section 355(e) of the Code generally creates a presumption that the distribution would be taxable to Viavi, but not to stockholders, if we or our stockholders were to engage in transactions that result in a 50% or greater change by vote or value in the ownership of our stock during the four-year period beginning on the date that begins two years before the date of the distribution, unless it were established that such transactions and the distribution were not part of a plan or series of related transactions giving effect to such a change in ownership. If the distribution were taxable

to Viavi due to such a 50% or greater change in ownership of our stock, Viavi would recognize gain in an amount equal to the excess of the fair market value of our common stock held by it immediately before the distribution over its tax basis in such stock, and we generally would be required to indemnify Viavi for the tax on such gain and related expenses. The indemnification obligation is not expected to be material because Viavi is expected to have a fair market value or substantially stepped-up tax basis in our shares immediately prior to the Separation. If, contrary to our expectation, it were determined that Viavi did not have a fair market value or substantially stepped-up tax basis in our shares, any such indemnification obligation could materially adversely affect our financial condition.

We have agreed to restrictions to preserve the non-recognition treatment of the distribution, which may reduce our strategic and operating flexibility.

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We have entered into a tax matters agreement under which we will be subject to certain covenants and indemnification obligations that address compliance with Section 355(e) of the Code. These covenants and indemnification obligations may limit our ability to pursue strategic transactions or engage in new businesses or other transactions that may maximize the value of our business, and might discourage or delay a strategic transaction that our stockholders may consider favorable.

We may not achieve any or all of the expected benefits of the Separation, and the Separation may adversely affect our business.

We may not be able to achieve the full strategic and financial benefits expected to result from the Separation, or such benefits may be delayed or not occur at all. The Separation and distribution is expected to provide us with the following benefits, among others:

- more effective pursuit of our distinct operating priorities and strategies;
- a distinct investment identity allowing investors to evaluate the merits, performance and future prospects of our business separately from Viavi;
- more efficient allocation of our capital;
- direct access to the capital markets; and
- a favorable cash effective tax rate for a number of years.

We may not achieve these and other anticipated benefits for a variety of reasons, including, among others: (i) following the Separation, we may be more susceptible to market fluctuations and other adverse events than if we were still a part of Viavi; (ii) following the Separation, our business is less diversified and has less scale than Viavi's business prior to the Separation; and (iii) the other actions required in connection with the Separation of Viavi's and our respective businesses could disrupt our operations. If we fail to achieve any or all of the benefits expected to result from the Separation, or if such benefits are delayed, our business, operating results and financial condition could be adversely affected.

The Separation may expose us to potential liabilities and business complications arising out of state and federal fraudulent conveyance laws and legal dividend requirements.

The Separation could be challenged under various state and federal fraudulent conveyance laws. An unpaid creditor or an entity vested with the power of such creditor in either Viavi or us (such as a trustee or debtor-in-possession in a bankruptcy) could claim that the Separation left either Viavi or us insolvent or with unreasonably small capital. In addition, parties could allege that Viavi intended or believed that either Viavi or we would incur debts beyond its or our respective ability to pay such debts as they mature, or that Viavi or we did not receive fair consideration or reasonably equivalent value in the Separation. If a court were to agree with such a plaintiff, then such court could void the Separation as a fraudulent transfer and could impose a number of different remedies, including without limitation:

- returning our assets or your shares in our company to Viavi;
- forcing Viavi to further capitalize us, although there is no assurance Viavi would have the financial ability to do so if such a judgment were rendered;
- voiding our liens and claims against Viavi; or
- providing Viavi with a claim for money damages against us in an amount equal to the difference between the consideration received by Viavi and the fair market value of our company at the time of the Separation.

The measure of insolvency for purposes of the fraudulent conveyance laws will vary depending on which jurisdiction's law is applied. Generally, however, an entity would be considered insolvent if either the fair saleable value of its assets is less than the amount of its liabilities (including the probable amount of contingent liabilities), or it is unlikely to be able to pay its liabilities as they become due. We cannot assure you as to what standard a court would apply to determine insolvency or that a court would determine that Viavi or we were solvent at the time of or after giving effect to the Separation, including the distribution of our common stock.

The distribution of our common stock by Viavi is also subject to review under state corporate distribution statutes. Under the DGCL, a corporation may only pay dividends to its stockholders either (1) out of its surplus (net assets minus capital) or (2) if there is no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Although we believe that Viavi made the distribution of our common stock entirely from surplus, we cannot assure you that a court will not later determine that some or all of the distribution to

Viavi stockholders was unlawful.

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Any successful claim that Viavi or Lumentum is insufficiently capitalized following the Separation could potentially expose us to material financial liabilities, unwinding of the transaction and adverse consequences with customers and suppliers related to our perceived inability to timely deliver products and pay for materials and services.

