

Lumentum Holdings Inc.  
Form 10-Q  
May 02, 2018  
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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 March 31, 2018

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer,"

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“smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of April 27, 2018, the Registrant had 62.6 million shares of common stock outstanding.

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Table of Contents**PART I - FINANCIAL INFORMATION**

## Item1. Financial Statements (Unaudited)

**LUMENTUM HOLDINGS INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in millions, except per share data)

(Unaudited)

	Three Months Ended March 31 2018	Nine Months Ended April 1, 2017	March 31 2018	April 1, 2017
Net revenue	\$298.8	\$255.8	\$946.6	\$778.9
Cost of sales	201.0	172.0	607.6	523.0
Amortization of acquired developed technologies	0.8	1.7	2.4	5.1
Gross profit	97.0	82.1	336.6	250.8
Operating expenses:				
Research and development	38.2	37.3	118.3	112.9
Selling, general and administrative	33.2	28.1	95.5	84.2
Restructuring and related charges	0.1	3.1	3.8	10.0
Total operating expenses	71.5	68.5	217.6	207.1
Income from operations	25.5	13.6	119.0	43.7
Unrealized loss on derivative liabilities	(20.7 )	(56.6 )	(8.6 )	(74.5 )
Interest and other income (expense), net	(2.1 )	(1.4 )	(8.7 )	(1.4 )
Income (loss) before income taxes	2.7	(44.4 )	101.7	(32.2 )
Provision for (benefit from) income taxes	—	11.6	(112.9 )	15.4
Net income (loss)	2.7	(56.0 )	214.6	(47.6 )
Cumulative dividends on Series A Preferred Stock	(0.2 )	(0.2 )	(0.7 )	(0.6 )
Earnings allocated to Series A Preferred Stock	(0.1 )	—	(4.9 )	—
Net income (loss) attributable to common stockholders	\$2.4	\$(56.2 )	\$209.0	\$(48.2 )
Net income (loss) per share attributable to common stockholders:				
Basic	\$0.04	\$(0.92 )	\$3.37	\$(0.80 )
Diluted	\$0.04	\$(0.92 )	\$3.31	\$(0.80 )
Shares used in per share calculation attributable to common stockholders				
Basic	62.4	61.0	62.1	60.4
Diluted	63.3	61.0	63.2	60.4

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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LUMENTUM HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in millions)

(Unaudited)

	Three Months Ended March 31, 2018	1.9	1.9	(2.7 )
Net income (loss)	\$2.7	\$214.6	\$214.6	(\$47.6 )
Other comprehensive income (loss):				
Net change in cumulative translation adjustment, net of tax	(0.1 )	1.9	1.9	(2.7 )
Net change in unrealized loss on available-for-sale securities, net of tax	(1.3 )	—	(2.0 )	—
Net change in accumulated other comprehensive income (loss)	(1.4 )	1.9	(0.1 )	(2.7 )
Comprehensive income (loss)	\$1.3	\$214.5	\$214.5	(\$50.3 )

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	March 31, 2018	July 1, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 176.8	\$ 272.9
Short-term investments	516.0	282.4
Accounts receivable, net	164.7	166.3
Inventories	144.2	145.2
Prepayments and other current assets	63.0	63.5
Total current assets	1,064.7	930.3
Property, plant and equipment, net	301.8	273.5
Goodwill and intangibles, net	19.9	21.5
Deferred income taxes	128.2	3.9
Other non-current assets	3.6	3.7
Total assets	\$ 1,518.2	\$ 1,232.9
<b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 100.9	\$ 114.8
Accrued payroll and related expenses	33.2	27.5
Income taxes payable	0.1	0.7
Accrued expenses	36.3	19.3
Other current liabilities	21.0	21.9
Total current liabilities	191.5	184.2
Convertible notes	329.9	317.5
Derivative liability	60.2	51.6
Other non-current liabilities	24.2	25.0
Total liabilities	605.8	578.3
Commitments and contingencies (Note 16)		
Redeemable convertible preferred stock:		
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 March 31, 2018 and July 1, 2017	35.8	35.8
Total redeemable convertible preferred stock	35.8	35.8
Stockholders' equity:		
Common stock, \$0.001 par value, 990,000,000 authorized shares, 62,588,096 and 61,476,103 shares issued and outstanding as of March 31, 2018 and July 1, 2017, respectively	0.1	0.1
Additional paid-in capital	736.0	694.5
Retained earnings	133.2	(83.2 )
Accumulated other comprehensive income	7.3	7.4
Total stockholders' equity	876.6	618.8
Total liabilities, redeemable convertible preferred stock, and stockholders' equity	\$ 1,518.2	\$ 1,232.9

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.



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LUMENTUM HOLDINGS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(Unaudited)

	Nine Months Ended March 31	April 1, 2018	2017
<b>OPERATING ACTIVITIES:</b>			
Net income (loss)	\$214.6	\$(47.6 )	
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation expense	53.3	39.1	
Stock-based compensation	35.1	24.7	
Unrealized loss on derivative liabilities	8.6	74.5	
Amortization of acquired developed technologies and other intangibles	2.4	5.4	
Loss on retirement of equipment	0.5	—	
Excess tax benefit associated with stock-based compensation	—	(5.2 )	
Amortization of discount on 0.25% Convertible Senior Notes due 2024	12.4	1.0	
Release of valuation allowance, net	(124.0 )	—	
Other non-cash (income) expenses	0.3	—	
Changes in operating assets and liabilities:			
Accounts receivable	1.6	(14.9 )	
Inventories	1.1	(14.0 )	
Prepayments and other current and non-currents assets	1.9	(7.9 )	
Income taxes, net	(0.5 )	15.4	
Accounts payable	(15.9 )	(18.2 )	
Accrued payroll and related expenses	5.6	4.5	
Accrued expenses and other current and non-current liabilities	12.9	15.1	
Net cash provided by operating activities	209.9	71.9	
<b>INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment	(72.9 )	(100.0 )	
Purchases of short-term investments	(585.1 )	—	
Proceeds from maturities and sales of short-term investments	349.3	—	
Acquisition of business, net of cash acquired	—	(5.1 )	
Net cash used in investing activities	(308.7 )	(105.1 )	
<b>FINANCING ACTIVITIES:</b>			
Proceeds from the issuance of 0.25% Convertible Senior Notes due 2024, net of issuance costs	—	443.2	
Excess tax benefit associated with stock-based compensation	—	5.2	
Payment of dividends - preferred stock	(0.7 )	(0.6 )	
Proceeds from employee stock plans	4.4	3.7	
Repayment of capital lease obligation	(3.5 )	—	
Proceeds from the exercise of stock options	1.7	3.2	
Net cash provided by financing activities	1.9	454.7	
Effect of exchange rates on cash and cash equivalents	0.8	(0.7 )	
Increase (decrease) in cash and cash equivalents	(96.1 )	420.8	
Cash and cash equivalents at beginning of period	272.9	157.1	
Cash and cash equivalents at end of period	\$176.8	\$577.9	
Supplemental disclosure of cash flow information:			
Cash paid for taxes	\$11.5	\$8.3	

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Cash paid for interest	1.2	—
Unpaid property, plant and equipment in accounts payable and accrued expenses	10.5	15.2
Equipment acquired under capital lease	15.6	—
Issuance costs in current liabilities	—	0.9

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Lumentum (we, us, our or the Company) is 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 (“OpComms”) and Commercial Lasers (“Lasers”) for manufacturing, inspection and life-science applications. We seek to use 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 3D 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. For 3D sensing, we sell diode lasers to manufacturers of consumer electronics products for mobile, personal computing, gaming, and other applications, who then integrate our devices within their products, for eventual resale to consumers.

Basis of Presentation

The preparation of the condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in our condensed 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, derivative liability valuation, long-lived asset valuation, warranty and accounting for income taxes.

On March 11, 2018, Lumentum and Oclaro, Inc. (“Oclaro”) entered into a Merger Agreement (the “Merger Agreement”), unanimously approved by the boards of directors of both companies, under which Lumentum will acquire all outstanding shares of Oclaro common stock. Each share of Oclaro common stock will be exchanged for \$5.60 in cash and 0.0636 shares of Lumentum common stock, subject to the terms of the Merger Agreement. The total transaction consideration was approximately \$1.8 billion as of the date of the Merger Agreement. Oclaro stockholders will own approximately 16% of the combined company at closing. The Merger Agreement contains certain termination rights for both Lumentum and Oclaro. The Merger Agreement further provides that upon termination of the Merger Agreement under specified circumstances relating to failure to obtain regulatory approvals, Lumentum may be required to pay Oclaro a termination fee of \$80 million.

The total transaction consideration will be funded by a combination of cash from the combined company of approximately \$416 million, \$550 million in new debt, and \$859 million in Lumentum common stock.

Lumentum entered into a commitment letter with Deutsche Bank Securities Inc. and Deutsche Bank AG New York, New York Branch (“Deutsche Bank”), pursuant to which, subject to the terms and conditions set forth therein, Deutsche Bank has committed to provide a senior secured term loan facility in an aggregate principal amount of \$550 million, with a provision for additional senior secured term loans in an aggregate principal amount not to exceed \$250 million. The transaction is subject to customary closing conditions, including the approval of Oclaro stockholders and antitrust regulatory approval in the United States and China. Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”), Lumentum and Oclaro are required to make pre-merger notification filings and to await the expiration or early termination of the statutory waiting period prior to completing the Merger. Lumentum and Oclaro submitted pre-merger notification filings under the HSR Act on March 23, 2018 and received early termination of the waiting period on April 4, 2018. The transaction is not subject to any financing condition. The

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transaction is expected to be completed in the second half of calendar 2018.

**Fiscal Years**

We utilize a 52-53 week fiscal year ending on the Saturday closest to June 30th. Our fiscal 2018 is a 52-week year ending on June 30, 2018. Our fiscal 2017 was a 52-week year and ended on July 1, 2017.

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Principles of Consolidation**

These interim unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated in consolidation.

**Accounting Policies**

The accompanying interim unaudited condensed consolidated financial statements and accompanying related notes should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended July 1, 2017.

Effective July 2, 2017, we adopted Accounting Standards Update (“ASU”) 2016-09, Stock Compensation ASU 718 - Improvements to Employee Share-Based Payment Accounting. As a result of the adoption, in the first quarter of fiscal year 2018, we recorded on a modified retrospective basis a \$2.6 million cumulative-effect adjustment to retained earnings for the recognition of excess tax benefits generated by the settlement of share-based awards in prior periods. We elected to account for forfeitures of equity awards when they occur. The change was applied on a modified retrospective basis with a cumulative-effect adjustment of approximately \$0.2 million to retained earnings in the fiscal first quarter of 2018.

All excess tax benefits and deficiencies are recognized in the income tax provision in the condensed consolidated statements of operations prospectively, rather than in additional paid-in-capital in the condensed consolidated balance sheets. In addition, the standard eliminates the requirement to defer recognition of excess tax benefits until they are realized through a reduction to income taxes payable. We present excess tax benefits as an operating activity in the condensed consolidated statements of cash flows on a prospective basis.

**Note 2. Recently Issued Accounting Pronouncements**

In January 2017, the Financial Accounting Standards Board (“FASB”) issued ASU 2017-01, Business Combinations (Topic 805), which clarifies the definition of a business. For accounting and financial reporting purposes, businesses are generally comprised of three elements; inputs, processes, and outputs. Integrated sets of assets and activities capable of providing these three elements may not always be considered a business, and the lack of one of the three elements does not always disqualify the set from being a business. The issuance of ASU 2017-01 provides a clarifying screen to determine when a set of assets and activities is not a business. Primarily, the screen requires that when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. The amendments contained in ASU 2017-01 are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The accounting standard update will be effective for us beginning in the first quarter of fiscal 2019 and should be applied prospectively. We do not believe the implementation of ASU 2017-01 will have a material impact on our condensed consolidated financial statements.

In January 2017, FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment. ASU 2017-04 removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment charge will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The amendments contained in ASU 2017-04 are effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted, which should be applied prospectively. We plan to adopt the accounting standard update in our first quarter of fiscal 2019. We do not believe the implementation of ASU 2017-04 will have a material impact on our condensed consolidated financial statements.

In August 2016, FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The amendments contained in ASU 2016-15 are effective for interim and annual periods beginning after December 15, 2017. The accounting standard update will be effective for us in the first quarter of fiscal 2019 and will be applied prospectively. If we elect to settle the principal amounts of our 2024 Notes (refer to “Note 10. Convertible Senior Notes”) in cash, the payment will be bifurcated between (i) cash outflows for operating activities of \$137.6 million for the portion related to accreted interest attributable to debt discount, and (ii)

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financing activities for the remainder of \$312.4 million.

In February 2016, FASB issued ASU 2016-02, Leases. The new guidance generally requires an entity to recognize on its balance sheet operating and financing lease liabilities and corresponding right-of-use assets. The new guidance contained in ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those periods, with early adoption permitted. The standard is effective for us in our first quarter of fiscal 2020 and should be applied prospectively.

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Based on our current lease portfolio, we estimate the value of leased assets and liabilities that may be recognized will be material. We are continuing to evaluate the impact of ASU 2016-02 and is subject to change.

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the consideration expected to be received in exchange for those goods or services. The new standard requires that reporting companies disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. On July 9, 2015, FASB agreed to delay the effective date by one year, and accordingly, the new standard is effective for us at the beginning of the first quarter of fiscal 2019.

The guidance to ASU 2014-09 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). We selected the modified retrospective method. We do not anticipate that the adoption of ASU 2014-09 will have a material impact on our consolidated financial statements including the potential impact of the additional disclosure requirement, primarily because we will continue to recognize most revenue at a point-in-time when control transfers. This is similar to the current revenue recognition model.

We currently recognize revenue when all four revenue recognition criteria have been met: (i) persuasive evidence of an arrangement exists, (ii) the product has been delivered or the service has been rendered, (iii) the price is fixed or determinable and (iv) collection is reasonably assured. Revenue from product sales is recorded when all of the foregoing conditions are met and risk of loss and title passes to the customer. Our products typically include a warranty and the estimated cost of product warranty claims, based on historical experience, is recorded at the time the sale is recognized. Sales to customers are generally not subject to price protection or return rights. The majority of our sales are made to OEMs, distributors, resellers and end-users.

We are implementing changes to our accounting policies, internal controls, and disclosures to support the new standard; however, these changes will not be material.

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 3. Earnings Per Share

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

	Three Months Ended	Nine Months Ended	
	March 3, 2018	April 1, 2017	March 31, 2018
	April 1, 2017	March 31, 2018	April 1, 2017
<b>Basic Earnings per Common Share</b>			
Net income (loss)	\$2.7	\$(56.0)	\$214.6
Less: Cumulative dividends on Series A Preferred Stock	(0.2 )	(0.2 )	(0.7 )
Less: Earnings allocated to Series A Preferred Stock	(0.1 )	—	(4.9 )
Net income (loss) attributable to common stockholders - basic	\$2.4	\$(56.2)	\$209.00
Weighted average common shares outstanding including Series A Preferred Stock	63.9	62.5	63.6
Less: Weighted average Series A Preferred Stock	(1.5 )	(1.5 )	(1.5 )
Basic weighted average common shares outstanding	62.4	61.0	62.1
Net income (loss) per share attributable to common stockholders - basic	\$0.04	\$(0.92)	\$3.37
<b>Diluted Earnings per Common Share</b>			
Net income (loss) attributable to common stockholders - diluted	\$2.4	\$(56.2)	\$209.0
Weighted average common shares outstanding for basic earnings per common share	62.4	61.0	62.1
Effect of dilutive securities from stock-based benefit plans	0.9	—	1.1
Effect of diluted securities from Series A Preferred Stock	—	—	—
Diluted weighted average common shares outstanding	63.3	61.0	63.2
Net income (loss) per share attributable to common stockholders - diluted	\$0.04	\$(0.92)	\$3.31

Our Series A Preferred Stock is considered a participating security, which may participate in undistributed earnings with our common stock. The holders of our Preferred Stock would be entitled to share in dividends, on an as-converted basis, if the holders of our common stock were to receive dividends. We are required to use the two-class method when computing earnings per share as we have a security that qualifies as a participating security. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In determining the amount of net earnings to allocate to common stockholders, earnings are allocated to both common and participating securities based on their respective weighted-average shares outstanding during the period. Diluted earnings per common share, when applicable, is computed using the more dilutive of the two-class method or the if-converted method. In periods of net loss, no effect is given to participating securities since they do not contractually participate in the losses of the Company.

The dilutive effect of stock-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 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 collectively are assumed proceeds to be used to repurchase hypothetical shares. An increase in the fair value of our common stock can result in a greater dilutive effect from potentially dilutive awards.

In March 2017, we issued \$450 million in aggregate principal amount of 0.25% Convertible Senior Notes due in 2024 (the “2024 Notes”). We have the ability and intent to settle the \$450 million face value of the 2024 Notes in cash. Therefore, we use the treasury stock method for calculating the dilutive impact of the 2024 Notes. The 2024 Notes will have no impact to diluted earnings per share until the average price of our common stock exceeds the conversion

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price of \$60.62. Refer to “Note 10. Convertible Senior Notes” for further discussion.

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## LUMENTUM HOLDINGS INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three and nine months ended March 31, 2018 and April 1, 2017, the number of shares related to our stock-based benefit plans that were excluded from the calculation of diluted shares was not material.

## Note 4. Accumulated Other Comprehensive Income (Loss)

Our accumulated other comprehensive income (loss) consists of the accumulated net unrealized gains or losses on foreign currency translation adjustments, the defined benefit obligation, and available-for-sale securities.

As of March 31, 2018 and July 1, 2017, balances for the components of accumulated other comprehensive income (loss) were as follows (in millions):

	Foreign currency translation adjustments, net of tax	Defined benefit (loss) on obligation, net of tax	Unrealized gain available-for-sale securities, net of tax	Total
Beginning balance as of July 1, 2017	\$ 10.5	\$ (3.1 )	\$ —	\$ 7.4
Other comprehensive income (loss)	1.9	—	(2.0 )	(0.1 )
Ending balance as of March 31, 2018	\$ 12.4	\$ (3.1 )	\$ (2.0 )	\$ 7.3

We evaluate the assumptions over the fair value of our defined benefit obligation annually and make changes as necessary.

