

Lumentum Holdings Inc.
Form 10-Q
May 04, 2016
Table of Contents

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

Form 10-Q

(Mark One)

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

For the quarterly period ended April 2, 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 001-36861
Lumentum Holdings Inc.
(Exact name of Registrant as specified in its charter)

Delaware 47-3108385
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)
400 North McCarthy Boulevard, Milpitas, California 95035
(Address of principal executive offices including Zip code)

(408) 546-5483
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

Edgar Filing: Lumentum Holdings Inc. - Form 10-Q

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

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

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

As of April 30, 2016, the Registrant had 59,280,367 shares of common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Operations for the Three and Nine Months Ended April 2, 2016 and March 28, 2015</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive (Loss) Income for the Three and Nine Months Ended April 2, 2016 and March 28, 2015</u>	<u>3</u>
<u>Consolidated Balance Sheets as of April 2, 2016 and June 27, 2015</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the Nine Months Ended April 2, 2016 and March 28, 2015</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
<u>Item 3. Quantitative and Qualitative Disclosure About Market Risks</u>	<u>33</u>
<u>Item 4. Controls and Procedures</u>	<u>34</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>35</u>
<u>Item 1A. Risk Factors</u>	<u>35</u>
<u>Item 6. Exhibits</u>	<u>50</u>
<u>SIGNATURE</u>	<u>51</u>

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

LUMENTUM HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(unaudited)

	Three Months		Nine Months	
	Ended		Ended	
	April 2,	March 28,	April 2,	March 28,
	2016	2015	2016	2015
Net revenue	\$230.4	\$ 198.7	\$661.3	\$ 628.2
Cost of sales	165.9	139.7	458.4	428.2
Amortization of acquired technologies	1.7	1.9	5.1	5.7
Gross profit	62.8	57.1	197.8	194.3
Operating expenses:				
Research and development	35.3	35.0	104.7	105.1
Selling, general and administrative	28.0	31.8	87.8	91.3
Restructuring and related charges	1.8	1.1	3.9	6.7
Total operating expenses	65.1	67.9	196.4	203.1
Income (loss) from operations	(2.3)	(10.8)	1.4	(8.8)
Unrealized loss on derivative liability	(4.8)	—	(5.0)	—
Interest and other (expense) income, net	(0.4)	(0.4)	(1.1)	(0.8)
Income (loss) before income taxes	(7.5)	(11.2)	(4.7)	(9.6)
Provision for (benefit from) income taxes	0.1	(23.4)	0.3	(22.0)
Net income (loss)	(7.6)	12.2	(5.0)	12.4
Cumulative dividends on Series A Preferred Stock	(0.3)	—	(0.6)	—
Accretion of Series A Preferred Stock	—	—	(11.7)	—
Net income (loss) available to common shareholders	\$(7.9)	\$ 12.2	\$(17.3)	\$ 12.4
Net income (loss) per share attributable to common shareholders: ^(a)				
Basic	\$(0.13)	\$ 0.21	\$(0.29)	\$ 0.21
Diluted	\$(0.13)	\$ 0.21	\$(0.29)	\$ 0.21
Shares used in per share calculation attributable to common shareholders: ^(a)				
Basic	59.2	58.8	59.0	58.8
Diluted	59.2	58.8	59.0	58.8

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”, “Company” 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. Basic and diluted net income (loss) per share for the three and nine months ended March 28, 2015 is calculated using the shares of Lumentum common stock outstanding on August 1, 2015, as if such shares were outstanding for the entire period.

See accompanying notes to consolidated financial statements.

Table of Contents

LUMENTUM HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in millions)

(unaudited)

	Three Months Ended April 2, March 28, 2016 2015		Nine Months Ended April 2, March 28, 2016 2015	
Net income (loss)	\$ (7.6)	\$ 12.2	\$ (5.0)	\$ 12.4
Other comprehensive (loss), net of tax				
Foreign currency translation adjustment	3.8	(3.2)	(3.2)	(9.2)
Net change in accumulated other comprehensive loss	3.8	(3.2)	(3.2)	(9.2)
Comprehensive income (loss)	\$ (3.8)	\$ 9.0	\$ (8.2)	\$ 3.2

See accompanying notes to consolidated financial statements.

3

Table of Contents

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

	April 2, 2016	June 27, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 157.2	\$ 14.5
Accounts receivable, net	160.2	150.5
Inventories	107.2	99.7
Prepayments and other current assets	58.7	46.1
Total current assets	483.3	310.8
Property, plant and equipment, net	168.1	143.2
Goodwill and intangibles, net	21.9	27.4
Deferred income taxes, net	30.1	30.3
Other non-current assets	1.5	0.9
Total assets	\$ 704.9	\$ 512.6
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 111.7	\$ 77.9
Accrued payroll and related expenses	27.3	17.7
Income taxes payable	2.0	3.7
Accrued expenses	18.2	11.5
Other current liabilities	9.8	11.4
Total current liabilities	169.0	122.2
Derivative liability	14.7	—
Other non-current liabilities	8.7	9.8
Total liabilities	192.4	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 April 2, 2016, 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, 59,244,599 shares issued and outstanding as of April 2, 2016, and no shares issued and outstanding as of June 27, 2015	0.1	—
Additional paid-in capital	461.1	—
Retained earnings	6.2	—
Accumulated other comprehensive income	9.3	12.5
Total stockholders' equity	476.7	380.6
Total liabilities, mezzanine equity and stockholders' equity	\$ 704.9	\$ 512.6

