NEOPHOTONICS CORP
Form 10-Q
November 06, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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: 001-35061

NeoPhotonics Corporation

(Exact name of registrant as specified in its charter)

Delaware	94-3253730
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2911 Zanker Road

San Jose, California 95134

(Address of principal executive offices, zip code)

(408) 232-9200

(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 ("Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of October 31, 2015, there were 40,523,326 shares of the registrant's Common Stock outstanding.

Table of Contents

NEOPHOTONICS CORPORATION

For the Quarter Ended September 30, 2015

Table of Contents

		Page
	Part I. Financial Information	
Item 1.	Condensed Consolidated Financial Statements (Unaudited)	3
	Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014	3
	Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and 2014	4
	Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended September 30, 2015 and 2014	5
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	40
Item 4.	Controls and Procedures	40
	Part II. Other Information	
Item 1.	Legal Proceedings	42
Item 1A.	Risk Factors	42
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	70
Item 3.	Defaults Upon Senior Securities	71
Item 4.	Mine Safety Disclosures	71
Item 5.	Other Information	71
Item 6.	Exhibits	71
	Signature	72

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1.CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NEOPHOTONICS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par data)	As of September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 77,250	$ 43,035
Short-term investments	23,302	—
Restricted cash and investments	3,062	5,504
Accounts receivable, net of allowance for doubtful accounts	77,830	77,597
Inventories	70,747	57,347
Prepaid expenses and other current assets	10,723	15,540
Total current assets	262,914	199,023
Property, plant and equipment, net	62,470	57,657
Restricted cash and investments, non-current	—	15,750
Purchased intangible assets, net	11,169	10,263
Goodwill	1,115	—
Other long-term assets	3,743	3,591
Total assets	$ 341,411	$ 286,284
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 54,465	$ 48,949
Notes payable and short-term borrowing	10,196	22,771
Current portion of long-term debt	24,563	2,445
Accrued and other current liabilities	21,406	22,728
Total current liabilities	110,630	96,893
Long-term debt, net of current portion	11,005	20,891
Deferred income tax liabilities	1,808	1,818
Other noncurrent liabilities	7,547	7,226
Total liabilities	130,990	126,828
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $0.0025 par value, 10,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.0025 par value, 100,000 shares authorized		

At September 30, 2015, 40,478 shares issued and outstanding; at December 31, 2014, 32,752 shares issued and outstanding	101	82
Additional paid-in capital	507,969	456,189
Accumulated other comprehensive income	1,223	5,326
Accumulated deficit	(298,872)	(302,141)
Total stockholders' equity	210,421	159,456
Total liabilities and stockholders' equity	$ 341,411	$ 286,284

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

NEOPHOTONICS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
(In thousands, except per share data)	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenue	$ 83,560	$ 81,576	$ 250,316	$ 227,195
Cost of goods sold	59,788	61,512	176,345	178,763
Gross profit	23,772	20,064	73,971	48,432
Operating expenses:				
Research and development	10,763	11,842	32,702	35,983
Sales and marketing	3,789	3,075	11,439	10,057
General and administrative	7,384	6,712	22,999	23,892
Amortization of purchased intangible assets	447	378	1,344	1,136
Asset impairment charge	368	—	368	—
Acquisition-related costs	180	—	467	—
Restructuring charges	18	504	44	504
Escrow settlement gain	—	—	—	(3,886)
Total operating expenses	22,949	22,511	69,363	67,686
Income (loss) from operations	823	(2,447)	4,608	(19,254)
Interest income	31	52	84	155
Interest expense	(171)	(375)	(1,133)	(937)
Other income, net	1,852	1,735	2,408	493
Total interest and other income (expense), net	1,712	1,412	1,359	(289)
Income (loss) before income taxes	2,535	(1,035)	5,967	(19,543)
Provision for income taxes	(1,157)	(902)	(2,698)	(1,761)
Net income (loss)	$ 1,378	$ (1,937)	$ 3,269	$ (21,304)
Basic net income (loss) per share	$ 0.03	$ (0.06)	$ 0.09	$ (0.67)
Diluted net income (loss) per share	$ 0.03	$ (0.06)	$ 0.09	$ (0.67)
Weighted average shares used to compute basic net income (loss) per share	40,367	32,383	36,303	31,930
Weighted average shares used to compute diluted net income (loss) per share	42,217	32,383	37,537	31,930

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

NEOPHOTONICS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Net income (loss)	$ 1,378	$ (1,937)	$ 3,269	$ (21,304)
Foreign currency translation adjustments, net of zero tax	(4,687)	(2,281)	(4,098)	(3,118)
Defined benefit pension plans adjustment, net of tax of $73	—	—	—	118
Unrealized gains (losses) on available-for-sale securities, net of zero tax	(1)	—	(5)	3
Comprehensive loss	$ (3,310)	$ (4,218)	$ (834)	$ (24,301)

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

NEOPHOTONICS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
(In thousands)	2015	2014
Cash flows from operating activities		
Net income (loss)	$ 3,269	$ (21,304)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,511	17,492
Stock-based compensation expense	5,418	4,812
Deferred taxes	719	76
Investment and debt related amortization	248	197
(Gain) loss on disposal of property and equipment	(22)	131
Adjustment to fair value of penalty payment derivative	(141)	(289)
Allowance for doubtful accounts	628	287
Asset impairment charges	368	—
Foreign currency remeasurement and other, net	(1,867)	(1,233)
Change in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	8,035	(14,781)
Inventories	(13,415)	5,224
Prepaid expenses and other assets	1,962	(4,270)
Accounts payable	(1,718)	4,974
Accrued and other liabilities	117	(2,744)
Net cash provided by (used in) operating activities	21,112	(11,428)
Cash flows from investing activities		
Purchase of property, plant and equipment	(11,051)	(9,124)
Proceeds from sale of property, plant and equipment and other assets	200	8
Purchase of marketable securities	(28,936)	(9,654)
Proceeds from sale of marketable securities	12,938	9,634
Proceeds from maturity of securities	1,000	9,448
Decrease (increase) in restricted cash	9,784	(12,251)
Net cash used in investing activities	(16,065)	(11,939)
Cash flows from financing activities		
Proceeds from public stock offering, net of offering costs	45,646	—
Proceeds from exercise of stock options and issuance of stock under ESPP	1,186	1,992
Tax withholding on restricted stock units	(688)	(370)
Proceeds from bank loans	56,512	8,105
Repayment of bank and acquisition-related loans	(70,162)	(8,651)
Proceeds from issuance of notes payable	16,999	18,822
Repayment of notes payable	(20,072)	(15,851)
Payment of acquisition-related contingent consideration	—	(1,985)
Net cash provided by financing activities	29,421	2,062

Effect of exchange rates on cash and cash equivalents	(253)	(527)
Net increase (decrease) in cash and cash equivalents	34,215	(21,832)
Cash and cash equivalents at the beginning of the period	43,035	57,101
Cash and cash equivalents at the end of the period	$ 77,250	$ 35,269
Supplemental disclosure of noncash investing and financing activities:		
Modification of bank loan	$ 15,786	$ —
Issuance of note to seller of acquired business	$ 15,482	$ —
Transfer of restricted investments to short-term investments	$ 8,296	$ —
Transfer of short-term investments to restricted investments	$ —	$ 8,295
Changes in unpaid property, plant and equipment	$ (768)	$ 302

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 1. Basis of presentation and significant accounting policies

Basis of Presentation and Consolidation

The condensed consolidated financial statements of NeoPhotonics Corporation ("NeoPhotonics" or the "Company") as of September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014, have been prepared in accordance with the instructions on Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In accordance with those rules and regulations, the Company has omitted certain information and notes normally provided in the Company's annual consolidated financial statements. In the opinion of management, the condensed consolidated financial statements contain all adjustments, consisting only of normal recurring items, except as otherwise noted, necessary for the fair presentation of the Company's financial position and results of operations for the interim periods. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles ("U.S. GAAP"). These condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results expected for the entire fiscal year. All significant intercompany accounts and transactions have been eliminated.

Certain Significant Risks and Uncertainties

The Company operates in a dynamic industry and, accordingly, can be affected by a variety of factors. For example, any of the following areas could have a negative effect on the Company in terms of its future financial position, results of operations or cash flows: the general state of the U.S., China and world economies, the highly cyclical nature of the industries the Company serves; the loss of any of a small number of its larger customers; ability to obtain additional financing; inability to meet certain debt covenants; failure to successfully integrate completed acquisitions; fundamental changes in the technology underlying the Company's products; the hiring, training and retention of key employees; successful and timely completion of product design efforts; and new product design introductions by competitors.

Concentration

In the three months ended September 30, 2015, Huawei Technologies Co. Ltd. and their affiliate HiSilicon Technologies (together with Huawei Technologies Co. Ltd., "Huawei") and Ciena Corporation ("Ciena") accounted for approximately 41% and 26% of the Company's total revenue, respectively, and the Company's top ten customers represented approximately 92% of the Company's total revenue. In the three months ended September 30, 2014, Huawei and Ciena each accounted for approximately 35% and 17% of the Company's total revenue, respectively, and the top ten customers represented approximately 88% of its total revenue. In the nine months ended September 30, 2015, Huawei and Ciena accounted for approximately 40% and 24% of the Company's total revenue, respectively, and

the Company's top ten customers represented approximately 91% of its total revenue. In the nine months ended September 30, 2014, Huawei, Ciena and Alcatel-Lucent SA each accounted for approximately 36%, 15% and 11% of the Company's total revenue, respectively, and the top ten customers represented approximately 88% of its total revenue.

As of September 30, 2015, two customers accounted for approximately 44% and 21% of the Company's total accounts receivable. As of December 31, 2014, two customers accounted for 45% and 10% of the Company's total accounts receivable.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

liabilities at the date of the financial statements and the reported revenue and expenses during the reporting period. Significant estimates made by management include: the useful lives of property, plant and equipment and intangible assets as well as future cash flows to be generated by those assets; fair values of identifiable assets acquired and liabilities assumed in business combinations; allowances for doubtful accounts; valuation allowances for deferred tax assets; valuation of excess and obsolete inventories; warranty reserves; litigation accrual and recognition of stock-based compensation, among others. Actual results could differ from these estimates.

Summary of Significant Accounting Policies

There have been no significant changes in the Company's significant accounting policies in the three and nine months ended September 30, 2015, as compared to the significant accounting policies described in its Annual Report on Form 10-K for the year ended December 31, 2014.

Recent accounting pronouncements

In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). ASU 2015-16 requires an acquirer of a business to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This guidance also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for the Company's annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted. The Company does not expect the adoption of this standard to have an impact on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully-Benefit Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient (consensus of the FASB Emerging Issues Task Force ("ASU 2015-12"). ASU 2015-12 requires (1) a pension plan to use contract value as the only measure for fully benefit-responsive investment contracts, (2) simplifies and increases the effectiveness of the investment disclosure requirements for employee benefit plans, and (3) provides benefit plans with a measurement-date practical expedient similar to the practical expedient provided to employers. This ASU is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. The amendments in parts I and II should be applied retrospectively to all financial statements presented, while the amendments in part III should be applied prospectively. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU 2015-11"). ASU 2015-11 requires entities to measure most inventory "at the lower of cost and net realizable value" but does not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory

method. For the Company, this ASU is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for the Company’s annual and interim reporting

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

periods beginning after December 15, 2015, with early adoption permitted. In August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements-Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EIFT Meeting ("ASU 2015-15"). ASU 2015-15 clarifies the SEC would not object an entity deferring and presenting debt issuance costs associated with line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement ("ASU 2015-05") to provide guidance to a customer's accounting for cloud computing costs. Under ASC 2015-05, a customer must determine whether a cloud computing arrangement contains a software license and account for an arrangement that contains a software license element consistent with the accounting for other software licenses. An arrangement would contain a software license element if (a) the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty and (b) it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software. This guidance is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement – Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items ("ASU 2015-01"), which eliminates from U.S. GAAP the concept of extraordinary items. The guidance eliminates the separate presentation of extraordinary items on the income statement, net of tax and the related earnings per share, but does not affect the requirement to disclose material items that are unusual in nature or occurring infrequently. The new standard may be applied prospectively or retrospectively and is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those annual periods, with early adoption permitted. The Company does not expect the adoption of this standard to have an impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016. Early adoption is not permitted. In August 2015, the FASB issued an accounting standard update for a one-year deferral of the effective date of ASU 2014-09 to annual and interim periods beginning after December 15, 2017 and permits entities to early adopt the standard of ASU 2014-09 for annual and interim reporting periods beginning after December 15, 2016. Companies are permitted to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08") which raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014. The Company’s adoption of this guidance on January 1, 2015 did not impact its consolidated financial statements.

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 2. Net income (loss) per share

The following table sets forth the computation of the basic and diluted net income (loss) per share for the periods indicated (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income (loss)	$ 1,378	$ (1,937)	$ 3,269	$ (21,304)
Denominator:				
Weighted average shares used to compute per share amount:				
Basic	40,367	32,383	36,303	31,930
Dilutive effect of equity awards	1,850	-	1,234	-
Diluted	42,217	32,383	37,537	31,930
Basic net income (loss) per share	$ 0.03	$ (0.06)	$ 0.09	$ (0.67)
Diluted net income (loss) per share	$ 0.03	$ (0.06)	$ 0.09	$ (0.67)

The Company has excluded the impact of the following outstanding employee stock options, restricted stock units, common stock warrants and shares expected to be issued under its employee stock purchase plan from the computation of diluted net loss per share, as their effect would have been antidilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Employee stock options	1,256	3,735	1,670	3,735
Restricted stock units	26	668	26	668
Employee stock purchase plan	—	258	—	258
Common stock warrants	—	4	—	4

1,282	4,665	1,696	4,665

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Cash, cash equivalents, short-term investments, and restricted cash and investments

The following table summarizes the Company's cash, cash equivalents, short-term investments, and restricted cash and investments at September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Cash and cash equivalents:		
Cash	$ 30,298	$ 43,035
Cash equivalents	46,952	—
Cash and cash equivalents	$ 77,250	$ 43,035
Short-term investments	$ 23,302	$ —
Restricted cash and investments:		
Restricted cash and investments, current	$ 3,062	$ 5,504
Restricted cash and investments, non-current	—	15,750
Total restricted cash and investments	$ 3,062	$ 21,254

The following table summarizes the Company's unrealized gains and losses related to its cash equivalents, short-term investments, and restricted cash and investments in marketable securities designated as available-for-sale (in thousands):

	As of September 30, 2015				As of December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable securities:								
Money market accounts	$ 46,952	$ —	$ —	$ 46,952	$ —	$ —	$ —	$ —
Money market funds	13,442	—	—	13,442	4,587	—	—	4,587
Corporate bonds	5,840	1	(2)	5,839	2,004	6	—	2,010
Government-sponsored enterprise obligations	2,018	1	—	2,019	—	—	—	—
	1,002	1	—	1,003	—	—	—	—

U.S. government securities								
Commercial papers	999	—	—	999	—	—	—	—
Variable rate demand notes	—	—	—	—	1,700	—	—	1,700
Total	$ 70,253	$ 3	$ (2)	$ 70,254	$ 8,291	$ 6	$ —	$ 8,297
Reported within:								
Cash equivalents	$ 46,952	$ —	$ —	$ 46,952	$ —	$ —	$ —	$ —
Short-term investments	23,301	3	(2)	23,302	—	—	—	—
Restricted cash and investments, non-current	—	—	—	—	8,291	6	—	8,297
Total	$ 70,253	$ 3	$ (2)	$ 70,254	$ 8,291	$ 6	$ —	$ 8,297

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

As of September 30, 2015 and December 31, 2014, maturities of marketable securities were as follows (in thousands):

	September 30, 2015	December 31, 2014
Less than 1 year	$ 66,916	$ 6,597
Due in 1 to 2 years	3,338	—
Due in 2 to 5 years	—	—
Due after 5 years	—	1,700
Total	$ 70,254	$ 8,297

Highly liquid investments with a maturity of 90 days or less at the date of purchase are considered cash equivalents, with the exception of money market funds and commercial paper which are classified as short-term investments.

The Company may sell its investments in the future to fund future operating needs and for strategic reasons. As a result, the Company recorded all its marketable securities in short-term investments as of September 30, 2015 and December 31, 2014, regardless of the contractual maturity date of the securities. Variable rate demand notes (“VRDNs”) are floating rate municipal bonds with embedded put options that allow the bondholder to sell the security at par plus accrued interest. All of the put options are secured by a pledged liquidity source. While they are classified as short-term investments, the put option allows the VRDNs to be liquidated at par on a seven-day settlement basis.

Realized gains and losses on the sale of marketable securities during the three and nine months ended September 30, 2015 and 2014 were immaterial. The Company did not recognize any impairment losses on its marketable securities during the three and nine months ended September 30, 2015 or 2014. As of September 30, 2015, the Company did not have any investments in marketable securities that were in an unrealized loss position for a period in excess of 12 months.

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 4. Fair value disclosures

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets that are measured at fair value on a recurring basis (in thousands):

	As of September 30, 2015				As of December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents, short-term investments and restricted investments:								
Money market funds	$ 13,442	$ —	$ —	$ 13,442	$ 4,587	$ —	$ —	$ 4,587
Time deposits	—	—	—	—	—	—	—	—
Money market accounts	—	46,952	—	46,952	—	—	—	—
Corporate bonds	—	5,839	—	5,839	—	2,010	—	2,010
Government-sponsored enterprise obligations	—	2,019	—	2,019	—	—	—	—
U.S. government securities	1,003	—	—	1,003	—	—	—	—
Commercial papers	—	999	—	999	—	—	—	—
Variable rate demand notes	—	—	—	—	—	1,700	—	1,700
Total	$ 14,445	$ 55,809	$ —	$ 70,254	$ 4,587	$ 3,710	$ —	$ 8,297
Mutual funds held in Rabbi Trust, recorded in other long-term assets	$ 411	$ —	$ —	$ 411	$ 424	$ —	$ —	$ 424

The Company offers a Non-Qualified Deferred Compensation Plan (“NQDC Plan”) to a select group of its highly compensated employees. The NQDC Plan provides participants the opportunity to defer payment of certain compensation as defined in the NQDC Plan. A Rabbi Trust has been established to fund the NQDC Plan obligation, which was fully funded at September 30, 2015. The assets held by the Rabbi Trust are substantially in the form of exchange traded mutual funds and are included in the Company’s other long-term assets on its condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014.

The following table presents the Company's liabilities that are measured at fair value on a recurring basis (in thousands):

	As of September 30, 2015				As of December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Penalty payment derivative (Note 10)	$ —	$ —	$ 389	$ 389	$ —	$ —	$ 530	$ 530

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

There were no assets or liabilities measured at fair value on a nonrecurring basis as of September 30, 2015 or December 31, 2014.

Assets and Liabilities Not Measured at Fair Value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, notes payable and short-term borrowings approximate their fair values due to the short-term nature and liquidity of these financial instruments.

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The fair values of the Company's long-term debt have been calculated using an estimate of the interest rate the Company would have had to pay on the issuance of liabilities with a similar maturity and discounting the cash flows at that rate which it considers to be a level 2 fair value measurement. The fair values do not necessarily give an indication of the amount that the Company would currently have to pay to extinguish any of this debt.

The fair value of the Company's variable rate bank borrowings was not materially different than its carrying value as of September 30, 2015 and December 31, 2014 as the interest rates approximated rates available to the Company and the fair value of the Company's acquisition-related debt at December 31, 2014 approximated its carrying value.

Note 5. Business combination

On January 2, 2015, the Company closed an acquisition of the tunable laser product lines of EMCORE Corporation ("EMCORE") for an original purchase price of $17.5 million, pursuant to the terms of the Asset Purchase Agreement between the parties dated October 22, 2014, under which the Company purchased certain assets and assumed certain liabilities of EMCORE's tunable laser product lines. Consideration for the transaction consisted of $1.5 million in cash and a promissory note (the "EMCORE Note") of approximately $16.0 million, which was subject to certain adjustments for inventory, net accounts receivable and pre-closing revenues, and was subsequently adjusted to $15.5 million in connection with a True-Up Confirmation Agreement (the "True-Up Agreement") executed by and between the Company and EMCORE on April 16, 2015. The True-Up Agreement made several final adjustments to the Asset Purchase Agreement, including, among other things, (i) adjusting the principal amount of the EMCORE Note from approximately $16.0 million to approximately $15.5 million, (ii) agreeing upon final amounts for inventory value adjustment, net accounts receivable adjustment, and revenue purchase price adjustment, and (iii) resolving the treatment of certain accounts receivable for products sold by EMCORE prior to the closing of the transaction. The adjusted purchase price for the acquisition was approximately $17.0 million.