## Note 5. Asset Acquisition

On March 30, 2018, we entered into a Transition Services Agreement (“TSA”) with one of our contract manufacturers to wind down the production of our products at their facility in China and to facilitate an orderly transition of manufacturing to our manufacturing facility in Thailand, including the purchase of the manufacturing equipment. Under the terms of the TSA, we are required to pay \$5.3 million in cash upon completion of certain milestones related to the purchase of equipment.

We are also required to share cost of retention and severance, and to reimburse for certain other direct and indirect costs incurred by our contract manufacturer for transition services provided. These costs will be expensed as incurred.

## Note 6. Balance Sheet Details

## Accounts receivable allowances

As of March 31, 2018 and July 1, 2017, our accounts receivable allowance balance was \$1.8 million and \$1.8 million, respectively.

## Inventories

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

	March 31, July 1, 2018      2017	
Finished goods	\$ 93.2	\$ 71.7
Work in process	30.5	49.4
Raw materials and purchased parts	20.5	24.1
Inventories	\$ 144.2	\$ 145.2

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Prepayments and other current assets

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

	March 31, July 1, 2018	2017
Capitalized manufacturing overhead	\$ 23.9	\$ 30.1
Prepayments	14.8	12.3
Advances to contract manufacturers	15.0	10.5
Other current assets	9.3	10.6
Prepayments and other current assets	<b>\$ 63.0</b>	<b>\$ 63.5</b>

## Property, plant and equipment, net

The components of property, plant and equipment, net were as follows (in millions):

	March 31, July 1, 2018	2017
Land	\$ 10.6	\$ 10.6
Buildings and improvement	49.3	37.3
Machinery and equipment <sup>(1)</sup>	543.2	461.1
Computer equipment and software	37.3	31.2
Furniture and fixtures	4.9	4.6
Leasehold improvements	30.1	30.5
Construction in progress	63.2	84.6
	738.6	659.9
Less: Accumulated depreciation	(436.8 )	(386.4 )
Property, plant and equipment, net	<b>\$ 301.8</b>	<b>\$ 273.5</b>

(1) In the first quarter of fiscal 2018, we started leasing equipment from a vendor and have accounted for the transaction as a capital lease. Included in the table above is our capital lease asset of \$11.9 million, net of depreciation expense of \$3.7 million as of March 31, 2018.

During the three and nine months ended March 31, 2018, we recorded depreciation expense of \$18.4 million and \$53.3 million, respectively. During the three and nine months ended April 1, 2017, we recorded a depreciation expense of \$14.1 million and \$39.1 million, respectively.

Our construction in progress primarily includes machinery and equipment that were purchased in order to increase our manufacturing capacity. We expect to place these assets in service in the next 12 months.

## Other current liabilities

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

	March 31, July 1, 2018	2017
Warranty accrual <sup>(1)</sup>	\$ 7.0	\$ 9.7
Restructuring accrual and related charges <sup>(2)</sup>	—	3.8
Deferred revenue and customer deposits	2.5	6.9
Capital lease obligation <sup>(3)</sup>	9.2	—
Other current liabilities	2.3	1.5
Other current liabilities	<b>\$ 21.0</b>	<b>\$ 21.9</b>

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Refer to “Note 16. Commitments and Contingencies” in the Notes to Unaudited Condensed Consolidated Financial Statements.

(2) Refer to “Note 13. Restructuring and Related Charges” in the Notes to Unaudited Condensed Consolidated Financial Statements.

(3) As of March 31, 2018, an amount of \$2.3 million related to a capital lease was recorded in accounts payable on the condensed consolidated balance sheet. Refer to “Note 16. Commitments and Contingencies” in the Notes to Unaudited Condensed Consolidated Financial Statements.

Other non-current liabilities

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

	March 31, July 1,	
	2018	2017
Asset retirement obligation	\$ 2.7	\$2.5
Pension and related accrual	3.2	3.9
Deferred rent	3.1	3.3
Unrecognized tax benefit	10.2	10.5
Capital lease obligation <sup>(1)</sup>	0.8	—
Other non-current liabilities	4.2	4.8
Other non-current liabilities	<b>\$ 24.2</b>	<b>\$25.0</b>

(1) Refer to “Note 16. Commitments and Contingencies” in the Notes to Unaudited Condensed Consolidated Financial Statements.

Note 7. Cash, Cash Equivalents, and Short-term Investments

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## LUMENTUM HOLDINGS INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Cash, cash equivalents and short-term investments

The following table summarizes our cash, cash equivalents, and short-term investments by category for the periods presented (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>March 31, 2018:</b>				
Cash	\$ 82.6	\$ —	\$ —	\$ 82.6
Cash equivalents:				
Commercial paper	29.1	—	—	29.1
Corporate debt securities	26.0	—	—	26.0
Money market funds	2.5	—	—	2.5
Municipal bonds	1.5	—	—	1.5
Foreign government bonds	2.0			2.0
U.S. Treasury	26.7	—	—	26.7
Asset-backed securities	6.4	—	—	6.4
Total cash and cash equivalents	\$ 176.8	\$ —	\$ —	\$ 176.8
Short-term investments:				
Certificates of deposit	\$ 32.0	\$ —	\$ —	\$ 32.0
Commercial paper	35.1	—	—	35.1
Asset-backed securities	114.3	—	(0.3 )	114.0
Corporate debt securities	317.6	0.1	(1.8 )	315.9
Municipal bonds	6.2	—	—	6.2
Mortgage-backed securities	4.8	—	—	4.8
Foreign government bonds	8.0	—	—	8.0
Total short-term investments	\$ 518.0	\$ 0.1	\$ (2.1 )	\$ 516.0
<b>July 1, 2017:</b>				
Cash	\$ 201.3	\$ —	\$ —	\$ 201.3
Cash equivalents:				
Certificates of deposit	52.1	—	—	52.1
Commercial paper	14.7	—	—	14.7
Money market funds	4.8	—	—	4.8
Total cash and cash equivalents	\$ 272.9	\$ —	\$ —	\$ 272.9
Short-term investments:				
Certificates of deposit	\$ 202.1	\$ —	\$ —	\$ 202.1
Asset-backed securities	26.1	—	—	26.1
Corporate debt securities	46.4	—	—	46.4
Municipal bonds	4.9	—	—	4.9
Foreign government bonds	1.0	—	—	1.0
U.S. Treasury	1.9	—	—	1.9
Total short-term investments	\$ 282.4	\$ —	\$ —	\$ 282.4

We use the specific-identification method to determine any realized gains or losses from the sale of our short-term investments classified as available-for-sale. During the three and nine months ended March 31, 2018, we did not realize significant gains or losses on a gross level from the sale of our short-term investments classified as available-for-sale.



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## LUMENTUM HOLDINGS INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes unrealized losses on our cash equivalents and short-term investments by category and length of time the investment has been in a continuous unrealized loss position as of the periods presented (in millions):

	Less than 12 months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>March 31, 2018:</b>						
Certificates of deposit	\$25.4	\$ —	\$ —	\$ —	—\$25.4	\$ —
Commercial paper	39.7	—	—	—	39.7	—
Asset-backed securities	112.9	(0.3 )	—	—	112.9	(0.3 )
Corporate debt securities	291.8	(1.8 )	—	—	291.8	(1.8 )
Municipal bonds	6.2	—	—	—	6.2	—
Mortgage-backed securities	4.5	—	—	—	4.5	—
U.S. Treasury	3.0	—	—	—	3.0	—
Foreign government bonds	8.8	—	—	—	8.8	—
Total	\$492.3	\$ (2.1 )	\$ —	\$ —	—\$492.3	\$ (2.1 )
<b>July 1, 2017:</b>						
Asset-backed securities	\$21.5	\$ —	\$ —	\$ —	—\$21.5	\$ —
Corporate debt securities	29.8	—	—	—	29.8	—
Municipal bonds	2.9	—	—	—	2.9	—
Foreign government bonds	1.0	—	—	—	1.0	—
U.S. Treasury	1.9	—	—	—	1.9	—
Total	\$57.1	\$ —	\$ —	\$ —	—\$57.1	\$ —

The following table classifies our investments in debt securities by contractual maturities (in millions):

As of March  
31, 2018

	Amortized Cost	Fair Value
Due in 1 year	\$252.1	\$251.5
Due in 1 year through 5 years	252.7	251.3
Due in 5 years through 10 years	7.2	7.2
Due after 10 years	6.0	6.0
	\$518.0	\$516.0

All available-for-sale securities have been classified as current, based on management's intent and ability to use the funds in current operations.

#### Note 8. Fair Value Measurements

We determine fair value based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value assumes that the transaction to sell the asset or transfer the liability occurs in the principal or most advantageous market for the asset or liability and establishes that the fair value of an asset or liability shall be determined based on the assumptions that market participants would use in pricing the asset or liability. The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement. The fair value hierarchy prioritizes the inputs into three levels that may be

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used to measure fair value:

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
- Level 3: Inputs are unobservable inputs based on our assumptions.

The fair value of the Company's Level 1 financial instruments, such as money market funds, which are traded in active markets, is based on quoted market prices for identical instruments. The fair value of the Company's Level 2 fixed income securities is obtained from an independent pricing service, which may use quoted market prices for identical or comparable instruments or model driven valuations using observable market data or inputs corroborated by observable market data. Our marketable securities are held by custodians who obtain investment prices from a third-party pricing provider that incorporates standard inputs in various asset price models. The Company's procedures include controls to ensure that appropriate fair values are recorded, including comparing the fair values obtained from the Company's pricing service against fair values obtained from another independent source.

We estimate the fair value of the embedded derivative for the Series A Preferred Stock using the binomial lattice model. The lattice model requires the various assumptions to be made to determine the fair value of the embedded derivatives. These assumptions represent Level 3 inputs. Refer to "Note 11. Derivative Liability" in the Notes to Unaudited Condensed Consolidated Financial Statements.

In February 2017, we completed the acquisition of a privately held company to enhance our manufacturing and vertical integration capabilities for a total purchase consideration of \$8.7 million. We estimated the fair value of our Level 3 contingent consideration related to this acquisition at the present value of the expected contingent payments, determined using a probabilistic approach. We are required to reassess the fair value of contingent payments on a periodic basis. During the three months ended April 1, 2017, we estimated the likelihood of meeting the production targets at 90 percent. There was no change in the fair value of our contingent consideration during the three and nine months ended March 31, 2018. The fair value of such contingent consideration is recorded in accrued liabilities on the condensed consolidated balance sheet as of March 31, 2018. This contingent consideration will result in a cash payment of \$3.0 million, if and when the production targets are achieved, which we expect to occur within 36 months following the acquisition date.

Our pension assets consist of multiple institutional funds ("pension funds") of which the fair values are based on the quoted prices of the underlying funds. Pension funds are classified as Level 2 assets since such funds are not directly traded in active markets.

Financial assets and liabilities measured at fair value on a recurring basis are summarized below (in millions):

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Level 1	Level 2	Level 3	Total
March 31, 2018:				
Assets:				
Cash equivalents:				
Commercial paper	\$—	\$29.1	\$—	\$29.1
Corporate debt securities	—	26.0	—	26.0
Money market funds	2.5	—	—	2.5
Municipal bonds	—	1.5	—	1.5
Foreign government bonds	—	2.0	—	2.0
U.S. Treasury	26.7	—	—	26.7
Asset-backed securities	—	6.4	—	6.4
Short-term investments:				
Certificates of deposit	—	32.0	—	32.0
Commercial paper	—	35.1	—	35.1
Asset-backed securities	—	114.0	—	114.0
Corporate debt securities	—	315.9	—	315.9
Municipal bonds	—	6.2	—	6.2
Mortgage-backed securities	—	4.8	—	4.8
Foreign government bonds	—	8.0	—	8.0
Total assets	\$29.2	\$581.0	\$—	\$610.2
Other accrued liabilities:				
Derivative liability	\$—	\$—	\$ 60.2	\$ 60.2
Acquisition contingencies	—	—	2.7	2.7
Total other accrued liabilities	\$—	\$—	\$ 62.9	\$ 62.9

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Level 1	Level 2	Level 3	Total
<b>July 1, 2017:</b>				
<b>Assets:</b>				
<b>Cash equivalents:</b>				
Certificates of deposit	\$ —	\$ 52.1	\$ —	\$ 52.1
Commercial paper	—	14.7	—	14.7
Money market funds	4.8	—	—	4.8
<b>Short-term investments:</b>				
Certificates of deposit	—	202.1	—	202.1
Asset-backed securities	—	26.1	—	26.1
Corporate debt securities	—	46.4	—	46.4
Municipal bonds	—	4.9	—	4.9
Foreign government bonds	—	1.0	—	1.0
U.S. Treasury	1.9	—	—	1.9
Total assets	\$ 6.7	\$ 347.3	\$ —	\$ 354.0
<b>Other accrued liabilities:</b>				
Derivative liability	\$ —	\$ —	\$ 51.6	\$ 51.6
Acquisition contingencies	—	—	2.7	2.7
Total other accrued liabilities	\$ —	\$ —	\$ 54.3	\$ 54.3

**Assets Measured at Fair Value on a Non-Recurring Basis**

We periodically review our intangible and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted cash flows resulting from use of the asset and its eventual disposition. If not recoverable, an impairment loss would be calculated based on the excess of the carrying amount over the fair value.

Management utilizes various valuation methods, including an income approach, a market approach and a cost approach, to estimate the fair value of intangible and other long-lived assets. During the annual impairment testing performed in fiscal 2017, all our intangible and other long-lived assets passed Step 1. No impairment charges were recorded in fiscal 2017 or during the three and nine months ended March 31, 2018. Refer to "Note 12. Goodwill and Other Intangible Assets".

**Note 9. Non-Controlling Interest Redeemable Convertible Preferred Stock**

On July 31, 2015, our wholly-owned subsidiary, Lumentum Inc., issued 40,000 shares of its Series A Preferred Stock to Viavi Solutions Inc. ("Viavi"). Pursuant to a securities purchase agreement between the Company, Viavi and Amada Holdings Co., Ltd. ("Amada"), 35,805 shares of Series A Preferred Stock were sold by Viavi to Amada in August 2015. The remaining 4,195 shares of the Series A Preferred Stock were canceled. The Series A Preferred Stock is referred to as our Non-Controlling Interest Redeemable Convertible Preferred Stock within these condensed consolidated financial statements.

The Series A Preferred Stock is redeemable at the option of Amada after five years and classified as non-controlling interest redeemable convertible preferred stock in our condensed consolidated balance sheet. The Series A Preferred Stock is measured at its redemption value. The Series A Preferred Stock value of \$35.8 million as of March 31, 2018 has not changed from the prior year.

The Series A Preferred Stock conversion feature is bifurcated from the Series A Preferred Stock and accounted for separately as a derivative liability. The derivative liability is measured at fair value each reporting period with the change in fair value recorded in the condensed consolidated statements of operations. Refer to "Note 11. Derivative Liability".

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The following paragraphs describe the terms and conditions of the Series A Preferred Stock:  
Conversion

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Series A Preferred Stock is convertible, at the option of the holder, into shares of our common stock commencing on the second anniversary of the closing of the securities purchase (absent a change of control of us or similar event) using a conversion price of \$24.63, which is equal to 125% of the volume weighted average price per share of our common stock in the five “regular-way” trading days following our separation from JDS Uniphase Corporation (“JDSU” and now, Viavi) in August 2015 (the “Separation”).

**Liquidation**

Upon any liquidation, dissolution, or winding up of our business, whether voluntary or involuntary, holders of Series A Preferred Stock will be entitled to receive, in preference to holders of common stock or any other class or series of our outstanding capital stock ranking in any such event junior to the Series A Preferred Stock, an amount per share equal to the greater of (i) the Issuance Value of \$1,000 per share for Series A Preferred Stock plus all accrued and unpaid dividends thereon (whether or not authorized or declared) through the date of payment and (ii) the amount as would have been payable had all Series A Preferred Stock been converted into common stock immediately prior to such liquidation event.

If upon occurrence of any such event, our assets legally available for distribution are insufficient to permit payment of the aforementioned preferential amounts, then all of our assets legally available for distribution will be distributed ratably to the holders of the Series A Preferred Stock and to the holders of any other class or series of our capital stock ranking on parity with the Series A Preferred Stock.

**Voting Rights**

The shares of Series A Preferred Stock have no voting rights except as follows:

- Authorize, approve, or make any change to the powers, preferences, privileges or rights of the Series A Preferred Stock;
- Authorize or issue any additional shares of Series A Preferred Stock or reduce the number of shares of Series A Preferred Stock; or
- Create, or hold capital stock in, any subsidiary that is not wholly-owned by the Company.

**Dividends**

Holders of Series A Preferred Stock, in preference to holders of common stock or any other class or series of our outstanding capital stock ranking in any such event junior to the Series A Preferred Stock, are entitled to receive, when and as declared by the board of directors, quarterly cumulative cash dividends at the annual rate of 2.5% of the Issuance Value per share on each outstanding share of Series A Preferred Stock. The accrued dividends are payable on March 31, June 30, September 30 and December 31 of each year commencing on September 30, 2015.

The accrued dividends as of March 31, 2018 and July 1, 2017 were \$0.2 million and \$0.2 million, respectively.

Dividends paid were \$0.5 million and \$0.7 million for the three and nine months ended March 31, 2018, respectively, and \$0.2 million and \$0.6 million for the three and nine months ended April 1, 2017, respectively.

**Redemption**

**Optional redemption by the Company**

On or after the third anniversary in August 2018, we will have the option to redeem for cash all (but not less than all) of the shares of Series A Preferred Stock at a redemption price equal to the Issuance Value plus the accrued and unpaid dividends on each share and any past due dividends, whether or not authorized or declared.

**Optional redemption by holders**

Commencing on the fifth anniversary of the Issuance Date of the Series A Preferred Stock, each holder of Series A Preferred Stock may cause the Company to redeem for cash any number of shares of Series A Preferred Stock on any date at a redemption price for share redeemed equal to the Issuance Value plus the accrued and unpaid dividends on each share and any past due dividends, whether or not authorized or declared.