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Nine Months Ended	
	April 2, 2016	March 28, 2015
OPERATING ACTIVITIES:		
Net income	\$(5.0)	\$ 12.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	35.1	32.1
Stock-based compensation	20.5	14.3
Unrealized loss on derivative liability	5.0	—
Amortization of acquired technologies and other intangibles	5.4	6.0
Disposal of property, plant and equipment	0.6	(1.1)
Other non-cash income	—	(0.2)
Changes in operating assets and liabilities:		
Accounts receivable	(11.6)	(22.8)
Inventories	(9.6)	(3.2)
Prepayments and other current and non-currents assets	(11.0)	(11.4)
Deferred taxes, net	(0.2)	4.0
Accounts payable	32.7	(0.5)
Accrued payroll and related expenses	9.7	(4.7)
Income taxes payable	(1.6)	(12.9)
Accrued expenses, other current and non-current liabilities	3.5	(15.7)
Net cash provided by operating activities	73.5	(3.7)
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(63.4)	(35.3)
Acquisition of businesses, net of cash acquired	—	(0.2)
Net cash (used in) investing activities	(63.4)	(35.5)
FINANCING ACTIVITIES:		
Net transfers from Viavi	132.2	31.8
Payment of dividends	(0.3)	—
Payment of financing obligation related to acquisition	(2.3)	—
Proceeds from the exercise of stock options	1.8	—
Net cash provided by financing activities	131.4	31.8
Effect of exchange rates on cash and cash equivalents	1.2	(1.9)
Increase (decrease) in cash and cash equivalents	142.7	(9.3)
Cash and cash equivalents at beginning of period	14.5	19.9
Cash and cash equivalents at end of period	\$157.2	\$ 10.6
Non-cash financing activities:		
Cumulative dividends on Series A Preferred Stock	\$0.6	\$ —
Accretion of Series A Preferred Stock	11.7	—

See accompanying notes to consolidated financial statements.

Table of Contents

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 CCOP segment and WaveReady product lines to Lumentum (the “Capitalization”). 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 United States 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 included one additional week. Our fiscal 2015 ended on June 27, 2015 and was a 52-week year.

Table of Contents

LUMENTUM HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Principles of 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 nine months ended April 2, 2016 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 months ended April 2, 2016, we identified an error relating to stock-based compensation expense for the three months ended December 26, 2015 in which stock-based compensation expense of \$1.0 million was excluded for a specific restricted stock grant. Additionally, we identified an error relating to the overstatement of sales and use tax accrual of \$0.2 million and \$0.3 million for the three months ended September 26, 2015 and December 26, 2015, respectively. During the three 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 \$1.8 million and \$0.03 per basic and diluted share, respectively. Our net income attributable to common stockholders and basic and diluted net income per share attributable to common stockholders included in Form 10-Q for the three months ended December 26, 2015 was understated by \$1.3 million and \$0.02 per basic and diluted share, respectively. The correction of the errors identified in the three months ended April 2, 2016 resulted in an overstatement of net loss per share attributable to common stockholders by \$0.5 million and \$0.01 per basic and diluted share.

We assessed the materiality of these errors and determined that the above errors were not material to our unaudited consolidated financial statements as of each of the periods mentioned above.

Note 2. Recently Issued Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued guidance to clarify the two aspects of authoritative guidance related to the new revenue recognition guidance issued in May 2014: identifying performance obligations and the licensing implementation guidance. The effective date and transition requirements for the amendments in the guidance are the same as the effective date and transition requirements in the new revenue recognition guidance issued in May 2014. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In March 2016, the FASB issued guidance related to Compensation - Stock Compensation (“Topic 718”). This guidance makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. It also clarifies the statement of cash flows presentation for certain components of share-based awards. The guidance is effective for us in the first quarter of fiscal 2017. Early adoption is permitted. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

7

In February 2016, the FASB issued guidance, requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The guidance is effective for us in the first quarter of fiscal 2019. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In January 2016, the 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 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 three and nine months ended April 2, 2016.

Table of Contents

LUMENTUM HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Supply Agreement contains a \$15.0 million purchase commitment with Viavi for certain products, and for the three and nine months ended April 2, 2016, the Company purchased \$6.8 million and \$13.3 million, respectively, in product from Viavi against the \$15.0 million purchase commitment. During the three and nine months ended April 2, 2016, the Company recognized revenue of \$0.9 million and \$2.4 million, respectively, from products sold to Viavi. For the three and nine months ended April 2, 2016, the Company recorded \$0.5 million and \$1.7 million, respectively, in research and development cost reimbursement and \$0.2 million and \$0.5 million, respectively, in sublease rental income. As of April 2, 2016, the Company had \$0.4 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 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 (the "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

Through and up to August 1, 2015, the separation date, the consolidated statements of operations included 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 were 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 April 2, 2015	Three Months Ended March 28, 2015	Nine Months Ended April 2, 2015	Nine Months Ended March 28, 2015
Research and development	\$ 0.2	\$ —	\$ 0.2	\$ 0.2
Selling, general and administrative	—20.0	11.7	56.6	
Restructuring and related charges	—0.6	—	3.8	
Interest and other (income) expenses, net	—0.1	(0.1)	0.1	
Interest expense	—0.3	0.1	0.7	
Total allocated costs	\$— 21.2	\$ 11.7	\$ 61.4	