The Company accounted for this acquisition as a business combination. With this acquisition, the Company aims to strengthen its narrow line width tunable laser product portfolio.

In connection with the acquisition, the Company incurred approximately $0.9 million in total acquisition-related costs related to legal, accounting and other professional services. The acquisition costs were expensed as incurred and included in operating expenses in the Company's condensed consolidated statement of operations.

The Company's preliminary allocation of the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed was based on estimated fair values as of the close of the acquisition. The fair values assigned to intangible assets acquired are based on valuations using estimates and assumptions provided by management, with the assistance of an independent third party appraisal firm. The excess purchase price over those fair values is recorded as goodwill. These estimates were determined through established and generally accepted valuation techniques. While the Company uses best estimates and assumptions as part of the purchase price allocation process to value assets acquired and liabilities assumed at the acquisition date, estimates and assumptions are subject to refinement, including the acquired property, plant and equipment, prepaid and other current assets and accounts payable, as the Company is in the process of obtaining further information. As a result, during the preliminary measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. As of September 30, 2015, the Company recorded $1.1 million in goodwill, which represented the excess of the purchase price over the aggregate net estimated fair values of the assets acquired and liabilities assumed in the acquisition. Subsequent to the initial allocation of the assets acquired and liabilities assumed, the Company reduced the acquired net accounts receivable by $0.2 million, increased the acquired net inventories by $0.1 million, reduced the assumed sales tax accrual by $0.1 million, increased the acquired prepaid expenses and other current assets by an immaterial amount, and increased goodwill by a corresponding net amount.

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following table summarizes the allocation of the assets acquired and liabilities assumed as of the acquisition date and subsequent adjustments (in thousands):

Total purchase consideration:	
Cash paid	$ 1,500
Notes payable	15,482
Total	$ 16,982
Fair value of assets acquired:	
Accounts receivable	$ 9,274
Inventories	1,693
Prepaid expenses and other current assets	670
Property, plant and equipment	6,917
Intangible assets acquired:	
Developed technology	4,100
Customer relationships	700
Total	$ 23,354
Less: fair value of liabilities assumed:	
Accounts payable	$ (7,427)
Accrued liabilities	(60)
Total	$ (7,487)
Goodwill	$ 1,115

Purchased intangibles with finite lives will be amortized on a straight-line basis over their respective estimated useful lives. The following table presents details of the purchase price allocated to the acquired intangible assets at the acquisition date:

	Useful Life (In years)	Purchased intangible assets (In thousands)
Developed technology	7	$ 4,100
Customer relationships	2	700

Total purchased intangible assets	$ 4,800

The following unaudited supplemental pro forma information presents the combined results of operations of NeoPhotonics Corporation for the three and nine months ended September 30, 2015 and 2014 as though the companies had been combined as of the beginning of 2014. In the three and nine months ended September 30, 2015, revenue related to products acquired from EMCORE was $13.2 million and $39.5 million, respectively. The pro forma financial information reflects adjustments related to transactions costs of $0.3 million in the nine months September 30, 2015 and 2014, as well as immaterial employee expense in the nine months ended September 30, 2015. Incremental intangible amortization, inventory and depreciation adjustments were also added to the 2014 periods. There were no sales between the business acquired from EMCORE and the Company in the three and nine months ended September 30, 2015 and 2014.

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The unaudited pro forma results do not assume any operating efficiencies as a result of the consolidation of operations (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	$ 83,560	$ 95,683	$ 250,316	$ 262,217
Net income (loss)	$ 1,404	$ (1,951)	$ 3,689	$ (24,781)
Basic net income (loss) per share	$ 0.03	$ (0.06)	$ 0.10	$ (0.78)
Diluted net income (loss) per share	$ 0.03	$ (0.06)	$ 0.10	$ (0.78)

Note 6. Balance sheet components

Restricted cash and investments

Restricted cash and investments consist of the following (See Note 8) (in thousands):

	September 30, 2015	December 31, 2014
Restricted in connection with notes payable	$ 3,062	$ 3,754
Restricted in connection with Comerica Bank term loan	—	17,500
Total restricted cash and investments	$ 3,062	$ 21,254
Reported as:		
Restricted cash and investments	$ 3,062	$ 5,504
Restricted cash and investments, non-current	—	15,750

Total restricted cash and investments	$ 3,062	$ 21,254

Accounts receivable, net

Accounts receivable, net consists of the following (in thousands):

	September 30, 2015	December 31, 2014
Accounts receivable	$ 74,672	$ 69,839
Trade notes receivable	4,146	7,999
Allowance for doubtful accounts	(988)	(241)
	$ 77,830	$ 77,597

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Inventories, net

Inventories, net consist of the following (in thousands):

	September 30, 2015	December 31, 2014
Raw materials	$ 29,487	$ 23,804
Work in process	13,866	13,600
Finished goods	27,394	19,943
	$ 70,747	$ 57,347

(1)Finished goods inventory at customer vendor managed inventory locations was $13.7 million and $6.4 million as of September 30, 2015 and December 31, 2014, respectively.

Purchased intangible assets

Purchased intangible assets consist of the following (in thousands):

	September 30, 2015			December 31, 2014		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Technology and patents	$ 37,685	$ (30,474)	$ 7,211	$ 34,023	$ (28,402)	$ 5,621
Customer relationships	15,226	(12,300)	2,926	14,725	(11,176)	3,549
Leasehold interest	1,338	(306)	1,032	1,386	(293)	1,093
Non-compete agreements	862	(862)	—	862	(862)	—
	$ 55,111	$ (43,942)	$ 11,169	$ 50,996	$ (40,733)	$ 10,263

Amortization expense relating to technology and patents and the leasehold interest intangible assets is included within cost of goods sold, and customer relationships within operating expenses. The following table presents details of the amortization expense of the Company's purchased intangible assets as reported in the condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of goods sold	$ 836	$ 709	$ 2,512	$ 2,137
Operating expenses	447	378	1,344	1,136
Total	$ 1,283	$ 1,087	$ 3,856	$ 3,273

The estimated future amortization expense of purchased intangible assets as of September 30, 2015, is as follows (in thousands):

2015 (remaining three months)	$ 1,287
2016	4,463
2017	1,327
2018	1,149
2019	794
Thereafter	2,149
	$ 11,169

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Accrued and other current liabilities

Accrued and other current liabilities consist of the following (in thousands):

	September 30, 2015	December 31, 2014
Employee-related	$ 13,519	$ 13,635
Accrued warranty	1,160	1,751
Penalty payment derivative	389	530
Deferred income tax liabilities	181	181
Other accrued expenses	6,157	6,631
	$ 21,406	$ 22,728

Warranty Accrual

The table below summarizes the movement in the warranty accrual, which is included in accrued and other current liabilities (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Beginning balance	$ 1,254	$ 1,811	$ 1,751	$ 1,737
Warranty accruals	90	100	(85)	631
Settlements	(184)	(89)	(506)	(546)
Ending balance	$ 1,160	$ 1,822	$ 1,160	$ 1,822

Other noncurrent liabilities

Other noncurrent liabilities consist of the following (in thousands):

	September 30, 2015	December 31, 2014
Pension and other employee-related	$ 5,362	$ 5,355
Other	2,185	1,871
	$ 7,547	$ 7,226

Note 7. Restructuring

In 2014, the Company initiated a restructuring plan (the “2014 Restructuring Plan”) to refocus on its strategy execution, optimize its structure, and improve operational efficiencies. The 2014 Restructuring Plan consisted of workforce reductions primarily in the U.S. and in China. Restructuring charges recorded in the nine months ended September 30, 2015 was $0.2 million and was included within cost of goods sold and operating expenses. The remaining restructuring liability is expected to be paid through October 2015.

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The following table summarizes activity associated with restructuring obligations during the nine months ended September 30, 2015 (in thousands):

	Workforce Reduction	Facilities	Total
Restructuring obligations, December 31, 2014	$ 54	$ 100	$ 154
Restructuring costs incurred	169	—	169
Cash payments	(223)	(90)	(313)
Restructuring obligations, September 30, 2015	$ —	$ 10	$ 10

Note 8. Debt

The table below summarizes the carrying amount and weighted average interest rate of the Company’s debt (in thousands, except percentages):

	September 30, 2015		December 31, 2014		
	Carrying Amount	Weighted Average Interest Rate	Carrying Amount	Weighted Average Interest Rate	
Notes payable	$ 10,196	—	$ 12,771	—	
Short-term borrowing	—	—	10,000	3.18	%
Total notes payable and short-term borrowing	$ 10,196		$ 22,771		
Long-term debt, current and non-current:					

Bank borrowings-Comerica Bank	$ 23,800	2.95	%	$ 17,500	3.16	%
Bank borrowings-Mitsubishi Bank	12,038	1.53	%	—	—	
Acquisition-related debt	—	—		5,836	1.5	%
Total long-term debt, current and non-current	35,838			23,336		
Unaccreted discount within current portion of long-term debt	(72)			—		
Unaccreted discount within long-term debt, net of current portion	(198)			—		
Total long-term debt, net of unaccreted discount	$ 35,568			$ 23,336		
Reported as:						
Current portion of long-term debt	$ 24,563			$ 2,445		
Long-term debt, net of current portion	11,005			20,891		
Total long-term debt, net of unaccreted discount	$ 35,568			$ 23,336		

Notes payable

The Company regularly issues notes payable to its suppliers in China in exchange for accounts payable. These notes are supported by non-interest bearing bank acceptance drafts issued under the Company's existing line of credit facility and are due three to six months after issuance. As a condition of the notes payable arrangements, the Company is required to keep a compensating balance at the issuing banks that is a percentage of the total notes payable balance until the amounts are settled.

In June 2015, the Company's subsidiary in China renewed its short-term line of credit facility with a banking institution to an expiration date in June 2016. Under the renewed agreement, RMB 120.0 million ($18.9 million) can be used for short-term loans, which bears interest at varying rates, or up to approximately RMB 171.4 million ($26.9

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

million) can be used for bank acceptance drafts (with a 30% compensating balance requirement). In September 2015, the Company's China subsidiary renewed its second short-term line of credit facility with a banking institution, under which RMB 133.0 million ($20.9 million) can be used for short-term loan or up to approximately RMB 190.0 million ($29.9 million) can be used for bank acceptance drafts (with a 30% compensating balance requirement). This line of credit facility expires in September 2016. As of September 30, 2015 and December 31, 2014, the non-interest bearing bank acceptance drafts issued in connection with the Company's notes payable to its suppliers in China, under these line of credit facilities, had an outstanding balance of $10.2 million and $12.8 million, respectively.

As of September 30, 2015 and December 31, 2014, compensating balances relating to these bank acceptance drafts issued to suppliers and the Company's subsidiaries totaled $3.1 million and $3.8 million, respectively. Compensating balances are classified as restricted cash and investments on the Company's condensed consolidated balance sheets.

Short-term borrowing

In October 2014, the Company's subsidiary in China entered into a short-term advance financing agreement, under one of its line of credit facilities, to borrow $5.0 million against export sales to its parent company. This financing agreement bore interest at 4.02% per annum. Interest and the principal were due and repaid in full in April 2015.

In November 2014, the Company's subsidiary in China entered into a second short-term advance financing agreement, under one of its line of credit facilities, to borrow $5.0 million against export sales to its parent company. This financing agreement bore interest at 2.33% per annum and service fees at 1.00% per annum. Interest, service fees and the principal were due and repaid in full in May 2015.

On April 21, 2015, the Company's China subsidiary executed a $5.0 million advance financing agreement with one of its line of credit facilities at an interest rate based on a six-month LIBOR plus 330 basis points, or approximately 3.71%. Both interest and principal were due on October 8, 2015. The Company repaid the loan in September 2015.

Acquisition-related

In connection with the acquisition of NeoPhotonics Semiconductor on March 29, 2013, the Company was obligated to pay 1,050 million Japanese Yen ("JPY") in three equal installments on the first, second and third anniversaries of the closing date for the purchase of the real estate used by NeoPhotonics Semiconductor, of which 700 million JPY ($5.8 million) was outstanding as of December 31, 2014. The obligation bore interest at 1.5% per year, payable

annually, and was secured by the acquired real estate property. This loan was repaid in full in February 2015.

As part of the purchase consideration to acquire the tunable laser products of EMCORE in January 2015 (See Note 5), the Company issued the EMCORE Note, as amended, of $15.5 million, which had a maturity of two years from the closing of the transaction and an interest rate of 5% per annum for the first year and 13% per annum for the second year. The interest was payable semi-annually in cash. In addition, the EMCORE Note was subject to prepayment under certain circumstances and was secured by certain of the assets to be sold pursuant to the asset purchase agreement with EMCORE. The EMCORE Note was subordinated to the Company’s existing bank debt in the U.S. The EMCORE Note, as amended, was repaid in full in April 2015.

Bank borrowings

The Company has a credit agreement with Comerica Bank as lead bank in the U.S. In January 2015, the Company executed an amendment to its credit agreement with Comerica Bank to refinance the then-outstanding Comerica term loan. Under the Credit Amendment, the $20.0 million revolving credit facility was replaced with a $25.0 million senior secured revolving credit line with a maturity date on November 2, 2016. In March 2015, the senior secured revolving

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

credit line was further amended to increase the borrowing capacity from $25.0 million to $30.0 million. Borrowings under the amended revolving credit facility bear interest at an interest rate option of a base rate as defined in the agreement plus 1.75% or LIBOR plus 2.75%. Base rate is based on the greater of (a) the effective prime rate, (b) the Federal Funds effective rate plus one percent, and (c) the daily adjusting LIBOR rate plus one percent. The Credit Amendment also modified the EBITDA and liquidity covenants and eliminated the need to maintain compensating balances (restricted cash). The credit agreement also restricts the Company's ability to incur certain additional debt or to engage in specified transactions, restricts the payment of dividends and is secured by substantially all of the Company's U.S. assets, other than intellectual property assets. The Company repaid the remaining Comerica term loan balance and borrowed $15.8 million under the amended revolving credit facility in March 2015. As of September 30, 2015, the outstanding balance under the revolving credit facility was $23.8 million, which was repaid in October 2015.

The components of the Comerica credit facilities are as follows:

A $30.0 million revolving credit facility under which there was $23.8 million outstanding at September 30, 2015 and no outstanding borrowing as of December 31, 2014, subject to covenant requirements. Amounts borrowed, if any, are due on or before November 2, 2016 and bear interest at an interest rate option of a base rate as defined in the agreement plus 1.75% or LIBOR plus 2.75%. As of September 30, 2015 the rate on the LIBOR option was 2.95%. Under the term loan facility, $17.5 million was outstanding at December 31, 2014 which was repaid in full in January 2015. Prior to the repayment, borrowings under the term loan bore interest at an interest rate option of a base rate as defined in the agreement plus 2.0% or LIBOR plus 3.0%.

The Company's original credit agreement with Comerica Bank required the maintenance of specified financial covenants, including a debt to EBITDA ratio and liquidity ratios. The Company was not in compliance with the debt to EBITDA covenant at September 30, 2014, which noncompliance was effectively waived in the amendment described below. During 2014, the Company executed an amendment to the credit agreement that waived the testing of certain covenants for compliance, provided that the Company maintained compensating balances equal to outstanding amounts under the credit agreement in accounts for which the bank had sole access. The Company's amended credit agreement with Comerica executed in January 2015 modified the financial covenants to replace the compensating balance requirement with the maintenance of a modified EBITDA and certain liquidity covenants. As of September 30, 2015, the Company was in compliance with the related covenants. As of September 30, 2015 and December 31, 2014, the amount of the Company's cash and investments in its compensating balance accounts for the term loan facility with Comerica Bank was zero and $17.5 million, respectively, which was classified as current and non-current restricted cash and investments on the Company's condensed consolidated balance sheet (see Note 6).

On February 25, 2015, the Company entered into certain loan agreements and related special agreements (collectively, the "Loan Arrangements") with the Bank of Tokyo-Mitsubishi UFJ, Ltd. (the "Mitsubishi Bank") that provided for (i) a term loan in the aggregate principal amount of 500 million JPY ($4.2 million) (the "Term Loan A") and (ii) a term loan in the aggregate principal amount of one billion JPY ($8.4 million) (the "Term Loan B" and together with the Term Loan A, the "Mitsubishi Bank Loans"). The Mitsubishi Bank Loans are secured by a mortgage on certain real property and buildings owned by our Japanese subsidiary. The full amount of each of the Mitsubishi Bank Loans was drawn on the closing date of February 25, 2015. Interest on the Mitsubishi Bank Loans accrues and is paid monthly based upon

the annual rate of the monthly Tokyo Interbank Offer Rate (TIBOR) plus 1.40%. The Term Loan A requires interest only payments until the maturity date of February 23, 2018, with a lump sum payment of the aggregate principal amount on the maturity date. The Term Loan B requires equal monthly payments of principal equal to 8,333,000 JPY until the maturity date of February 25, 2025, with a lump sum payment of the balance of 8,373,000 JPY on the maturity date. Interest on the Term Loan B is accrued based upon monthly TIBOR plus 1.40% and is secured by real estate collateral. In conjunction with the execution of the Bank Loans, the Company paid a loan structuring fee, including consumption tax, of 40,500,000 JPY ($0.3 million).

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The Mitsubishi Bank Loans contain customary representations and warranties and customary affirmative and negative covenants applicable to the Company's Japanese subsidiary, including, among other things, restrictions on cessation in business, management, mergers or acquisitions. The Mitsubishi Bank Loans contain financial covenants relating to minimum net assets, maximum ordinary loss and a dividends covenant. The Mitsubishi Bank Loans also include customary events of default, including but not limited to the nonpayment of principal or interest, violations of covenants, restraint on business, dissolution, bankruptcy, attachment and misrepresentations. In February 2015, the Company used a portion of the proceeds of the Mitsubishi Bank Loans to repay the then-outstanding loan related to the acquisition of NeoPhotonics Semiconductor, which had an outstanding principal and interest amount of approximately 710 million JPY ($6.0 million) and the remainder will be used for general working capital. As of September 30, 2015, outstanding principal balance under the Mitsubishi Bank Loans was approximately 1.4 billion JPY (approximately $12.0 million) and the Company was in compliance with the related covenants.

At September 30, 2015, maturities of long-term debt were as follows (in thousands):

2015 (remaining three months)	$ 24,009
2016	835
2017	835
2018	5,009
2019	835
Thereafter	4,315
	$ 35,838

Note 9. Japan pension plans

In connection with its acquisition of NeoPhotonics Semiconductor on March 29, 2013 from LAPIS Semiconductor Co., Ltd. ("LAPIS"), the Company assumed responsibility for two defined benefit plans that provide retirement benefits to its NeoPhotonics Semiconductor employees in Japan: the Retirement Allowance Plan ("RAP") and the Defined Benefit Corporate Pension Plan ("DBCPP"). The RAP is an unfunded plan administered by the Company. Effective February 28, 2014, the DBCPP was converted to a defined contribution plan ("DCP"). In May 2014, in accordance with the acquisition agreements, the seller transferred approximately $2.0 million into the newly formed DCP which is the allowable amount that can be transferred according to the Japanese regulations. LAPIS also paid the Company approximately $0.3 million in connection with the conversion of the plan. Additionally, the Company transferred the net unfunded projected benefit obligation amount from the DBCPP to the RAP and froze the RAP benefit at the February 28, 2014 amount.

As a result of these changes to the DBCPP and RAP, the Company recorded a curtailment gain of $0.1 million in the quarter ended March 31, 2014. The pension liability at September 30, 2015 and December 31, 2014 was $5.1 million of which $0.1 million was recorded in accrued and other current liabilities and the remainder in other noncurrent liabilities on the Company's condensed consolidated balance sheet.