**Note 10. Convertible Senior Notes**

In March 2017, we issued the 2024 Notes in a private placement to qualified institutional buyers pursuant to Rule 144A under



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## LUMENTUM HOLDINGS INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Securities Act of 1933, as amended (the “Securities Act”). The 2024 Notes are governed by an indenture between the Company, as the issuer, and U.S. Bank National Association, as trustee (the “Indenture”). The 2024 Notes are unsecured and do not contain any financial covenants, restrictions on dividends, incurrence of senior debt or other indebtedness, or the issuance or repurchase of securities by us.

The 2024 Notes bear interest at a rate of 0.25% per year. Interest on the 2024 Notes is payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2017. The 2024 Notes will mature on March 15, 2024, unless earlier repurchased by us or converted pursuant to their terms.

The initial conversion rate of the 2024 Notes is 16.4965 shares of common stock per \$1,000 principal amount of 2024 Notes, which is equivalent to an initial conversion price of approximately \$60.62 per share, a 132.5% premium to the fair market value at the date of issuance. Prior to the close of business on the business day immediately preceding December 15, 2023, the 2024 Notes will be convertible only under the following circumstances: (1) during any fiscal quarter (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (2) during the five consecutive business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of notes for each trading day of such measurement period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after December 15, 2023 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time. In addition, upon the occurrence of a make-whole fundamental change, we will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert 2024 Notes in connection with such make-whole fundamental change.

We may not redeem the 2024 Notes prior to their maturity date and no sinking fund is provided for the 2024 Notes. Upon the occurrence of a fundamental change, holders may require us to repurchase all or a portion of their 2024 Notes for cash at a price equal to 100% of the principal amount of the 2024 Notes to be repurchased, plus any accrued and unpaid interest.

We considered the features embedded in the 2024 Notes other than the conversion feature, including the holders’ put feature, our call feature, and the make-whole feature, and concluded that they are not required to be bifurcated and accounted for separately from the host debt instrument.

Prior to the Tax Matters Agreement settlement condition (“TMA settlement condition”), because we could only settle the 2024 Notes in cash, we determined that the conversion feature met the definition of a derivative liability. We separated the derivative liability from the host debt instrument based on the fair value of the derivative liability. As of the issuance date, March 8, 2017, the derivative liability fair value of \$129.9 million was calculated using the binomial valuation approach. The residual principal amount of the 2024 Notes of \$320.1 million before issuance costs was allocated to the debt component. We incurred approximately \$7.7 million in transaction costs in connection with the issuance of the 2024 Notes. These costs were allocated to the debt component and recognized as a debt discount. We amortize the debt discount, including both the initial value of the derivative liability and the transaction costs, over the term of the 2024 Notes using the effective interest method. The effective interest rate of the 2024 Notes is 5.4% per year. As of March 31, 2018, the remaining debt discount amortization period was 71 months.

During the year ended July 1, 2017, we satisfied the TMA settlement conditions. As such, the value of the conversion option will no longer be marked to market and was reclassified to additional paid-in capital within stockholders’ equity on our condensed consolidated balance sheet. The value of the conversion option at the time of issuance will be treated as an original issue discount for purposes of accounting for the debt component of the notes. The debt component will accrete up to the principal amount over the expected term of the debt. These accounting standards do not affect the actual amount we are required to repay, and the amount shown in the table below for the notes is the aggregate principal amount of the notes and does not reflect the debt discount we will be required to recognize.

As of March 31, 2018, the 2024 Notes consisted of the following (in millions):



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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Liability component:	March 31, July 1,		
	2018	2017	
Principal	\$ 450.0	\$ 450.0	
Unamortized debt discount	(120.1 )	(132.5 )	
Net carrying amount of the liability component	\$ 329.9	\$ 317.5	

The following table sets forth interest expense information related to the 2024 Notes for the three and nine months ended March 31, 2018:

	March 31, 2018	
	Three Months Ended	Nine Months Ended
(in millions, except percentages)		
Contractual interest expense	\$0.3	\$0.9
Amortization of the debt discount	4.2	12.4
Total interest expense	\$4.5	\$13.3
Effective interest rate on the liability component	5.4 %	5.4 %

We have the ability and intent to settle the \$450 million face value of the debt in cash. Therefore, we use the treasury stock method for calculating the dilutive impact of the debt. The 2024 Notes will have no impact to diluted earnings per share until the average price of our common stock exceeds the conversion price of \$60.62.

**Note 11. 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 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”. The lattice model requires the following inputs: (i) the Company’s common stock price; (ii) conversion price; (iii) term; (iv) yield; (v) recovery rate for the Series A Preferred Stock; (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 material impact in the estimated fair value of the embedded derivative. For example, a decrease (increase) in the stock price and the volatility 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 for the Series A Preferred Stock are primarily related to the change in the price of our common stock and are reflected in the condensed consolidated statements of operations as “Unrealized gain (loss) on derivative liabilities”. Unrealized loss on derivative liability for the Series A Preferred Stock amounted to \$(20.7) million and \$(8.6) million for the three and nine months ended March 31, 2018, respectively, and \$(17.9) million and \$(35.8) million for the three and nine months ended April 1, 2017, respectively.

The following table provides a reconciliation of the fair value of the embedded derivative for the Series A Preferred Stock for the three and nine months ended March 31, 2018 and April 1, 2017 (in millions):

	Three Months Ended	Nine Months Ended
	March 31 April 1, 2018	March 31 April 1, 2017
Balance as of beginning of period	\$(39.5)	\$(28.2)
Unrealized loss on the Series A Preferred Stock derivative liability	(20.7 )	(17.9 )
Balance as of end of period	\$(60.2)	\$(46.1)
	\$ (51.6)	\$ (10.3)
	(8.6 )	(35.8 )
	\$ (60.2)	\$ (46.1)

The following table summarizes the assumptions used to determine the fair value of the embedded derivative for Series A Preferred Stock:



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## LUMENTUM HOLDINGS INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	March 31, 2018	July 1, 2017
Stock price	\$63.80	\$57.05
Conversion price	\$24.63	\$24.63
Expected term (years)	2.37	3.11
Expected annual volatility	50.0 %	47.5 %
Risk-free rate	2.31 %	1.57 %
Preferred yield	8.32 %	7.56 %

Also, during the three and nine months ended April 1, 2017, we recorded an unrealized loss on the derivative liability from the 2024 Notes. On June 29, 2017, we met the requirements to account for the conversion option of the 2024 Notes as equity and the conversion option is no longer marked to market. Refer to "Note 10. Convertible Senior Notes" in the Notes to Unaudited Condensed Consolidated Financial Statements.

The following table provides a reconciliation of the fair value of the embedded derivative for the 2024 Notes for the three and nine months ended March 31, 2018 and April 1, 2017 (in millions):

	Three Months Ended March 31, 2018	Nine Months Ended April 1, 2017
Balance as of beginning of period	\$—	\$—
Fair value of the embedded derivative for the 2024 Notes at issuance	—(129.9 )	—(129.9 )
Unrealized loss on the 2024 Notes derivative liability	—(38.7 )	—(38.7 )
Balance as of end of period	\$—(168.6)	\$—(168.6)

## Note 12. Goodwill and Other Intangible Assets

## Goodwill

The following table presents the changes in goodwill by our reportable segments during the nine months ended March 31, 2018 (in millions):

	Optical Communications	Commercial Lasers	Total
Balance as of beginning of period	\$ 5.9	\$ 5.5	\$ 11.4
Foreign currency translation adjustment	0.4	—	0.4
Balance as of end of period	\$ 6.3	\$ 5.5	\$ 11.8

## Impairment of Goodwill

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 2017, we completed the annual impairment test of goodwill, which indicated there was no goodwill impairment. During the three and nine months ended March 31, 2018, 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):

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of March 31, 2018	Gross Carrying Amount	Accumulated Amortization	Net
Acquired developed technology	\$ 105.9	\$ (97.8 )	\$ 8.1
Other	9.4	(9.4 )	—
Total Intangibles	<b>\$ 115.3</b>	<b>\$ (107.2 )</b>	<b>\$ 8.1</b>
As of July 1, 2017	Gross Carrying Amount	Accumulated Amortization	Net
Acquired developed technology	\$ 105.5	\$ (95.4 )	\$ 10.1
Other	9.4	(9.4 )	—
Total Intangibles	<b>\$ 114.9</b>	<b>\$ (104.8 )</b>	<b>\$ 10.1</b>

The amounts in the table above include cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying intangibles.

During the three and nine months ended March 31, 2018, we recorded \$0.8 million and \$2.4 million, respectively, of amortization related to acquired developed technology.

During the three and nine months ended April 1, 2017, we recorded \$1.8 million and \$5.4 million, respectively, of amortization related to acquired developed technology and other intangibles.

The following table presents details of amortization for the periods presented (in millions):

	Three Months Ended	Nine Months Ended
	March 31, 2018	March 31, 2018
	2017	2017
Cost of sales	\$ 0.8	\$ 1.7
Operating expenses	—	0.1
Total	<b>\$ 0.8</b>	<b>\$ 1.8</b>
	\$ 2.4	\$ 5.1
	2018	2017
Remainder of 2018	\$ 0.8	
2019	3.1	
2020	3.0	
2021	0.5	
2022	0.5	
Thereafter	0.2	
Total amortization	<b>\$ 8.1</b>	

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## LUMENTUM HOLDINGS INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 13. Restructuring and Related Charges

The following table summarizes the activity of restructuring and related charges during the three and nine months ended March 31, 2018 and April 1, 2017 (in millions):

	Three Months Ended March 31, 2018	Nine Months Ended April 31, 2017	March 2018	April 2017
Balance as of beginning of period	\$0.4	\$6.0	\$3.8	\$5.7
Charges	0.1	3.1	3.8	10.0
Payments	(0.5 )	(3.8 )	(7.6 )	(10.4)
Balance as of end of period	\$—	\$5.3	\$—	\$5.3

During the three and nine months ended March 31, 2018, we recorded \$0.1 million and \$3.8 million, respectively, in restructuring and related charges in the condensed consolidated statements of operations, primarily attributable to costs to vacate facilities, temporary labor and employee related benefits, as well as costs for materials used in set up and production activities. We incurred no additional costs related to severance for the same periods.

During the three and nine months ended April 1, 2017, we recorded \$3.1 million and \$10.0 million, respectively, in restructuring and related charges in the condensed consolidated statements of operations. Of the \$3.1 million and \$10.0 million charges recorded during the three and nine months ended April 1, 2017, \$0.4 million and \$2.2 million, respectively, was related to severance, retention, lease termination costs, and employee benefits; and \$2.7 million and \$7.8 million, respectively, was related to other restructuring related charges which include relocation costs, temporary labor and employee related benefits, as well as costs for materials used in set up and production activities.

## Note 14. Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, we update our estimate of the annual effective tax rate, and if the estimated annual effective tax rate changes, we make a cumulative adjustment in such period.

Our quarterly tax provision, and estimate of our annual effective tax rate, is subject to variation due to several factors, including variability in pre-tax income (or loss), the mix of jurisdictions to which such income relates, changes in how we do business, and tax law developments. Our estimated effective tax rate for the year differs from the U.S. statutory rate primarily due to the benefit of foreign earnings of our subsidiaries being taxed at rates lower than the U.S. statutory rate.

We recorded an immaterial tax benefit and a tax benefit of \$112.9 million for the three and nine months ended March 31, 2018, respectively. Our tax benefit for the three months ended March 31, 2018 was less than \$0.1 million primarily due to a benefit from foreign rate differential, excess windfall benefit from our stock-based compensation tax deduction, offset by the discrete impact of the non-deductible unrealized loss from the embedded derivatives for the Series A Preferred Stock. Our tax benefit for the nine months ended March 31, 2018 was primarily due to the release of our U.S. federal and certain state valuation allowances. The benefit of this valuation allowance release was partially offset by a non-cash deferred expense associated with the change in the U.S. statutory rate as a result of the Tax Act (discussed further below) which was enacted during our second quarter of fiscal 2018.

We recorded a tax provision of \$11.6 million and \$15.4 million for the three and nine months ended April 1, 2017, respectively. Our tax provision for the three and nine months ended April 1, 2017 was primarily due to the discrete impact of the non-deductible unrealized loss from the embedded derivatives for the Series A Preferred Stock and the 2024 Notes, non-deductible stock-based compensation and partially offset by foreign rate differential, R&D tax credits and the utilization of U.S. deferred tax assets that were subject to a full valuation allowance.

We assess our ability to realize the deferred tax assets on a quarterly basis and establish a valuation allowance if the deferred tax assets are not more-likely-than-not to be realized. We weigh all available positive and negative evidence,

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including our earnings history and results of recent operations, reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of each reporting date, we consider new evidence, both positive and negative, that could affect our view of the future realization of deferred tax assets. As of December 30, 2017, we determined that there is sufficient positive evidence to conclude that it is more-likely-than-not that the deferred tax assets are realizable. We, therefore, released the valuation allowance for the U.S. federal and certain states and recognized a tax benefit of \$207 million as a discrete item for the fiscal second quarter of 2018. Due to the weight of negative evidence, we continue to maintain a full valuation allowance on the California deferred tax assets.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that will affect our fiscal year ending June 30, 2018, including, but not limited to, (1) a reduction in the U.S. federal corporate tax rate; (2) a transition tax on certain deferred income of foreign subsidiaries that, if the taxpayer so elects, is payable over eight years; and (3) bonus depreciation that allows full expensing of qualified property. The Tax Act reduces the federal corporate tax rate to 21 percent in the fiscal year ending June 30, 2018. Section 15 of the Internal Revenue Code stipulates that our fiscal year ending June 30, 2018 will have a blended corporate tax rate of 28 percent, which is based on the applicable tax rates before and after the Tax Act and the number of days in each period.

The Tax Act also establishes new tax laws that will affect our fiscal year ending June 30, 2019, including, but not limited to, (1) reduction of the U.S. federal corporate tax rate; (2) elimination of the corporate alternative minimum tax; (3) the creation of the base erosion anti-abuse tax ("BEAT"), a new minimum tax on taxable income adjusted for certain base erosion payments; (4) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (5) a new provision designed to currently tax certain global intangible low-taxed income ("GILTI") of controlled foreign corporations, which allows for the possibility of using foreign tax credits ("FTCs") and a deduction of up to 50 percent to reduce this income tax liability (subject to some limitations); (6) a new limitation on deductible interest expense; (7) the repeal of the domestic production activity deduction; (8) limitations on the deductibility of certain executive compensation; (9) limitations on the use of FTCs to reduce the U.S. income tax liability; and (10) limitations on net operating losses generated in the taxable years beginning after December 31, 2017, to 80 percent of taxable income.

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with our initial analysis of the impact of the Tax Act, we have recorded a provisional tax expense of \$83 million as a result of the rate decrease, which was accounted for as discrete item in the tax provision for the second quarter of fiscal year 2018. We are required to recognize the effect of this rate change on our deferred tax assets and liabilities and deferred tax asset valuation allowances in the period the tax rate change was enacted.

The reduction in the U.S. federal statutory rate is expected to positively impact our federal cash tax liability. However, the ultimate impact is subject to the effect of other complex provisions in the Tax Act (including the BEAT and GILTI), which we are currently reviewing, and it is possible that any impact of BEAT and GILTI could significantly reduce the benefit of the reduction in the U.S. federal statutory rate. Due to the uncertain practical and technical application of many of these provisions, it is currently not possible to reliably estimate whether BEAT and GILTI will apply and, if so, how it would impact us. We will continue to analyze the Tax Act to assess the full effects on our financial results for the June 30, 2018 fiscal year-end.

Our accounting for the following elements of the Tax Act is incomplete. However, we were able to make reasonable estimates of certain effects and, therefore, recorded provisional adjustments as follows:

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- The Tax Act reduces the corporate tax rate to 21 percent, effective January 1, 2018. For certain of our deferred tax assets and deferred tax liabilities, we have recorded a provisional net decrease of deferred tax assets by \$83 million, with a corresponding net adjustment to deferred income tax expense of \$83 million, which was accounted for as discrete item in the tax provision for the second quarter of fiscal year 2018. While we are able to make a reasonable estimate of the impact of the reduction in corporate rate, it may be affected by other analyses related to the Tax Act, including, but not limited to, our calculation of deemed repatriation of deferred foreign income and the state tax effect of adjustments made to federal temporary differences.

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

•The Deemed Repatriation Transition Tax (“Transition Tax”) is a tax on previously untaxed accumulated and current earnings and profits (“E&P”) of certain of our foreign subsidiaries. To determine the amount of the Transition Tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. We are continuing to gather additional information to more precisely compute the amount of the Transition Tax.

•Due to complexity of the new GILTI tax rules, we are continuing to evaluate this provision of the Tax Act and the application of ASC 740. Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into a company’s measurement of its deferred taxes (the “deferred method”). Our selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Whether we expect to have future U.S. inclusions in taxable income related to GILTI depends not only on our current structure and estimated future results of global operations but also on our intent and ability to modify our structure and/or our business; as such, we are not yet able to reasonably estimate the effect of this provision of the Tax Act. Therefore, we have not made any adjustments related to potential GILTI tax in our financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI.

As of March 31, 2018, we had \$10.2 million of unrecognized tax benefits, which, if recognized, would affect the effective tax rate. We are subject to examination of income tax returns by various domestic and foreign tax authorities. The timing of resolutions and closures of tax audits is highly unpredictable. Given the uncertainty, it is reasonably possible that certain tax audits may be concluded within the next 12 months that could materially impact the balance of our gross unrecognized tax benefits. An estimate of the range of increase or decrease that could occur in the next twelve months cannot be made. However, the estimated impact to tax expense and net income from the resolution and closure of tax exams is not expected to be significant within the next 12 months.

Note 15. Stock-Based Compensation and Stock Plans

Description of Lumentum Stock-Based Benefit Plans

Stock Option Plans

On June 23, 2015, we adopted, and the board of directors of JDSU approved, the 2015 Equity Incentive Plan (the “2015 Plan”) under which 8.5 million shares of our common stock were authorized for issuance, which was ratified by our board of directors in August 2015. In connection with our Separation from JDSU on July 31, 2015, outstanding JDSU equity-based awards held by service providers continuing in service after the Separation were converted into equity-based awards under the 2015 Plan reducing the number of shares remaining available for grant under the 2015 Plan. Immediately following our Separation from JDSU, 2.1 million shares of our common stock were reserved pursuant to outstanding equity-based awards under the 2015 Plan that were converted from JDSU equity-based awards.