Table of Contents

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 April 2, March 28, 2016 2015		Nine Months Ended April 2, March 28, 2016 2015	
Numerator:				
Net income (loss)	\$ (7.6)	\$ 12.2	\$ (5.0)	\$ 12.4
Less: Cumulative dividends on Series A Preferred Stock	(0.3)	—	(0.6)	—
Less: Accretion of Series A Preferred Stock	—	—	(11.7)	—
Net income (loss) available to common stockholders	\$ (7.9)	\$ 12.2	\$ (17.3)	\$ 12.4
Denominator:				
Weighted-average number of common shares outstanding				
Basic	59.2	58.8	59.0	58.8
Effect of dilutive securities from stock-based benefit plans	—	—	—	—
Diluted	59.2	58.8	59.0	58.8
Net income (loss) per share attributable to common stockholders:				
Basic	\$ (0.13)	\$ 0.21	\$ (0.29)	\$ 0.21
Diluted	\$ (0.13)	\$ 0.21	\$ (0.29)	\$ 0.21

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 April 2, 2016. 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 per share for the three and nine months ended March 28, 2015 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 (loss).

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):

Table of Contents

LUMENTUM HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended April 2, 2016	Nine Months Ended April 2, 2016
Restricted stock units	0.7	0.5
Redeemable convertible preferred stock	1.5	1.3
Stock options and employee stock purchase plan	0.1	0.1
Total potentially dilutive securities	2.3	1.9

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 April 2, 2016 and June 27, 2015, balances for the components of accumulated other comprehensive income were as follows (in millions):

	Foreign currency translation adjustments	Defined benefit obligation, net of tax	Total
Beginning balance as of June 27, 2015	\$ 13.7	\$ (1.2)	\$12.5
Other comprehensive loss	(3.2)	—	(3.2)
Ending balance as of April 2, 2016	\$ 10.5	\$ (1.2)	\$9.3

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 nine months ended April 2, 2016.

Note 7. Balance Sheet Components

Accounts receivable allowances

As of April 2, 2016, our accounts receivable allowance was \$1.1 million. Our accounts receivable allowance as of June 27, 2015 was 1.2 million.

Inventories

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

	April 2, 2016	June 27, 2015
Finished goods	\$51.3	\$ 60.1
Work in process	24.8	23.4
Raw materials and purchased parts	31.1	16.2
Inventories	\$ 107.2	\$ 99.7

Table of Contents

LUMENTUM HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the three and nine months ended April 2, 2016, we wrote off \$9.6 million and \$10.7 million of inventory, respectively.

During the three and nine months ended March 28, 2015, we wrote off \$1.4 million and \$3.4 million of inventory, respectively.

Prepayments and other current assets

The components of prepayments and other current assets were as follows (in millions):

	April 2, June 27,	
	2016	2015
Prepayments	\$ 29.7	\$ 20.4
Advances to contract manufacturers	8.2	9.5
Due from Viavi, net	3.3	—
Other current assets	17.5	16.2
Prepayments and other current assets	\$ 58.7	\$ 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):

	April 2, June 27,	
	2016	2015
Land	\$5.9	\$5.9
Buildings and improvement	28.8	28.6
Machinery and equipment	340.3	326.4
Furniture and fixtures and software	31.8	8.0
Leasehold improvements	27.9	20.5
Construction in progress	56.1	26.8
	490.8	416.2
Less: Accumulated depreciation	(322.7)	(273.0)
Property, plant and equipment, net	\$168.1	\$143.2

Other current liabilities

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

	April 2, June 27,	
	2016	2015
Restructuring accrual and related charges	\$ 3.8	\$ 3.2
Warranty accrual	1.8	2.8
Others	4.2	5.4
Other current liabilities	\$ 9.8	\$ 11.4

Table of Contents

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):

	April 2, June 27,	
	2016	2015
Asset retirement obligation	2.3	1.8
Pension and related accruals	2.3	2.1
Deferred rent	1.8	1.7
Restructuring accrual and related charges	—	1.7
Other non-current liabilities	2.3	2.5
Other non-current liabilities	\$ 8.7	\$ 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 \$4.8 million and \$5.0 million for the three and nine months ended April 2, 2016, 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".

The following table provides a reconciliation of the fair value of the embedded derivative for the Series A Preferred Stock measured by significant unobservable inputs (Level 3) for the three and nine months ended April 2, 2016:

	Three Months Ended		Nine Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
Balance as of beginning of period	\$ 9.9	\$ —	\$ —	\$ —
Fair value of the embedded derivative for the Series A Preferred Stock at issuance	—	—	9.7	—
Unrealized loss included in net income	4.8	—	5.0	—
Balance as of end of period	\$ 14.7	\$ —	\$ 14.7	\$ —

The following table summarizes the assumptions used to determine the fair value of the embedded derivative:

13

Table of Contents

LUMENTUM HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	April 2, 2016
Stock price	\$26.58
Conversion price	\$24.63
Expected term (years)	4.36
Expected annual volatility	40.00 %
Risk-free rate	1.25 %
Expected common dividend yield	— %
Preferred yield	9.12 %

Note 9. Goodwill and Other Intangible Assets

Goodwill

The following table presents the changes in goodwill allocated to the Lasers reportable segment during the nine months ended April 2, 2016 (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 April 2, 2016	\$ 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 nine months ended April 2, 2016, there have been no events or circumstances that have required us to perform an interim assessment of goodwill for impairment.

Acquired Developed Technology and Other Intangibles

The following tables present details of our acquired developed technology and other intangibles (in millions):

As of April 2, 2016	Gross Carrying Amount	Accumulated Amortization	Net
Acquired developed technology	\$ 103.1	\$ (87.2)	\$15.9
Other	9.4	(8.9)	0.5
Total Intangibles	\$ 112.5	\$ (96.1)	\$16.4

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 nine months ended April 2, 2016, the Company recorded \$1.8 million and \$5.4 million, respectively, of amortization expense relating to acquired developed technology and other intangibles.