The Company contributed $15,000 to the DBCPP from January 1, 2014 to February 28, 2014. Because the DBCPP transitioned to the DCP on that date, no further contributions to the DBCPP are required.

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Net periodic pension cost associated with these plans included the following components (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Service cost	$ —	$ —	$ —	$ 53
Interest cost	—	—	—	13
Amortization	—	—	—	1
Net periodic pension costs	$ —	$ —	$ —	$ 67

Note 10. Commitments and contingencies

Litigation

From time to time, the Company is subject to various claims and legal proceedings, either asserted or unasserted, that arise in the ordinary course of business. The Company accrues for legal contingencies if the Company can estimate the potential liability and if the Company believes it is probable that the case will be ruled against it. If a legal claim for which the Company did not accrue is resolved against it, the Company would record the expense in the period in which the ruling was made. The Company believes that the likelihood of an ultimate amount of liability, if any, for any pending claims of any type (alone or combined) that will materially affect the Company’s financial position, results of operations or cash flows is remote. The ultimate outcome of any litigation is uncertain, however, and unfavorable outcomes could have a material negative impact on the Company’s financial condition and operating results. Regardless of outcome, litigation can have an adverse impact on the Company because of defense costs, negative publicity, diversion of management resources and other factors.

On January 5, 2010, Finisar Corporation, or Finisar, filed a complaint in the U.S. District Court for the Northern District of California against Source Photonics, Inc., MRV Communications, Inc., Oplink Communications, Inc. and the Company, or collectively, the co-defendants. In the complaint Finisar alleged infringement of certain of its U.S. patents. In 2010 the Company filed an answer to the complaint and counterclaims, asserting two claims of patent infringement and additional claims. The court dismissed without prejudice all co-defendants (including the Company) except Source Photonics, Inc., on grounds that such claims should have been asserted in four separate lawsuits, one against each defendant. This dismissal does not prevent Finisar from bringing a new similar lawsuit against the Company. In 2011 the Company and Finisar agreed to suspend their respective claims and in 2012 they further agreed to toll their respective claims. While there has been no action on this matter since 2012, the Company is currently unable to predict the outcome of this dispute and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

On January 2, 2013, the Company was served with a lawsuit, filed in Belgium by a distributor called Laser 2000 Beneluo SA (“Laser 2000”) claiming unpaid commissions. The distributor agreement was formally terminated as of January 3, 2012. The Company paid $492,000 to Laser 2000 as partial settlement of claims and to avoid penalties from the Court and submitted a legal brief to court on September 16, 2013. Laser 2000 filed a response on December 16, 2013 and the Company filed the final rebuttal brief on January 30, 2014. On March 23, 2015, the Belgian Court issued a ruling awarding Laser 2000 approximately one million euros in damages (approximately $1,100,000 at current exchange rates). The Company was served with the judgment on September 28, 2015. The Company is appealing this verdict, but is unable to predict the duration or outcome of the appeal or the overall lawsuit at this time. The Company does not believe it will ultimately be liable for the full amount of damage; however, in light of developments in the case, the Company increased its accrual for estimated probable net litigation expense relating to this matter in March 2015. There was no change in such accrual in the second and third quarters of 2015.

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Indemnifications

In the normal course of business, the Company enters into agreements that contain a variety of representations and warranties and provide for general indemnification. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations. However, the Company may record charges in the future as a result of these indemnification obligations. As of September 30, 2015, the Company did not have any material indemnification claims that were probable or reasonably possible.

Leases

The Company leases various facilities under non-cancelable operating leases expiring through 2023. As of September 30, 2015, future minimum payments under these operating leases totaled $6.2 million and future minimum sublease receipts was approximately $1.6 million. Rent expense was $0.5 million and $1.7 million in the three and nine months ended September 30, 2015, respectively, and $0.5 million and $1.6 million in the three and nine months ended September 30, 2014, respectively.

Penalty Payment Derivative

In connection with a private placement transaction in 2012, the Company agreed to certain performance obligations including establishing a wholly-owned subsidiary in Russia and making a $30.0 million investment commitment (the 'Investment Commitment') towards the Company's Russian operations, which could be partially satisfied by cash and/or non-cash investment inside or outside of Russia and/or by way of non-cash asset transfers.

In March 2015, the Company extended the Investment Commitment deadline to June 30, 2015 and then further amended the Investment Commitment in July 2015. The latter amendment became effective on June 30, 2015 and provides that the maximum amount of penalties (the 'Penalty Payment') to be paid by the Company will not exceed $5.0 million in the aggregate. In addition, the amendment also provides for an updated investment plan for the Company's Russian subsidiaries that includes non-cash transfer of licensing rights to intellectual property, non-cash transfers of existing equipment and commitments to complete the remaining investment milestones through fiscal year 2019. If certain of the Investment Commitments are not achieved in the indicated time frames in 2016 and 2019, the Company also has the ability to cease the operations of its Russian subsidiaries by paying exit fees of $3.5 million or $1.5 million at the end of 2016 or 2019, respectively.

The purchaser of the common stock has non-transferable veto rights over the Company's Russian subsidiaries' annual budget during the investment period and must approve non-cash asset transfers to be made in satisfaction of the Investment Commitment. Spending and/or commitments to spend for general working capital and research and development do not require approval by the purchaser. There are no legal restrictions on the specific usage of the

$39.8 million received in the private placement transaction or on withdrawal from the Company's bank accounts for use in general corporate purposes.

The Company has accounted for the $5.0 million Penalty Payment as an embedded derivative instrument, with the underlying being the performance or nonperformance of meeting the Investment Commitment and initially classified $4.9 million of the $5.0 million as additional paid-in capital and the remaining $0.1 million, representing the estimated fair value of the Penalty Payment derivative, in other noncurrent liabilities.

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The fair value of the Penalty Payment derivative has been estimated at the date of the original common stock sale (April 27, 2012) and at each subsequent balance sheet date using a probability-weighted discounted future cash flow approach using unobservable inputs, which are classified as Level 3 within the fair value hierarchy. The primary inputs for this approach include the probability of achieving the Investment Commitment and a discount rate that approximates the Company's incremental borrowing rate. After the initial measurement, changes in the fair value of this derivative were recorded in other expense, net. The estimated fair value of this derivative was $0.4 million and $0.5 million as of September 30, 2015 and December 31, 2014, respectively.

Separately, in December 2014, the Company entered into a Commitment to File a Registration Statement and Related Waiver of Registration Rights, whereby Open Joint Stock Company "RUSNANO" or Rusnano waived certain registration rights in connection with a potential offering by the Company of shares of the Company's common stock, and the Company committed to file with the U.S. Securities and Exchange Commission a resale registration statement on Form S-1 covering the resale of all shares of the Company's common stock held by Rusnano. The Company filed such resale registration statement in April 2015 (See Note 11). Rusnano also waived its demand registration rights under the original rights agreement and agreed to enter into a lock up agreement with the Company whereby it would agree not to sell any shares of the Company's common stock, or engage in certain other transactions relating to the Company's securities, for a period of 60 days from the filing date of the resale registration statement. Rusnano signed such lock up agreement with the Company on April 2, 2015. In addition, in connection with the Company's public stock offering completed in the second quarter of 2015 (see Note 11), Rusnano entered into a separate lock up agreement with Needham & Company, LLC, the lead underwriter of the offering, whereby it agreed not to sell any shares of the Company's common stock, or engage in certain other transactions relating to the Company's securities, for a period of 180 days from May 21, 2015.

Note 11. Stockholders' equity

Common Stock

As of September 30, 2015, the Company had reserved 7,009,303 common stock shares for issuance under its stock option plans and 678,438 common stock shares for issuance under its stock purchase plan.

Resale Registration Statement

In April 2015, the Company filed a resale registration statement, which registered 4,972,905 shares of the Company's common stock, at a par value of $0.0025 per share, held by Rusnano. The Company does not receive any proceeds from any sales of the Company's common stock held by Rusnano (See Note 10).

Follow-On Public Offering

In the second quarter of 2015, the Company completed a follow-on offering, in which the Company sold 6,866,689 shares of its common stock, including 895,655 shares of common stock sold upon the exercise in full of the overallotment option by the underwriters, at a public offering price of $7.25 per share. The Company raised approximately $45.6 million, net of underwriting discounts of $3.0 million and other offering expenses of approximately $1.2 million.

Accumulated Other Comprehensive Income, Net of Tax

The components of accumulated other comprehensive income, net of related taxes, were as follows (in thousands):

	September 30, 2015	December 31, 2014
Foreign currency translation adjustments	$ 1,293	$ 5,391

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Unrealized gains on available-for-sale securities	1	6
Defined benefit pension plan adjustment	(71)	(71)
	$ 1,223	$ 5,326

No material amounts were reclassified out of accumulated other comprehensive income during the three and nine months ended September 30, 2015 and 2014 for realized gains or losses on available-for-sale securities.

Accumulated Deficit

Approximately $7.1 million of the Company's accumulated deficit at December 31, 2014 was subject to restriction due to the fact that the Company's subsidiaries in China are required to set aside at least 10% of their respective accumulated profits each year to fund statutory common reserves as well as allocate a discretional portion of their after-tax profits to their staff welfare and bonus fund.

Note 12. Stock-based compensation

The following table summarizes the stock-based compensation expense recognized in the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of goods sold	$ 339	$ 203	$ 1,119	$ 988
Research and development	363	339	1,357	1,454
Sales and marketing	275	417	1,175	1,377
General and administrative	459	229	1,767	993
	$ 1,436	$ 1,188	$ 5,418	$ 4,812

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Determining Fair Value

The Company estimated the fair value of certain stock-based awards using a Black-Scholes-Merton valuation model with the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Stock options	2015	2014	2015	2014
Weighted-average expected term (years)	5.6	5.8	5.4	5.5
Weighted-average volatility	63%	66%	64%	68%
Risk-free interest rate	1.63% - 1.85%	1.62% - 1.88%	1.37% – 1.85%	1.62% – 1.88%
Expected dividends	—	—	—	—
Stock appreciation units				
Weighted-average expected term (years)	3.5	2.5	3.6	2.5
Weighted-average volatility	60%	54%	62%	56%
Risk-free interest rate	0.28% – 1.38%	0.47% – 0.88%	0.25% – 1.57%	0.13% – 0.90%
Expected dividends	—	—	—	—
ESPP				
Weighted-average expected term (years)	—	—	0.7	0.7
Weighted-average volatility	—	—	58%	54%
Risk-free interest rate	—	—	0.03%-0.14%	0.05% – 0.13%
Expected dividends	—	—	—	—

Stock Options and Restricted Stock Units (RSUs)

The following table summarizes the Company's stock option and RSU activity during the nine months ended September 30, 2015:

	Stock Options		Restricted Stock Units	
	Number of Shares	Weighted Average Exercise Price	Number of Units	Weighted Average Grant Date Fair Value
Balance at December 31, 2014	4,899,713	$ 4.07	655,729	$ 6.19
Granted	256,780	$ 5.27	204,434	$ 6.66
Exercised/Converted	(102,711)	$ 4.32	(547,828)	$ 6.05
Cancelled/Forfeited	(126,677)	$ 4.67	(23,602)	$ 5.37
Balance at September 30, 2015	4,927,105	$ 4.11	288,733	$ 6.85

Stock appreciation units ("SAUs")

SAUs are liability classified share-based awards. The Company did not grant any SAUs during the three and nine months ended September 30, 2015 or 2014. As of September 30, 2015 and December 31, 2014, there were 352,664 and 375,833 SAUs outstanding. Outstanding SAUs were re-measured each reporting period at fair value.

Table of Contents

NeoPhotonics Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Employee Stock Purchase Plan (“ESPP”)

As of September 30, 2015 there was $41,000 of unrecognized stock-based compensation expense for stock purchase rights that will be recognized over the remaining offering period, through November 2015.

Note 13. Income taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Provision for income taxes	$ (1,157)	$ (902)	$ (2,698)	$ (1,761)

The Company’s income tax provision in the three and nine months ended September 30, 2015 and 2014 was primarily related to income taxes of the Company’s non-U.S. operations.

The Company conducts its business globally and its operating income is subject to varying rates of tax in the United States, China and Japan. Consequently, the Company’s effective tax rate is dependent upon the geographic distribution of its earnings or losses and the tax laws and regulations in each geographical region. Historically, the Company has experienced net losses in the United States and in the short term, expects this trend to continue. One of the Company’s subsidiaries in China has historically qualified for a preferential 15% tax rate available for high technology enterprises as opposed to the statutory 25% tax rate. In November 2014, the Company received the final approval for the preferential tax rate for 2014 to 2016.

Due to historic losses in the U.S., the Company has a full valuation allowance on its U.S. federal and state deferred tax assets. Management continues to evaluate the realizability of deferred tax assets and the related valuation allowance. If management's assessment of the deferred tax assets or the corresponding valuation allowance were to change, the Company would record the related adjustment to income during the period in which management makes the determination.

As of September 30, 2015, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined for the year ended December 31, 2014.

Note 14. Subsequent events

Subsequent events, through the filing of this report, included the following:

Acquisition of EigenLight Corporation

On November 2, 2015, the Company closed an acquisition of the business and products of EigenLight Corporation for cash consideration of $0.4 million in an asset transaction. The Company will account for the acquisition as a business combination upon closing. The initial purchase accounting for this transaction was not yet complete at the filing of this report.

Table of Contents

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q for the period ended September 30, 2015 and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2014 included in our Annual Report on Form 10-K. References to "NeoPhotonics" "we," "our" and "us" are to NeoPhotonics Corporation unless otherwise specified or the context otherwise requires.

This Quarterly Report on Form 10-Q for the period ended September 30, 2015 contains "forward-looking statements" that involve risks and uncertainties, as well as 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. The statements contained in this Quarterly Report on Form 10-Q for the period ended September 30, 2015 that are not purely historical are 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. Terminology such as "believe," "may," "might," "objective," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect," "predict," "potential," or the ne terms or other similar expressions is intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events and industry and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of 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 identified in "Part II —Item 1A. Risk Factors" below, and those discussed in the sections titled "Special Note Regarding Forward-Looking Statements" and "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on March 16, 2015. Furthermore, such forward-looking statements speak only as 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.

Business overview

We develop, manufacture and sell optoelectronic products that transmit, receive and switch high speed digital optical signals for communications networks. We sell our products to the world's leading network equipment manufacturers, including Alcatel-Lucent SA, Ciena Corporation, Cisco Systems, Inc., and Huawei Technologies Co., Ltd. These four companies are among our largest customers and a focus of our strategy due to their leading market positions.

We have research and development and wafer fabrication facilities in San Jose and Fremont, California and in Tokyo, Japan that coordinate with our research and development and manufacturing facilities in Dongguan, Shenzhen and Wuhan, China and Ottawa, Canada. We use proprietary design tools and design-for-manufacturing techniques to align our design process with our precision nanoscale, vertically integrated manufacturing and testing. We believe we are

one of the highest volume PIC manufacturers in the world and that we can further expand our manufacturing capacity to meet market needs.

Recognizing our focus on growth in our 100Gbps (“100G”) and beyond products, we have realigned our product group reporting for 2015 to “High Speed Products” which includes products designed for 100G and beyond applications and “Network Products and Solutions”, which comprises all products designed for applications below 100G, and includes 40G products previously included in our “High Speed Products” group.

Table of Contents

On January 2, 2015, we closed an acquisition of the tunable laser product lines of EMCORE Corporation ("EMCORE") for approximately $17.5 million, which was subsequently reduced to approximately $17.0 million in conjunction with the execution of a True-Up Confirmation Agreement to adjust for inventory, net accounts receivable and pre-closing revenues. Consideration for the transaction consisted of $1.5 million in cash and a final promissory note (the "Amended EMCORE Note") of approximately $15.5 million, which had a maturity of two years from the closing of the transaction and an interest rate of 5% per annum for the first year and 13% per annum for the second year. We accounted for the acquisition as a business combination and included EMCORE's revenue and expense in our consolidated financial results from the acquisition close date. The Amended EMCORE Note was repaid in full in April 2015.

In the three and nine months ended September 30, 2015, our revenue growth of 2% and 10%, respectively, compared to the same periods in 2014, was driven primarily by demand for our High Speed Products, which includes the tunable laser products acquired from EMCORE in January 2015, as carriers continued to accelerate deployment of high capacity optical transport networks worldwide, particularly in China. Our gross margin increased to 28.4% and 29.6% in the three and nine months ended September 30, 2015, respectively, compared to 24.6% and 21.3% in the three and nine months ended September 30, 2014, respectively, primarily attributable to a volume increase in High Speed Products, designed for 100G and above operation, our efforts to prune low margin products and our ongoing efforts to reduce costs.

We expect continued volume growth for our High Speed Products, although quarter-to-quarter results may show considerable variability as is usual in a rapid initial ramp-up for a new technology. Similar to revenue, our gross margins may fluctuate materially depending on a variety of factors including average selling price changes, product mix, volume, manufacturing utilization and ongoing manufacturing process improvements.

We have completed the discontinuation of certain products that accounted for approximately $23 million of total revenue in 2014 and are expected to account for less than 2% of anticipated total revenue in 2015. These products, which are in the end of life, had relatively low gross margins. This action is expected to lower our annual revenue growth while improving gross margin and profitability.

Follow-On Public Offering

On May 27, 2015, we completed our follow-on offering of 5,971,034 shares of our common stock in a registered public offering at $7.25 per share. On May 27, 2015, the underwriters in our follow-on offering exercised an option to purchase 895,655 shares of our common stock at a price of $7.25 per share, which was completed on June 1, 2015. We raised approximately $45.6 million, net of underwriting costs and other directly related costs of approximately $4.1 million.

Amendment to Rights Agreement with Rusnano

In July 2015, we entered into an Amendment to Rights Agreement relating to the Rights Agreement dated as of April 27, 2012 between us and Open Joint Stock Company "RUSNANO", or Rusnano. The Amendment to Rights Agreement became effective on June 30, 2015. It provides for an updated investment plan for our Russian subsidiaries that includes the licensing of non-cash intellectual property, non-cash transfers of existing equipment and commitments to complete the remaining investment milestones of approximately one-half of the overall investment through fiscal year 2019, and provides that the maximum amount of penalties to be paid by us will not exceed $5.0 million in the aggregate. If certain of the Investment Commitments are not achieved in the indicated time frames in 2016 and 2019, we also have the ability to pay exit fees. For more information, see "—Liquidity and capital resources—Private placement transaction" below.

Debt Refinancing Arrangements

During the first quarter of 2015, we restructured our term loan led by Comerica Bank to eliminate the restricted cash requirement and increased our Comerica borrowing capacity from $20.0 million as of December 31, 2014 to $30.0 million as of September 30, 2015. In February 2015, we entered into a financing arrangement with Bank of Tokyo-Mitsubishi UFJ, Ltd. (the “Mitsubishi Bank”) which paid off our mortgage from the semiconductor Optical Components

Table of Contents

Business Unit of LAPIS Semiconductor Co., Ltd. (“LAPIS”), a wholly-owned subsidiary of Rohm Co., Ltd. of Japan and increased our available cash balances through two long-term mortgage instruments totaling 1.5 billion JPY ($11.9 million). By restructuring our debt, we eliminated certain cash restrictions and improved our cash availability for 2015.

Critical accounting policies and estimates

There have been no material changes to our critical accounting policies and estimates during the three and nine months ended September 30, 2015 from those disclosed in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2014.

Results of operations

Revenue

We sell substantially all of our products to original equipment manufacturers, or OEMs. Revenue is recognized when title of our products passes to the OEM. We price our products based on market and competitive conditions and may periodically reduce the price of our products as market and competitive conditions change and as manufacturing costs are reduced. Our first quarter revenue is generally seasonally lower than the rest of the year primarily due to lower capacity utilization during the holidays in China and the impact of typical price negotiations during this period. Our sales transactions to customers are denominated primarily in U.S. dollars, with some portions in Chinese Renminbi (“RMB”) or Japanese Yen (“JPY”). Our revenue in 2015 includes the tunable laser product lines acquired from EMCORE.