On November 4, 2016, our stockholders approved an amendment to increase the number of shares that may be issued under the 2015 Plan by 3.0 million shares, and certain other material terms of the 2015 Plan.

As of March 31, 2018, we had 2.1 million shares subject to stock options, restricted stock units, restricted stock awards, and performance stock units issued and outstanding under the 2015 Plan. Restricted stock units, restricted stock awards, and performance stock units are performance-based, time-based or a combination of both and are expected to vest over one to four years. The fair value of these grants is based on the closing market price of our common stock on the date of award.

The exercise price for stock options is equal to the fair value of the underlying stock at the date of grant. We issue new shares of common stock upon exercise of stock options. Options generally become exercisable over a three-year or four-year period and, if not exercised, expire from five to ten years after the date of grant.

As of March 31, 2018, 5.7 million shares of common stock under the 2015 Plan were available for grant.



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## LUMENTUM HOLDINGS INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Employee Stock Purchase Plan

On June 23, 2015, we adopted, and the board of directors of JDSU approved, the 2015 Employee Stock Purchase Plan (the “2015 Purchase Plan”) under which 3.0 million shares of our common stock were authorized for issuance, which was ratified by our board of directors in August 2015. The 2015 Purchase Plan provides eligible employees with the opportunity to acquire an ownership interest in the Company through periodic payroll deductions and provides a 15% purchase price discount as well as a six-month look-back period. The 2015 Purchase Plan is structured as a qualified employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986. However, the 2015 Purchase Plan is not intended to be a qualified pension, profit sharing or stock bonus plan under Section 401(a) of the Internal Revenue Code of 1986 and is not subject to the provisions of the Employee Retirement Income Security Act of 1974. The 2015 Purchase Plan will terminate upon the date on which all shares available for issuance have been sold. Of the 3.0 million shares authorized under the 2015 Purchase Plan, 2.4 million shares remained available for issuance as of March 31, 2018.

## Restricted Stock Units

Restricted stock units (“RSUs”) under the 2015 Plan are grants of shares of our common stock valued at fair value based on the closing price of our common stock on the date of grant. RSUs result in a payment to a holder if any performance goals or other vesting criteria are achieved or the awards otherwise vest. Generally, our RSUs have service conditions and are expected to vest over one to four years.

## Restricted Stock Awards

Restricted stock awards (“RSAs”) under the 2015 Plan are grants of shares of our common stock that are subject to various restrictions, including restrictions on transferability and forfeiture provisions. RSAs are expected to vest over one to four years, and the shares acquired may not be transferred by the holder until the vesting conditions (if any) are satisfied.

## Performance Stock Units

Performance stock units (“PSUs”) under the 2015 Plan are grants of shares of our common stock that vest upon the achievement of certain performance and service conditions. We begin recognizing compensation expense when we conclude that it is probable that the performance conditions will be achieved. We reassess the probability of vesting at each reporting period and adjust our compensation cost based on this probability assessment. Our PSUs are subject to risk of forfeiture until performance and service conditions are satisfied and generally vest over three years.

During the nine months ended March 31, 2018, we granted 116,788 PSUs to senior members of our management team and recorded \$1.6 million expense related to these grants based on the revenue performance condition that is expected to be achieved. During the three months ended March 31, 2018, we recorded \$0.4 million expense related to these grants.

## Stock-Based Compensation

The impact on our results of operations of recording stock-based compensation by function for the three and nine months ended March 31, 2018 and April 1, 2017 was as follows (in millions):

	Three Months		Nine Months	
	Ended	Ended	Ended	Ended
	March April 1,	March April 1,	2018	2017
Cost of sales	\$2.4	\$ 1.9	\$9.5	\$ 6.0
Research and development	3.6	3.0	10.5	8.8
Selling, general and administrative	5.0	3.2	15.1	10.2
	\$11.0	\$ 8.1	\$35.1	\$ 25.0

Approximately \$2.1 million and \$1.8 million of stock-based compensation was capitalized to inventory as of March 31, 2018 and July 1, 2017, respectively.



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## LUMENTUM HOLDINGS INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Stock Option and Stock Award Activity

We did not grant any stock options during the three and nine months ended March 31, 2018 and April 1, 2017. During the nine months ended March 31, 2018, there were 41,727 options exercised. No options were exercised during the three months ended March 31, 2018.

As of March 31, 2018, 3,057 options were outstanding under the 2015 Plan. During the nine months ended March 31, 2018, the total intrinsic value of options exercised by our employees was \$0.8 million. The total intrinsic value of options exercised by our employees during the three and nine months ended April 1, 2017 was \$1.0 million and \$4.6 million, respectively.

In connection with these exercises, the tax benefit realized during the three and nine months ended April 1, 2017 was \$2.3 million and \$5.2 million, respectively. During the three and nine months ended March 31, 2018, due to adoption of ASU 2016-09, all excess tax benefits and deficiencies were recognized in the income tax provision in the condensed consolidated statements of operations, rather than in additional paid-in-capital in the condensed consolidated balance sheets. Refer to "Note 1. Description of Business and Summary of Significant Accounting Policies" in the Notes to Unaudited Condensed Consolidated Financial Statements for further discussion on the impact of the adoption of ASU 2016-09.

The following table summarizes our awards activity for the nine months ended March 31, 2018 (in millions, except per share amounts):

	Restricted Stock Units Number of Shares	Weighted-Average Grant Date Fair Value per Share	Restricted Stock Awards Number of Shares	Weighted-Average Grant Date Fair Value per Share	Performance Stock Units Number of Shares	Weighted-Average Grant Date Fair Value per Share
Unvested balance as of beginning of period	1.9	\$ 28.04	0.3	\$ 32.51	—	\$ —
Granted	1.0	53.35	—	—	0.1	52.00
Vested	(0.9)	26.60	(0.1)	32.51	—	—
Canceled	(0.2)	38.23	—	—	—	—
Unvested balance as of end of period	1.8	\$ 43.08	0.2	\$ 32.51	0.1	\$ 52.00

As of March 31, 2018, \$72.5 million of stock-based compensation cost related to awards granted to our employees remains to be amortized. That cost is expected to be recognized over an estimated amortization period of 1.8 years. A summary of awards available for grant is as follows (in millions):

	Awards Available for Grant
Balance as of beginning of period	6.6
Granted	(1.1 )
Canceled	0.2
Balance as of end of period	5.7

## Employee Stock Purchase Plan Activity

The 2015 Purchase Plan expense for the three and nine months ended March 31, 2018 was \$0.8 million and \$2.4 million, respectively. The expense related to the 2015 Purchase Plan is recorded on a straight-line basis over the relevant subscription period. During the nine months ended March 31, 2018, there were 93,044 shares issued to employees through the 2015 Purchase Plan in one offering period from May 16, 2017 to November 15, 2017. The 2015 Purchase Plan expense for the three and nine months ended April 1, 2017 was \$0.7 million and \$2.0 million, respectively. During the nine months ended April 1, 2017, there were 188,864 shares issued to employees through the 2015 Purchase Plan in one offering period from May 16, 2016 to November 15, 2016.



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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We estimate the fair value of the 2015 Purchase Plan shares on the date of grant using the Black-Scholes option-pricing model. The assumptions used to estimate the fair value of the 2015 Purchase Plan shares to be issued during the nine months ended March 31, 2018 and April 1, 2017 were as follows:

March	April
31,	1,
2018	2017

Expected term (years)	0.5
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Expected volatility	49.9%
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Risk-free interest rate	1.42%
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Dividend yield	— %
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## Note 16. 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 March 31, 2018, the future minimum annual lease payments under non-cancellable operating leases were as follows (in millions):

## Fiscal Years

Remainder of 2018	\$2.9
2019	11.9
2020	9.0
2021	5.2
2022	3.5
Thereafter	4.3

Total minimum operating lease payments	\$36.8
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During the three and nine months ended March 31, 2018, rental expense relating to building and equipment was \$2.8 million and \$9.2 million, respectively. During the three and nine months ended April 1, 2017, rental expense relating to building and equipment was \$2.6 million and \$7.0 million, respectively.

## Capital Lease

As of March 31, 2018, equipment acquired under a capital lease agreement was \$15.6 million. Our capital lease asset is included in property, plant and equipment, net in our condensed consolidated balance sheets as of March 31, 2018. Amortization expense on this capital lease asset is recorded as depreciation expense and is included in cost of sales in our condensed consolidated statements of operations for the three and nine months ended March 31, 2018. Our capital lease obligation is recorded at the lesser of the estimated fair market value of the leased property or the net present value of the aggregate future minimum lease payments and is included in other current liabilities and other non-current liabilities in our condensed consolidated balance sheets as of March 31, 2018. Refer to "Note 6. Balance Sheet Details" for capital lease obligation amounts in other current liabilities and other non-current liabilities. Interest on these obligations is included in interest expense in our condensed consolidated statements of operations.

As of March 31, 2018 the future minimum annual lease payments under our capital lease were as follows (in millions):

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## LUMENTUM HOLDINGS INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Fiscal Years

Remainder of 2018	\$4.7
2019	7.5
2020	0.4
Total minimum capital lease payments	\$12.6
Less: amount representing interest	\$(0.3 )
Present value of capital lease obligation	\$12.3

## Acquisition Contingencies

We incurred liabilities in the amount of \$3.6 million in connection with the fiscal 2017 acquisition. The amount of \$2.7 million is payable 36 months following the acquisition date contingent upon meeting certain production targets. We retained \$0.9 million of the purchase price as security for any potential liabilities of the seller under the representations, warranties and indemnifications included in the purchase agreement, which amount less any amounts required to cover seller's indemnification obligations is payable to the seller at the 15 month anniversary of the close date.

## 0.25% Convertible Senior Notes due 2024

The future interest and principal payments related to the 2024 Notes are as follows as of March 31, 2018:

## Fiscal Years

2019	\$ 1.1
2020	1.1
2021	1.1
2022	1.1
Thereafter	451.7

Total 2024 Notes payments \$456.1

## Purchase Obligations

Purchase obligations of \$187.1 million as of March 31, 2018, represent legally-binding commitments to purchase inventory and other commitments made in the normal course of business to meet operational requirements. Although open purchase orders are considered enforceable and legally binding, the terms generally allow the option to cancel, reschedule and adjust the requirements based on our business needs prior to the delivery of goods or performance of services. Obligations to purchase inventory and other commitments are generally expected to be fulfilled within one year.

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

## Product Warranties

We provide reserves for the estimated costs of product warranties at the time revenue is recognized. We typically offer a twelve month warranty for most of our products. However, in some instances depending upon the product, product component or application of our products by the end customer, our warranties can vary and generally range from six months to five years. 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.



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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the changes in our warranty reserve during the three and nine months ended March 31, 2018 and April 1, 2017 (in millions):

	Three Months Ended March 31, 2018		Nine Months Ended March 31, 2017	
	Ended March 31, 2018	Ended March 31, 2017		
Balance as of beginning of period	\$9.9	\$ 8.7	\$9.7	\$ 2.8
Provision for warranty <sup>(1)</sup>	2.0	0.6	4.9	9.3
Utilization of reserve	(4.9 )	(1.2 )	(7.6 )	(4.0 )
Balance as of end of period	\$7.0	\$ 8.1	\$7.0	\$ 8.1

(1) This does not include a settlement payment of \$5.1 million received from a vendor for a quality issue during the three months ended March 31, 2018.

**Environmental Liabilities**

Our research and development (“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 statements of cash flows, these matters are subject to inherent uncertainties and management’s view of these matters may change in the future. We accrue for loss contingencies when it is both probable that we will incur the loss and when we can reasonably estimate the amount of the loss or range of loss.

**Indemnifications**

In the normal course of business, we enter into agreements that contain a variety of representations and warranties and provide for general indemnification. Exposure under these agreements is unknown because claims may be made against us in the future and we may record charges in the future as a result of these indemnification obligations. As of March 31, 2018, we did not have any material indemnification claims that were probable or reasonably possible.

**Note 17. 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 have two operating segments, Optical Communications, which we refer to as OpComms, and Commercial Lasers, which we refer to as Lasers. Our OpComms products address the following markets: telecommunications (“Telecom”), data communications (“Datacom”), and consumer and industrial (“Consumer and Industrial”). 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

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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.

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## LUMENTUM HOLDINGS INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 charges impacting the gross margin of each segment because management does not include this information in its measurement of the performance of the operating segments. Information on reportable segments utilized by our CODM is as follows (in millions):

	Three Months		Nine Months	
	Ended	Ended	March 31	April 1,
	2018	2017	2018	2017
<b>Net revenue:</b>				
OpComms	\$246.3	\$216.1	\$814.3	\$671.0
Lasers	52.5	39.7	132.3	107.9
Net revenue	\$298.8	\$255.8	\$946.6	\$778.9
<b>Gross profit:</b>				
OpComms	83.1	71.5	317.1	229.2
Lasers	25.4	16.4	55.9	44.8
Total segment gross profit	108.5	87.9	373.0	274.0
<b>Unallocated corporate items:</b>				
Stock-based compensation	(2.4 )	(1.9 )	(9.5 )	(6.0 )
Amortization of intangibles	(0.8 )	(1.7 )	(2.4 )	(5.1 )
Other charges <sup>(1)</sup>	(8.3 )	(2.2 )	(24.5 )	(12.1 )
Gross profit	\$97.0	\$82.1	\$336.6	\$250.8

(1) The increase in “Other charges” of unallocated corporate items during the three months ended March 31, 2018 compared to the three months ended April 1, 2017, primarily relates to set-up costs of our facility in Thailand, including costs of transferring product lines to Thailand. The increase in “Other charges” of unallocated corporate items during the nine months ended March 31, 2018 compared to the nine months ended April 1, 2017, primarily relates to set-up costs of our facility in Thailand, including costs of transferring product lines to Thailand, as well as inventory write-downs due to canceled programs not allocated to the segments.

The table below discloses the percentage of our total net revenue attributable to each of our two reportable segments. In addition, it discloses the percentage of our total net revenue attributable to our product offerings which serve the Telecom, Datacom and Consumer and Industrial markets which accounted for 10% or more of our total net revenue:

	Three Months		Nine Months	
	Ended	Ended	March 31	April 1,
	2018	2017	2018	2017
OpComms:	82.4 %	84.5 %	86.0 %	86.1 %
Telecom	41.0 %	64.5 %	36.3 %	63.0 %
Datacom	12.1 %	15.2 %	12.2 %	19.4 %
Consumer and Industrial	29.3 %	4.8 %	37.5 %	3.7 %
Lasers	17.6 %	15.5 %	14.0 %	13.9 %

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LUMENTUM HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We operate in three geographic regions: Americas, Asia-Pacific, and EMEA (Europe, Middle East, and Africa). 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 represented 10% of our total net revenue (in millions, except percentage data):

	Three Months Ended			Nine Months Ended		
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017	April 1, 2017	
<b>Net revenue:</b>						
<b>Americas:</b>						
United States	\$26.8	9.0 %	\$34.7	13.6 %	\$86.3	9.1 %
Mexico	41.7	14.0	70.0	27.4	97.1	10.3
Other Americas	1.5	0.5	1.5	0.6	5.7	0.6
Total Americas	\$70.0	23.5 %	\$106.2	24.1 %	\$189.1	20.0 %
<b>Asia-Pacific:</b>						
Hong Kong	\$38.7	13.0 %	\$47.2	18.5 %	\$133.3	14.1 %
China	47.3	15.8	8.7	3.4	66.8	7.1
Japan	34.1	11.4	25.9	10.1	157.6	16.6
South Korea	28.8	9.6	2.4	0.9	126.3	13.3
Other Asia-Pacific	56.6	18.9	35.3	13.8	199.3	21.1
Total Asia-Pacific	\$205.5	56.8 %	\$119.5	46.7 %	\$683.3	72.2 %
<b>EMEA</b>						
EMEA	\$23.3	7.8 %	\$30.1	11.8 %	\$74.2	7.8 %
Total net revenue	\$298.8		\$255.8		\$946.6	

During the three and nine months ended March 31, 2018 and April 1, 2017, net revenue generated from a single end customer which represented 10% or greater of total net revenue is summarized as follows:

	Three Months Ended		Nine Months Ended	
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
Customer A	25.0 %	*	33.0 %	*
Customer B	12.0 %	12.0 %	11.0 %	18.0 %
Customer C	13.0 %	27.0 %	*	20.0 %
Customer D	*	*	*	12.0 %

\*Represents less than 10% of total net revenue

Long-lived assets, namely net property, plant and equipment were identified based on the physical location of the assets in the corresponding geographic areas (in millions):

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## LUMENTUM HOLDINGS INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of	
	March 31	July 1,
	2018	2017
Property, Plant and Equipment, net		
United States	\$97.4	\$88.2
China	76.9	82.5
Thailand	92.9	85.3
Other countries	34.6	17.5
Total long-lived assets	\$301.8	\$273.5

We purchase a substantial portion of our inventory from contract manufacturers and vendors located primarily in Taiwan, Thailand, and China. During the three and nine months ended March 31, 2018 and April 1, 2017, net inventory purchased from a single contract manufacturer which represented 10% or greater of total net purchases is summarized as follows:

	Three Months		Nine Months	
	Ended	Ended	March 31	April 1, 2018
		March 31		
Vendor A	48.0%	50.0 %	42.0%	52.0 %
Vendor B	19.0%	26.0 %	19.0%	26.0 %
Vendor C	18.0%	*	23.0%	*
Vendor D	*	16.0 %	*	14.0 %

\*Represents less than 10% of total net purchases

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

You should read the following discussion in conjunction with the unaudited condensed consolidated financial statements and the corresponding notes included elsewhere in this Quarterly Report on Form 10-Q (this "Quarterly Report"). This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. The matters discussed in these forward-looking statements are subject to risk, uncertainties and other factors that could cause actual results to differ materially from those made, projected or implied in the forward-looking statements. Please see "Risk Factors" and "Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these statements.

## Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). These statements are based on our current expectations and involve risks, uncertainties and assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. These statements relate to, among other things, our markets, products and strategy, sales and customer demand, gross margins, operating expenses, capital expenditures and requirements, liquidity, product development and R&D efforts, manufacturing plans, litigation, effective tax rates, tax planning and tax reserves, our corporate and financial reporting structure, and our plans for growth and innovation, and are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "should," "target," "will," "would" and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management, which are in turn based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Risk Factors" included under Part II, Item 1A of this Quarterly Report. Furthermore, such forward-looking statements speak only as

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of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

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### Overview

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, which we refer to as OpComms, and Lasers for manufacturing, inspection and life-science applications. We seek to use 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 3D sensing for consumer electronics and diode light sources for a variety of consumer and industrial applications. We have two operating segments, OpComms and 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.

On March 11, 2018, we entered into the Merger Agreement with Oclaro, which was unanimously approved by the boards of directors of both companies. Pursuant to the terms of the Merger Agreement, we will acquire all outstanding shares of Oclaro common stock in exchange for consideration of \$5.60 in cash and 0.0636 shares of our common stock for each share of Oclaro common stock. The total transaction consideration was approximately \$1.8 billion as of the date of the Merger Agreement. Oclaro stockholders will own approximately 16% of the combined company. The Merger Agreement contains certain termination rights for both Lumentum and Oclaro. The Merger Agreement further provides that upon termination of the Merger Agreement under specified circumstances relating to failure to obtain regulatory approvals, we may be required to pay Oclaro a termination fee of \$80 million.

The total transaction consideration will be funded by a combination of cash from the combined company of approximately \$416 million, \$550 million in new debt, and \$859 million in Lumentum common stock.

Lumentum entered into a commitment letter with Deutsche Bank, pursuant to which, subject to the terms and conditions set forth therein, Deutsche Bank has committed to provide a senior secured term loan facility in an aggregate principal amount of \$550 million, with a provision for additional senior secured term loans in an aggregate principal amount not to exceed \$250 million.

The transaction is subject to the approval of Oclaro stockholders and customary regulatory approval. The transaction is not subject to any financing condition. The timing of close is subject to customary closing conditions and is expected to be in the second half of calendar 2018.

### Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) as set forth in the Financial Accounting Standards Board’s Accounting Standards Codification (“ASC”), and we consider the various staff accounting bulletins and other applicable guidance issued by the United States Securities and Exchange Commission (“SEC”). GAAP, as set forth within the ASC, requires us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Inventory Valuation
- Revenue Recognition
- Income Taxes
- Long-lived Asset Valuation
- Warranty
- Derivative Liability
- Business Combinations

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• **Goodwill**

During the first quarter of fiscal 2018, the following policies were removed from the list of critical accounting policies and estimates:

- Stock-based Compensation
- Restructuring
- Short-term Investments

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- Impairment of Marketable and Non-Marketable Securities
- Business Combinations
- Goodwill and Intangible Assets

On March 11, 2018, we entered into a Merger Agreement with Oclaro, which was unanimously approved by the boards of directors of both companies. The transaction is subject to customary closing conditions and is expected to close in the second half of calendar 2018. We have added Business Combinations and Goodwill to our critical accounting policies and estimates in the third quarter of fiscal 2018.

### **Business Combinations**

In accordance with the guidance for business combinations, we determine whether a transaction or other event is a business combination, which requires that the assets acquired and liabilities assumed constitute a business. Each business combination is then accounted for by applying the acquisition method. If the assets acquired are not a business, we account for the transaction or other event as an asset acquisition. Under both methods, we recognize the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired entity. In addition, for transactions that are business combinations, we evaluate the existence of goodwill or a gain from a bargain purchase. We capitalize acquisition-related costs and fees associated with asset acquisitions and immediately expense acquisition-related costs and fees associated with business combinations.

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, we make significant estimates and assumptions, especially with respect to intangible assets. Critical estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from customer relationships and acquired developed technology and discount rates. Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ materially from estimates. Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed. Any change in facts and circumstances that existed as of the acquisition date and impacts our preliminary estimates is recorded to goodwill if identified within the measurement period. Subsequent to the measurement period or our final determination of fair value of assets and liabilities whichever is earlier the adjustments will affect our earnings.

In addition, we estimate the economic lives of certain acquired assets and these lives are used to calculate depreciation and amortization expense. If our estimates of the economic lives change, depreciation or amortization expenses could be accelerated or slowed.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which our judgment in selecting among available alternatives would not produce a materially different result. Our senior management has reviewed our critical accounting policies and related disclosures with the Audit Committee of our board of directors.

### **Goodwill**

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed. We test for impairment of goodwill on an annual basis in the fourth quarter and at any other time when events occur or circumstances indicate that the carrying amount of goodwill may not be recoverable.

An entity has the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If an entity determines that as a result of the qualitative assessment that it is more likely than not (i.e., greater than 50% likelihood) that the fair value of a reporting unit is less than its carrying amount, then the quantitative test is required. Otherwise, no further testing is required. The two-step quantitative goodwill impairment test requires us to estimate the fair value of our reporting units. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and we proceed to step two of the impairment analysis. In step two of the analysis, we measure and record an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value, if any.

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Application of the goodwill impairment test requires judgments, including: identification of the reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, a qualitative assessment to determine whether there are any impairment indicators, and determining the fair value of each reporting unit. We estimate the fair value of a reporting unit using market approach, income approach or a combination of market and income approach. Significant estimates in the market approach include: identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment, and assessing comparable revenue and operating income multiples in estimating the fair value of the reporting unit. Significant estimates in the income approach include: future cash flows, discount rates.

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We base our estimates on historical experience and on various assumptions about the future that we believe are reasonable based on available information. Unanticipated events and circumstances may occur that affect the accuracy of our assumptions, estimates and judgments. For example, if the price of our common stock were to significantly decrease combined with other adverse changes in market conditions, thus indicating that the underlying fair value of our reporting units may have decreased, we might be required to reassess the value of our goodwill in the period such circumstances were identified.

**Recently Issued Accounting Pronouncements**

Refer to “Note 2. Recently Issued Accounting Pronouncements” in the Notes to Unaudited Condensed Consolidated Financial Statements.

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## Results of Operations

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

	Three Months Ended March 31, 2018		Nine Months Ended March 31, 2018	
	OpComms	Lasers	Net revenue	Cost of sales
Segment net revenue:				
OpComms	82.4 %	84.5 %	86.0 %	86.1 %
Lasers	17.6	15.5	14.0	13.9
Net revenue	100.0	100.0	100.0	100.0
Cost of sales	67.3	67.2	64.2	67.1
Amortization of acquired developed technologies	0.3	0.7	0.3	0.7
Gross profit	32.5	32.1	35.6	32.2
Operating expenses:				
Research and development	12.8	14.6	12.5	14.5
Selling, general and administrative	11.1	11.0	10.1	10.8
Restructuring and related charges	—	1.2	0.4	1.3
Total operating expenses	23.9	26.8	23.0	26.6
Income from operations	8.5	5.3	12.6	5.6
Unrealized loss on derivative liabilities	(6.9 )	(22.1 )	(0.9 )	(9.6 )
Interest and other income (expense), net	(0.7 )	(0.5 )	(0.9 )	(0.2 )
Income (loss) before income taxes	0.9	(17.3 )	10.7	(4.2 )
Provision for (benefit from) income taxes	—	4.5	(11.9 )	2.0
Net income (loss)	0.9 %	(21.8 )%	22.7 %	(6.2 )%

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Financial Data for the three and nine months ended March 31, 2018 and April 1, 2017

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

	Three Months Ended				Nine Months Ended				Percentage Change
	March 31, 2018	April 1, 2017	Change	Percentage Change	March 31, 2018	April 1, 2017	Change		
<b>Segment net revenue:</b>									
OpComms	\$246.3	\$216.1	\$30.2	14.0 %	\$814.3	\$671.0	\$143.3	21.4 %	
Lasers	52.5	39.7	12.8	32.2 %	132.3	107.9	24.4	22.6 %	
Net revenue	\$298.8	\$255.8	\$43.0	16.8 %	\$946.6	\$778.9	\$167.7	21.5 %	
Gross profit	\$97.0	\$82.1	\$14.9	18.1 %	\$336.6	\$250.8	\$85.8	34.2 %	
Gross margin	32.5 %	32.1 %			35.6 %	32.2 %			
Research and development	\$38.2	\$37.3	\$0.9	2.4 %	\$118.3	\$112.9	\$5.4	4.8 %	
Percentage of net revenue	12.8 %	14.6 %			12.5 %	14.5 %			
Selling, general and administrative	\$33.2	\$28.1	\$5.1	18.1 %	\$95.5	\$84.2	\$11.3	13.4 %	
Percentage of net revenue	11.1 %	11.0 %			10.1 %	10.8 %			
Restructuring and related charges	\$0.1	\$3.1	\$(3.0 )	(96.8 )%	\$3.8	\$10.0	\$(6.2 )	(62.0 )%	
Percentage of net revenue	— %	1.2 %			0.4 %	1.3 %			

**Net Revenue**

Net revenue increased by \$43.0 million, or 16.8%, during the three months ended March 31, 2018 compared to the three months ended April 1, 2017. OpComms net revenue increased by \$30.2 million, or 14.0%, during the three months ended March 31, 2018 compared to the three months ended April 1, 2017, driven by increased sales of Consumer and Industrial products of \$75.2 million, primarily 3D sensing. This was partially offset by decreased sales of Telecom and Datacom products of \$45.0 million. Lasers net revenue increased by \$12.8 million, or 32.2%, during the three months ended March 31, 2018 compared to the three months ended April 1, 2017, primarily due to increased sales of solid state laser products.

Net revenue increased by \$167.7 million, or 21.5%, during the nine months ended March 31, 2018 compared to the nine months ended April 1, 2017. OpComms net revenue increased by \$143.3 million, or 21.4%, during the nine months ended March 31, 2018 compared to the nine months ended April 1, 2017, driven by increased sales of Consumer and Industrial products of \$326.1 million, primarily 3D sensing. This was partially offset by decreased sales of Telecom and Datacom products of \$182.8 million. Lasers net revenue increased by \$24.4 million, or 22.6%, during the nine months ended March 31, 2018 compared to the nine months ended April 1, 2017, primarily due to increased sales of solid state laser products.

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During the three and nine months ended March 31, 2018 and April 1, 2017, net revenue generated from a single end customer which represented 10% or greater of total net revenue is summarized as follows:

	Three Months Ended March 31, 2018	Nine Months Ended April 1, March 31, 2018 2017
APPLE	25.0% *	33.0% *
HUAWEI	12.0%	12.0 % 11.0% 18.0 %
CIENA	13.0%	27.0 % * 20.0 %
CISCO	* * *	12.0 %

\*Represents less than 10% of total net revenue

**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. For example, certain customers may request shipment of our product to a contract manufacturer in one country, however, the location of the end customers may differ. The following table presents net revenue by the three geographic regions we operate in and net revenue from countries that represented 10% or more of our total net revenue (in millions, except for percentages):

	Three Months Ended March 31, 2018	Nine Months Ended March 31, 2018
<b>Net revenue:</b>		
Americas:		
United States	\$26.8 9.0 %	\$34.7 13.6 %
Mexico	41.7 14.0	70.0 27.4
Other Americas	1.5 0.5	1.5 0.6
Total Americas	\$70.0 23.5 %	\$106.2 241.6 %
Asia-Pacific:		
Hong Kong	\$38.7 13.0 %	\$47.2 18.5 %
China	47.3 15.8	8.7 3.4 %
Japan	34.1 11.4	25.9 10.1
South Korea	28.8 9.6	2.4 0.9
Other Asia-Pacific	56.6 18.9	35.3 13.8
Total Asia-Pacific	\$205.5 68.7 %	\$119.5 46.7 %
EMEA	\$23.3 7.8 %	\$30.1 11.8 %
Total net revenue	\$298.8	\$255.8
	\$946.6	\$778.9

During the three months ended March 31, 2018 and April 1, 2017, net revenue from customers outside the United States, based on customer shipping location, represented 91.0% and 86.4% of net revenue, respectively. During the nine months ended March 31, 2018 and April 1, 2017, net revenue from customers outside the United States, based on customer shipping location, represented 90.9% and 86.4% 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. However, regulatory and enforcement actions by U.S. and other governmental agencies, as well as changes in tax and trade policies and tariffs, may impact net revenue from customers outside the United States in future periods.



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## Gross Margin and Segment Gross Margin

The following table summarizes segment gross margin for the three and nine months ended March 31, 2018 and April 1, 2017 (in millions, except for percentages):

	Gross Margin		Gross Margin	
	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended
	March 31, 2018	April 1, 2017	March 31, 2018	April 1, 2017
OpComms	\$83.1	\$71.5	33.7%	33.1 %
Lasers	25.4	16.4	48.4%	41.3 %
Segment total	\$108.5	\$87.9	36.3%	34.4 %
Unallocated corporate items <sup>(1)</sup>	(11.5 )	(5.8 )		
Total	\$97.0	\$82.1	32.5%	32.1 %
			\$336.6	\$250.8
			35.6%	32.2 %

(1) The unallocated corporate items for the years presented include the effects of amortization of acquired developed technology intangible assets, share-based compensation and certain other charges. 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. The increase in unallocated corporate items during the three months ended March 31, 2018 compared to the three months ended April 1, 2017, primarily relates to set-up costs of our facility in Thailand, including costs of transferring product lines to Thailand. The increase during the nine months ended March 31, 2018 compared to the nine months ended April 1, 2017, primarily relates to set-up costs of our facility in Thailand, including costs of transferring product lines to Thailand, as well as inventory write-downs due to canceled programs not allocated to the segments.

## Gross Margin

Gross margin during the three months ended March 31, 2018 increased by 0.4% to 32.5% from 32.1% in the same period a year ago. This increase was primarily due to increased sales in our 3D sensing and lasers products. The increase was partially offset by set-up costs of our facility in Thailand, including costs of transferring product lines to Thailand.

Gross margin during the nine months ended March 31, 2018 increased by 3.4% to 35.6% from 32.2% in the same period a year ago. This increase was primarily due to increased sales in our 3D sensing and lasers products. The increase was partially offset by underutilized capacity costs due to the decline in Telecom and Datacom demand, higher write-downs of excess and obsolete inventory, as well as set-up costs of our facility in Thailand, including costs of transferring product lines to Thailand.

We sell products in certain markets that are consolidating, undergoing product, architectural and business model transitions, have high customer concentrations, are highly competitive, 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 during the three months ended March 31, 2018 increased by 0.6% to 33.7% from 33.1% in the same period a year ago. This increase was primarily due to increased sales of our 3D sensing products.

OpComms gross margin during the nine months ended March 31, 2018 increased by 4.7% to 38.9% from 34.2% in the same period a year ago. This increase was primarily due to increased sales of our 3D sensing products, offset partially by underutilization of manufacturing capacity for our Telecom and Datacom products.

## Lasers

Lasers gross margin during the three months ended March 31, 2018 increased by 7.1% to 48.4% from 41.3% in the same period a year ago. This increase was primarily due to increased sales of solid state lasers products.

Lasers gross margin during the nine months ended March 31, 2018 increased by 0.8% to 42.3% from 41.5% in the same period a year ago. This increase was primarily due to increased sales of solid state lasers products, offset partially by unfavorable product mix and a write-down of excess inventory.



Table of Contents**Research and Development**

R&D expense increased by \$0.9 million, or 2.4%, during the three months ended March 31, 2018 compared to the three months ended April 1, 2017. The increase in R&D expense was primarily due to an increase in stock-based compensation of \$0.6 million.

R&D expense increased by \$5.4 million, or 4.8%, during the nine months ended March 31, 2018 compared to the nine months ended April 1, 2017. The increase in R&D expense was primarily due to an increase in stock-based compensation of \$1.7 million and an increase in payroll related expense of \$2.5 million.

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 expense increased by \$5.1 million, or 18.1%, during the three months ended March 31, 2018 compared to the three months ended April 1, 2017. The increase was primarily attributable to increases in stock based compensation of \$1.8 million and acquisition-related costs of \$2.7 million.

SG&A expense increased by \$11.3 million, or 13.4%, during the nine months ended March 31, 2018 compared to the nine months ended April 1, 2017. The increase was primarily attributable to increases in stock based compensation of \$4.9 million, payroll related expense, which includes an increase in variable incentive compensation of \$2.8 million, and acquisition-related costs of \$2.7 million.

We may experience in the future, certain non-core expenses, such as mergers and acquisition-related expenses and litigation expenses, which could increase our SG&A expenses and potentially impact our profitability expectations in any particular quarter.

**Restructuring and Related Charges**

We have reduced costs through targeted restructuring efforts intended to consolidate our operations, rationalize the manufacturing of our products and align our business in response to market conditions. Refer to "Note 13, Restructuring and Related Charges" in the Notes to Unaudited Condensed Consolidated Financial Statements.

During the three and nine months ended March 31, 2018, we recorded \$0.1 million and \$3.8 million, respectively, in restructuring and related charges in the condensed consolidated statements of operations, primarily attributable to costs to vacate facilities, temporary labor and employee related benefits, as well as costs for materials used in set up and production activities. We incurred no additional costs related to severance for the same periods.

During the three and nine months ended April 1, 2017, we recorded \$3.1 million and \$10.0 million, respectively, in restructuring and related charges in the condensed consolidated statements of operations. Of the \$3.1 million and \$10.0 million charges recorded during the three and nine months ended April 1, 2017, \$0.4 million and \$2.2 million, respectively, was related to severance, retention, lease termination costs, and employee benefits; and \$2.7 million and \$7.8 million, respectively, was related to other restructuring related charges which include relocation costs, temporary labor and employee related benefits, as well as costs for materials used in set up and production activities.

**Interest and Other Income (Expense), Net**

The components of interest and other income (expense), net are as follows (in millions):

	Three Months Ended	Nine Months Ended	
	March 31, 2018	March 31, 2017	
Interest expense	\$(4.6)	\$(1.1)	\$(13.6)
Foreign exchange gains (losses), net	(0.1 )	(0.2 )	(0.8 )
Interest income	2.5	—	5.7
Other income (expense), net	0.1	(0.1 )	—
Interest and other income (expense), net	\$(2.1)	\$(1.4 )	\$(8.7 )
			\$ (1.4 )

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For the three and nine months ended March 31, 2018, interest and other income (expense) increased compared to the three and nine months ended April 1, 2017, driven by amortization of the debt discount on the 2024 Notes, partially offset by interest income on the short-term investments and cash equivalents. See “Note 10. Convertible Senior Notes” in the Notes to the Unaudited Condensed Consolidated Financial Statements for additional information on the 2024 Notes.