During the three and nine months ended March 28, 2015, the Company recorded \$2.0 million and \$6.0 million, respectively, of amortization expense relating to acquired developed technology and other intangibles.

Table of Contents

LUMENTUM HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents details of our amortization relating to acquired developed technology and other intangibles (in millions):

	Three Months Ended		Nine Months Ended	
	April 2, 2016		March 28, 2015	
Cost of sales	\$ 1.7	\$ 1.9	\$ 5.1	\$ 5.7
Operating expense	0.1	0.1	0.3	0.3
Total	\$ 1.8	\$ 2.0	\$ 5.4	\$ 6.0

Based on the carrying amount of acquired developed technology and other intangibles as of April 2, 2016, and assuming no future impairment of the underlying assets, the estimated future amortization is as follows (in millions):

Fiscal Years	
Remainder of 2016	\$ 1.8
2017	6.7
2018	2.8
2019	2.6
2020	1.0
Thereafter	1.5
Total amortization	\$ 16.4

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 April 2, 2016 and June 27, 2015, our total restructuring and related charges accrual was \$3.8 million and \$4.9 million, respectively. During the three and nine months ended April 2, 2016, we recorded \$1.8 million and \$3.9 million, respectively, in restructuring and related charges in the consolidated statements of operations. During the three and nine months ended March 28, 2015, we recorded \$1.1 million and \$6.7 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 nine months ended April 2, 2016, were as follows (in millions):

	Balance June 27, 2015	Accrued	Cash Settlements	Balance April 2, 2016
Fiscal 2015 Plans				
Separation Restructuring Plan (Workforce Reduction)	\$ 4.6	\$ 0.7	\$ (1.7)	\$ 3.6
Fiscal 2013 Plans				
Other Plans	0.3	0.1	(0.2)	0.2
Total	\$ 4.9	\$ 0.8	\$ (1.9)	\$ 3.8

As of April 2, 2016, all of the \$3.8 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.

Table of Contents

LUMENTUM HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 nine months ended April 2, 2016, the Company recorded no expenses related to the fiscal year 2015 restructuring plans. For the nine months ended April 2, 2016, the Company recorded \$0.7 million of expenses for severance and retention activity 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 nine months ended April 2, 2016, we had cash settlements of \$0.1 million and \$0.4 million, respectively. The fair value of the remaining contractual obligations, net of sublease income is \$0.7 million and \$1.1 million as of April 2, 2016 and June 27, 2015, respectively. As of April 2, 2016 and June 27, 2015, \$0.4 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 \$0.1 million and \$0.3 million for the three and nine months ended April 2, 2016, respectively. The Company recorded a tax benefit of \$23.4 million and \$22.0 million for the three and nine months ended March 28, 2015. 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 nine months ended April 2, 2016, we recognized a net benefit of \$0.3 million related to deferred tax adjustments for our foreign jurisdictions.

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 nine months ended April 2, 2016 and March 28, 2015 was primarily attributable to the difference in foreign tax rates, utilization of U.S. 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 April 2, 2016. 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 United States, there is a continued need for a full valuation allowance against the U.S. deferred tax assets as of April 2, 2016.

Table of Contents

LUMENTUM HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 nine months ended April 2, 2016 and March 28, 2015 was as follows (in millions):

	Three Months Ended April 2, 2016		Nine Months Ended March 28, 2015	
Cost of sales	\$2.2	\$ 1.2	\$4.9	\$ 3.8
Research and development	2.5	1.9	6.7	5.6
Selling, general and administrative	3.5	4.3	9.4	11.6
	\$8.2	\$ 7.4	\$21.0	\$ 21.0

Approximately \$0.9 million of stock-based compensation was capitalized in inventory at April 2, 2016. The table above includes allocated stock-based compensation from Viavi of \$2.9 million for the three months ended March 28, 2015, and \$0.5 million and \$6.8 million for the nine months ended April 2, 2016 and March 28, 2015, 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 nine months ended April 2, 2016 was \$0.7 million.

Restricted Stock Units Activity

During the nine months ended April 2, 2016, we granted 1.9 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 \$37.7 million and \$0.8 million, respectively. The majority of the time-based RSUs vest 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.

Table of Contents

LUMENTUM HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the status of our outstanding RSUs as of April 2, 2016 and changes during the nine months ended April 2, 2016 is presented below (amount in millions):

	Full Value Awards		Total number of shares
	Time-based shares	Performance-based shares	
Outstanding at June 27, 2015, as converted	1.5	0.2	1.7
Awards granted	1.9	—	1.9
Awards vested	(0.6)	(0.1)	(0.7)
Awards cancelled	(0.2)	—	(0.2)
Outstanding at April 2, 2016	2.6	0.1	2.7

As of April 2, 2016, \$42.4 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 2.1 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 nine months ended April 2, 2016 and March 28, 2015, the Company paid \$5.2 million and \$6.5 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 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.