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands)	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
Total revenue	$ 83,560	$ 81,576	$ 1,984	2 %	$ 250,316	$ 227,195	$ 23,121	10 %

We have generated most of our revenue from a limited number of customers. Customers accounting for more than 10% of our total revenue and revenue from our top ten customers for the three and nine months ended September 30, 2015 and 2014 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Percent of revenue from customers accounting for 10% or more of total revenue:				
Huawei Technologies Co., Ltd	41 %	35 %	40 %	36 %
Ciena Corporation	26 %	17 %	24 %	15 %
Alcatel-Lucent SA	* %	* %	* %	11 %
Percent of revenue from top ten customers	92 %	88 %	91 %	88 %

* revenue less than 10%

We expect that a significant portion of our revenue will continue to be derived from a limited number of customers. As a result, the loss of, or a significant reduction in, orders from any of our key customers would materially affect our revenue and results of operations. Similarly, our accounts receivable are from a limited number of customers. Two customers accounted for 44% and 21% of our total accounts receivable as of September 30, 2015 and two customers accounted for 45% and 10% of our total accounts receivable as of December 31, 2014.

Three Months Ended September 30, 2015 Compared With Three Months Ended September 30, 2014

Our revenue increased $2.0 million, or 2%, in the three months ended September 30, 2015, compared to the same period in 2014, primarily due to an increase in revenue from our High Speed Products. The increase from High Speed Products revenue was attributable to product mix and volume, partially offset by a decrease in revenue from our Network

Table of Contents

Products and Solutions group partly attributable to our product pruning efforts. In the three months ended September 30, 2015, our High Speed Products represented approximately 56% of total revenue while Network Products and Solutions represented approximately 44% of total revenue. In the three months ended September 30, 2014, our High Speed Products represented approximately 45% of total revenue while Network Products and Solutions represented approximately 55% of total revenue.

Nine Months Ended September 30, 2015 Compared With Nine Months Ended September 30, 2014

Our revenue increased $23.1 million, or 10%, in the nine months ended September 30, 2015, compared to the same period in 2014, primarily due to an increase in revenue from our High Speed Products driven by customer demand. The increase from High Speed Products revenue was partially offset by a decrease in revenue from our Network Products and Solutions group largely attributable to our product pruning initiatives. In the nine months ended September 30, 2015, our High Speed Products represented approximately 58% of total revenue while Network Products and Solutions represented approximately 42% of total revenue. In the nine months ended September 30, 2014, our High Speed Products represented approximately 42% of total revenue while Network Products and Solutions represented approximately 58% of total revenue.

Cost of goods sold and gross profit

Our cost of goods sold consists primarily of the cost to produce wafers and to manufacture and test our products. Additionally, our cost of goods sold includes stock-based compensation, write-downs of excess and obsolete inventory, amortization of certain purchased intangible assets, depreciation, acquisition-related fair value adjustments, restructuring charges, warranty costs, royalty payments, shipping and allocated facilities costs.

Gross profit as a percentage of total revenue, or gross margin, has been and is expected to continue to be affected by a variety of factors including the introduction of new products, production volume, production volume compared to sales over time, the mix of products sold, inventory changes, changes in the average selling prices of our products, changes in the cost and volumes of materials purchased from our suppliers, changes in labor costs, changes in overhead costs or requirements, stock-based compensation, write-downs of excess and obsolete inventories and warranty costs. In addition, we periodically negotiate pricing with certain customers which can cause our gross margins to fluctuate, particularly in the quarters in which the negotiations occurred. Our first quarter gross margins are generally seasonally lower than the rest of the year due to lower capacity utilization during the holidays in China and the impact of typical price negotiations during this period. Our cost of goods sold and gross profit in 2015 include the tunable laser product lines acquired from EMCORE.

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
	$ 59,788	$ 61,512	$ (1,724)	(3)%	$ 176,345	$ 178,763	$ (2,418)	(1) %

Cost of goods sold								
Gross profit	23,772	20,064	3,708	18 %	73,971	48,432	25,539	53 %

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
Gross margin	28	%	25	%	30	%	21	%

Three Months Ended September 30, 2015 Compared With Three Months Ended September 30, 2014

Gross profit increased $3.7 million, or 18%, to $23.8 million in the three months ended September 30, 2015, compared to $20.1 million in the same period in 2014. Gross margin increased approximately 3 percentage points in the three months ended September 30, 2015, compared to the same period in 2014. The increases are primarily attributable to an increase in sales volume as well as product mix toward our High Speed Products and our product pruning efforts of low margin products.

Table of Contents

Nine Months Ended September 30, 2015 Compared With Nine Months Ended September 30, 2014

Gross profit increased $25.5 million, or 53%, to $74.0 million in the nine months ended September 30, 2015, compared to $48.4 million in the same period in 2014. Gross margin increased approximately 9 percentage points in the nine months ended September 30, 2015, compared to the same period in 2014. The increases are primarily attributable to an increase in sales volume for our High Speed Products, product cost reduction activities and our product pruning efforts of low margin products, partially offset by price adjustments.

Operating expenses

Personnel costs are the most significant component of operating expenses and consist of costs such as salaries, benefits, bonuses, stock-based compensation and, with regard to sales and marketing expense, other variable compensation. Our operating expenses are denominated primarily in U.S. dollars, RMB and JPY. Our operating expenses in 2015 include the tunable laser product lines acquired from EMCORE.

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
Research and development	$10,763	$ 11,842	$ (1,079)	-9%	$32,702	$35,988	$ (3,286)	-9%
Sales and marketing	3,789	3,075	714	23%	11,439	10,057	1,382	14%
General and administrative	7,384	6,712	672	10%	22,999	23,892	(893)	-4%
Amortization of purchased intangible assets	447	378	69	18%	1,344	1,136	208	18%
Asset impairment charge	368	—	368	0%	368	—	368	0%
Acquisition-related costs	180	—	180	0%	467	—	467	0%
Restructuring charges	18	504	(486)	-96%	44	504	(460)	-91%
Escrow settlement gain	—	—	—	0%	—	(3,886)	3,886	-100%
Total operating expenses	$22,949	$ 22,511	438	2%	$69,363	$67,686	1,677	2%

Research and development

Research and development expense consists of personnel costs, including stock-based compensation, for our research and development personnel, and product development costs, including engineering services, development software and hardware tools, depreciation of equipment and facility costs. We record all research and development expense as incurred.

Three Months Ended September 30, 2015 Compared With Three Months Ended September 30, 2014

Research and development expense decreased by $1.1 million, or 9%, in the three months ended September 30, 2015 compared to the same period in 2014. The decrease was primarily due to a $1.8 million net reduction in development, prototype and material related spending and a $0.1 million decrease in payroll and benefit costs, partially offset by a $0.7 million increase in outside consulting services in the three months ended September 30, 2015.

Nine Months Ended September 30, 2015 Compared With Nine Months Ended September 30, 2014

Research and development expense decreased by $3.3 million, or 9%, in the nine months ended September 30, 2015 compared to the same period in 2014. The decrease was primarily due to a $3.9 million net reduction in development, prototype and material related spending attributable to cost management, a $0.7 million decrease in payroll and benefit costs as a result of past restructuring effort, partially offset by a $1.3 million increase in outside consulting fees in the nine months ended September 30, 2015. We intend to continue to invest in research and development activities, including new products that will further enhance our competitive position and expect this expense to moderately increase as we grow our business over time.

Table of Contents

Sales and marketing

Sales and marketing expense consists primarily of personnel costs, including stock-based compensation and other variable compensation, costs related to sales and marketing programs and services and facility costs.

Three Months Ended September 30, 2015 Compared With Three Months Ended September 30, 2014

Sales and marketing expense increased by $0.7 million, or 23%, in the three months ended September 30, 2015 compared to the same period in 2014 primarily due to a $0.8 million increase in doubtful account provision largely due to a customer filing for bankruptcy, partially offset by a $0.1 million decrease in payroll and benefits due to lower headcount.

Nine Months Ended September 30, 2015 Compared With Nine Months Ended September 30, 2014

Sales and marketing expense increased by $1.4 million, or 14%, in the nine months ended September 30, 2015 compared to the same period in 2014 primarily due to a $0.9 million increase in doubtful account provision largely due to a customer filing for bankruptcy and a $0.2 million increase in payroll and benefits. We expect to continue to focus on controlling our sales and marketing expenses in 2015 even as our business grows.

General and administrative

General and administrative expense consists primarily of personnel costs, including stock-based compensation, for our finance, human resources and information technology personnel and certain executive officers, as well as professional services costs related to accounting, tax, banking, legal and information technology services, depreciation and facility costs.

Three Months Ended September 30, 2015 Compared With Three Months Ended September 30, 2014

General and administrative expense increased by $0.7 million, or 10%, in the three months ended September 30, 2015 compared to the same period in 2014, mainly due to a $0.7 million increase in payroll and benefits, a $0.4 million increase in variable compensation expense and a $0.2 million increase in employee programs, partially offset by a $0.2 million decrease in depreciation and amortization expenses and a $0.2 million decrease in administrative costs.

Nine Months Ended September 30, 2015 Compared With Nine Months Ended September 30, 2014

General and administrative expense decreased by $0.9 million, or 4%, in the nine months ended September 30, 2015 compared to the same period in 2014, mainly due to a $2.9 million decrease in audit and consulting fees as the costs associated with completing the restatement of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013 and strengthening our internal controls in the 2014 period did not exist in 2015, as well as a $0.7 million decrease in depreciation and amortization charges. The decrease was partially offset by a $2.0 million increase in payroll and benefits and a $1.0 million increase in variable compensation expense. We expect to continue to focus on controlling our general and administrative expenses in 2015.

Amortization of purchased intangible assets

Our intangible assets are being amortized over their estimated useful lives. Amortization expense relating to technology, patents and leasehold interests are included within cost of goods sold, while customer relationships and other agreements are recorded within operating expenses. Amortization of purchased intangibles included in operating

34

Table of Contents

expenses increased slightly in the three and nine months ended September 30, 2015 primarily due to the amortization of intangible assets from our acquisition of EMCORE's tunable laser products in January 2015.

Asset impairment charge

We incurred $0.4 million in asset impairment charges in the three and nine months ended September 30, 2015. The increase was attributable to a $0.2 million write down of held-for-sale assets acquired from EMCORE and a $0.2 million charge for equipment affected by our product pruning effort.

Acquisition-related transaction costs

We incurred $0.2 million and $0.5 million in acquisition-related transaction costs in the three and nine months ended September 30, 2015, respectively, related to legal, accounting and other professional services for our acquisition activities, including our acquisition of tunable laser products from EMCORE.

Restructuring charges

In 2014, we initiated a restructuring plan (the "2014 Restructuring Plan") to refocus on our strategy execution, optimize our structure, and improve operational efficiencies. The 2014 Restructuring Plan consisted of workforce reductions primarily in the U.S and in China.

Interest and other income (expense), net

Interest income consists of income earned on our cash, cash equivalents and short-term investments, as well as restricted cash and investments. Interest expense consists of amounts paid for interest on our bank and other borrowings. Other expense, net is primarily made up of government subsidies as well as foreign currency transaction gains and losses. The functional currency of our subsidiaries in China is the RMB and of our subsidiaries in Japan is the JPY. The foreign currency transaction gains and losses of our subsidiaries in China and Japan primarily result from their transactions in U.S. dollars.

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands)	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
Interest income	$ 31	$ 52	$ (21)	-40 %	$ 84	$ 155	$ (71)	-46 %
Interest expense	(171)	(375)	204	-54 %	(1,133)	(937)	(196)	21 %
Other income (expense), net	1,852	1,735	117	7 %	2,408	493	1,915	388 %
Total	$ 1,712	$ 1,412	300	21 %	$ 1,359	$ (289)	1,648	-570 %

Total interest and other income (expense), net increased by $0.3 million in the three months ended September 30, 2015 compared to the same period in 2014, mainly due to a $0.2 million decrease in interest expense as a result of our financing activities in the U.S., China and Japan and a $0.1 million increase in other income (expense), net primarily driven by favorable foreign exchange fluctuations as a result of weaker RMB.

Total interest and other income (expense), net, increased by $1.6 million in the nine months ended September 30, 2015 compared to the same period in 2014, mainly due to a $1.9 million increase in other income (expense), net primarily driven by favorable foreign exchange fluctuations attributable to stronger U.S. Dollar.

Income taxes

We conduct our business globally and our operating income is subject to varying rates of tax in the United States, China, Japan and other various foreign jurisdictions. Consequently, our effective tax rate is dependent upon the geographic distribution of our earnings or losses and the tax laws and regulations in each geographical region.

Table of Contents

Historically, we have experienced net losses in the U.S. and in the short term, we expect this trend to continue. In China, one of our subsidiaries has historically qualified for a preferential 15% tax rate available for high technology enterprises as opposed to the statutory 25% tax rate for 2014 to 2016.

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands)	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
Provision for income taxes	$ (1,157)	$ (902)	$ (255)	28 %	$ (2,698)	$ (1,761)	$ (937)	53 %

Our income tax provision in the three and nine months ended September 30, 2015 was primarily related to income taxes of our non-U.S. operations.

Liquidity and capital resources

At September 30, 2015, we had working capital of $152.3 million and total cash, cash equivalents and short-term investments of $100.6 million, of which 11% was held in accounts by our subsidiaries in China and 3% was held in accounts by our subsidiaries in Japan. In addition, we had $3.1 million in restricted cash in accounts held by our subsidiaries in China as of September 30, 2015.

Approximately $7.1 million of our accumulated deficit at December 31, 2014 was subject to restrictions due to the fact that our subsidiaries in China are required to set aside at least 10% of their respective accumulated profits each year to fund statutory common reserves as well as allocate a discretional portion of their after-tax profits to their staff welfare and bonus fund. This restricted amount is not distributable as cash dividends except in the event of liquidation.

On May 27, 2015, we completed our follow-on offering of 5,971,034 shares of our common stock in a registered public offering at $7.25 per share. On May 27, 2015, the underwriters in our follow-on offering exercised an option to purchase 895,655 shares of our common stock at a price of $7.25 per share, which was completed on June 1, 2015. We raised approximately $45.6 million, net of underwriting costs and other directly related costs of approximately $4.1 million.

We have a bank credit agreement with Comerica Bank in the U.S. Our original credit agreement with Comerica Bank required the maintenance of specified financial covenants, including a debt to EBITDA ratio and liquidity ratios. The agreement also restricts our ability to incur certain additional debt or to engage in specified transactions, restricts the payment of dividends and is secured by substantially all of its U.S. assets, other than intellectual property assets. On May 19, 2014, we executed an amendment to the credit agreement that waived the testing of certain covenants for compliance, provided that we maintain compensating balances equal to outstanding amounts under the credit agreement in accounts for which the bank will have sole access. In January 2015, we executed an amended credit agreement with Comerica to eliminate the compensating balance requirement and modified the financial covenants, including the maintenance of a modified EBITDA and certain liquidity covenants, and replaced our $20.0 million revolving credit facility with a $25.0 million senior secured revolving credit line. In January 2015, we also repaid the remaining Comerica term loan balance and borrowed $15.8 million under the amended revolving credit facility. In

March 2015, we further amended our credit agreement with Comerica to increase our borrowing capacity from $25.0 million to $30.0 million, subject to covenant requirements.

Amounts borrowed under the Comerica Bank credit facility, as amended, are due on or before November 2, 2016 and borrowings bear interest at an interest rate option of a base rate as defined in the agreement plus 1.75% or LIBOR plus 2.75%. The credit facility was repaid in full in July 2015. As of September 30, 2015, the rate on the LIBOR option was 2.95% and outstanding balance was $23.8 million, which was repaid in October 2015.

As of September 30, 2015 and December 31, 2014, the amount of our cash and investments in its compensating balance accounts for the credit arrangement with Comerica Bank was zero and $17.5 million, respectively, which was classified as current and non-current restricted cash and investments on our condensed consolidated balance sheets.

Table of Contents

We regularly issue notes payable to our suppliers in China in exchange for accounts payable. These notes are supported by non-interest bearing bank acceptance drafts and are due three to six months after issuance. As a condition of the notes payable arrangements, we are required to keep a compensating balance at the issuing banks that is a percentage of the total notes payable balance until the amounts are settled.

In June 2015, our subsidiary in China renewed its short-term line of credit facility with a banking institution. Under the renewed agreement, which expires in June 2016, RMB 120.0 million ($18.9 million) can be used for short-term loans, which bears interest at varying rates, or up to approximately RMB 171.4 million ($26.9 million) can be used for bank acceptance drafts (with a 30% compensating balance requirement). In September 2015, our China subsidiary renewed its second short-term line of credit facility with a banking institution, under which RMB 133.0 million ($20.9 million) can be used for short-term loan or up to approximately RMB 190.0 million ($29.9 million) can be used for bank acceptance drafts (with a 30% compensating balance requirement). This line of credit facility expires in September 2016. As of September 30, 2015 and December 31, 2014, the non-interest bearing bank acceptance drafts issued in connection with our notes payable to our suppliers in China under these line of credit facilities had an outstanding balance of $10.2 million and $12.8 million, respectively.

As of September 30, 2015 and December 31, 2014, the compensating balance for these bank acceptance drafts totaled $3.1 million and $3.8 million, respectively, and was classified as restricted cash and investments on our condensed consolidated balance sheets. In 2014, our subsidiary in China entered into two $5.0 million short-term advance financing agreements under one of its line of credit facilities to borrow a total of $10.0 million against export sales to us as its parent company, with interest rates ranging from 2.33% to 4.02% per annum, respectively, and expiration dates in April 2015 and May 2015, respectively. Interest and the principal were due upon expiration. In April 2015 and May 2015, we repaid each of these two $5.0 million advance financing agreements. In April 2015, we executed a new $5.0 million advance financing agreement that bears interest at approximately 3.71% and an expiration date on October 8, 2015, which was fully repaid in September 2015.

On February 25, 2015, we entered into certain loan agreements and related special agreements (collectively, the “Loan Arrangements”) with the Bank of Tokyo-Mitsubishi UFJ, Ltd. (the “Mitsubishi Bank”) that provided for (i) a term loan in the aggregate principal amount of 500 million JPY ($4.2 million) (the “Term Loan A”) and (ii) a term loan in the aggregate principal amount of one billion JPY ($8.4 million) (the “Term Loan B” and together with the Term Loan A, the “Mitsubishi Bank Loans”). The Mitsubishi Bank Loans are secured by a mortgage on certain real property and buildings owned by our Japanese subsidiary in Japan. The full amount of each of the Mitsubishi Bank Loans was drawn on the closing date of February 25, 2015. Interest on the Mitsubishi Bank Loans accrues and is paid monthly based upon the annual rate of the monthly Tokyo Interbank Offer Rate (TIBOR) plus 1.40%. The Term Loan A requires interest only payments until the maturity date of February 23, 2018, with a lump sum payment of the aggregate principal amount on the maturity date. The Term Loan B requires equal monthly payments of principal equal to 8,333,000 JPY until the maturity date of February 25, 2025, with a lump sum payment of the balance of 8,373,000 JPY on the maturity date. Interest on the Term Loan B is accrued based upon monthly TIBOR plus 1.40% and is secured by real estate collateral. In conjunction with the execution of the Mitsubishi Bank Loans, we paid a loan structuring fee, including consumption tax, of 40,500,000 JPY ($0.3 million).

The Mitsubishi Bank Loans contain customary representations and warranties and customary affirmative and negative covenants applicable to our Japanese subsidiary, including, among other things, restrictions on cessation in business, management, mergers or acquisitions. The Mitsubishi Bank Loans contain financial covenants relating to minimum net assets, maximum ordinary loss and a dividends covenant. The Mitsubishi Bank Loans also include customary events of default, including but not limited to the nonpayment of principal or interest, violations of covenants, restraint on business, dissolution, bankruptcy, attachment and misrepresentations. In February 2015, we used a portion of the proceeds of the Mitsubishi Bank Loans to repay the then-outstanding outstanding principal and interest amount of approximately 710 million JPY ($6.0 million) under the loan from the acquisition of NeoPhotonics Semiconductor.

As of September 30, 2015, our total outstanding balance under the two Mitsubishi Banks Loans was 1.4 billion JPY (approximately $12.0 million).

Table of Contents

On January 2, 2015, we closed an acquisition of the tunable laser product lines of EMCORE for approximately $17.5 million. Consideration for the transaction consisted of $1.5 million in cash and a promissory note of approximately $16.0 million, which was subject to certain adjustments for inventory, net accounts receivable and pre-closing revenues and was subsequently adjusted to $15.5 million and was fully repaid in April 2015.