**Unrealized Gain (Loss) on Derivative Liabilities**

Unrealized loss on Series A Preferred Stock derivative liability amounted to \$(20.7) million and \$(8.6) million, respectively, for the three and nine months ended March 31, 2018 and \$(17.9) million and \$(35.8) million, respectively, for the three and nine months ended April 1, 2017. The change is primarily related to the change in the price of our underlying common stock and is reflected in the condensed consolidated statements of operations as “Unrealized gain (loss) on derivative liabilities”. For further discussion of our derivative liability, see “Note 11. Derivative Liability” in the Notes to Unaudited Condensed Consolidated Financial Statements.

Unrealized loss on the derivative liability from the 2024 Notes is also included in the “Unrealized gain (loss) on derivative liabilities” for the three and nine months ended April 1, 2017. On June 29, 2017, we met the requirements to account for the conversion option of the 2024 Notes as equity and the conversion option is no longer marked to market. Refer to “Note 10. Convertible Senior Notes” in the Notes to Unaudited Condensed Consolidated Financial Statements.

**Provision for (Benefit from) Income Taxes (in millions)**

Three Months Ended	Nine Months Ended
Mar <b>April</b> , March 31, April 1, 2017 2018 2017	

Provision for (benefit from) income taxes \$-\$ 11.6 \$(112.9) \$ 15.4

Our tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, we update our estimate of the annual effective tax rate and, if the estimated annual effective tax rate changes, we make a cumulative adjustment in such period.

Our quarterly tax provision and estimate of annual effective tax rate are subject to variation due to several factors, including variability in pre-tax income (or loss), the mix of jurisdictions to which such income relates, changes in how we do business, and tax law developments. Our estimated effective tax rate for the year differs from the U.S. statutory rate primarily due to the earnings of our foreign subsidiaries being taxed at rates lower than the U.S. statutory rate, partially offset by foreign earnings subject to the anti-deferral rules of the U.S. tax regime.

We recorded an immaterial tax benefit and a tax benefit of \$112.9 million for the three and nine months ended March 31, 2018, respectively. Our tax benefit for the three months ended March 31, 2018 was less than \$0.1 million primarily due to a benefit from foreign rate differential, excess windfall benefit from our stock-based compensation tax deduction, offset by the discrete impact of the non-deductible unrealized loss from the embedded derivatives for the Series A Preferred Stock. Our tax benefit for the nine months ended March 31, 2018 was primarily due to the release of our U.S. federal and certain state valuation allowances. The benefit of this valuation allowance release was partially offset by a non-cash deferred expense associated with the change in the U.S. statutory rate as a result of the Tax Act (discussed further below) which was enacted during our second quarter of fiscal 2018.

We recorded a tax provision of \$11.6 million and \$15.4 million for the three and nine months ended April 1, 2017, respectively. Our tax provision for the three and nine months ended April 1, 2017 was primarily due to the discrete impact of the non-deductible unrealized loss from the embedded derivatives for the Series A Preferred Stock and the 2024 Notes, non-deductible stock-based compensation and partially offset by foreign rate differential, R&D tax credits and the utilization of U.S. deferred tax assets that were subject to a full valuation allowance.

We assess our ability to realize our deferred tax assets on a quarterly basis and establish a valuation allowance if the deferred tax assets are not more-likely-than-not to be realized. We weigh all available positive and negative evidence, including our earnings history and results of recent operations, reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies.

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As of each reporting date, we consider new evidence, both positive and negative, that could affect our view of the future realization of deferred tax assets. As of December 31, 2017, we determined that there is sufficient positive evidence to conclude that it is more-likely-than-not that the deferred tax assets are realizable. We, therefore, released the valuation allowance for the

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U.S. federal and certain states and recognized a tax benefit of \$207 million as a discrete item for the fiscal second quarter of 2018. Due to the weight of negative evidence, we continue to maintain a full valuation allowance on the California deferred tax assets.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation, the Tax Act. The Tax Act makes broad and complex changes to the U.S. tax code that will affect our fiscal year ending June 30, 2018, including, but not limited to, (1) a reduction in the U.S. federal corporate tax rate; (2) a transition tax on certain deferred income of foreign subsidiaries that, if the taxpayer so elects, is payable over eight years; and (3) bonus depreciation that allows full expensing of qualified property. The Tax Act reduces the federal corporate tax rate to 21 percent in the fiscal year ending June 30, 2018. Section 15 of the Internal Revenue Code stipulates that our fiscal year ending June 30, 2018, will have a blended corporate tax rate of 28 percent, which is based on the applicable tax rates before and after the Tax Act and the number of days in each period.

The Tax Act also establishes new tax laws that will affect our fiscal year ending June 30, 2019, including, but not limited to, (1) reduction of the U.S. federal corporate tax rate; (2) elimination of the corporate alternative minimum tax; (3) the creation of BEAT, a new minimum tax on taxable income adjusted for certain base erosion payments; (4) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (5) a new provision designed to currently tax GILTI, which allows for the possibility of using FTCs and a deduction of up to 50 percent to reduce this income tax liability (subject to some limitations); (6) a new limitation on deductible interest expense; (7) the repeal of the domestic production activity deduction; (8) limitations on the deductibility of certain executive compensation; (9) limitations on the use of FTCs to reduce the U.S. income tax liability; and (10) limitations on net operating losses generated in the taxable years beginning after December 31, 2017, to 80 percent of taxable income. The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with our initial analysis of the impact of the Tax Act, we have recorded a provisional tax expense of \$83 million as a result of the rate decrease, which was accounted for as discrete item in the tax provision for the second quarter of fiscal year 2018. This net expense was a result of the corporate rate reduction. We are required to recognize the effect of this rate change on our deferred tax assets and liabilities, and deferred tax asset valuation allowances in the period the tax rate change was enacted.

The reduction in the U.S. federal statutory rate is expected to positively impact our federal cash tax liability. However, the ultimate impact is subject to the effect of other complex provisions in the Tax Act (including BEAT and GILTI), which we are currently reviewing, and it is possible that any impact of BEAT and GILTI could significantly reduce the benefit of the reduction in the U.S. federal statutory rate. Due to the uncertain practical and technical application of many of these provisions, it is currently not possible to reliably estimate whether BEAT and GILTI will apply and, if so, how it would impact us. We will continue to analyze the Tax Act to assess the full effects on our financial results for the June 30, 2018 fiscal year-end.

As of March 31, 2018, we had \$10.2 million of unrecognized tax benefits, which, if recognized, would affect the effective tax rate. We are subject to examination of income tax returns by various domestic and foreign tax authorities. The timing of resolutions and closures of tax audits is highly unpredictable. Given the uncertainty, it is reasonably possible that certain tax audits may be concluded within the next 12 months that could materially impact the balance of our gross unrecognized tax benefits. An estimate of the range of increase or decrease that could occur in the next twelve months cannot be made. However, the estimated impact to tax expense and net income from the resolution and closure of tax exams is not expected to be significant within the next 12 months.

We operate under a tax holiday in Thailand, which could be effective through fiscal year 2026, and may be extended if certain additional requirements are satisfied. The tax holiday is conditional upon our meeting certain employment and

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investment thresholds. The tax holiday had insignificant impact on our foreign taxes and on net income per share (diluted) for fiscal year ended July 1, 2017 and for the nine months ended March 31, 2018.

For further discussion of our income tax provision, see “Note 14. Income Taxes” in the Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**Contractual Obligations**

The following table summarizes our contractual obligations as of March 31, 2018, 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
<b>Contractual Obligations</b>					
Asset retirement obligations	\$2.7	\$—	\$0.6	\$ 0.8	\$1.3
Purchase obligations <sup>(1)</sup>	187.1	186.7	0.4	—	—
Operating lease obligations <sup>(1)</sup>	36.8	11.9	16.0	6.8	2.1
Capital lease obligation <sup>(1)</sup>	12.6	11.7	0.9	—	—
Pension plan contributions <sup>(2)</sup>	0.6	0.6	—	—	—
0.25% Convertible Senior Notes due 2024	450.0	—	—	—	450.0
Interest on 2024 Notes <sup>(3)</sup>	6.1	1.1	2.2	2.2	0.6
Acquisition contingencies <sup>(4)</sup>	3.0	—	3.0	—	—
<b>Total</b>	<b>\$698.9</b>	<b>\$212.0</b>	<b>\$23.1</b>	<b>\$ 9.8</b>	<b>\$454.0</b>

(1) Refer to “Note 16. Commitments and Contingencies” in the Notes to Unaudited Condensed Consolidated Financial Statements.

(2) Represents planned contributions to our pension plan. Although additional future contributions will be required, the amount and timing of these contributions will be affected by actuarial assumptions, the actual rate of returns on plan assets, the level of market interest rates, legislative changes, and the amount of voluntary contributions to the plan. Any contributions for the following fiscal year and later will depend on the value of the plan assets in the future and thus are uncertain. As such, we have not included any amounts beyond 1 year in the table above.

(3) Includes interest on our 0.25% Convertible Senior Notes due 2024 through September 2023 as we have the right to redeem the 2024 Notes in whole or in part at any time on or after March 15, 2024. Refer to “Note 10. Convertible Senior Notes” in the Notes to Unaudited Condensed Consolidated Financial Statements.

(4) Refer to “Note 8. Fair Value Measurements” in the Notes to Unaudited Condensed Consolidated Financial Statements.

Purchase obligations represent legally-binding commitments to purchase inventory and other commitments made in the normal course of business to meet operational requirements.

As of March 31, 2018, our other non-current liabilities primarily relate to asset retirement obligations and pension which are presented in various lines in the preceding table.

As of March 31, 2018, our other non-current liabilities on the condensed consolidated balance sheet include \$10.2 million of unrecognized tax benefit for uncertain tax positions. We are unable to reliably estimate the timing of future payments related to uncertain tax positions and therefore have excluded them from the preceding table.

The table above does not include potential redemption of our redeemable convertible preferred stock with a \$35.8 million face value, plus any accrued and unpaid interest, as there is no set maturity date. If the holder of our redeemable convertible preferred stock does not execute its conversion option, or if it is unable to do so before the third anniversary of the date of issuance, we may choose to redeem the preferred stock for \$35.8 million. In addition, on the fifth anniversary date of the issuance, the holder of our redeemable convertible preferred stock may elect to redeem the preferred stock for \$35.8 million.

**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**



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**Liquidity and Capital Resources**

As of March 31, 2018 and July 1, 2017, our cash and cash equivalents of \$176.8 million and \$272.9 million, respectively, were held predominantly in the United States. The total amount of cash outside the United States as of March 31, 2018 was \$32.4 million, which was primarily held in Cayman Islands, Thailand, Japan, Canada, and China. Although the cash currently held in the United States as well as 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 capital expenditures to support our business and growth, including costs associated with increasing internal manufacturing capabilities, such as our new Thailand facility, strategic transactions and partnerships, and acquisitions. Our intent is to indefinitely reinvest funds held 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, or the cost to bring back the money is insignificant from a tax perspective, we may determine that cash repatriations are necessary. Repatriation could result in additional material 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. If conditions warrant, we may seek to obtain additional financing through debt or equity sources. To the extent we issue additional shares, our existing stockholders may be diluted. However, any such financing may not be available on terms favorable to us, or may not be available at all.

As of March 31, 2018, our consolidated balance of cash and cash equivalents decreased by \$96.1 million, to \$176.8 million from \$272.9 million as of July 1, 2017. The decrease in cash and cash equivalents was mainly due to purchases of short-term investments, net of sales of \$235.8 million and capital expenditures of \$72.9 million, offset by cash provided by operating activities of \$209.9 million during the nine months ended March 31, 2018.

**Operating Cash Flow**

Cash provided by operating activities was \$209.9 million during the nine months ended March 31, 2018, primarily resulting from \$214.6 million of net income, offset by \$11.4 million of non-cash items (such as depreciation, stock-based compensation, amortization of intangibles, amortization of discount on the 2024 Notes, net of the release of the valuation allowance), and \$6.7 million of changes in our operating assets and liabilities. Changes in our operating assets and liabilities related primarily to an increase in accrued expenses and other current and non-current liabilities of \$12.9 million offset by a decrease in accounts payable of \$15.9 million.

Cash provided by operating activities was \$71.9 million during the nine months ended April 1, 2017, primarily resulting from \$47.6 million of net loss and \$139.5 million of non-cash items such as depreciation, stock-based compensation, amortization of intangibles, unrealized loss on derivative liabilities, offset by changes in excess tax benefit associated with stock-based compensation, and changes in operating assets and liabilities of \$20.0 million. Changes in our operating assets and liabilities related primarily to an increase in accounts receivable of \$14.9 million due to the timing of collections, an increase in inventories of \$14.0 million, an increase in accounts payable of \$18.2 million related to such non-cash items as \$15.2 million unpaid property, plant and equipment and \$0.9 million issuance costs in accounts payable, offset by an increase in accrued expenses and other current and non-current liabilities of \$15.1 million and an increase in income taxes, net of \$15.4 million.

**Investing Cash Flow**

Cash used in investing activities of \$308.7 million during the nine months ended March 31, 2018 was primarily attributable to capital expenditures of \$72.9 million and purchases of short-term investments, net of sales of \$235.8 million.

Cash used in investing activities of \$105.1 million during the nine months ended April 1, 2017 was primarily attributable to capital expenditures of \$100.0 million.

**Financing Cash Flow**

During the nine months ended March 31, 2018 and April 1, 2017, cash provided by financing activities of \$1.9 million and \$454.7 million, respectively, resulted primarily from the issuance of common stock under the employee stock plan of \$4.4 million and the issuance of the 2024 Notes of \$443.2 million.

**Liquidity and Capital Resources Requirements**

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We believe that our cash and cash equivalents as of March 31, 2018, and 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, if market conditions are favorable, we may evaluate alternatives to opportunistically pursue additional financing.

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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 our business and growth;
- the tendency of customers to delay payments or to negotiate favorable payment terms to manage their own liquidity positions;
- timing of payments to our suppliers;
- factoring or sale of accounts receivable;
- volatility in fixed income and credit, which impact the liquidity and valuation of our investment portfolios;
- volatility in foreign exchange markets, which impacts our financial results;
- possible investments or acquisitions of complementary businesses, products or technologies, or other strategic transactions or partnerships;
- issuance of debt or equity securities, or other financing transactions, including bank debt;
- potential funding of pension liabilities either voluntarily or as required by law or regulation; and
- settlement of any conversion or redemption of the 2024 Notes in cash.

In March 2018, we entered into the Merger Agreement with Oclaro. According to the Merger Agreement, we will acquire all outstanding shares of Oclaro common stock in exchange for consideration of \$5.60 in cash and 0.0636 shares of our common stock for each share of Oclaro common stock. The total transaction consideration was approximately \$1.8 billion as of the date of the Merger Agreement and will be funded by a combination of cash from the combined company of approximately \$416 million, \$550 million in new debt, and \$859 million in Lumentum common stock. We have entered into a commitment letter with Deutsche Bank, pursuant to which, subject to the terms and conditions set forth therein, Deutsche Bank has committed to provide a senior secured term loan facility in an aggregate principal amount of \$550 million, with a provision for additional senior secured term loans in an aggregate principal amount not to exceed \$250 million.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Foreign Exchange Risk**

We conduct our business and sell our products to customers primarily in Asia, Europe, and North America. Due to the impact of changes in foreign currency exchange rates between the U.S. Dollar and foreign currencies, for the three months ended March 31, 2018 and April 1, 2017, we recorded unrealized gain (loss) of \$(0.1) million and \$(0.2) million, respectively, and for the nine months ended March 31, 2018 and April 1, 2017, we recorded unrealized gain (loss) of \$(0.8) million and \$0.3 million, respectively, in the interest and other income (expense), net in the condensed consolidated statements of operations included in this Form 10-Q.

Although we sell primarily in U.S. Dollar, we have foreign currency exchange risks related to our operating expenses denominated in currencies other than the U.S. Dollar, principally the Thai Baht, Canadian Dollar, Japanese Yen, Swiss Franc, Euro, and Chinese Yuan. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. In the event our foreign currency denominated assets, liabilities, sales or expenses increase, our operating results may be more greatly affected by fluctuations in the exchange rates of the currencies in which we do business.

**Equity Price Risk**

We are exposed to equity price risk related to the conversion options embedded in our Series A Preferred Stock and the 2024 Notes. Our Series A Preferred Stock is convertible, at the option of the holder, into shares of our common stock commencing on the second anniversary of the closing of the securities purchase (absent a change of control of us or similar event) using a conversion price of \$24.63. The 2024 Notes will mature on March 15, 2024, unless earlier repurchased by us or converted pursuant to their terms, at a conversion price of approximately \$60.62 per share. The conversion feature is bifurcated from the Series A Preferred Stock and accounted for separately as a derivative liability. On a quarterly basis, the derivative liability is marked to market based on the fair values of the conversion feature, with the resulting income or loss recorded as unrealized gain (loss) on a derivative liability on our condensed consolidated statements of operations. The determination of fair values includes various inputs, including volatility and interest rate assumptions (see “Note 11. Derivative Liability”). However, the change in the fair value of our common stock has the largest impact to the fair value of the derivative. Based on a hypothetical \$10.00 per share increase or decrease in the fair value of our common stock, our net income would be reduced or increased by approximately (\$14.2) million or \$14.2 million, respectively, for the Series A Preferred Stock derivative.

**Interest Rate Fluctuation Risk**

As of March 31, 2018, we had cash, cash equivalents, and marketable securities of \$692.8 million. Cash equivalents and marketable securities are primarily comprised of highly liquid investment grade fixed income securities. Our investment policy and strategy is focused on the preservation of capital and supporting our liquidity requirements. We do not enter into investments for trading or speculative purposes. As of March 31, 2018, the weighted-average duration of our investment portfolio was less than one year. Our fixed-income portfolio is subject to fluctuations in interest rates, which could affect our results of operations. Based on our investment portfolio balance as of March 31, 2018, a hypothetical increase or decrease in interest rates of 1% (100 basis points) would have resulted in a decrease or an increase in the fair value of our portfolio of approximately \$3.6 million, and a hypothetical increase or decrease of 0.5% (50 basis points) would have resulted in a decrease or an increase in the fair value of our portfolio of approximately \$1.8 million.