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 April 2, 2016 the future minimum annual lease payments under non-cancellable operating leases were as follows (in millions):

Remainder of 2016	\$1.7
2017	6.8
2018	5.6
2019	3.9
2020	2.8
Thereafter	5.7
Total minimum operating lease payments	\$26.5

Included in the future minimum lease payments table above is \$0.7 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 \$164.4 million as of April 2, 2016, 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

Table of Contents

LUMENTUM HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 nine months ended April 2, 2016 and March 28, 2015 (in millions):

	Three Months Ended		Nine Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
Balance as of beginning of period	\$3.1	\$ 2.0	\$2.8	\$ 2.7
Provision for warranty	0.8	0.8	2.5	2.3
Utilization of reserve	(0.8)	(0.7)	(2.3)	(2.8)
Adjustments related to pre-existing warranties (including changes in estimates)	(1.3)	(0.3)	(1.2)	(0.4)
Balance as of end of period	\$1.8	\$ 1.8	\$1.8	\$ 1.8

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 regulations 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.

Table of Contents

LUMENTUM HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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:

OpComms: Our OpComms portfolio includes products used by Telecom and Datacom 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

(i) 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.

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 (ii) 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.

Table of Contents

LUMENTUM HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three Months		Nine Months	
	Ended		Ended	
	April 2,	March 28,	April 2,	March 28,
	2016	2015	2016	2015
Net revenue:				
OpComms	\$197.2	\$167.2	\$560.1	\$515.2
Lasers	33.2	31.5	101.2	113.0
Net revenue	\$230.4	\$198.7	\$661.3	\$628.2
Gross profit:				
OpComms	58.7	47.1	171.4	150.3
Lasers	15.5	13.6	43.9	55.0
Total segment gross profit	74.2	60.7	215.3	205.3
Unallocated amounts:				
Stock-based compensation	(2.2)	(1.3)	(4.9)	(3.9)
Amortization of intangibles	(1.7)	(1.9)	(5.1)	(5.7)
Other charges related to non-recurring activities	(7.5)	(0.4)	(7.5)	(1.4)
Gross profit	\$62.8	\$57.1	\$197.8	\$194.3

The table below discloses the percentage of our total net revenue attributable to each of our two reportable segments. In addition, the table 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		Nine Months	
	Ended		Ended	
	April 2,	March 28,	April 2,	March 28,
	2016	2015	2016	2015
Optical Communications:	85.6%	84.1 %	84.7%	82.0 %
Telecom	60.7%	60.2 %	62.0%	60.7 %
Datacom	19.8%	19.3 %	17.6%	16.5 %
Consumer and Industrial	5.1 %	4.6 %	5.1 %	4.8 %
Lasers	14.4%	15.9 %	15.3%	18.0 %

Table of Contents

LUMENTUM HOLDINGS INC.

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				Nine Months Ended			
	April 2, 2016		March 28, 2015		April 2, 2016		March 28, 2015	
Net revenue:								
Americas:								
United States	\$28.8	12.5%	\$42.2	21.2%	\$91.3	13.8%	\$125.7	20.0%
Mexico	34.4	14.9	30.9	15.6	112.7	17.0	81.0	12.9
Other Americas	5.1	2.2	9.1	4.6	17.9	2.7	22.9	3.6
Total Americas	\$68.3	29.6%	\$82.2	41.4%	\$221.9	33.5%	\$229.6	36.5%
Asia-Pacific:								
Hong Kong	\$67.9	29.5%	\$24.3	12.2%	\$150.5	22.7%	\$87.0	13.9%
Japan	19.8	8.6	12.9	6.5	65.8	10.0	83.7	13.3
Thailand	20.5	8.9	13.7	6.9	64.5	9.8	43.4	6.9
Other Asia-Pacific	27.0	11.7	36.1	18.2	69.3	10.5	86.1	13.7
Total Asia-Pacific	\$135.2	58.7%	\$87.0	43.8%	\$350.1	53.0%	\$300.2	47.8%
EMEA	\$26.9	11.7%	\$29.5	14.8%	\$89.3	13.5%	\$98.4	15.7%
Total net revenue	\$230.4		\$198.7		\$661.3		\$628.2	

During the nine months ended April 2, 2016 and March 28, 2015, net revenue from customers outside the United States, based on customer shipping location, represented 86.2% and 80.0% of net revenue, respectively. During the three months ended April 2, 2016 and March 28, 2015, net revenue from customers outside the United States, based on customer shipping location, represented 87.5% and 78.8% 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.

Table of Contents

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 or 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, the timing of payment of lease costs and other contractual obligations, future tax rates and the timing of recognition of stock-based compensation and other expenses;
- 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.

Table of Contents

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”). Our 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 our 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

Table of Contents

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 April 2, 2016, our consolidated statements of operations and consolidated statements of comprehensive income (loss) for the three and nine months ended April 2, 2016 and March 28, 2015, and our consolidated statements of cash flows for the nine months ended April 2, 2016 and March 28, 2015.

The preparation of the consolidated financial statements in accordance with GAAP in the United States 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 us 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

Table of Contents

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		Nine Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
Segment net revenue:				
OpComms	85.6 %	84.1 %	84.7 %	82.0 %
Lasers	14.4	15.9	15.3	18.0
Net revenue	100.0	100.0	100.0	100.0
Cost of sales	72.0	70.3	69.3	68.2
Amortization of acquired technologies	0.7	1.0	0.8	0.9
Gross profit	27.3	28.7	29.9	30.9
Operating expenses:				
Research and development	15.3	17.6	15.8	16.7
Selling, general and administrative	12.2	16.0	13.3	14.5
Restructuring and related charges	0.8	0.6	0.6	1.1
Total operating expenses	28.3	34.2	29.7	32.3
Income (loss) from operations	(1.0)	(5.4)	0.2	(1.4)
Unrealized loss on derivative liability	(2.1)	—	(0.8)	—
Interest and other (expense) income, net	(0.2)	(0.2)	(0.2)	(0.1)
Income (loss) before taxes	(3.3)	(5.6)	(0.7)	(1.5)
Provision for income taxes	—	(11.8)	—	(3.5)
Net income (loss)	(3.3)%	6.1 %	(0.8)%	2.0 %