From time to time we accept notes receivable in exchange for accounts receivable from certain of our customers in China. These notes receivable are non-interest bearing and are generally due within six months. Historically, we have collected on the notes receivable in full at the time of maturity.

We believe that our existing cash, cash equivalents and cash flows from our operating activities will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced products, the costs to increase our manufacturing capacity and our foreign operations, the continuing market acceptance of our products and acquisitions of businesses and technology. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be adversely affected.

Private placement transaction

In April 2012, we entered into a rights agreement with Rusnano, one of our principal stockholders. Under the rights agreement, we agreed to make a $30.0 million investment commitment (the “Investment Commitment”) toward our Russian operations. The Investment Commitment can be partially satisfied by cash and/or non-cash investment inside or outside of Russia and/or by way of non-cash asset transfers.

In July 2015, we amended our rights agreement with Rusnano. The amendment to the rights agreement became effective on June 30, 2015 and provides for an updated investment plan for our Russian subsidiaries that includes a non-cash transfer of licensing rights to intellectual property, non-cash transfers of exiting equipment and commitments to complete the remaining milestones of approximately one-half of the overall investment through fiscal year 2019. It also provides that the maximum amount of penalties to be paid by us will not exceed $5.0 million in the aggregate, with the following penalties for failure to meet specified milestones and exit options at the end of the following years, subject to a 90-day cure period (“Cure Period”) following such years:

- By December 31, 2015, if the actual cumulative investment and spending to the Company’s Russian subsidiaries is less than $13.0 million, or if the Company has not sold any products manufactured by its Russian subsidiary, or if the Company has not completed agreed-upon manufacturing milestones, then the Company will be subject to a $5.0 million penalty within 30 days after the end of the applicable Cure Period; if the cumulative investments and spending to the Company’s Russian subsidiaries are less than $15.4 million but more than $13.0 million by December 31, 2015 and is not cured within the applicable Cure Period, the Company will be subject to a $1.5 million penalty within 30 days after the end of the applicable Cure Period.
- By December 31, 2016, if the actual cumulative investment and spending to the Company’s Russian subsidiaries is less than $18.8 million, the Company will be subject to a $1.5 million penalty within 30 days after the end of the applicable Cure Period.
- At the end of 2016, the Company will be subject to pay an exit fee of $3.5 million to Rusnano should the Company decide to cease the operations of its Russian subsidiaries, provided that the cumulative investments and spending including the tangible asset transfers, other than intangible asset transfers which is limited to a maximum valuation of $5.7 million, exceed $10.0 million.
- At the end of 2019, the Company will be subject to pay an exit fee of $2.0 million to Rusnano should the Company decide to cease the operations of its Russian subsidiaries, if the cumulative investments and spending are less than

$30.0 million.

Table of Contents

Separately, on December 18, 2014, we entered into a Commitment to file a Registration Statement and Related Waiver of Registration Rights, whereby Rusnano waived certain registration rights in connection with a potential offering by us of shares of our common stock, and we committed to file with the SEC a resale registration statement on Form S-1 covering the resale of all shares of our common stock held by Rusnano. We filed such resale registration statement on April 6, 2015 to register 4,972,905 shares of our common stock held by Rusnano. Rusnano also waived its demand registration rights under the original rights agreement and agreed to enter into a lock up agreement with us whereby it would agree not to sell any shares of our common stock, or engage in certain other transactions relating to our securities, for a period of 60 days from the filing date of the resale registration statement. Rusnano signed such lock up agreement with us on April 2, 2015. In connection with our public stock offering completed in the second quarter of 2015, Rusnano entered into a separate lock up agreement with Needham & Company, LLC, the lead underwriter of the offering, whereby it agreed not to sell any shares of our common stock, or engage in certain other transactions relating to our securities, for a period of 180 days from May 21, 2015. We do not receive any proceeds from any sales of our common stock held by Rusnano.

Cash flow discussion

The table below sets forth selected cash flow data for the periods presented:

	Nine Months Ended September 30,	
(in thousands)	2015	2014
Net cash provided by (used in) operating activities	$ 21,112	$ (11,428)
Net cash used in investing activities	(16,065)	(11,939)
Net cash provided by financing activities	29,421	2,062
Effect of exchange rates on cash and cash equivalents	(253)	(527)
Net increase (decrease) in cash and cash equivalents	$ 34,215	$ (21,832)

Operating activities

Net cash provided by operating activities was $21.1 million in the nine months ended September 30, 2015, which was a $32.5 million increase from $11.4 million used in operating activities in the same 2014 period. The increase was primarily attributable to a $3.3 million net income in the 2015 period compared to a $21.3 million net loss in the 2014 period, a $22.8 million increase in cash flows from accounts receivable due to collections and a $6.2 million increase in cash flows from prepaid expenses and other assets primarily due to higher prepaid value-added tax payments in the 2014 period, partially offset by a $18.6 million decrease in inventory primarily due to product demand and a $6.7 million decrease in cash flows from accounts payable due to timing of payments.

Investing activities

Net cash used in investing activities was $16.1 million in the nine months ended September 30, 2015, compared to $11.9 million in the same 2014 period. Of the increase in cash used, $19.3 million was attributable to increases in

marketable securities purchases, $5.1 million was attributable to a net decrease in proceeds from sales and maturities of marketable securities and a $1.9 million increase in capital equipment purchases, partially offset by a $22.0 million decrease in restricted cash changes primarily due to the removal of compensating balance associated with our Comerica credit arrangement.

Table of Contents

Financing activities

Net cash provided by financing activities was $29.4 million in the nine months ended September 30, 2015, a $27.4 million increase from $2.1 million provided by financing activities in the same 2014 period. The increase was largely due to a $48.4 million increase in proceeds from issuance of bank and acquisition-related loans in 2015, a $45.6 million net proceed from issuance of our common stock in a public offering in 2015 and a $2.0 million contingent consideration payment in 2014. The increase was partially offset by a $61.5 million decrease due to repayments of the loan associated with the NeoPhotonics Semiconductor acquisition, the Amended EMCORE Note and the Comerica loans, a $4.2 million decrease related to repayment of notes payable and a $1.8 million decrease in proceeds from issuance of notes payable.

Contractual obligations and commitments

As of September 30, 2015, our principle commitments consist of obligations under operating leases, purchase commitments, debt and other contractual obligations. There have been no significant changes to these obligations during the nine months ended September 30, 2015 compared to the contractual obligations disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Off-balance sheet arrangements

During the three and nine months ended September 30, 2015, we did not have any significant off-balance sheet arrangements.

Recent accounting pronouncements

See Note 1 “Basis of presentation and significant accounting policies” in the Notes to Condensed Consolidated Financial Statements on this Quarterly Report on Form 10-Q for a description of recent accounting pronouncements and accounting changes.

ITEM 3.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposures to market risk have not changed materially since December 31, 2014. For quantitative and qualitative disclosures about market risk, see Item 7A Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 4.CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to reasonably ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Table of Contents

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective as of September 30, 2015 at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended) as of September 30, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitation on the Effectiveness of Internal Controls

The effectiveness of any system of internal control over financial reporting is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting can only provide reasonable, not absolute assurances. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure that such improvements will be sufficient to provide us with effective internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1.LEGAL PROCEEDINGS

From time to time, we are involved in litigation that we believe is of the type common to companies engaged in our line of business, including commercial disputes and employment issues. As of the date of this Quarterly Report on Form 10-Q, other than as described below, we are not involved in any pending legal proceedings that we believe could have a material adverse effect on our financial condition, results of operations or cash flows. However, as described below, a certain dispute involves a claim by a third party that our activities infringe their intellectual property rights. This and other types of intellectual property rights claims generally involve the demand by a third party that we cease the manufacture, use or sale of the allegedly infringing products, processes or technologies and/or pay substantial damages or royalties for past, present and future use of the allegedly infringing intellectual property. Claims that our products or processes infringe or misappropriate any third-party intellectual property rights (including claims arising through our contractual indemnification of our customers) often involve highly complex, technical issues, the outcome of which is inherently uncertain. Moreover, from time to time, we may pursue litigation to assert our intellectual property rights. Regardless of the merit or resolution of any such litigation, complex intellectual property litigation is generally costly and diverts the efforts and attention of our management and technical personnel which could adversely affect our business.

For a discussion of our current legal proceedings, please refer to the information set forth under the “Litigation” section in Note 10, Commitments and Contingencies, in Notes to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

ITEM 1A.RISK FACTORS

Except for those risk factors denoted by an asterisk (*), the risk factors facing our company have not changed materially from those set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on March 16, 2015, which risk factors are set forth below.

Risks related to our business

Customer demand is difficult to accurately forecast and, as a result, we may be unable to optimally match production with customer demand, which could adversely affect our business and financial results.

We make planning and spending decisions based on our estimates of customer requirements. The short-term nature of commitments by many of our customers, and the possibility of unexpected changes in demand for their products, reduce our ability to accurately estimate future customer requirements. On occasion, customers may require rapid increases in production, which can strain our resources, cause our manufacturing to be negatively impacted by materials shortages, necessitate higher or more restrictive procurement commitments, increase our manufacturing yield loss and scrapping of excess materials, and reduce our gross margin. We may not have sufficient capacity at any given time to meet the volume demands of our customers, or one or more of our suppliers may not have sufficient

capacity at any given time to meet our volume demands. Conversely, a downturn in the markets in which our customers compete can cause, and in the past have caused, our customers to significantly reduce or delay the amount of products ordered from us or to cancel existing orders, leading to lower utilization of our facilities. Because many of our costs and operating expenses are relatively fixed, reduction in customer demand due to market downturns or other reasons would have a material adverse effect on our gross margin, operating income and cash flow.

Our products are typically sold pursuant to individual purchase orders or by use of a vendor-managed inventory, or VMI, model, which is a process by which we ship agreed quantities of products to a customer-designated location and those products remain our inventory and we retain the title and risk of loss for those products until the customer takes possession of the products. While our customers generally provide us with their demand forecasts and may give us a promised market share award, they are typically not contractually committed to buy any quantity of products beyond firm purchase orders. Many of our customers may increase, decrease, cancel or delay purchase orders already in place. We have experienced and expect to continue to experience wide fluctuations in demand from customers using VMI,

Table of Contents

particularly Huawei Technologies Co., Ltd. and their affiliate HiSilicon Technologies Co., Ltd., even in instances where we have built and shipped products to the customer-designated locations as VMI. In recent periods, there has been an increase in the number of our customers utilizing VMI, which may increase our exposure to risks of wide fluctuations in demand from VMI customer locations. If any of our major customers decrease, stop or delay purchasing our products for any reason, our business and results of operations would be harmed. Cancellation or delays of such orders, as well as fluctuations in VMI utilization by our customers, may cause us to incur an adverse effect on our revenues, as well as adversely affect our overall results of operations.

Our revenues and costs will fluctuate over time, making it difficult to predict our future results of operations.

Our revenue, gross margin and results of operations have varied significantly and are likely to continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. For instance, changes in gross margin may result from various factors, such as changes in pricing, changes in our fixed costs, changes in the cost of labor, changes in the mix of our products sold, changes in the amount of product manufactured versus the amount of product sold over time, and charges for excess and obsolete inventory. It is difficult for us to accurately forecast our future revenue and gross margin and plan expenses accordingly and, therefore, it is difficult for us to predict our future results of operations.

We are under continuous pressure to reduce the prices of our products, which has adversely affected, and may continue to adversely affect, our gross margins.

The communications networks industry has been characterized by declining product prices over time. We have reduced the prices of many of our products in the past and we expect to continue to experience pricing pressure for our products in the future, including from our major customers. When seeking to maintain or increase their market share, our competitors may also reduce the prices of their products. In addition, our customers may have the ability or seek to internally develop and manufacture competing products at a lower cost than we would otherwise charge, which would add additional pressure on us to lower our selling prices. If we are unable to offset any future reductions in our average selling prices by increasing our sales volume, reducing our costs and expenses or introducing new products, our gross margin would be adversely affected.

*We have a history of losses which may continue in the future.

We have a history of losses and we may incur additional losses in future periods. As of September 30, 2015, our accumulated deficit was $298.9 million. We also expect to continue to make significant expenditures related to the ongoing operation and development of our business. These include expenditures related to the sales, marketing and development of our products and to maintain our manufacturing facilities and research and development operations.

*We are dependent on Huawei Technologies Co., Ltd. and their affiliate HiSilicon Technologies Co., Ltd., Ciena, Alcatel-Lucent SA and our other key customers for a significant portion of our revenue and the loss of, or a significant reduction in orders from, Huawei Technologies Co., Ltd. or any of our other key customers may reduce our revenue and adversely impact our results of operations.

Historically, we have generated most of our revenue from a limited number of customers. In the nine months ended September 30, 2015, Huawei Technologies Co. Ltd., together with its affiliate HiSilicon Technologies Co., Ltd., and Ciena Corporation accounted for approximately 40% and 24% of our total revenue, respectively, and our top ten customers represented 91% of our total revenue. In 2014, Huawei Technologies Co., Ltd., Ciena Corporation, and Alcatel-Lucent SA accounted for 38%, 15% and 10% of our total revenue, respectively, and our top ten customers represented 88% of our total revenue. As a result, the loss of, or a significant reduction in orders from these major customers or any of our other key customers would materially and adversely affect our revenue and results of

operations. Adverse events affecting our customers could also adversely affect our revenue and results of operations.

Table of Contents

We face intense competition which could negatively impact our results of operations and market share.

The communications networks industry is highly competitive. Our competitors range from large international companies offering a wide range of products to smaller companies specializing in niche markets.

Some of our competitors have substantially greater name recognition, technical, financial, and marketing resources, and greater manufacturing capacity, as well as better-established relationships with customers, than we do. Some of our competitors have more resources to develop or acquire, and more experience in developing or acquiring, new products and technologies and in creating market awareness for these products and technologies. Some of our competitors may be able to develop new products more quickly than us and may be able to develop products that are more reliable or which provide more functionality than ours. In addition, some of our competitors have the financial resources on business strategy to offer competitive products at below-market pricing levels that could prevent us from competing effectively and result in a loss of sales or market share or cause us to lower prices for our products.

In particular we have developed new technologies and products that we believe are key components in our customers' systems for 100Gbps data transmission. The emergence of technologies and products from our competitors and their success in competing against our technologies and products for 100Gbps data transmission could render our existing products uncompetitive from a pricing standpoint, obsolete or otherwise unmarketable.

We also face competition from some of our customers who evaluate our capabilities against the merits of manufacturing products internally, including Huawei Technologies Co., Ltd. and its affiliate, HiSilicon Technologies Co., Ltd. Due to the fact that such customers are not seeking to make a comparable profit directly from the manufacture of these products, they may have the ability to provide competitive products at a lower total cost than we would charge such customers. As a result, these customers may purchase less of our products and there would be additional pressure to lower our selling prices which, accordingly, would negatively impact our revenue and gross margin.

Intense competition in our markets could result in aggressive business tactics by our competitors, including aggressively pricing their products or selling older inventory at a discount. If our current or future competitors utilize aggressive business tactics, including those described above, demand for our products could decline, we could experience delays or cancellations of customer orders, or we could be required to reduce our sales prices.

Increasing costs may adversely impact our gross margins.

The rate of increase in our costs and expenses, including as a result of rising labor costs in China, may exceed the rate of increase in our revenue, which would materially and adversely affect our business, our results of operations and our financial condition.

Manufacturing problems could result in delays in product shipments to customers and could adversely affect our revenue, competitive position and reputation.

We may experience delays, disruptions or quality control problems in our manufacturing operations, which could adversely impact manufacturing yields or delay product shipments. As a result, we could incur additional costs that would adversely affect our gross margin, and product shipments to our customers could be delayed beyond the shipment schedules requested by our customers, which would negatively affect our revenue, competitive position and reputation.

Additionally, manufacturing yields depend on a number of factors, including the stability and manufacturability of the product design, manufacturing improvements gained over cumulative production volumes, the quality and consistency

of component parts and the nature and extent of customization requirements by customers. Capacity constraints, raw materials shortages, logistics issues, labor shortages, volatility in utilization of manufacturing operations, supporting utility services and other manufacturing supplies, the introduction of new product lines, rapid increases in production demands and changes in customer requirements, manufacturing facilities or processes, or those of some third party contract manufacturers and suppliers of raw materials and components have historically caused, and may in the future cause, reduced manufacturing yields, negatively impacting the gross margin on, and our production capacity for, those products. Moreover, an increase in the rejection and rework rate of products during the quality control

Table of Contents

process before, during or after manufacture would result in our experiencing lower yields, gross margin and production capacity. Our ability to maintain sufficient manufacturing yields is particularly challenging with respect to PICs due to the complexity and required precision of a large number of unique manufacturing process steps. Manufacturing yields for PICs can also suffer if contaminated materials or materials that do not meet highly precise composition requirements are inadvertently utilized. Because a large portion of our PIC manufacturing costs are fixed, PIC manufacturing yields have a substantial effect on our gross margin. Lower than expected manufacturing yields could also delay product shipments and decrease our revenue. It can be hard to cost-effectively increase our production output rapidly, and we can experience yield loss and excess material scrap, which can increase our cost of goods sold and harm our profitability. Also, if we do not have sufficient demand for our PIC-based products our cost of goods sold can increase as the fixed costs of our fabrication facilities are spread over lower production.

*We are subject to the cyclical nature of the markets in which we compete and any future downturn may reduce demand for our products and revenue.

The markets in which we compete are tied to the aggregate capital expenditures of telecommunications service providers as they build out and upgrade their network infrastructure. These markets are highly cyclical and characterized by constant and rapid technological change, price erosion, evolving standards and wide fluctuations in product supply and demand. In the past, including recently to varying degrees in China, the U.S. and Europe, these markets have experienced significant downturns, often connected with, or in anticipation of, the maturation of product cycles—for both manufacturers' and their customers' products—or in response to over or under purchasing of inventory by our customers relative to ultimate carrier demand, and with declining general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. To respond to a downturn, many service providers may slow their capital expenditures, cancel or delay new developments, reduce their workforces and inventories and take a cautious approach to acquiring new equipment and technologies from original equipment manufacturers, which would have a negative impact on our business.

Our historical results of operations have been subject to substantial fluctuations, and we may experience substantial period-to-period fluctuations in future results of operations. Any future downturn in the markets in which we compete could significantly reduce the demand for our products and therefore may result in a significant reduction in revenue. Our revenue and results of operations may be materially and adversely affected in the future due to changes in demand from individual customers or cyclical changes in the markets utilizing our products.

It could be discovered that our products contain defects that may cause us to incur significant costs, divert our attention, result in a loss of customers and result in product liability claims.

Our products are complex and undergo quality testing as well as formal qualification, both by our customers and by us. However, defects may occur from time to time. For various reasons, such as the occurrence of performance problems that are unforeseeable in testing or that are detected only when products age or are operated under peak stress conditions, our products may fail to perform as expected long after customer acceptance. Failures could result from faulty components or design, problems in manufacturing or other unforeseen reasons. As a result, we could incur significant costs to repair or replace defective products under warranty, particularly when such failures occur in installed systems. Any significant product failure could result in lost future sales of the affected product and other products, as well as customer relations problems, litigation and damage to our reputation.

In addition, our products are typically embedded in, or deployed in conjunction with, our customers' products, which incorporate a variety of components, modules and subsystems and may be expected to interoperate with modules produced by third parties. As a result, not all defects are immediately detectable and 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 relations problems or loss of customers, all of which would harm our business.

The occurrence of any defects in our products could give rise to liability for damages caused by such defects. They could, moreover, impair our customers' acceptance of our products. Both could have a material adverse effect on our

Table of Contents

business and financial condition. Although we carry product liability insurance which covers this risk, this insurance may not adequately cover our costs arising from defects in our products or otherwise.

If spending for communications networks does not continue to grow as expected, our business and financial results may suffer.