We are an "emerging growth company" and cannot be certain if the reduced disclosure requirements applicable to "emerging growth companies" will make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act. For as long as we continue to be an "emerging growth company," we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies. Among other things, we will not be required to:

- provide an auditor's attestation report on our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act;
- comply with any new rules that may be adopted by the PCAOB requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer;
- comply with any new audit rules adopted by the PCAOB after April 5, 2012 unless the SEC determines otherwise;
- provide certain disclosure regarding executive compensation required of larger public companies; or
- hold a nonbinding advisory vote on executive compensation and obtain stockholder approval of any golden parachute payments not previously approved.

Accordingly, the information that we provide stockholders in this Form 10-Q and in our other filings with the SEC may be different than what is available with respect to other public companies. We cannot predict if investors will find our common stock less attractive because we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile and adversely affected.

Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended ("Securities Act"), for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected not to take advantage of this extended transition period.

We will remain an "emerging growth company" until the earliest of:

- the end of the fiscal year following the fifth anniversary of the date of the first sale of our common stock pursuant to an effective registration statement filed under the Securities Act;
- the last day of the first fiscal year in which our total annual gross revenues exceed $1 billion;
- the date on which we have issued more than $1 billion in non-convertible debt during the preceding three-year period; or
- the date on which we are deemed to be a "large accelerated filer," as defined in Rule 12b-2 under the Exchange Act or any successor statute, which would occur if the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter and certain other conditions are met, including that we have been subject to the requirements of sections 13(a) or 15(d) of the Securities Act for a period of at least twelve calendar months.

Risks Related to Our Common Stock

Our stock price may be volatile and may decline regardless of our operating performance.

Our common stock is listed on the NASDAQ stock market ("NASDAQ") under the symbol "LITE." The market price of our common stock may fluctuate significantly due to a number of factors, some of which may be beyond our control, including:

- the sale by Viavi of the retained shares as required by the terms of the IRS ruling;
- actual or anticipated fluctuations in our operating results;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;

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- the operating and stock price performance of other comparable companies;
- a shift in our investor base;
- our quarterly or annual earnings, or those of other companies in our industry;
- success or failure of our business strategy;
- credit market fluctuations which could negatively impact our ability to obtain financing as needed;
- changes to the regulatory and legal environment in which we operate;
- announcements by us, competitors, customers, or our contract manufacturers of significant acquisitions or dispositions;
- investor perception of us and our industry;
- changes in accounting standards, policies, guidance, interpretations or principles;
- overall market fluctuations; and
- general economic and market conditions and other external factors.

A number of shares of our common stock are or will be eligible for future sale, including the sale by Viavi of the shares of our common stock that it retained after the distribution, which could materially increase the volatility of our stock price and may cause our stock price to decline.

Any sales of substantial amounts of our common stock in the public market or the perception that such sales might occur may cause the market price of our common stock to decline. As of January 23, 2016, we had an aggregate of approximately 59.1 million shares of our common stock issued and outstanding. Except for the shares of our common stock retained by Viavi, which are discussed below, these shares can be freely tradable without restriction or registration under the Securities Act, unless the shares are owned by one of our "affiliates," as that term is defined in Rule 405 under the Securities Act. We are unable to predict whether large amounts of our common stock will be sold in the open market following the distribution. We are also unable to predict whether a sufficient number of buyers would be in the market at that time.

Following the Separation, Viavi retained an ownership interest in 19.9% of our total shares outstanding. Pursuant to a stockholder's and registration rights agreement with Viavi, Viavi will be required to vote such shares in proportion to the votes cast by our other stockholders. In order to not jeopardize the tax-free status of the distribution, Viavi is required to dispose of such retained shares of our common stock that it owns as soon as practicable and consistent with its reasons for retaining such shares, but in no event later than three years after the distribution. Pursuant to the stockholder's and registration rights agreement, upon the request of Viavi, we will effect the registration under applicable securities laws of the shares of common stock retained by Viavi. Subject to limited exceptions, we do not have the right to prevent or delay the sale of our shares by Viavi pursuant to the stockholder's and registration right agreement. Any disposition by Viavi, or any significant stockholder, of our common stock in the public market, or the perception that such dispositions could occur, could materially increase the volatility of our stock price and adversely affect prevailing market prices for our common stock.

We cannot guarantee the payment of dividends on our common stock, or the timing or amount of any such dividends.

We do not currently expect to pay dividends on our common stock. The payment of any dividends to our stockholders in the future, and the timing and amount thereof, will fall within the discretion of our board of directors. Our board of directors' decisions regarding the payment of dividends will depend on many factors, such as our financial condition, earnings, capital requirements, potential debt service obligations or restrictive covenants, industry practice, legal requirements, regulatory constraints and other factors that our board of directors deems relevant.