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### Item 4. Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures

Our management (with the participation of our Principal Executive Officer and Principal Financial Officer), as of the end of the period covered by this Quarterly Report, evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) were effective to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

#### (b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), identified in connection with the evaluation required by Exchange Act Rules 13a-15(d) or 15d-15(d) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### (c) Inherent Limitations on Effectiveness of Controls

Our management, including the CEO and CFO, recognizes that our disclosure controls and procedures or our internal control over financial reporting cannot prevent or detect all possible instances of errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

## 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. We accrue for loss contingencies when it is both probable that we will incur the loss and when we can reasonably estimate the amount of the loss or range of loss.

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### Item 1A. Risk Factors

Investors in our securities should carefully consider all of the relevant factors disclosed by us, including the following factors that could affect our results of operations, financial condition or stock price.

#### 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. Historically, these pricing pressures have led to a continued decline of average selling prices across our business. The development of new, technologically advanced products is a complex and uncertain process requiring high levels of innovation and the accurate prediction of technological and market trends. The introduction of new products also requires significant investment to ramp up production capacity, for which benefit may not be realized if we are not successful in the production of such products or if customer demand does not develop as expected. Ramping of production capacity also entails risks of delays which can limit our ability to realize the full benefit of

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product introductions. We cannot assure you that we will be able to identify, develop, manufacture, market or support new or enhanced products successfully, if at all, or on a timely basis. We also cannot assure you that potential markets for our new products will materialize on the timelines we anticipate, or at all, or that our technology will meet our customers' specifications. Our future performance will depend on the successful development, introduction, deployment and market acceptance of new and enhanced features and products that meet our customers' current and future needs.

The market for optical communications products in particular has matured over time and these 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 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 established legacy products. 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 products, 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 public and private companies, many of which may have substantially greater financial, technical, marketing and distribution resources and brand name recognition than we have. These competitors include II-VI, Acacia Communications, Applied Optoelectronics, Coherent, Finisar, Foxconn Interconnect Technology, Fujitsu Optical Components, Furukawa Electric, InnoLight Technology, IPG Photonics, Neophotonics, and Sumitomo Electric Industries. We may not be able to compete successfully against either current or future competitors. Our competitors may continue to enter markets or gain or retain market share through introduction of new or improved products or with 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 and which may intensify competition in the various markets. 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.

We rely on a limited number of customers for a significant portion of our sales; 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 in certain of our markets, such as 3D sensing, this customer concentration is particularly acute. We expect that this customer concentration will continue in the future and we expect that our growth prospects will continue to be concentrated in a small number of customers. 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 or timing of purchases) 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. Further, we may be required to purchase raw materials, increase production capacity or make other changes to our business to accommodate certain large customers. If forecasted orders do not materialize, we may need to reduce investment in R&D activities, we may fail to optimize our manufacturing capacity, we may incur liabilities with our suppliers for reimbursement of capital expenditures, or we may have excess inventory. In addition, if we incur expenses in response to forecasted demand and do not have a corresponding increase in revenue, our profitability may suffer. Any of these factors could adversely affect our business, financial condition and results of operations.

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The manufacturing 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 products. We depend on these manufacturers to meet our production and capacity requirements and to provide quality products to our customers. Despite rigorous testing for quality, both by us and the contract manufacturers to whom we sell products, we may receive and ship defective products. We may incur significant costs to correct defective products which could result in the loss of future sales, indemnification costs or costs to replace or repair the defective products, litigation and damage to our reputation and customer relations. Defective products may also cause diversion of management attention from our business and product development efforts. Additionally, the ability of our contract manufacturers to fulfill their obligations may be affected by natural disasters, changes in legal requirements, labor strikes and other labor unrest and economic, political or other forces that are beyond our control. For

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example, we recently experienced a labor strike at one of our contract manufacturers which threatened the contract manufacturer's ability to fulfill its product commitments to us and, in turn, our ability to fulfill our obligations to our customers. Further, certain of our contract manufacturers are located in China, which exposes us to risks associated with Chinese laws and regulations, such as those related to import and export policies, tariffs, taxation and intellectual property. Chinese laws and regulations are subject to frequent change, and if our contract manufacturers are unable to obtain or retain the requisite legal permits or otherwise to comply with Chinese legal requirements, we may be forced to obtain products from other manufacturers or to make other operational changes, including transferring our manufacturing to another manufacturer or to our Thailand manufacturing facility. Any such developments 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. Alternatively, our contract manufacturers may not be able to meet our demand which would inhibit our ability to meet customer demand and maintain or grow our revenues. 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 Thailand 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, for a variety of reasons, including changes in circumstances at our contract manufacturers or our own business strategies, we may be required to, or voluntarily may, transfer the manufacturing of certain products to other manufacturing sites, including our new Thailand manufacturing facility. For example, we are in the process of transitioning the manufacturing of our products with one of our contract manufacturers in China to our Thailand manufacturing facility. As a result of such transfers, our contract manufacturers may prioritize other customers or otherwise be unable to meet our demand. If such transfers are unsuccessful, 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.

In addition, many of our products are sourced from suppliers based outside of the United States, primarily in Asia. Uncertainty with respect to tax and trade policies, tariffs and government regulations affecting trade between the United States and other countries has recently increased. Major developments in tax policy or trade relations, such as the imposition of tariffs on imported products, could increase our product and product-related costs or require us to seek alternative suppliers, either of which could result in decreased sales or increases product and product-related costs.

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 purchase raw materials, packages and components from a limited number of suppliers, who are often small and specialized. We depend on the timely and continued supply and quality of the materials, packages and components that they supply to us. 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 receipt of defective parts or contaminated materials, stoppages or delays of supply, insufficient resources to supply our requirements, substitution of more expensive or less reliable 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

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adverse impact on our business, financial condition and results of operations.

We contract with a number of large OEM and end-user service providers and product companies 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 and product companies 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, including us. 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

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ability to recognize revenue, increase our costs and have an adverse effect on our business, financial condition, and results of operations. Furthermore, large customers have increased buying power and ability to require onerous terms in our contracts with them, including pricing, warranties, and indemnification terms. If we are unable to satisfy the terms of these contracts, it could result in liabilities of a material nature, including litigation, damages, additional costs, loss of market share and loss of reputation. 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 could 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 in particular 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 incorporated changes to our international corporate structure in the current quarter in order to further reduce our effective tax rate. We have not operationalized the new international structure to the full extent possible at this time due to various factors including the pending acquisition of Oclaro, Inc. ("Oclaro"), which could significantly impact our existing tax strategy. If we are unable to fully adopt a new international structure or if it is successfully challenged by the U.S. or foreign tax authorities, we may be unable to realize the anticipated tax savings which could materially and adversely affect our operating results.

We have initiated a new international corporate structure more closely aligned with our international operations during the current quarter. The new 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 new structure includes legal entities located in jurisdictions with income tax rates lower than the U.S. statutory tax rate. The intercompany arrangements are intended 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 have not operationalized the new structure to the full extent possible at this time due to various factors including the pending acquisition of Oclaro, which could significantly impact our existing tax strategy. We are currently in the process of evaluating the Oclaro transaction's impact to our tax structure and, depending on the outcome, we may make modifications to the new structure in order to achieve better tax and operational efficiency.

We have agreed to reimburse Viavi for certain tax liabilities and related costs that may be incurred by Viavi, under certain circumstances, as a result of implementing the new corporate structure or a modified structure in the future. 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 the anticipated benefit or it may take us several years to fully realize the anticipated benefit.

If the new structure is not accepted by the applicable taxing authorities, if changes in domestic and international tax laws negatively impact the structure, if the acquisition of Oclaro prevents us from implementing a tax efficient structure, or if we do not operate our business consistent with the new structure and applicable tax provisions, we may fail to achieve the financial and operational efficiencies that we anticipate as a result of the new structure, and our business, financial condition and operating results may be materially and adversely affected.

Changes in U.S. tax laws could have a material adverse effect on our business, cash flow, results of operations or financial conditions.

The Tax Act contains many significant changes to the U.S. tax laws that will affect our fiscal years ending June 30, 2018 and thereafter, including, but not limited to (1) a reduction in the U.S. federal corporate tax rate (resulting in a blended corporate rate of 28% for our fiscal year ending June 30, 2018, and a rate of 21% for our fiscal years thereafter); (2) a Transition Tax on certain deferred income of foreign subsidiaries that, if the taxpayer so elects, is

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payable over eight years; (3) bonus depreciation that allows full expensing of qualified property; (4) elimination of the corporate alternative minimum tax; (5) addition of the BEAT, a new minimum tax on taxable income adjusted for certain base erosion payments; (6) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (7) a new provision to currently tax GILTI; (8) a new limitation on deductible interest expense; (9) the repeal of the domestic production activity deduction; (10) limitations on the deductibility of certain executive compensation; (11) limitations on the use of FTCs to reduce U.S. income tax liability; and (12) limitations on net operating losses generated in the taxable years beginning after December 31, 2017, to 80 percent of taxable income.

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The reduction in the U.S. federal statutory rate is expected to positively impact our federal cash tax liability. However, the ultimate impact is subject to the effect of other complex provisions in the Act (including the BEAT and GILTI), which we are currently reviewing, and it is possible that any impact of BEAT, GILTI, or other provisions of the Tax Act could significantly reduce, or outweigh, the benefit of the reduction in the U.S. federal statutory rate. Due to the uncertain practical and technical application of many of these provisions, it is currently not possible to reliably estimate what provisions of the Tax Act will apply to us and, if so, how they would impact us. The foregoing items could increase our future U.S. tax expense, could change our future intentions regarding reinvestment of foreign earnings, and could have a material adverse effect on our business, financial condition and results of operations. 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 through third-party contract manufacturers, as well as through our own international facilities, with employees engaged in R&D, administration, manufacturing, support and sales and marketing activities.

As a result of our international operations, in addition to similar risks we face in our U.S. 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 in or limitations imposed by trade protection laws or other regulatory orders or requirements in the United States or in other countries, including tariffs, sanctions, or other costs or 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;
- political developments of foreign nations; and

the impact of the following on service provider and government spending patterns as well as our contract and internal manufacturing: political considerations, unfavorable changes in tax treaties or laws, unfavorable events that affect foreign currencies, 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 relationships with customers and suppliers, 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 operating results may be subject to volatility due to fluctuations in foreign currency.

We are exposed to foreign exchange risks with regard to our international operations which may affect our operating results. Since we conduct business in currencies other than U.S. dollars but report our financial results in U.S. dollars, we face exposure to fluctuations in currency exchange rates. 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

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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.

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Although we intend to hedge for a portion of our foreign currency exposure, significant fluctuations in exchange rates between the U.S. dollar and foreign currencies may adversely affect our net income. Additionally, hedging programs rely on our ability to forecast accurately and could expose us to additional risks that could adversely affect our financial condition and results of operations.

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 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 in the past and we will continue to review and may pursue acquisition and other strategic opportunities, including our announcement in March 2018 that we have signed an agreement to acquire Oclaro. 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 or transaction, 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;
  - loss of customers, suppliers or partners;
  - potential difficulties in completing projects associated with in-process R&D;
  - an acquisition or strategic transaction may not further our business strategy as we expected or we may overpay for, or otherwise not realize the expected return on, our investments;
  - we may face unanticipated liabilities or our exposure for known contingencies and liabilities may exceed our estimates;
  - insufficient net revenue to offset increased expenses associated with acquisitions;
  - potential loss of key employees of the acquired companies or difficulty maintaining our company culture;
  - 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;
  - incurrence of indebtedness on terms that are unfavorable to us, limit our operational flexibility or that we are unable to repay;
  - incurrence or assumption of contingent liabilities, known or unknown, including potential lawsuits, infringement actions or similar liabilities; and
  - incurrence of impairment charges related to goodwill or other intangibles.
- If we are unable to successfully manage any of these risks in relation to any future acquisitions, including our acquisition of Oclaro, our business, financial condition and results of operations could be adversely impacted.

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We may be unable to successfully implement our acquisitions strategy or integrate acquired companies and personnel with existing operations.

We have in the past acquired several companies, and have announced that we signed a definitive agreement to acquire Oclaro. We may continue to expand and diversify our operations with additional acquisitions. We may be unable to identify or complete prospective acquisitions for many reasons, including increasing competition from other potential acquirers, the effects of consolidation in our industries and potentially high valuations of acquisition candidates. In addition, applicable antitrust laws and other regulations may limit our ability to acquire targets or force us to divest an acquired business. If we are unable to identify suitable targets or complete acquisitions, our growth prospects may suffer, and we may not be able to realize sufficient scale and technological advantages to compete effectively in all markets.

To the extent we are successful in making acquisitions, we may be unsuccessful in integrating acquired companies or product lines with existing operations, or the integration may be more difficult or more costly than anticipated. Some of the risks that may affect our ability to integrate or realize any anticipated benefits from acquired companies, businesses or assets include those associated with:

- unexpected losses of key employees of the acquired company;
- conforming the acquired company's standards, processes, procedures and controls with our operations;
- coordinating new product and process development;
- increasing complexity from combining operations;
- increasing the scope, geographic diversity and complexity of our operations;
- difficulties in consolidating facilities and transferring processes and know-how; and
- diversion of management's attention from other business concerns.

In connection with acquisitions, we may:

- use a significant portion of our available cash;
- issue equity securities, which would dilute current stockholders' percentage ownership;
- incur significant debt;
- incur or assume contingent liabilities, known or unknown, including potential lawsuits, infringement actions or similar liabilities;
- incur impairment charges related to goodwill or other intangibles; and
- face antitrust or other regulatory inquiries or actions.

In addition, the market price of our common stock could be adversely affected if the effect of any acquisitions on our consolidated financial results is dilutive or is below the market's or financial analysts' expectations, or if there are unanticipated changes in the business or financial performance of the target company or the combined company. Any failure to successfully integrate acquired businesses may disrupt our business and adversely impact our business, financial condition and results of operations.

We may require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including to support product development and introduce new products, address new markets, engage in strategic transactions and partnerships, improve or expand our operating infrastructure or acquire complementary businesses and technologies. In March 2018, we entered into a commitment letter (the "Commitment Letter") with Deutsche Bank Securities Inc. and Deutsche Bank AG New York, New York Branch (the "Commitment Party"), pursuant to which, subject to the terms and conditions set forth therein, the Commitment Party has committed to provide a senior secured term loan facility in an aggregate principal amount of up to \$550 million. In March 2017, we issued and sold a total of \$450 million in aggregate principal amount of Convertible Senior Notes due in 2024 (the "2024 Notes") and we may in the future engage in additional equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity, equity-linked or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing we secure in the future could involve restrictive



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covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be harmed. Our ability to hire and retain employees may be negatively impacted by changes in immigration laws, regulations and procedures.

Foreign nationals who are not U.S. citizens or permanent residents constitute an important part of our U.S. workforce, particularly in the areas of engineering and product development. Our ability to hire and retain these workers and their ability to remain and work in the United States are impacted by laws and regulations, as well as by procedures and enforcement practices of various government agencies. Changes in immigration laws, regulations or procedures, including those that may be enacted by the current U.S. presidential administration, may adversely affect our ability to hire or retain such workers, increase our operating expenses and negatively impact our ability to deliver our products and services.

Any failure, disruption or security breach of our information technology infrastructure or information management systems could have an adverse impact on our business and operations.

Our business depends significantly on effective and efficient information management systems, and the reliability and security of our information technology infrastructure are essential to the health and expansion of our business. For example, 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 must continue to expand and update this infrastructure in response to our changing requirements.

In some cases, we may rely upon third-party providers of hosting, support and other services to meet our information technology requirements. 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 implementation or operation of this infrastructure, or any failure by our hosting and support partners or other third-party service providers in the performance of their services could materially harm our business. In addition, 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 may also require transitions to or from, and the integration of, various information management systems within our overall enterprise architecture.

Despite our implementation of security measures, our systems and those of our third-party service providers are vulnerable to damage from computer viruses, natural disasters, unauthorized access and other similar disruptions. Any system failure, accident or security breach affecting us or our third-party providers could result in disruptions to our operations and loss of or unauthorized access or damage to our data or in inappropriate disclosure of confidential information. Any actual or alleged disruption to, or security breach affecting, our systems or those of our third-party partners could cause significant damage to our reputation, result in legal obligations or liability, 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 revenues, operating results, and cash flows may fluctuate from period to period due to a number of factors, which makes predicting financial results difficult.

Spending on optical communication and laser products is subject to cyclical and uneven fluctuations, which could cause our financial results to fluctuate unevenly and unpredictably. It can be difficult to predict the degree to which end-customer demand and the seasonality and uneven sales patterns of our OEM partners or other customers will affect our business in the future, particularly as we or they release new or enhanced products. While our fourth fiscal quarters are typically strongest, future buying patterns may differ from historical seasonality. Further, if the mix of revenue changes, it may also cause results to differ from historical seasonality. Accordingly, our quarterly and annual revenues, operating results, cash flows, and other financial and operating metrics may vary significantly in the future, and the results of any prior periods should not be relied upon as an indication of future performance.

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

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Adverse changes to and uncertainty in the global economy may lead to decreased demand for our products and revenue fluctuations, increased price competition for our products, and may increase the risk of excess and obsolete inventories and higher overhead costs as a percentage of revenue. Declines or uncertainty in particular geographic regions, such as China or Europe, may impact IT-related spending generally and consequently, lead to lower growth or a decline in our markets. The loss or delay of orders from any of our more significant customers could cause our revenue and profitability to suffer. The impact of economic challenges on the global financial markets could further negatively impact our operations by affecting the solvency of our customers,

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the solvency of our key suppliers or the ability of our customers to obtain credit to finance purchases of our products. If economic conditions deteriorate or remain uncertain, our financial condition and results of operations would likely be materially and adversely impacted.

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 house trademark for our company, and are in the process of establishing rights in this brand. The Lumentum brand is 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 Lumentum brand, may not be sufficient or effective. Although we will seek to obtain trademark registrations for the Lumentum brand, it is possible we may not be able to protect our brand 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 Lumentum brand, 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,

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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.

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We also face risks that third parties may assert trademark infringement claims against us in one or more jurisdictions throughout the world related to our Lumentum 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 generally 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.