Our future success as a provider of modules and subsystems to leading network equipment vendors depends on their continued capital spending on global communications networks. Network traffic has experienced rapid growth driven primarily by bandwidth-intensive content, including cloud services, mobile video and data services, wireless 4G/LTE services, social networking, video conferencing and other multimedia. This growth is intensified by the proliferation of fixed and wireless devices, that are enabling consumers to access content at increasing data rates anytime and anywhere. Our future success depends on continued demand for high-bandwidth, high-speed communications networks and the ability of network equipment vendors to meet this demand. We cannot be certain that demand for bandwidth-intensive content will continue to grow in the future. If expectations for growth of communications networks and bandwidth consumption are not realized and investment in communications networks does not grow as anticipated, our business could be harmed.

We depend upon outside contract manufacturers for a portion of the manufacturing process for some of our products. Our operations and revenue related to these products could be adversely affected if we encounter problems with this contract manufacturer.

The majority of our products are manufactured internally. However we also rely upon contract manufacturers in China, Japan and other Asia locations to provide back-end manufacturing and produce the finished portion of some of our products. Our reliance on contract manufacturers for these products makes us vulnerable to possible capacity constraints and reduced control over delivery schedules, manufacturing yields, manufacturing quality/controls and costs. If one of our contract manufacturers is unable to meet all of our customer demand in a timely fashion, this could have a material adverse effect on the revenue from our products. If the contract manufacturer for one of our product were unable or unwilling to manufacture such product in required volumes and at high quality levels or to continue our existing supply arrangement, we would have to identify, qualify and select an acceptable alternative contract manufacturer or move these manufacturing operations to our internal manufacturing facilities. Any significant interruption in manufacturing our products would require us to reduce our supply of products to our customers, which in turn would reduce our revenue, harm our relationships with the customers of these products and cause us to forego potential revenue opportunities.

We must continually achieve new design wins and enhance existing products or our business and future revenue may be harmed.

The markets for our products are characterized by frequent new product introductions, changes in customer requirements and evolving industry standards, all with an underlying pressure to reduce cost and meet stringent reliability and qualification requirements. Our future performance will depend on our successful development, introduction and market acceptance of new and enhanced products that address these challenges. The anticipated or actual introduction of new and enhanced products by us and by our competitors may cause our customers to defer or cancel orders for our existing products. In addition, the introduction of new products by us or our competitors could result, and in the past, has resulted, in a slowdown in demand for our existing products and could result, and in the past, has resulted, in a write-down in the value of inventory. We have both recently and in the past experienced a slowdown in demand for existing products and delays in new product development, and such delays may occur in the future. To the extent customers defer or cancel orders for our products for any reason or we fail to achieve new design wins, our competitive position would be adversely affected and our ability to grow revenue would be impaired.

Furthermore, fast time-to-market with new products can be critical to success in our markets. It is difficult to displace an existing supplier for a particular type of product once a network equipment vendor has chosen a supplier, even if a later-to-market product provides superior performance or cost efficiency. If we are unable to make our new or enhanced products commercially available on a timely basis, we may lose existing and potential customers and our financial results would suffer.

Table of Contents

The development of new, technologically-advanced products is a complex and uncertain process requiring frequent innovation, highly-skilled engineering and development personnel and significant capital, as well as the accurate anticipation of technological and market trends. 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. Further, we cannot assure you that our new products will gain market acceptance or that we will be able to respond effectively to product introductions by competitors, technological changes or emerging industry standards. We also may not be able to develop the underlying core technologies necessary to create new products and enhancements, license these technologies from third parties, or remain competitive in our markets.

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

The communications networks industry is characterized by substantial investment in new technology and the development of diverse and changing technologies and industry standards. For example, new technologies are required to satisfy the emerging standards for 100Gbps, 400 Gbps and higher data transmission in communications networks.

Our ability to anticipate and respond to evolving technology, industry standards, customer requirements and product offerings, and to develop and introduce new and enhanced products and technologies, will be critical factors in our ability to succeed. If we are unable to anticipate and respond to such changes in the future, our competitive position could be adversely affected. In addition, the introduction of new products by other companies embodying new technologies, or the emergence of new industry standards, could render our existing products uncompetitive from a pricing standpoint, obsolete or otherwise unmarketable.

If our customers do not qualify our products for use, then our results of operations may suffer.

Prior to placing volume purchase orders with us, most of our customers require us to obtain their approval—called qualification in our industry—of our new and existing products, and our customers often audit our manufacturing facilities and perform other vendor evaluations during this process. The qualification process involves product sampling and reliability testing and collaboration with our product management and engineering teams in the design and manufacturing stages. If we are unable to qualify our products with customers, then our revenue would be lower than expected and we may not be able to recover the costs associated with the qualification process which would have an adverse effect on our results of operations.

In addition, due to evolving technological changes in our markets, a customer may cancel or modify a design project before we have qualified our product or begun volume manufacturing of a qualified product. It is unlikely that we would be able to recover the expenses for cancelled or unutilized custom design projects. It is difficult to predict with any certainty whether our customers will delay or terminate product qualification or the frequency with which customers will cancel or modify their projects, but any such delay, cancellation or modification would have a negative effect on our results of operations.

In particular, we have developed new technologies and products that we believe are key components in our customers' systems for 100Gbps data transmission. There are multiple modulation approaches for these systems and not all are likely to be equally successful. While we are shipping certain products for 100Gbps system designs today, many of our products for these systems are currently being qualified for use by our customers. Our ability to successfully qualify and scale capacity for these new technologies and products is important to our ability to grow our business and market presence. If we are unable to qualify and sell any of these products in volume on time, or at all, our results of operations may be adversely affected.

If we fail to retain our key personnel or if we fail to attract additional qualified personnel, we may not be able to achieve our anticipated level of growth and our business could suffer.

Our success and ability to implement our business strategy depends upon the continued contributions of our senior management team and others, including senior management in foreign subsidiaries and our technical and operations employees in all locations. Our future success depends, in part, on our ability to attract and retain key personnel,

Table of Contents

including our senior management and others. The loss of services of members of our senior management team or key personnel or the inability to continue to attract and retain qualified personnel could have a material adverse effect on our business. Competition for highly skilled technical and operations people where we operate is extremely intense, and we continue to face challenges identifying, hiring and retaining qualified personnel in many areas of our business. If we fail to retain our senior management and other key personnel or if we fail to attract additional qualified personnel, our business could suffer.

The communications networks industry has long product development cycles requiring us to incur product development costs without assurances of an acceptable investment return.

The communications networks industry is highly capital-intensive. Large volumes of equipment and support structures are installed with considerable expenditures of funds and other resources, and long investment return period expectations. At the component supplier level, these cycles create considerable, typically multi-year, gaps between the commencement of new product development and volume purchases. Accordingly, we and our competitors often incur significant research and development and sales and marketing costs for products that, initially, will be purchased by our customers long after much of the cost is incurred and, in some cases, may never be purchased due to changes in industry or customer requirements in the interim.

Due to changing industry and customer requirements, we are constantly developing new products, including seeking to further integrate functions on PICs and developing and using new technologies in our products. These development activities can and are expected to necessitate significant investment of capital. Our new products often require a long time to develop because of their complexity and rigorous testing and qualification requirements. Additionally, developing a manufacturing approach with an acceptable cost structure and yield for new products can be expensive and time-consuming. Due to the costs and length of research and development and manufacturing process cycles, we may not recognize revenue from new products until long after such expenditures are incurred, if at all, and our gross margin may decrease if our costs are higher than expected.

While we rely on many suppliers, there are a few which, if they stopped, decreased or delayed shipments to us, it could have an adverse effect on our business and financial results.

We depend on a limited number of suppliers for certain components and materials we have qualified to use in the manufacture of certain of our products. Some of these suppliers could disrupt our business if they stop, decrease or delay shipments or if the components they ship have quality, consistency, or business continuity issues. Some of these components and materials are available only from a sole source, or have been qualified only from a single source. For example, we use various types of adhesives that are sourced from various manufacturers, which presently are sole sources for these particular adhesives. Furthermore, there are a limited number of entities from which we could obtain certain other components and materials. We may also face component shortages if we experience increased demand for components beyond what our qualified suppliers can deliver. We have experienced component shortages from certain key suppliers, which has resulted and, if this occurs in the future, may result in an inability to meet customer demand, higher purchasing costs, or both. Although we engage in various actions to mitigate the impact of these shortages, any inability on our part to obtain sufficient quantities of critical components at reasonable costs could adversely affect our ability to meet demand for our products, which could cause our revenue, results of operations, or both to suffer.

Our customers generally restrict our ability to change the component parts in our modules without their approval. For more critical components, such as PICs, lasers and photo detectors, any changes may require repeating the entire qualification process. We typically have not entered into long-term or written agreements with our suppliers to guarantee the supply of the key components used in our products, and, therefore, our suppliers could stop supplying materials and equipment at any time or fail to supply adequate quantities of component parts on a timely basis. It is

difficult, costly, time consuming and, on short notice, sometimes impossible for us to identify and qualify new component suppliers. The reliance on a sole supplier, single qualified vendor or limited number of suppliers could result in delivery and quality problems, reduced control over product pricing, reliability and performance and an inability to identify and qualify another supplier in a timely manner. We have in the past had to change suppliers, which has, in some instances, resulted in delays in product development and manufacturing and loss of revenue. Any such delays in the future may limit our ability to respond to changes in customer and market demands. Any supply deficiencies relating to the quality, quantities

Table of Contents

or timeliness of delivery of components that we use to manufacture our products could adversely affect our ability to fulfill our customer orders and our results of operations.

If we fail to protect, or incur significant costs in defending, our intellectual property and other proprietary rights, our business and results of operations could be materially harmed.

Our success depends to a significant degree on our ability to protect our intellectual property and other proprietary rights. We rely on a combination of patent, trademark, copyright, trade secret and unfair competition laws, as well as license agreements and other contractual provisions, to establish and protect our intellectual property and other proprietary rights. We have applied for patent registrations in the U.S. and in other foreign countries, some of which have been issued. We cannot guarantee that our pending applications will be approved by the applicable governmental authorities. Moreover, our existing and future patents and trademarks may not be sufficiently broad to protect our proprietary rights or may be held invalid or unenforceable in court. A failure to obtain patents or trademark registrations or a successful challenge to our registrations in the U.S. or other foreign countries may limit our ability to protect the intellectual property rights that these applications and registrations intended to cover.

Policing unauthorized use of our technology is difficult and we cannot be certain that the steps we have taken will prevent the misappropriation, unauthorized use or other infringement of our intellectual property rights. Further, we may not be able to effectively protect our intellectual property rights from misappropriation or other infringement in foreign countries where we have not applied for patent protections, and where effective patent, trademark, trade secret and other intellectual property laws may be unavailable, or may not protect our proprietary rights as fully as U.S. or Japan law. Particularly, our U.S. patents do not afford any intellectual property protection in China, Japan, Canada or other Asia locations where we have company operations, or in Russia, where we intend to expand operations. We seek to secure, to the extent possible, comparable intellectual property protections in China and other areas in which we operate. However, while we have issued patents and pending patent applications in China, portions of our intellectual property portfolio are not yet protected by patents in China. Moreover, the level of protection afforded by patent and other laws in countries such as China and Russia may not be comparable to that afforded in the U.S. or Japan.

We attempt to protect our intellectual property, including our trade secrets and know-how, through the use of trade secret and other intellectual property laws, and contractual provisions. We enter into confidentiality and invention assignment agreements with our employees and independent consultants. We also use non-disclosure agreements with other third parties who may have access to our proprietary technologies and information. Such measures, however, provide only limited protection, and there can be no assurance that our confidentiality and non-disclosure agreements will not be breached, especially after our employees or those of our third-party contract manufacturers end their employment or engagement, and that our trade secrets will not otherwise become known by competitors or that we will have adequate remedies in the event of unauthorized use or disclosure of proprietary information. Unauthorized third parties may try to copy or reverse engineer our products or portions of our products, otherwise obtain and use our intellectual property, or may independently develop similar or equivalent trade secrets or know-how. If we fail to protect our intellectual property and other proprietary rights, or if such intellectual property and proprietary rights are infringed or misappropriated, our business, results of operations or financial condition could be materially harmed.

In the future, we may need to take legal actions to prevent third parties from infringing upon or misappropriating our intellectual property or from otherwise gaining access to our technology. Protecting and enforcing our intellectual property rights and determining their validity and scope could result in significant litigation costs and require significant time and attention from our technical and management personnel, which could significantly harm our business. In addition, we may not prevail in such proceedings. An adverse outcome of such proceedings may reduce our competitive advantage or otherwise harm our financial condition and our business.

*We may be involved in intellectual property disputes in the future, which could divert management’s attention, cause us to incur significant costs and prevent us from selling or using the challenged technology.

Participants in the markets in which we sell our products have experienced frequent litigation regarding patent and other intellectual property rights. Numerous patents in these industries are held by others, including our competitors. In addition, from time to time, we have been notified that we may be infringing certain patents or other intellectual property

Table of Contents

rights of others. Regardless of their merit, responding to such claims can be time consuming, divert management's attention and resources and may cause us to incur significant expenses. In addition, there can be no assurance that third parties will not assert infringement claims against us. While we believe that our products do not infringe in any material respect upon intellectual property rights of other parties and/or meritorious defense would exist with respect to any assertions to the contrary, we cannot be certain that our products would not be found infringing the intellectual property rights of others. Intellectual property claims against us could invalidate our proprietary rights and force us to do one or more of the following:

- obtain from a third party claiming infringement a license to sell or use the relevant technology, which may not be available on reasonable terms, or at all;
- stop manufacturing, selling, incorporating or using our products that use the challenged intellectual property;
- pay substantial monetary damages; or
- expend significant resources to redesign the products that use the technology and to develop non-infringing technology.

Any of these actions could result in a substantial reduction in our revenue and could result in losses over an extended period of time.

In January 2010, Finisar Corporation, or Finisar, filed a complaint in the U.S. District Court for the Northern District of California against us and three other co-defendants. In the complaint, Finisar alleged infringement of certain of its U.S. patents arising from the co-defendants' respective manufacture, importation, use, sale of or offer to sell certain optical transceiver products in the U.S. In March 2010, we filed an answer to the complaint and counterclaims, asserting two claims of patent infringement and additional claims asserting that Finisar has violated state and federal competition laws and violated its obligations to license on reasonable and non-discriminatory terms. In May 2010, the court dismissed without prejudice all co-defendants (including us) except Source Photonics, Inc., on grounds that such claims should have been asserted in four separate lawsuits, one against each co-defendant. This dismissal without prejudice does not prevent Finisar from bringing a new similar lawsuit against us. In May 2012, we and Finisar agreed to toll our respective claims until the refiling of certain of the previously asserted claims from this dispute. As a result, Finisar is permitted to bring a new lawsuit against us if it chooses to do so, and we may bring new claims against Finisar upon seven days written notice prior to filing such claims.

If we are unsuccessful in our defense of the Finisar patent infringement claims, a license to use the allegedly infringing technology may not be available to us at all, and if it is, it may not be available on commercially reasonable terms and therefore may limit or preclude us from competing in the market for optical transceivers in the U.S., which may have a material adverse effect on our results of operations and financial condition, and otherwise materially harm our business.

Although we believe that we would have meritorious defenses to the infringement allegations and intend to defend any new similar lawsuit vigorously, there can be no assurance that we will be successful in our defense. Even if we are successful, we may incur substantial legal fees and other costs in defending the lawsuit. Further, a new lawsuit, if brought by either party, would be likely to divert the efforts and attention of our management and technical personnel, which could harm our business.

If we fail to obtain the right to use the intellectual property rights of others which are necessary to operate our business, and to protect their intellectual property, our business and results of operations will be adversely affected.

From time to time we may choose to or be required to license technology or intellectual property from third parties in connection with the development of our products. We cannot assure you that third-party licenses will be available to us on commercially reasonable terms, if at all. Generally, a license, if granted, would include payments of up-front fees, ongoing royalties or both. These payments or other terms could have a significant adverse impact on our results

of operations. The inability to obtain a necessary third-party license required for our product offerings or to develop new products and product enhancements could require us to substitute technology of lower quality or performance standards, or of greater cost, either of which could adversely affect our business. If we are not able to obtain licenses from third

Table of Contents

parties, if necessary, then we may also be subject to litigation to defend against infringement claims from these third parties. Our competitors may be able to obtain licenses or cross-license their technology on better terms than we can, which could put us at a competitive disadvantage. Also, we typically enter into confidentiality agreements with such third parties in which we agree to protect and maintain their proprietary and confidential information, including requiring our employees to enter into agreements protecting such information. There can be no assurance that the confidentiality agreements will not be breached by any of our employees or that such third parties will not make claims that their proprietary information has been disclosed.

Any potential dispute involving our patents or other intellectual property could also include our customers using our products, which could trigger our indemnification obligations to them and result in substantial expenses to us.

In any potential dispute involving our patents or other intellectual property, our customers could also become the target of litigation. Because we often indemnify our customers for intellectual property claims made against them for products incorporating our technology, any claims against our customers could trigger indemnification obligations in some of our supply agreements, which could result in substantial expenses such as increased legal expenses, damages for past infringement or royalties for future use. While we have not incurred any material indemnification expenses to date, any future indemnity claim could adversely affect our relationships with our customers and result in substantial costs to us. Our insurance does not cover intellectual property infringement.

If we fail to adequately manage our long-term growth and expansion requirements, our business and financial results will suffer.

In recent years, we have experienced significant growth through, among other things, internal expansion programs, product development and acquisitions of other businesses and products. Our business has expanded to numerous locations, including foreign locations, and as a result become more complex, more demanding of management’s attention and subject to new laws and regulations. If we fail to comply with new laws and regulations related to the expansion of our business, our business could suffer.

We expect to continue to grow, which could require us to expand our manufacturing operations, including hiring new personnel, purchasing additional equipment, leasing or purchasing additional facilities, developing the management infrastructure and developing our suppliers to manage any such expansion. If we fail to secure these expansion requirements or manage our future growth effectively, our business could suffer.

*We have pursued and may continue to pursue acquisitions. Acquisitions could be difficult to integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and impair our financial results.

As part of our business strategy, we have pursued and intend to continue to pursue acquisitions of complementary businesses, products, services or technologies that we believe could accelerate our ability to compete in our existing markets or allow us to enter new markets. Any of these transactions could be material to our financial condition and results of operations. For instance, in October 2011, we completed the acquisition of Santur Corporation, a designer and manufacturer of InP-based PIC products, and in March 2013 we completed the acquisition of the optical semiconductor business unit of LAPIS Semiconductor Co., Ltd., now known as NeoPhotonics Semiconductor. In January 2015, we purchased the tunable laser product lines of EMCORE. If we fail to properly evaluate or integrate acquisitions, we may not achieve the anticipated benefits of any such acquisitions, and we may incur costs in excess of what we anticipate.

Acquisitions involve numerous risks, any of which could harm our business, including:

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difficulties in integrating the operations, technologies, products, existing contracts, accounting and personnel of the target company;

- difficulties in realizing our expectations for the financial performance of the target company;
- difficulties in supporting and transitioning customers, if any, of the target company;
- difficulties in managing and integrating different cultures with respect to our international acquisitions;

Table of Contents

- dependence or reliance on subcontractors or suppliers to the acquired company that may not have been fully qualified or evaluated for their position in supplying the acquired company previously;
- diversion of management time and potential business disruption;
- the incurrence of debt to provide capital for any cash-based acquisitions;
- the price we pay or other resources that we devote may exceed the value we realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity;
- risks of entering new markets in which we have limited or no experience;
- potential loss of key employees, customers and strategic alliances from either our current business or the target company's business;
- assumption of unanticipated problems or latent liabilities, such as problems with the quality of the target company's products;
- exposure to environmental liabilities that have not yet been discovered associated with acquired businesses' facilities;
- expenses, distractions and actual or threatened claims or litigation resulting from acquisitions, whether or not they are completed;
- unexpected capital expenditure requirements
- inability to generate sufficient revenue to offset increased expenses association with any acquisition;
- issues arising from weaknesses or deficiencies in internal controls over financial reporting for acquired businesses that were not previously subject to internal control requirements of a U.S. public company;
- in the event of international acquisitions, risks associated with accounting and business practices that are different from applicable U.S. practices and requirements;
- dilutive effect on our stock as a result of any equity-based acquisitions;
- incurring potential write-offs, contingent liabilities and amortization expense; and
- opportunity costs of committing capital to such acquisitions.