In addition, because we are a holding company with no material direct operations, we are dependent on loans, dividends and other payments from our operating subsidiaries to generate the funds necessary to pay dividends on our common stock. However, our operating subsidiaries' ability to make such distributions will be subject to their operating results, cash requirements and financial condition and the applicable provisions of Delaware law that may limit the amount of funds available for distribution. Our ability to pay cash dividends may also be subject to covenants and financial ratios related to existing or future indebtedness, and other agreements with third parties.

The obligations of Lumentum Inc. to holders of its Series A Preferred Stock could have a negative impact on holders of our common stock.

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Our subsidiary, Lumentum Inc., issued $35.8 million in Series A Preferred Stock to Viavi, which were sold to Amada following the spin-off. The Series A Preferred Stock may be converted by Amada into shares of our common stock beginning on the second anniversary of the closing of the stock purchase (absent a change of control of us or similar event) using a conversion price equal to 125% of the volume weighted average price per share of our common stock in the five "regular-way" trading days following the spin-off. The Series A Preferred Stock may be redeemed by us upon the third anniversary of the date of issuance or the preferred stockholders may cause us to redeem the Series A Preferred Stock upon the fifth anniversary of the date of issuance.

Cumulative senior dividends on the Series A Preferred Stock will accrue at the annual rate of 2.5%, but will be paid only when and if declared by the board of directors of Lumentum Inc. Our ability to make payments to holders of the Series A Preferred Stock ("Series A Holders") will depend on Lumentum Inc.'s ability to generate cash in the future from operations, financings or asset sales. Lumentum Inc.'s ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that we cannot control. The payment of this dividend will reduce the amount of cash otherwise available for distribution by Lumentum Inc. to us for further distribution to our common stockholders or for other corporate purposes. If Lumentum Inc. is in arrears on the payment of dividends to the Series A Holders, (i) Lumentum Inc. will not be able to pay any dividends to us, subject to certain exceptions, and (ii) we will not be able to make any distribution on or repurchase of our common stock.

Certain provisions in our charter and Delaware corporate law could hinder a takeover attempt.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law (the "DGCL") which prohibits us, under some circumstances, from engaging in business combinations with some stockholders for a specified period of time without the approval of the holders of substantially all of our outstanding voting stock. Such provisions could delay or impede the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving us, even if such events could be beneficial, in the short-term, to the interests of our stockholders. In addition, such provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock. Our certificate of incorporation and bylaws contain provisions providing for the limitations of liability and indemnification of our directors and officers, allowing vacancies on our board of directors to be filled by the vote of a majority of the remaining directors, granting our board of directors the authority to establish additional series of preferred stock and to designate the rights, preferences and privileges of such shares (commonly known as "blank check preferred") and providing that our stockholders can take action only at a duly called annual or special meeting of stockholders, which may only be called by the chairman of the board of directors, the chief executive officer or the board of directors. These provisions may also have the effect of deterring hostile takeovers or delaying changes in control or changes in our management.

Our bylaws designate Delaware courts as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could discourage lawsuits against us or our directors and officers.

Our bylaws provide that, unless we consent in writing to an alternative forum, the state or federal courts of Delaware are the sole and exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting breach of fiduciary duty, or other wrongdoing, by our directors, officers or other employees to us or our stockholders; any action asserting a claim against Lumentum pursuant to the Delaware General Corporation Law or our certificate of incorporation or bylaws; any action asserting a claim against Lumentum governed by the internal affairs doctrine; or any action to interpret, apply, enforce or determine the validity of our certificate of incorporation or bylaws. This exclusive forum provision may limit the ability of our stockholders to bring a claim in a judicial forum that such stockholders find favorable for disputes with us or our directors or officers, which may discourage such lawsuits against us or our directors and officers.

Alternatively, if a court outside of Delaware were to find this exclusive forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings described above, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

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Item 6. Exhibits

The following exhibits are filed as Exhibits to this report:

		Incorporated by Reference			Filed
Exhibit No.	Exhibit Description	Form	Exhibit	Filing Date	Herewith
31.1	Certification of the Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of the Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS**	XBRL Instance				X
101.SCH**	XBRL Taxonomy Extension Schema				X
101.CAL**	XBRL Taxonomy Extension Calculation				X
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB**	XBRL Taxonomy Extension Label Linkbase				X
101.PRE**	XBRL Taxonomy Extension Presentation				X

* The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

** Furnished herewith.

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SIGNATURE

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

Date: February 4, 2016

LUMENTUM HOLDINGS INC.

By: /s/ Aaron Tachibana
By: Aaron Tachibana
Chief Financial Officer