Table of Contents

Financial Data for the three and nine months ended April 2, 2016 and March 28, 2015

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

	Three Months Ended				Nine Months Ended					
	April 2, 2016	March 28, 2015	Change	Percentage Change	April 2, 2016	March 28, 2015	Change	Percentage Change		
Segment net revenue:										
OpComms	\$197.2	\$167.2	\$30.0	17.9 %	\$560.1	\$515.2	\$44.9	8.7 %		
Lasers	33.2	31.5	1.7	5.4 %	101.2	113.0	(11.8)	(10.4) %		
Net revenue	\$230.4	\$198.7	\$31.7	16.0 %	\$661.3	\$628.2	\$33.1	5.3 %		
Gross profit	\$62.8	\$57.1	\$5.7	10.0 %	\$197.8	\$194.3	\$3.5	1.8 %		
Gross margin	27.3 %	28.7 %			29.9 %	30.9 %				
Research and development	35.3	35.0	0.3	0.9 %	104.7	105.1	(0.4)	(0.4) %		
Percentage of net revenue	15.3 %	17.6 %			15.8 %	16.7 %				
Selling, general and administrative	28.0	31.8	(3.8)	(11.9) %	87.8	91.3	(3.5)	(3.8) %		
Percentage of net revenue	12.2 %	16.0 %			13.3 %	14.5 %				
Restructuring and related charges	1.8	1.1	0.7	63.6 %	3.9	6.7	(2.8)	(41.8) %		
Percentage of net revenue	0.8 %	0.6 %			0.6 %	1.1 %				

Net Revenue

Net revenue increased by \$31.7 million, or 16.0%, during the three months ended April 2, 2016 compared to the same period a year ago. This increase was primarily due to an increase in net revenue from our OpComms segment.

OpComms net revenue increased \$30.0 million, or 17.9%, during the three months ended April 2, 2016 compared to the same period a year ago. This increase was primarily driven by an increase in net revenue from our telecom products.

Lasers net revenue increased \$1.7 million, or 5.4%, during the three months ended April 2, 2016 compared to the same period a year ago. This increase was primarily due to an increase in net revenue from our solid-state laser products.

Net revenue increased by \$33.1 million, or 5.3%, during the nine months ended April 2, 2016 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 \$44.9 million, or 8.7%, during the nine months ended April 2, 2016 compared to the same period a year ago. This increase was driven by an increase in net revenue from our telecom and datacom products.

Lasers net revenue decreased \$11.8 million, or 10.4%, during the nine months ended April 2, 2016 compared to the same period a year ago. This decrease was primarily due to lower market demand and component quality issues for solid-state and fiber laser products.

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):

Table of Contents

	Three Months Ended				Nine Months Ended			
	April 2, 2016		March 28, 2015		April 2, 2016		March 28, 2015	
Net revenue:								
Americas:								
United States	\$28.8	12.5%	\$42.2	21.2%	\$91.3	13.8%	\$125.7	20.0%
Mexico	34.4	14.9	30.9	15.6	112.7	17.0	81.0	12.9
Other Americas	5.1	2.2	9.1	4.6	17.9	2.7	22.9	3.6
Total Americas	\$68.3	29.6%	\$82.2	41.4%	\$221.9	33.5%	\$229.6	36.5%
Asia-Pacific:								
Hong Kong	\$67.9	29.5%	\$24.3	12.2%	\$150.5	22.7%	\$87.0	13.9%
Japan	19.8	8.6	12.9	6.5	65.8	10.0	83.7	13.3
Thailand	20.5	8.9	13.7	6.9	64.5	9.8	43.4	6.9
Other Asia-Pacific	27.0	11.7	36.1	18.2	69.3	10.5	86.1	13.7
Total Asia-Pacific	\$135.2	58.7%	\$87.0	43.8%	\$350.1	53.0%	\$300.2	47.8%
EMEA	\$26.9	11.7%	\$29.5	14.8%	\$89.3	13.5%	\$98.4	15.7%

Total net revenue \$230.4 \$198.7 \$661.3 \$628.2

Net revenue from customers outside the United States, based on customer shipping location, during the three months ended April 2, 2016 and March 28, 2015, represented 87.5% and 78.8% of net revenue, respectively. Net revenue from customers outside the United States, based on customer shipping location, during the nine months ended April 2, 2016 and March 28, 2015, represented 86.2% and 80.0% 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 nine months ended April 2, 2016 and March 28, 2015 (in millions, except for percentages):

	Gross Profit		Gross Margin		Gross Profit		Gross Margin	
	Three Months Ended		Three Months Ended		Nine Months Ended		Nine Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
OpComms	\$58.7	\$47.1	29.8%	28.2%	\$171.4	\$150.3	30.6%	29.2%
Lasers	15.5	13.6	46.7%	43.2%	43.9	55.0	43.4%	48.7%
Segment total	\$74.2	\$60.7	32.2%	30.5%	\$215.3	\$205.3	32.6%	32.7%
Unallocated corporate items ⁽¹⁾	(11.4)	(3.6)			(17.5)	(11.0)		
Total	\$62.8	\$57.1	27.3%	28.7%	\$197.8	\$194.3	29.9%	30.9%

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 1.4 percentage points from 28.7% in the same period a year ago to 27.3% in the three months ended April 2, 2016. This decrease was primarily due to an inventory write-off related to our 3-D sensing product, partially offset by

Table of Contents

increases in OpComms and Lasers gross margins.