The failure to successfully evaluate and execute acquisitions or otherwise adequately address these risks could materially harm our business and financial results.

Acquisitions also frequently result in the recording of goodwill and other intangible assets which are subject to potential impairments which have occurred in the past and which, were they to occur in the future, could harm our financial results. As a result, if we fail to properly evaluate acquisitions or investments, we may not achieve the anticipated benefits of any such acquisitions, and we may incur costs in excess of what we anticipate. The failure to successfully evaluate and execute acquisitions or investments or otherwise adequately address these risks could materially harm our business and financial results.

Table of Contents

*Failure to realize the anticipated benefits from our past and future acquisitions may affect our future results of operations and financial condition.

In connection with our acquisitions of Santur, NeoPhotonics Semiconductor and EMCORE's tunable laser products, we have integrated the commercial operations and personnel into our existing infrastructure. If there are unexpected difficulties in our integration of these acquired businesses and/or the product lines we have acquired from EMCORE, the anticipated benefits of these acquisitions may not be realized or may take longer to realize than expected. The anticipated benefits of these acquisitions could be materially reduced by a number of factors, including the following:

- the future revenue and gross margins of the acquired products may be materially different from those we originally anticipated;
- we could incur material unanticipated expenses;
- acquired products may not achieve the performance levels or specifications required by our customers;
- claims or lawsuits may arise from the acquisition transaction or from their previous business operations;
- we may experience difficulties in managing inventory and other operational processes in facilities that we acquire or lease as a result of the acquisitions;
- we may experience difficulties in implementing effective internal controls over financial reporting as part of our integration actions, particularly since neither of these businesses were historically subject as a stand-alone entity to the internal control requirements of a U.S. public company;
- potential growth, expected financial results, perceived synergies and anticipated opportunities may not be realized through the ongoing integration actions;
- we may face competition from existing customers as well as new competitors;
- some existing customers of the acquired businesses may view our company as a competitor, and therefore may reduce or end their purchases of NeoPhotonics products for competitive reasons;
- a potential decline in revenues could occur from NeoPhotonics Semiconductor's legacy products for network applications that are declining within our customer base (such as NeoPhotonics Semiconductor's gallium arsenide integrated circuits for 10G network applications)
- we could have difficulty implementing and maintaining financial reporting requirements for NeoPhotonics Semiconductor's previous business operations, which have not been previously audited nor subject to the internal compliance structure of a U.S. public company;
- we could incur additional costs associated with known and unknown environmental contamination of the real estate acquired from NeoPhotonics Semiconductor; and
- we could incur costs associated with new export or compliance issues associated with NeoPhotonics Semiconductor products or the product lines we recently acquired form EMCORE.

The occurrence of any or all of these events may have an adverse effect on our business and results of operations.

*We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders.

We believe that our existing cash and cash equivalents, and cash flows from our operating activities and funds available under our credit facilities, will be sufficient to meet our anticipated cash needs for at least the next 12 months. We operate in an industry, however, that makes our prospects difficult to evaluate. It is possible that we may not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs. If this occurs, we may need additional financing to continue operations or execute on our current or future business strategies, including to:

Table of Contents

- invest in our research and development efforts, including by hiring additional technical and other personnel;
- maintain and expand our operating or manufacturing infrastructure;
- acquire complementary businesses, products, services or technologies; or
- otherwise pursue our strategic plans and respond to competitive pressures.

If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our products, or otherwise respond to competitive pressures could be significantly limited. Furthermore, in the event adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition, results of operations, and cash flows may be materially and adversely affected.

Natural disasters, terrorist attacks or other catastrophic events could harm our operations and our financial results.

Our worldwide operations could be subject to natural disasters and other business disruptions, which could harm our future revenue and financial condition and increase our costs and expenses. For example, our corporate headquarters and wafer fabrication facility in Silicon Valley, California and our Tokyo, Japan facility are located near major earthquake fault lines, and our manufacturing facilities are located in Shenzhen and Dongguan, China, areas that are susceptible to typhoons. In the event that an earthquake, tsunami, typhoon, terrorist attack or other natural or man-made catastrophe were to destroy any part of our facilities, destroy or disrupt vital infrastructure systems or interrupt our operations or the facilities or operations of our suppliers or customers for any extended period of time, our business, financial condition and results of operations would be materially and adversely affected. We are not insured against many natural disasters, including earthquakes.

Similarly, our worldwide operations could be subject to secondary effects of natural disasters and other business disruptions, which could harm our future revenue and financial condition and increase our costs and expenses. For instance, natural disasters and other business disruptions have created significant secondary effects in the past (such as the 2011 floods in Thailand and the 2011 earthquakes, tsunami and subsequent crisis relating to nuclear power facilities in Japan). Any of these types of events in the future could result in a slowdown of business or inability to manufacture products by our customers or others in the industry that are located in the affected areas; a disruption to the global supply chain for products manufactured in the affected areas that are included in the products either by us or by our customers; a disruption to manufacturing resulting from power shortages or other rationing of inputs to production; an increase in the cost of products that we purchase due to reduced supply; and other unforeseen impacts. These secondary effects could have a material and adverse effect on our business, financial condition, and results of operations.

Rapidly changing standards and regulations could make our products obsolete, which would cause our revenue and results of operations to suffer.

We design our products to conform to regulations established by governments and to standards set by industry standards bodies worldwide, such as The American National Standards Institute, the European Telecommunications Standards Institute, the International Telecommunications Union and the Institute of Electrical and Electronics Engineers. Various industry organizations are currently considering whether and to what extent to create standards for elements used in 100Gbps systems. Because certain of our products are designed to conform to current specific industry standards, if competing or new standards emerge that are preferred by our customers, we would have to make significant expenditures to develop new products. If our customers adopt new or competing industry standards with which our products are not compatible, or the industry groups adopt standards or governments issue regulations with

which our products are not compatible, our existing products would become less desirable to our customers and our revenue and results of operations would suffer.

Table of Contents

*Failure to realize the anticipated benefits from our planned expansion in the Russian Federation may affect our future results of operations and financial condition.

In connection with our raising capital in an April 2012 private placement of common stock, we have established a wholly-owned subsidiary and company operations in the Russian Federation. The establishment of successful operations in the Russian Federation requires capital expenditure in 2015, and is in part dependent on the cooperation of Russian entities that could include the Russia government and other third parties. If there are delays in our efforts to establish operations in the Russian Federation, the anticipated benefits of our Russian expansion may not be realized or may take longer to realize than expected. The anticipated benefits of our Russian expansion could be materially reduced by a number of factors, including the following:

- the future revenue and gross margins of products produced in the Russian Federation may be materially different from those we originally anticipated;
- we could incur material unanticipated expenses; and
- we could have difficulty managing a business in the Russian Federation, where we did not previously have a material business presence.

In addition, in connection with the private placement transaction, we entered into a rights agreement with the sponsoring investor. Pursuant to the rights agreement, we have agreed to make a $30.0 million investment towards our Russian operations. We are currently required to satisfy this total investment commitment over a period from 2012 to 2019. Pursuant to the rights agreement, failure to perform our investment commitments for specific years within this time period may result in an obligation to pay damages to the investor, up to a maximum amount of penalties of $5.0 million.

Our business operations conducted in Russia are relatively small compared to our overall business. A portion of our revenue in the nine months ended September 30, 2015 was recognized from customers for whom we shipped products to a location in Russia. Additionally, a portion of our property, plant and equipment was located in Russia. We expect to make further investments in Russia in the foreseeable future. Therefore, our business, financial condition, results of operations and prospects are to a degree subject to economic, political, legal, and social events and developments in Russia. In recent years the Russian Federation has undergone substantial political, economic and social change. The business, legal and regulatory infrastructure in the Russian Federation is less well-developed that would generally exist in a more mature free market economy. In addition, the tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and changes, which can occur frequently. The future economic direction of the Russian Federation remains largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory and political developments. Our failure to manage the risks associated with our planned Russian expansion could have a material adverse effect upon our results of operations.

We could be adversely affected by any actions taken by Russia in response to U.S. or international sanctions, including but not limited to actions such as restrictions placed by Russia on U.S. companies doing business in Russia.

The occurrence of any or all of these events may have an adverse effect on our business, and results of operations and financial condition.

Potential changes in our effective tax rate could negatively affect our future results.

We are subject to income taxes in the U.S., China, Japan and other various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions. Our tax rate is affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses and the valuation of deferred tax assets and liabilities, including our ability to utilize our net operating

losses. Increases in our effective tax rate could negatively affect our results of operations.

Table of Contents

*Our future results of operations may be subject to volatility as a result of exposure to fluctuations in foreign exchange rates, primarily the Chinese Renminbi (RMB) and Japanese Yen (JPY) exchange rates.

We are exposed to foreign exchange risks. Foreign currency fluctuations may adversely affect our revenue and our costs and expenses, and hence our results of operations. A substantial portion of our business is conducted through our subsidiaries based in China, whose functional currency is the RMB and Japan, whose functional currency is the JPY. The value of the RMB against the U.S. dollar and other currencies and the value of the JPY against the U.S. dollar and other currencies fluctuate and are affected by, among other things, changes in political and economic conditions.

The People's Bank of China regularly intervenes in the foreign exchange market to manage fluctuations in RMB exchange rates and achieve policy goals. In the three months ended September 30, 2015, the Chinese government had allowed the RMB to devalue against the U.S. dollar by approximately 4%. It is difficult to predict how market forces or Chinese or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future. There remains significant international pressure on the Chinese government to adopt a more flexible currency policy, which could result in greater fluctuation of the RMB against the U.S. dollar.

To the extent that transactions by our subsidiaries in China and Japan are denominated in currencies other than the RMB and JPY, we bear the risk that fluctuations in the exchange rates of the RMB and JPY in relation to other currencies could decrease our revenue or increase our costs and expenses, therefore having an adverse effect on our future results of operations.

While we generate a significant portion of our revenue in RMB and JPY, a majority of our operating expenses are in U.S. dollars. Therefore depreciation in RMB or JPY against the U.S. dollar would negatively impact our revenue upon translation to U.S. dollars but the impact on operating expenses would be less.

We also transact in other currencies that have had historical volatility, including the Russian Rubles (RUB). Fluctuations in the exchange rates of these currencies may cause us to recognize additional transaction gains or losses which could impact our results of operations. While the RUB weakened against the U.S. dollar, the related impact on our operating results has been immaterial. However, as we expect to expand our Russian operations, our risk associated with fluctuation of the RUB against the U.S. dollar could increase in the future.

To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure. In addition, our currency exchange variations may be magnified by Chinese exchange control regulations that restrict our ability to convert RMB into foreign currency.

*We face a variety of risks associated with international sales and operations, which if not adequately managed could adversely affect our business and financial results.

We currently derive, and expect to continue to derive, a significant portion of our revenue from international sales in various markets. In addition, a major portion of our operations is based in Shenzhen and Dongguan, China as well as our having additional operations in Japan, Russia and Canada. Our international revenue and operations are subject to a number of material risks, including, but not limited to:

- difficulties in staffing, managing and supporting operations in more than one country;
- difficulties in enforcing agreements and collecting receivables through foreign legal systems;
- fewer legal protections for intellectual property in foreign jurisdictions;
- compliance with local regulations;

- foreign and U.S. taxation issues and international trade barriers;
- general economic and political conditions in the markets in which we operate;

Table of Contents

- difficulties in obtaining any necessary governmental authorizations for the export of our products to certain foreign jurisdictions;
- fluctuations in foreign economies;
- fluctuations in the value of foreign currencies and interest rates;
- trade and travel restrictions;
- outbreaks of contagious disease;
- domestic and international economic or political changes, hostilities and other disruptions; and
- difficulties and increased expenses in complying with a variety of U.S. and foreign laws, regulations and trade standards, including the Foreign Corrupt Practices Act. Negative developments in any of these areas in China, Japan, Russia or other countries could result in a reduction in demand for our products, the cancellation or delay of orders already placed, difficulties in producing and delivering our products, threats to our intellectual property, difficulty in collecting receivables, and a higher cost of doing business.

In addition, although we maintain an anti-corruption compliance program throughout our company, violations of our compliance program may result in criminal or civil sanctions, including material monetary fines, penalties and other costs against us or our employees, and may have a material adverse effect on our business.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets.

We are subject to export and import control laws, trade regulations and other trade requirements that limit which products we sell and where and to whom we sell our products, especially laser-dependent products. In some cases, it is possible that export licenses would be required from U.S. government agencies for some of our products in accordance with various statutes. In addition, various countries regulate the import of certain technologies and have enacted laws that could limit our ability to distribute our products. We may not be successful in obtaining the necessary export and import licenses. Failure to comply with these and similar laws on a timely basis, or at all, or any limitation on our ability to export or sell our products or to obtain any required licenses would adversely affect our business, financial condition and results of operations.

Changes in our products or changes in export and import laws and implementing regulations may create delays in the introduction of new products in international markets, prevent our customers from deploying our products internationally or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. In such event, our business and results of operations could be adversely affected.

*In 2013, we identified material weaknesses in our internal control over financial reporting which resulted in material misstatements in our financial statements.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

We identified material weaknesses in our internal control over financial reporting during 2013. These material weaknesses resulted in material misstatements in our consolidated financial statements for the quarters ended March 31, 2013 and June 30, 2013, which required us to file restatements of these financial statements. Over the course of 2014, we developed and implemented remediation plans designed to address these material weaknesses. Our management assessed the effectiveness of our internal control over financial reporting and concluded that our internal control over financial reporting was effective as of December 31, 2014. However, if our remediation measures are insufficient to address the previously-identified material weaknesses or if additional material weaknesses in our

internal control are discovered or

Table of Contents

occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results.

If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.

Preparing our consolidated financial statements involves a number of complex manual and automated processes, which are dependent upon individual data input or review and require significant management judgment. One or more of these elements may result in errors that may not be detected and could result in a material misstatement of our consolidated financial statements. Since the year ended December 31, 2011, we have been required to comply with the internal control requirements of the Sarbanes-Oxley Act of 2002. We may experience difficulties in implementing effective internal controls over financial reporting as part of our integration of the product lines acquired from EMCORE. The product lines we acquired from EMCORE were not subject as a stand-alone entity to the internal control requirements of a U.S. public company. We could also experience unanticipated additional operating costs in implementing and managing effective internal controls over financing reporting at the EMCORE facilities and operations, which could adversely affect our financial performance.

If a material misstatement occurs in the future, we may fail to meet our future reporting obligations, we may need to restate our financial results and the price of our common stock may decline. Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in the implementation, our business and operating results may be harmed and we may fail to meet our financial reporting obligations. Any failure of our internal controls could also adversely affect the results of the periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that is now applicable to us under the rules of the Securities and Exchange Commission, or the SEC. Effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and results of operations could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

We may be subject to disruptions or failures in information technology systems and network infrastructures that could have a material adverse effect on our business and financial condition.

We rely on the efficient and uninterrupted operation of complex information technology systems and network infrastructures to operate our business. A disruption, infiltration or failure of our information technology systems as a result of software or hardware malfunctions, system implementations or upgrades, computer viruses, cyber attacks, third-party security breaches, employee error, theft or misuse, malfeasance, power disruptions, natural disasters or accidents could cause breaches of data security, loss of intellectual property and critical data and the release and misappropriation of sensitive competitive information and partner, customer and employee personal data. Any of these events could harm our competitive position, result in a loss of customer confidence, cause us to incur significant costs to remedy any damages and ultimately materially adversely affect our business and financial condition.

Covenants in our credit facilities may limit our flexibility in responding to business opportunities and competitive developments and increase our vulnerability to adverse economic or industry conditions.

We have lending arrangements with several financial institutions, including a revolving credit agreement with Comerica Bank in the U.S. Our U.S. revolving credit agreement requires us to maintain certain financial covenants

and limits our ability to take certain actions such as incurring some kinds of additional debt, paying dividends, or engaging in certain transactions like mergers and acquisitions, investments and asset sales without the lenders' consent.

These restrictions may limit our flexibility in responding to business opportunities, competitive developments and adverse economic or industry conditions. In addition, our obligations under our U.S. revolving credit agreement with

Table of Contents

Comerica Bank are secured by substantially all of our assets other than intellectual property assets, which limit our ability to provide collateral for additional financing. A breach of any of these covenants, or a failure to pay interest or indebtedness when due under any of our credit facilities, could result in a variety of adverse consequences, including the acceleration of our indebtedness.

We may be unable to utilize our net operating loss carryforwards to reduce our income taxes, which could adversely affect our future financial results.

As of December 31, 2014, we had net operating loss, or NOL, carryforwards for U.S. federal and state tax purposes of $209.2 million and $110.1 million, respectively. As these net operating losses have not been utilized, a portion began to expire in 2014 and will continue to expire further in the current and future years. The utilization of the NOL and tax credit carryforwards are subject to a substantial limitation imposed by Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, and similar state provisions. We recorded deferred tax assets, net of valuation allowance, for the NOL carryforwards currently available after considering the existing Section 382 limitation. If we incur an additional limitation under Section 382, then the NOL carryforwards, as disclosed, could be reduced by the impact of any future limitation that would result in existing NOL carryforwards and tax credit carryforwards expiring unutilized and increases in future tax liabilities.

We are subject to government regulations that could adversely impact our business.

The Federal Communications Commission, or FCC, has jurisdiction over the entire U.S. telecommunications industry and, as a result, our products and our U.S. customers are subject to FCC rules and regulations. Current and future FCC regulations affecting communications services, our products or our customers' businesses could negatively affect our business. In addition, international regulatory standards could impair our ability to develop products for international customers in the future. Delays caused by our compliance with regulatory requirements could result in postponements or cancellations of product orders. Further, we may not be successful in obtaining or maintaining any regulatory approvals that may, in the future, be required to operate our business. Any failure to obtain such approvals could harm our business and results of operations.

We may utilize conflict minerals in our production or rely on suppliers who utilize conflict minerals in their production, and the use of such conflict minerals may negatively impact our results of operations.

In August 2012, the SEC adopted its final rule to implement Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding reporting obligations for the use of conflict minerals originating in the Democratic Republic of the Congo and adjoining countries, and beginning on January 1, 2013, we became subject to these reporting obligations and filed our first conflict minerals report with the SEC in the second quarter of 2014. In connection with these requirements, we regularly communicate with customers and suppliers regarding the new conflict mineral rules and reporting obligations and continue to work with these customers and suppliers to implement any necessary or requested compliance programs. As a result of these new rules, our results in operations may suffer for a variety of reasons, including:

- difficulty in obtaining supplies that are conflict-free;
- shipping delays or the cancellation of orders for our products;
- costs associated with the implementation of the conflict minerals reporting obligations; and
- reputational damage in the event that we determine our products do incorporate conflict minerals or cannot be verified as not incorporating conflict minerals.

In some instances, we rely on third-party sales representatives to assist in selling our products, and the failure of these representatives to perform as expected could reduce our future revenue.

Although we primarily sell our products through direct sales to systems vendors, we also sell our products to some of our customers through third-party sales representatives. Many of our third-party sales representatives also market and

Table of Contents

sell competing products from our competitors. Our third-party sales representatives may terminate their relationships with us at any time, or with short notice. Our future performance will also depend, in part, on our ability to attract additional third-party sales representatives that will be able to market and support our products effectively, especially in markets in which we have not previously distributed our products. If our current third-party sales representatives fail to perform as expected, our revenue and results of operations could be harmed.

*We are subject to environmental, health and safety laws and regulations, which could subject us to liabilities, increase our costs, or restrict our business or operations in the future.

Our manufacturing operations and our products are subject to a variety of federal, state, local and international environmental, health and safety laws and regulations in each of the jurisdictions in which we operate or sell our products. Our failure to comply with present and future environmental, health or safety requirements, or the identification of contamination, could cause us to incur substantial costs, including cleanup costs, monetary fines, civil or criminal penalties, or curtailment of operations. In addition, the enactment of more stringent laws and regulations, or other unanticipated events could restrict our ability to expand our facilities, require us to install costly pollution control equipment or incur other additional expenses, or require us to modify our manufacturing processes or the contents of our products, which could have a material adverse effect on our business, financial condition and results of operations.