We are subject to laws and other regulations worldwide including with respect to environmental matters, securities laws, privacy and personal data collection compliance with which 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

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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.

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

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

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 legal and 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 legal and 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 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, and 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.

In April 2018, Zhongxing Telecommunications Equipment Corporation (“ZTE Corporation”) and ZTE Kangxun Telecommunications Ltd. (“ZTE Kangxun”) (collectively “ZTE”) were added to the U.S. Department of Commerce’s Bureau of Industry and Security’s (BIS’s) List of Denied Persons. As a result, ZTE cannot receive or participate in any way in a transaction involving virtually any commercial items exported from the U.S. until March 2025. BIS imposed

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this seven-year denial of export privileges against ZTE due to the fact that ZTE breached BIS's March 23, 2017, order and related settlement agreement regarding ZTE's violations of the Export Administration Regulations, the export control laws administered and enforced by BIS. Although we do not derive significant revenue from ZTE, there is increased attention from the government, the media and stockholders in this area and our stock price may be adversely affected as a result of this or further action. Further, we are aware that certain of our other customers have been investigated by the U.S. government in the past and may be in the future. Any further sanctions or limitation on our ability to sell our products to certain customers, could have an adverse effect on our business.

In addition, our association with customers that are or become subject to U.S. regulatory scrutiny or export restrictions could negatively impact our business. Governmental actions such as these could subject us to actual or perceived reputational harm among current or prospective investors, suppliers or customers, customers of our customers, other parties doing business with us,

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or the general public. Any such reputational harm could result in the loss of investors, suppliers or customers, which could harm our business, financial condition, operating results or prospects.

In addition, certain of our significant customers and suppliers have products that are subject to U.S. export controls, and therefore these customers and suppliers may also be subject to legal and regulatory consequences if they do not comply with applicable export control laws and regulations. Such regulatory consequences could disrupt our ability to obtain components from our suppliers, or to sell our products to major customers, which could significantly increase our costs, reduce our revenue and materially adversely affect our business, financial condition and results of operations.

We face a number of risks related to our Separation from Viavi, including those associated with ongoing indemnification obligations and tax and accounting-related risks, which could adversely affect our business, financial condition, results of operations and cash flows.

In August 2015, we became an independent publicly-traded company through the distribution by JDS Uniphase Corporation (“JDSU”) to its stockholders of 80.1% of our outstanding common stock (the “Separation”). The Separation and Distribution Agreement dated as of July 31, 2015 by and among JDSU, Lumentum Holdings Inc. and Lumentum Operations LLC (the “Separation Agreement”) requires that we indemnify Viavi, and that Viavi indemnify us, for certain specified liabilities related to the Separation. Our indemnification obligations are not subject to maximum loss clauses and, if we are required to indemnify Viavi under the circumstances set forth in the Separation Agreement, we may be subject to substantial liabilities. Furthermore, third parties could seek to hold us responsible for any of the liabilities that Viavi has agreed to indemnify us for, 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.

We also face certain accounting and tax-related risks associated with the Separation. The transfer of assets to us in connection with the Separation was intended to be characterized as taxable, resulting in our receiving a fair market value or substantially stepped-up tax basis in the assets. If the IRS disagrees with our characterization of these transactions as taxable, we could be required to reduce or eliminate the depreciation and amortization deductions based upon these assets, which could adversely affect our financial results. Moreover, Viavi has taken the position that its distribution of 80.1% of our shares in the Separation qualify for non-recognition treatment under Section 355 of the Internal Revenue Code of 1986, as amended (the “Code”). 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, which could negatively impact our financial condition.

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 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, as amended, or the Sarbanes-Oxley Act, and Nasdaq listing requirements. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and 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.

Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could cause us to delay reporting of our financial results, be subject to one or more investigations or enforcement actions by state or federal regulatory agencies, stockholder lawsuits or other adverse actions requiring us to incur defense costs, pay fines, settlements or judgments. Any such failures 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 the NASDAQ stock market.

Risks Related to Our Common Stock

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

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Our common stock is listed on NASDAQ under the symbol “LITE”. Since shares of our common stock commenced trading on the NASDAQ stock market in August 2015, the reported high and low closing prices of our common stock per the NASDAQ Global Select Market has ranged from \$14.12 to \$73.20, through March 31, 2018. 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:

- actual or anticipated fluctuations in our quarterly or annual operating results;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;

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- the operating and stock price performance of other comparable companies;
- a shift in our investor base;
- the financial performance 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, including our recently announced merger with Oclaro;
- investor perception of us and our industry;
- changes in accounting standards, policies, guidance, interpretations or principles;
- litigation or disputes in which we may become involved;
- overall market fluctuations; sales of our shares by our officers, directors, or significant stockholders;
- the timing and amount of dividends and share repurchases, if any; and
- general economic and market conditions and other external factors.

In addition, the stock markets 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.

Our proposed acquisition of Oclaro may not be completed, which could negatively affect our share price and our future business and financial results.

In March 2018, we announced that we signed a merger agreement to acquire Oclaro. Our and Oclaro's obligations to consummate the merger with Oclaro (the "Merger") are subject to the satisfaction or waiver of certain conditions. These conditions include, among other customary conditions, adoption by Oclaro stockholders of the Merger Agreement, no action being taken by any governmental entity having jurisdiction enjoining or otherwise prohibiting consummation of the Merger or instituting proceedings seeking the same, no law having been passed by any governmental entity making the consummation of the Merger illegal, receipt of certain specified regulatory approvals in the United States and the People's Republic of China, approval by NASDAQ for listing of the shares of our common stock to be issued in the Merger, accuracy of representations and warranties of the parties to the applicable standard provided by the Merger Agreement, no event occurring that had or would reasonably be expected to have a Material Adverse Effect (as defined below in the Merger Agreement) on us or Oclaro, compliance by the parties with their covenants in the Merger Agreement in all material respects and the effectiveness of the registration statement of which this proxy statement/prospectus forms a part.

Additionally, a portion of the cash consideration to be paid in connection with the Merger is being funded with the proceeds of debt financing commitments obtained by us. Although obtaining the proceeds of any debt financing, including the financing under the Commitment Letter, is not a condition to the consummation of the Merger, any failure by us to obtain any portion of the debt financing contemplated by the Commitment Letter (or any alternative financing) may result in the failure of the Merger to be consummated.

In addition, if the Merger is not completed on or before 5:00 p.m. Pacific Time on December 11, 2018 (subject to a potential extension to March 11, 2019), either we or Oclaro may choose to terminate the Merger Agreement. We or Oclaro may also elect to terminate the Merger Agreement in certain other circumstances, and the parties can mutually decide to terminate the Merger Agreement at any time prior to the closing of the Merger, before or after Merger has been approved by Oclaro's stockholders, as applicable.

If the Merger is terminated or otherwise not completed, we would not realize any of the expected benefits of the Merger and may suffer other consequences that could adversely affect our business, results of operations and stock price, including, among others:



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we could be required to pay a termination fee of \$8.0 million or up to \$80.0 million under specified circumstances relating to failure to obtain regulatory approvals;

we will have incurred and may continue to incur costs relating to the Merger, many of which are payable by us whether or not the Merger is completed;

matters related to the Merger (including integration planning) require substantial commitments of time and resources by our management team and numerous others throughout our organization, which could otherwise have been devoted to other opportunities;

we may be subject to legal proceedings related to the Merger or the failure to complete the Merger, which could be time consuming and expensive, could divert our management's attention away from our regular business and, if any lawsuit is adversely resolved against us, could have a material adverse effect on our financial condition;

the failure to complete the Merger may result in negative publicity and a negative perception of us in the investment community, which could negative impact on our stock price; and

any disruptions to our business resulting from the announcement and pendency of the Merger, including any adverse changes in our relationships with our customers, suppliers, partners or employees, may continue to intensify in the event the Merger is not consummated.

The Merger is subject to the expiration of applicable waiting periods under, and the receipt of approvals, consents or clearances from, domestic and foreign antitrust regulatory authorities in the United States and the People's Republic of China that may impose conditions that could have an adverse effect on us or, if not obtained, could prevent completion of the Merger.

Before the Merger may be completed, any waiting period (or extension thereof) applicable to the Merger must have expired or been terminated, and any approvals, consents or clearances required in connection with the Merger must have been obtained, in each case, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and under the antitrust laws of the People's Republic of China. Under the HSR Act, we and Oclaro are required to make pre-merger notification filings and to await the expiration or early termination of the statutory waiting period prior to completing the Merger. We and Oclaro submitted pre-merger notification filings under the HSR Act on March 23, 2018 and received early termination of the waiting period on April 4, 2018. Other regulatory approvals required in connection with the Merger may not be obtained or may contain materially burdensome conditions. If any such conditions or changes to the structure of the Merger are required to obtain these regulatory approvals, they may have the effect of jeopardizing or delaying completion of the Merger or reducing our anticipated benefits. If we agree to any material conditions in order to obtain any approvals required to complete the Merger, the terms and conditions of the approvals, consents and clearances that are granted may impose requirements, limitations or costs or place restrictions on the conduct of our business, any of which may adversely affect our financial position and prospects and our ability to achieve the cost savings and other synergies projected to result from the Merger.

The terms and conditions of the approvals, consents and clearances that are granted may impose requirements, limitations or costs or place restrictions on the conduct of our business, any of which may adversely affect our financial position and prospects and our ability to achieve the cost savings and other synergies projected to result from the Merger.

We face risks if the Merger is completed, including those related to the integration of Oclaro's business, our cash resources and financial results, undisclosed liabilities, and employee and customer retention.

If the Merger is completed, we will be required to devote significant management attention and resources to integrating the business practices and operations of Oclaro with our business. Due to legal restrictions, we and Oclaro have only been able to conduct limited planning regarding the integration of Oclaro into our business after completion of the Merger and we has not yet determined the exact nature of how the businesses and operations of Oclaro will be run following the Merger. Potential difficulties Lumentum may encounter as part of the integration process include those related to the costs of integration and compliance, diversion of management's attention, our ability to create and enforce uniform standards, controls, procedures, policies and information systems, potential unknown liabilities, and unforeseen increased expenses or delays.

In connection with the Merger, we have agreed to pay an aggregate cash purchase price of approximately \$416 million from the combined company's balance sheet. We have further entered into a commitment letter with Deutsche Bank

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Securities Inc. and Deutsche Bank AG New York, New York Branch (the “Commitment Party”), pursuant to which, subject to the terms and conditions set forth therein, the Commitment Party has committed to provide a senior secured term loan facility in an aggregate principal amount of up to \$550 million with a provision for additional senior secured term loans in an aggregate principal amount not to exceed \$250 million. The use of a significant portion of our cash and the incurrence of substantial indebtedness in connection with

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the financing of the Merger will reduce our liquidity, and may limit our flexibility in responding to other business opportunities and increase our vulnerability to adverse economic and industry conditions.

Our due diligence review of Oclaro in connection with the Merger may not have discovered undisclosed liabilities of Oclaro. If Oclaro has undisclosed liabilities, Lumentum as a successor owner may be responsible for such undisclosed liabilities. Such undisclosed liabilities could have an adverse effect on the business and results of operations of Lumentum and may adversely affect the value of Lumentum common stock after the consummation of the Merger. The Merger may also result in significant charges or other liabilities that could adversely affect our results of operations, such as cash expenses and non-cash accounting charges incurred in connection with our acquisition and/or integration of the business and operations of Oclaro. In addition, our failure to identify or accurately assess the magnitude of certain liabilities we are assuming in the Merger could result in unexpected litigation or regulatory exposure, unfavorable accounting charges, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, results of operations, financial condition or cash flows.

Uncertainties about the Merger may cause our or Oclaro's current and prospective employees to experience uncertainty about their futures. These uncertainties may impair our ability to retain, recruit or motivate key management, engineering, technical and other personnel. Similarly, our or Oclaro's existing or prospective customers, suppliers and/or partners may delay, defer or cease purchasing products or services from or providing products or services to us or Oclaro; delay or defer other decisions concerning us or Oclaro; or otherwise seek to change the terms on which they do business with us or Oclaro. Any of the above could harm us and/or Oclaro, and thus decrease the benefits we expect to receive from the Merger.

Furthermore, we face indirect reputational and business risks with respect to events that affect Oclaro's business during the pendency of the transaction and following the closing. For example, Oclaro has publicly disclosed that ZTE has been among its customers. In April 2018, ZTE was added to the BIS's List of Denied Persons. As a result, ZTE cannot receive or participate in any way in a transaction involving virtually any commercial items exported from the U.S. until March 2025. BIS imposed this seven-year denial of export privileges against ZTE due to the fact that ZTE breached BIS's March 2017 order and related settlement agreement regarding ZTE's violations of the Export Administration Regulations, the export control laws administered and enforced by BIS. Any of Oclaro's customers that are or become subject to U.S. regulatory scrutiny or export restrictions could negatively impact our business, including by subjecting us to actual or perceived reputational harm among current or prospective investors, suppliers or customers, customers of our customers, other parties doing business with us, or the general public. Any such reputational harm could result in the loss of investors, suppliers or customers, which could harm our business, financial condition, operating results or prospects. Any of these factors could adversely affect our ability following the Merger to maintain relationships with customers, suppliers, employees and other constituencies or its ability to achieve the anticipated benefits of the Merger, including anticipated synergies, or could reduce the earnings or otherwise adversely affect our business and financial results after the Merger.

We do not expect to pay dividends on our common stock.

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, if any, is within the discretion of our board of directors. Our board of directors' decisions regarding the payment of dividends will depend on many factors, such as our financial condition, earnings, capital requirements, potential debt service obligations or restrictive covenants, industry practice, legal requirements, regulatory constraints and other factors that our board of directors deems relevant.

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

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

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Our subsidiary, Lumentum Inc., issued \$35.8 million in Series A Preferred Stock to Viavi, which were sold to Amada following the Separation. 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 of \$24.63, which is equal to 125% of the volume weighted average price per share of our common stock in the five “regular-way” trading days following the Separation. Any shares of our common stock that may be issued upon conversion of the Series A Preferred Stock would dilute the ownership interests of existing stockholders and any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. The Series A Preferred

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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 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.

Servicing our 2024 Notes may require a significant amount of cash, and we may not have sufficient cash flow or the ability to raise the funds necessary to satisfy our obligations under the 2024 Notes, and our current and future indebtedness may limit our operating flexibility or otherwise affect our business.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the 2024 Notes, or to make cash payments in connection with any conversion of 2024 Notes or upon any fundamental change if note holders require us to repurchase their notes for cash, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our indebtedness and make necessary capital

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expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring indebtedness or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations. In addition, our existing and future indebtedness could have important consequences to our stockholders and significant effects on our business. For example, it could:

• make it more difficult for us to satisfy our debt obligations, including the 2024 Notes;

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increase our vulnerability to general adverse economic and industry conditions;  
• require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital and other general corporate purposes;  
• limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;  
• restrict us from exploiting business opportunities;  
• place us at a competitive disadvantage compared to our competitors that have less indebtedness; and  
• limit our availability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other general purposes.

Transactions relating to our 2024 Notes may dilute the ownership interest of existing stockholders, or may otherwise depress the price of our common stock.

If the 2024 Notes are converted by holders, we have the ability under the indenture for the 2024 Notes to deliver cash, equity, common stock, or any combination of cash or common stock, at our election upon conversion of the 2024 Notes. If we elect to deliver common stock upon conversion of the 2024 Notes, it would dilute the ownership interests of existing stockholders. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, certain holders of the 2024 Notes may engage in short selling to hedge their position in the 2024 Notes. Anticipated future conversions of such 2024 Notes into shares of our common stock could depress the price of our common stock.

The terms of the definitive documents governing the Term Loan Facilities will restrict our operations, particularly our ability to respond to changes or to take certain actions.

The definitive documents governing the term loan facilities provided for in the Commitment Letter (the “Term Loan Facilities”) will contain a number of restrictive covenants that impose operating and financial restrictions on us and may limit its ability to engage in acts that may be in our long-term best interest, including restrictions on the ability to: incur indebtedness, grant liens, undergo certain fundamental changes, dispose of assets, make investments, enter into transactions with affiliates, and make certain restricted payments, in each case subject to limitations and exceptions to be set forth in the definitive documentation for the Term Loan Facilities.

The definitive documentation governing the Term Loan Facilities will also contain customary events of default that include, among other things, certain payment defaults, covenant defaults, cross-defaults to other indebtedness, change of control defaults, judgment defaults, and bankruptcy and insolvency defaults. Such events of defaults may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies which could have a material adverse effect on our business, operations and financial results. Furthermore, if we are unable to repay the amounts due and payable under its credit agreements, those lenders could proceed against the collateral granted to them to secure that indebtedness which could force us into bankruptcy or liquidation. In the event our lenders accelerated the repayment of the borrowings, we may not have sufficient assets to repay that indebtedness. Any acceleration of amounts due under the credit agreements would likely have a material adverse effect on us. As a result of these restrictions, we may be: limited in how it conducts business; unable to raise additional debt or equity financing to operate during general economic or business downturns; or unable to compete effectively or to take advantage of new business opportunities.

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## Item 6. Exhibits

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the Securities and Exchange Commission.

Exhibit No.	Exhibit Description	Incorporated by Reference Form	Filed Exhibit	Filing Date	Herewith
2.1	<u>Agreement and Plan of Merger, dated as of March 11, 2018, by and among Lumentum Holdings Inc., Oclaro, Inc., Prota Merger Sub, Inc. and Prota Merger, LLC.</u>	8-K	2.1	3/12/2018	
10.1	<u>Commitment Letter, dated as of March 11, 2018, by and among Lumentum Holdings Inc., Deutsche Bank Securities Inc. and Deutsche Bank AG New York</u>	8-K	10.1	3/12/2018	
31.1	<u>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.</u>				X
31.2	<u>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.</u>				X
32.1	<u>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.</u>				X
32.2	<u>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.</u>				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				X
Linkbase Document					
101.LAB	XBRL Taxonomy Extension Label Linkbase				X
101.PRE	XBRL Taxonomy Extension Presentation				X

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SIGNATURES

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  
HOLDINGS INC.

Date: May 2, 2018 By: /s/ Aaron Tachibana

By: Aaron Tachibana  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)