Gross margin decreased 1.0 percentage points from 30.9% in the same period a year ago to 29.9% in the nine months ended April 2, 2016. This decrease was primarily due to lower 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 1.6 percentage points to 29.8% in the three months ended April 2, 2016 from 28.2% in the same period a year ago. This increase was primarily due to higher revenue volume and cost reductions, partially offset by an inventory write-off related to our 3-D sensing product.

OpComms gross margin increased 1.4 percentage points to 30.6% in the nine months ended April 2, 2016 from 29.2% in the same period a year ago. This increase was primarily due to higher revenue volume and cost reductions.

Lasers

Lasers gross margin increased 3.5 percentage points to 46.7% in the three months ended April 2, 2016 from 43.2% in the same period a year ago. This increase was primarily due to higher revenue volume and product mix.

Lasers gross margin decreased 5.3 percentage points to 43.4% in the nine months ended April 2, 2016 from 48.7% in the same period a year ago. This decrease was primarily due to lower revenue volume and product mix.

Research and Development (“R&D”)

R&D expense increased \$0.3 million, or 0.9%, for the three months ended April 2, 2016 compared to the same period a year ago. The increase was primarily due to higher spending on materials to support ongoing R&D efforts and labor and benefits expenses for one additional week in the three months ended April 2, 2016. This was partially offset by higher R&D credits.

R&D expense decreased \$0.4 million, or 0.4%, for the nine months ended April 2, 2016 compared to the same period a year ago. The decrease was primarily due to higher R&D credits and 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. This was partially offset by labor and benefits expenses for one additional week in the three months ended April 2, 2016.

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 \$3.8 million, or 11.9%, in the three months ended April 2, 2016 compared to the same period a year ago. This decrease was primarily driven by lower stand-alone SG&A costs during the three months ended April 2, 2016 compared to higher SG&A allocation from Viavi for the three months ended March 28, 2015. This was partially offset by higher labor and benefits expenses for one additional week in the three months ended April 2, 2016.

SG&A expense decreased by \$3.5 million, or 3.8%, in the nine months ended April 2, 2016 compared to the same period a year ago. This decrease was primarily driven by lower stand-alone SG&A expense during the nine months ended April 2, 2016 compared to higher SG&A allocation from Viavi for the nine months ended March 28, 2015. This was partially offset by higher labor and benefits expenses for one additional week in the nine months ended April 2, 2016.

We intend to continue to focus on reducing our SG&A expenses as a percentage of net revenue. However, we may incur additional SG&A expenses in the future, including to support additional SEC reporting requirements that we will become subject to when we no longer qualify as an "emerging growth company" as defined in the JOBS Act, as well as certain non-core expenses, 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.

Table of Contents

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 April 2, 2016, our total restructuring accrual was \$3.8 million. During the three and nine months ended April 2, 2016, we recorded \$1.8 million and \$3.9 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 nine months ended March 28, 2015, we recorded \$1.1 million and \$6.7 million, respectively, in restructuring and related charges. The charges are primarily due to the allocated costs of restructuring and other 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 \$0.7 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 nine months ended April 2, 2016, the unrealized loss was \$4.8 million and \$5.0 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 \$(0.4) million during each of the three months ended April 2, 2016 and March 28, 2015.

Interest and other income (expense), net was \$(1.1) million during the nine months ended April 2, 2016 as compared to \$(0.8) million during the same period a year ago.

Provision for Income Taxes

We recorded a tax provision of \$0.1 million and \$0.3 million for the three and nine months ended April 2, 2016, respectively. We recorded a tax benefit of \$23.4 million and \$22.0 million for the three and nine months ended March 28, 2015. 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 nine months ended April 2, 2016, we recognized a net benefit of \$0.3 million related to deferred tax adjustments related to our operations in 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.

30

Table of Contents

Contractual Obligations

The following table summarizes our contractual obligations at April 2, 2016, 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	\$—	\$0.6	\$0.5	\$1.2
Purchase obligations ⁽¹⁾	164.4	139.2	24.1	1.1	—
Operating lease obligations ⁽¹⁾	26.5	1.7	12.4	6.7	5.7
Pension and post-retirement benefit payments	2.3	—	0.1	0.1	2.1
Total	\$195.5	\$140.9	\$37.2	\$8.4	\$9.0

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

As of April 2, 2016, other current liabilities and other non-current liabilities on the consolidated balance sheets includes \$0.4 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 \$164.4 million of purchase obligations as of April 2, 2016, \$81.6 million are related to inventory and the other \$82.8 million are non-inventory items of which \$2.0 million is committed to Viavi.

As of April 2, 2016, 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 April 2, 2016 and June 27, 2015, our cash and cash equivalents of \$157.2 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 April 2, 2016, our consolidated balance of cash and cash equivalents increased by \$142.7 million, to \$157.2 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

Table of Contents

Cash provided by operating activities was \$73.5 million during the nine months ended April 2, 2016, primarily resulting from \$5.0 million of net loss and \$66.6 million of non-cash items such as depreciation, stock-based compensation, amortization of acquired technologies and other intangibles, and unrealized loss on derivative liability, and changes in operating assets and liabilities of \$11.9 million. Changes in our operating assets and liabilities related primarily to an increase in accounts payable of \$32.7 million, an increase in accrued payroll and related expenses of \$9.7 million, an increase in accrued expenses and other current and non-current liabilities of \$3.5 million, an increase in accounts receivable of \$11.6 million, an increase in inventories of \$9.6 million, and an increase in other current and non-current assets of \$11.0 million.

Cash used in operating activities was \$3.7 million during the nine months ended March 28, 2015, primarily resulting from \$12.4 million of net income and \$51.1 million of non-cash items such as depreciation, stock-based compensation, and amortization of acquired technologies and other intangibles, offset by changes in operating assets and liabilities of \$67.2 million. Changes in our operating assets and liabilities related primarily to an increase in accounts receivable of \$22.8 million, a decrease in accrued expenses and other current and non-current liabilities of \$15.7 million, a decrease in income tax payable of \$12.9 million, an increase in other current and non-currents assets of \$11.4 million, a decrease in accrued payroll and related expenses of \$4.7 million and an increase in inventories of \$3.2 million, partially offset by an increase in deferred taxes of \$4.0 million.

Investing Cash Flow

Cash used in investing activities was primarily for capital expenditures of \$63.4 million and \$35.3 million during the nine months ended April 2, 2016 and March 28, 2015, respectively.

Financing Cash Flow

Cash provided by financing activities was \$131.4 million during the nine months ended April 2, 2016 resulting primarily from net transfers from Viavi.

Cash provided by financing activities was \$31.8 million during the nine months ended March 28, 2015 resulting primarily from net transfers from Viavi.

Liquidity and Capital Resources Requirement

We believe that the cash on hand of \$157.2 million as of April 2, 2016, 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 capital markets, 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.

Table of Contents

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 April 2, 2016, 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 nine months ended April 2, 2016, we recorded unrealized gain (loss) of \$0.6 million and \$0.5 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 \$1.1 million during the nine months ended April 2, 2016.

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.

Table of Contents

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 principal 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.

Table of Contents

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 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

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 financial condition 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., 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. 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

35

Table of Contents

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.

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 could be costly and require a long period of time to move products from one contract manufacturer to another which could result in interruptions in supply and adversely 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. Any disruption in the supply of the raw materials, packaging or components used in the manufacture and delivery of our products could have a material adverse impact on our business, financial condition and results of operations.

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

Table of Contents

of the business of certain of our customers, our business and results of operations may fluctuate. If forecasted orders do not 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 is intended to 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 .

Table of Contents

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 laws and 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

38

Table of Contents

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;
- difficulty forecasting revenues and margins;
- dilution of our current stockholders as a result of any issuance of equity securities as acquisition consideration;
- expenditure of cash that would otherwise be available to operate our business; and
- incurrence of indebtedness on terms that are unfavorable to us or that we are unable to repay.

If we are unable to successfully manage any of these risks in relation to any future acquisitions, our business, financial condition and results of operations could be adversely impacted.

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 and loss or damage to our data or in inappropriate disclosure of confidential information. Any actual or alleged disruption to our systems or security breach 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.

Table of Contents

In 2015, we 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 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, or such patents could be invalidated or ruled unenforceable. 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.

Table of Contents

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.

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 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

Table of Contents

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.

Additionally, we are subject to laws and regulations with respect to personal data we collect from our employees, customers, and others. These laws and regulations are subject to frequent modifications and updates and require ongoing supervision. For example, the European Union recently adopted a General Data Protection Regulation, effective in May 2018, that will establish new, and in some cases more stringent, requirements for data protection in Europe. We may be required to modify our practices in order to comply with these or other requirements, which may require us to incur costs and expenses, and we may face difficulties in complying with all privacy and data protection legal requirements that apply to us now or in the future.

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, government inquiries and investigations, 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 or regulations, 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

Table of Contents

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 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.

Table of Contents

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

• 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

Table of Contents

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.

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;

45

Table of Contents

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.

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

Table of Contents

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.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired. As a standalone public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the listing standards of the Nasdaq Stock Market (“NASDAQ”). We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time consuming and costly, and place significant strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our disclosure controls or our internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of management evaluations and independent registered public accounting firm audits of our internal control over financial reporting that we will eventually be required to include in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on NASDAQ.

We are not currently required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act, and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. We will be required to provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our second annual report on Form 10-K. Our independent registered public accounting firm is not required to audit the effectiveness of our internal control over financial reporting until after we are no longer an “emerging growth company”. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed or operating.

Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results, and cause a decline in the price of our common stock.

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 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;
- the operating and stock price performance of other comparable companies;
- a shift in our investor base;

Table of Contents

- 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.

In addition, the stock markets, and in particular the market on which our common stock is listed, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business, results of operations, financial condition and cash flows.

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 April 30, 2016, we had an aggregate of approximately 59.3 million shares of our common stock issued and outstanding. 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, which may include Viavi as discussed below. 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 11.7 million shares of our common stock, representing an ownership interest of 19.9% of our total shares outstanding. As of April 30, 2016, Viavi held a total of 9.2 million shares of our common stock. 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.

Table of Contents

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.

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.

49

Table of Contents

Item 6. Exhibits

The following exhibits are filed as Exhibits to this report:

Exhibit No.	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
10.1	Separation Agreement between Lumentum Operations LLC and Craig Cocchi dated February 4, 2016	8-K	10.1	2/4/2016	
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.

Table of Contents

SIGNATURE

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

LUMENTUM

Date: May 4, 2016 HOLDINGS

INC.

By: /s/ Aaron

Tachibana

By: Aaron

Tachibana

Chief

Financial

Officer