With our acquisition of NeoPhotonics Semiconductor, we own and operate a semiconductor facility in Japan which is subject to local environmental laws and regulations, including the Japanese Environmental Quality Standards (“JEQS”) and the Water Pollution Control Law (“Water Law”), which includes provisions for periodic monitoring of groundwater quality. The JEQS provides guidelines for specified substances in groundwater, primarily including metals and volatile organic compounds, include some that are either used in our operations or have been used in our facilities in prior years. In addition, the Soil Contamination Countermeasures Law includes regulatory standards for many of the same substances regulated under the Water Law, some that are either used in our operations or have been used in our facilities in prior years. Should any of these regulated materials be detected in local water or soil, we could be subject to local law remedies, which could affect our ability to operate or could negatively affect our results of operations.

Additionally, increasing efforts to control emissions of greenhouse gases, or GHG, may also impact us. Additional climate change or GHG control requirements are under consideration at the federal level in the U.S. and in China. Additional restrictions, limits, taxes, or other controls on GHG emissions could increase our operating costs and, while it is not possible to estimate the specific impact any final GHG regulations will have on our operations, there can be no assurance that these measures will not have significant additional impact on us.

Adoption of international labor standards may increase our direct labor costs.

International standards of corporate social responsibility include strict requirements on labor work practices and overtime. As global service providers and their network equipment vendors adopt these standards, we have in the past incurred and may be required in the future to incur additional direct labor costs associated with our compliance with these standards.

*Risks related to our operations in China

Our business operations conducted in China are critical to our success. A significant portion of our revenue in the nine months ended September 30, 2015 was recognized from customers for whom we shipped products to a location in China. Additionally, a substantial portion of our property, plant and equipment, 41% as of September 30, 2015, was located in China. We expect to make further investments in China in the foreseeable future. Therefore, our business, financial condition, results of operations and prospects are to a significant degree subject to economic, political, legal,

and social events and developments in China.

Table of Contents

*Adverse changes in economic and political policies in China, or Chinese laws or regulations could have a material adverse effect on business conditions and the overall economic growth of China, which could adversely affect our business.

The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate and control of foreign exchange and allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Despite reforms, the government continues to exercise significant control over China's economic growth by way of the allocation of resources, control over foreign currency-denominated obligations and monetary policy and provision of preferential treatment to particular industries or companies. Moreover, the laws, regulations and legal requirements in China, including the laws that apply to foreign-invested enterprises are relatively new and are subject to frequent changes. The interpretation and enforcement of such laws is uncertain. Any adverse changes to these laws, regulations and legal requirements, including tax laws, or their interpretation or enforcement, or the creation of new laws or regulations relating to our business, could have a material adverse effect on our business. For example, the Chinese government's recent crackdown on alleged antitrust violations and bribery of local officials by multinational companies could signal a broad trend toward elevated scrutiny of foreign corporations operating in the country.

Furthermore, while China's economy has experienced rapid growth in the past 20 years, its rate of growth has slowed over the past several quarters. Any continuing or worsening slowdown could significantly reduce domestic commerce in China. An economic downturn, whether actual or perceived, a further decrease in economic growth rates or an otherwise uncertain economic outlook in China could have a material adverse effect on our business, financial condition and results of operation.

Our cost advantage from having our manufacturing and part of our research and development in China may diminish over time due to increasing labor costs, which could materially and adversely affect our operating results.

The labor market in China, particularly in the manufacturing-heavy Southeast region of China where our manufacturing facilities are located, has experienced higher costs due to increased wages. We were required to pay additional employee benefits taxes beginning in late 2010 and were subject to increases in the minimum wage in each year from 2011 to 2014. We expect that we will be subject to further increases in personnel costs and taxes in the future due to market conditions and/or government mandates. If labor costs in China continue to increase, our gross margins and profit margins and results of operations may be adversely affected. In addition, our competitive advantage against competitors with manufacturing in traditionally higher cost countries would be diminished.

The termination, expiration or unavailability of our preferential income tax treatment in China may have a material adverse effect on our operating results.

Effective January 1, 2008, the China Enterprise Income Tax Law, or the EIT law, imposes a single uniform income tax rate of 25% on all Chinese enterprises, including foreign-invested enterprises, and eliminates or modifies most of the tax exemptions, reductions and preferential treatment available under the previous tax laws and regulations. As a result, our subsidiaries in China may be subject to the uniform income tax rate of 25% unless we are able to qualify for preferential status. Historically, we have qualified for a preferential 15% tax rate that is available for new and high technology enterprises. The preferential tax rate applied to 2014, 2013 and 2012. We realized benefits from this 10% reduction in tax rate of $0.5 million, $0.2 million and $0.9 million for 2014, 2013 and 2012, respectively. In order to retain the preferential tax rate, we must meet certain operating conditions, satisfy certain product requirements, meet certain headcount requirements and maintain certain levels of research expenditures. The preferential tax rate that we enjoy could be modified or discontinued altogether at any time, which could materially and adversely affect our financial condition and results of operations.

Our subsidiaries in China may be subject to restrictions on dividend payments, on making other payments to us or any other affiliated company, and on borrowing or allocating tax losses among our subsidiaries.

Current Chinese regulations permit our subsidiaries in China to pay dividends only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations, which are different than

Table of Contents

U.S. accounting standards and regulations. In addition, our subsidiaries in China are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund their statutory common reserves until such reserves have reached at least 50% of their respective registered capital, as well as to allocate a discretional portion of their after-tax profits to their staff welfare and bonus fund. As of December 31, 2014, our Chinese subsidiaries' common reserves had not reached this threshold and, accordingly, these entities are required to continue funding such reserves with accumulated net profits. The statutory common reserves are not distributable as cash dividends except in the event of liquidation. In addition, current Chinese regulations prohibit inter-company borrowings or allocation of tax losses among subsidiaries in China. Further, if our subsidiaries in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Accordingly, we may not be able to move our capital easily, which could harm our business.

Restrictions on currency exchange may limit our ability to receive and use our revenue and cash effectively.

Because a substantial portion of our revenue is denominated in RMB, any restrictions on currency exchange may limit our ability to use revenue generated in RMB to fund any business activities we may have outside China or to make dividend payments in U.S. dollars. Under relevant Chinese rules and regulations, the RMB is currently convertible under the "current account," which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account," which includes foreign direct investment and loans, without the prior approval of the State Administration of Foreign Exchange, or SAFE. Currently, our subsidiaries in China may purchase foreign exchange for settlement of "current account transactions," including the payment of dividends to us, without the approval of SAFE. Although Chinese government regulations now allow greater convertibility of the RMB for current account transactions, significant restrictions remain. For example, foreign exchange transactions under our primary Chinese subsidiary's capital account, including principal payments in respect of foreign currency-denominated obligations, remain subject to significant foreign exchange controls and the approval of SAFE. These limitations could affect the ability of our subsidiaries in China to obtain foreign exchange for capital expenditures through debt or equity financing, including by means of loans or capital contributions from us. We cannot be certain that Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the RMB, especially with respect to foreign exchange transactions. If such restrictions are imposed, our ability to adjust our capital structure or engage in foreign exchange transactions may be limited.

In August 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises, or Circular 142, a notice regulating the conversion by foreign-invested enterprises or FIE of foreign currency into RMB by restricting how the converted RMB may be used. Circular 142 requires that RMB converted from the foreign currency-dominated capital of a FIE may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within China unless specifically provided for otherwise. In addition, SAFE strengthened its oversight over the flow and use of RMB funds converted from the foreign currency-dominated capital of a FIE. The use of such RMB may not be changed without approval from SAFE. Violations of Circular 142 may result in severe penalties, including substantial fines set forth in the Foreign Exchange Administration Regulations. As a result of Circular 142, our subsidiaries in China may not be able to convert our capital contributions to them into RMB for equity investments or acquisitions in China.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The M&A Rules establish procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a

Chinese domestic enterprise. We may seek to expand our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Table of Contents

Uncertainties with respect to China's legal system could adversely affect the legal protection available to us.

Our operations in China are governed by Chinese laws and regulations. Our subsidiaries in China are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned enterprises. China's legal system is a civil law system based on written statutes. Unlike common law systems, it is a legal system where decided legal cases have limited value as precedents. Since 1979, Chinese legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully-integrated legal system, and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, the interpretation and enforcement of these laws and regulations involve uncertainties, including regional variations within China. For example, we may have to resort to administrative and court proceedings to enforce the legal protection under contracts or law. However, since Chinese administrative and court authorities have significant discretion in interpreting and implementing statutory and contract terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we would receive compared to more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our distributors, business partners, customers and suppliers. In addition, protections of intellectual property rights and confidentiality in China may not be as effective as in the U.S. or other countries or regions with more developed legal systems. Furthermore, the legal system in China is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All the uncertainties described above could limit the legal protections available to us and could materially and adversely affect our business and operations.

Chinese regulations relating to offshore investment activities by Chinese residents and employee stock options granted by overseas-listed companies may increase our administrative burden, restrict our overseas and cross-border investment activity or otherwise adversely affect the implementation of our acquisition strategy. If our stockholders who are Chinese residents, or our Chinese employees who are granted or exercise stock options, fail to make any required registrations or filings under such regulations, we may be unable to distribute profits and may become subject to liability under Chinese laws.

Chinese foreign exchange regulations require Chinese residents and corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. These regulations apply to our stockholders who are Chinese residents and may apply to any offshore acquisitions that we make in the future. Pursuant to these foreign exchange regulations, Chinese residents who make, or have previously made, direct or indirect investments in offshore companies, will be required to register those investments. In addition, any Chinese resident who is a direct or indirect stockholder of an offshore company is required to file or update the registration with the local branch of SAFE, with respect to that offshore company, including any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest. If any Chinese stockholder fails to make the required SAFE registration or file or update the registration, subsidiaries in China of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation, to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital into their subsidiaries in China. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under Chinese laws for evasion of applicable foreign exchange restrictions. We cannot provide any assurances that all of our stockholders who are Chinese residents have made or obtained, or will make or obtain, any applicable registrations or approvals required by these foreign exchange regulations. The failure or inability of our stockholders in China to comply with the required registration procedures may subject us to fines and legal sanctions, restrict our cross-border investment activities, or

limit our Chinese subsidiaries' ability to distribute dividends or obtain foreign-exchange-dominated loans. Moreover, because of the uncertainties in the interpretation and implementation of these foreign exchange regulations, we cannot predict how they will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a domestic company in China, we cannot assure you that we or the owners of such company, as the case may be,

Table of Contents

will be able to obtain the necessary approvals or complete the necessary filings and registrations required by these foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

On March 28, 2007, SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rule. Under the Stock Option Rule, Chinese residents who are granted stock options by an overseas publicly-listed company are required, through a Chinese agent or Chinese subsidiary of such overseas publicly-listed company, to register with SAFE and complete certain other procedures. We and our Chinese employees who have been granted stock options are subject to the Stock Option Rule. We have completed the process of registering our stock option and appreciation plans with SAFE. On February 20, 2012, SAFE issued the Circular on Relevant Issues concerning Foreign Exchange Administration for Individuals in PRC Participating in Equity Incentive Plan of Overseas-Listed Companies, or Circular 7, which provides detailed procedures for conducting foreign exchange matters related to domestic individuals' participation in the equity incentive plans of overseas listed companies and supersedes the Stock Option Rule in its entirety. If we or our optionees in China fail to comply with the applicable regulations, we or our optionees in China may be subject to fines and legal sanctions. Several of our employees in China have exercised their stock options prior to our becoming an overseas publicly-listed company. Since there is not yet a clear regulation on how and whether Chinese employees can exercise their stock options granted by overseas private companies, it is unclear whether such exercises were permitted by Chinese laws and it is uncertain how SAFE or other government authorities will interpret or administer such regulations. Therefore, we cannot predict how such exercises will affect our business or operations. For example, we may be subject to more stringent review and approval processes with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may affect our results of operations and financial condition.

We may be obligated to withhold and pay individual income tax in China on behalf of our employees who are subject to individual income tax in China arising from the exercise of stock options. If we fail to withhold or pay such individual income tax in accordance with applicable Chinese regulations, we may be subject to certain sanctions and other penalties and may become subject to liability under Chinese laws.

The State Administration of Taxation has issued several circulars concerning employee stock options. Under these circulars, our Chinese employees (which could include both employees in China and expatriate employees subject to individual income tax in China) who exercise stock options will be subject to individual income tax in China. Our subsidiaries in China have obligations to file documents related to employee stock options with relevant tax authorities and withhold and pay individual income taxes for those employees who exercise their stock options. However, since there was not yet a clear regulation on how and whether Chinese employees could exercise stock options granted by overseas private companies and how Chinese employers shall withhold and pay individual taxes, the relevant tax authority verbally advised us that due to the difficulty in determining the fair market value of our shares as a private company, we did not need to withhold and pay the individual income tax for the exercises until after we completed our initial public offering in February 2011. Thus, we have not withheld or paid the individual income tax for the option exercises through the date of our initial public offering. However, we cannot be assured that the Chinese tax authorities will not act otherwise and request us to pay the individual income tax immediately and impose sanctions on us.

If the Chinese government determines that we failed to obtain approvals of, or registrations with, the requisite Chinese regulatory authority with respect to our current and past import and export of technologies, we could be subject to sanctions, which could adversely affect our business.

China imposes controls on technology import and export. The term "technology import and export" is broadly defined to include, without limitation, the transfer or license of patents, software and know-how, and the provision of services in

relation to technology. Depending on the nature of the relevant technology, the import and export of technology to or from China requires either approval by, or registration with, the relevant Chinese governmental authorities.

If we are found to be, or to have been, in violation of Chinese laws or regulations, the relevant regulatory authorities have broad discretion in dealing with such violation, including, but not limited to, issuing a warning, levying

Table of Contents

fines, restricting us from benefiting from these technologies inside or outside of China, confiscating our earnings generated from the import or export of such technology or even restricting our future export and import of any technology. If the Chinese government determines that our past import and export of technology were inconsistent with, or insufficient for, the proper operation of our business, we could be subject to similar sanctions. Any of these or similar sanctions could cause significant disruption to our business operations or render us unable to conduct a substantial portion of our business operations and may adversely affect our business and result of operations.

China regulation of loans and direct investment by offshore holding companies to China entities may delay or prevent us from using the proceeds we received from our initial public offering to make loans or additional capital contributions to our China subsidiaries.

From time to time, we may make loans or additional capital contributions to our China subsidiaries. Any loans to our China subsidiaries are subject to China regulations and approvals. For example, any loans to our China subsidiaries to finance their activities cannot exceed statutory limits, must be registered with SAFE, or its local counterpart, and must be approved by the relevant government authorities. Any capital contributions to our China subsidiaries must be approved by the Ministry of Commerce of China or its local counterpart. In addition, under Circular 142, our China subsidiaries, as FIEs, may not be able to convert our capital contributions to them into RMB for equity investments or acquisitions in China.

We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future loans or capital contributions to our China subsidiaries. If we fail to receive such registrations or approvals, our ability to capitalize our China subsidiaries may be negatively affected, which could materially and adversely affect our liquidity and ability to fund and expand our business.

Dividends paid to us by our Chinese subsidiaries may be subject to Chinese withholding tax.

The EIT Law and the implementation regulations provide that a 10% withholding tax may apply to dividends payable to investors that are “non-resident enterprises,” to the extent such dividends are derived from sources within China and in the absence of any tax treaty that may reduce such withholding tax rate. The comprehensive Double Taxation Arrangement between China and Hong Kong generally reduces the withholding tax on dividends paid from a Chinese company to a Hong Kong company to 5%. Dividends paid to us by our Chinese subsidiaries will be subject to Chinese withholding tax if, as expected, we are considered a “non-resident enterprise” under the EIT Law. If dividends from our Chinese subsidiaries are subject to Chinese withholding tax, our financial condition may be adversely impacted to the extent of such tax.

Our worldwide income may be subject to Chinese tax under the EIT Law.

The EIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax on their worldwide income. Under the implementation regulations for the EIT Law issued by the State Council, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. If we are deemed to be a resident enterprise for Chinese tax purposes, we will be subject to Chinese tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income (loss), however, dividends paid to us by our Chinese subsidiaries may not be subject to withholding if we are deemed to be a resident enterprise.

Dividends payable by us to our investors and gains on the sale of our common stock by our foreign investors may be subject to tax under Chinese law.

Under the EIT Law and implementation regulations issued by the State Council, a 10% withholding tax is applicable to dividends payable to investors that are “non-resident enterprises.” Similarly, any gain realized on the transfer of common stock by such investors is also subject to a 10% withholding tax if such gain is regarded as income derived from sources within China. If we are determined to be a “resident enterprise,” dividends and other income we

Table of Contents

pay on our common stock, or the gain you may realize from the transfer of our common stock, would be treated as income derived from sources within China. If we are required under the EIT Law to withhold tax from dividends payable to investors that are "non-resident enterprises," or if a gain realized on the transfer of our common stock is subject to withholding, the value of your investment in our common stock may be materially and adversely affected.

Our contractual arrangements with our subsidiaries in China may be subject to audit or challenge by the Chinese tax authorities, and a finding that our subsidiaries in China owe additional taxes could substantially reduce our net income and the value of our stockholders' investment.

Under the applicable laws and regulations in China, arrangements and transactions among related parties may be subject to audit or challenge by the Chinese tax authorities. We would be subject to adverse tax consequences if the Chinese tax authorities were to determine that the contracts with or between our subsidiaries were not executed on an arm's length basis, and as a result the Chinese tax authorities could require that our Chinese subsidiaries adjust their taxable income upward for Chinese tax purposes. Such an adjustment could adversely affect us by increasing our tax expenses.

Because a substantial portion of our business is located in China, we may have difficulty maintaining adequate management, legal and financial controls, which we are required to do in order to comply with Section 404 of the Sarbanes-Oxley Act and securities laws, and which could cause a material adverse impact on our consolidated financial statements, the trading price of our common stock and our business.

Chinese companies have historically not adopted a western style of management and financial reporting concepts and practices, which includes strong corporate governance, internal controls and computer, financial and other control systems. Most of our middle management staff and some of our top management staff in China are not educated and trained in the western system, and we may have difficulty hiring new employees in China with experience and expertise relating to accounting principles generally accepted in the U.S. and U.S. public-company reporting requirements. As a result of these factors, we may experience difficulty in maintaining management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet U.S. public-company reporting requirements. We may, in turn, experience difficulties in maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act. This may result in material weaknesses in our internal controls which could impact the reliability of our consolidated financial statements and prevent us from complying with SEC rules and regulations and the requirements of the Sarbanes-Oxley Act. Any such material weaknesses or lack of compliance with SEC rules and regulations could result in restatements of our historical consolidated financial statements, cause investors to lose confidence in our reported financial information, have an adverse impact on the trading price of our common stock, adversely affect our ability to access the capital markets and our ability to recruit personnel, lead to the delisting of our securities from the stock exchange on which they are traded. This could lead to litigation claims, thereby diverting management's attention and resources, and which may lead to the payment of damages to the extent such claims are not resolved in our favor, lead to regulatory proceedings, which may result in sanctions, monetary or otherwise, and have a material adverse effect on our reputation and business.

See also the risk factor "If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected."

Our consolidated affiliated entities in China are audited by auditors who are not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.

Publicly traded companies in the United States are audited by independent registered public accounting firms registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, and are required by the laws of

the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because the auditors of our consolidated affiliated entities in China are located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, such auditors are not currently inspected by the PCAOB. On May 24, 2013, the PCAOB announced that it had entered into a memorandum of understanding on enforcement cooperation with the China Securities Regulatory Commission and the Ministry of Finance of China that establishes a cooperative framework between the parties for the

Table of Contents

production and exchange of audit documents relevant to investigations in the United States and China. However, direct PCAOB inspections of independent registered accounting firms in China are still not permitted by Chinese authorities.

Inspections of auditing firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our Chinese auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The turnover of direct labor in manufacturing industries in China is high, which could adversely affect our production, shipments, and results of operations.

Employee turnover of direct labor in the manufacturing sector in China is typically high and retention of such personnel is a challenge to companies located in or with operations in China. Although direct labor cost does not represent a high proportion of our overall manufacturing costs, direct labor is required for the manufacture of our products. If our direct labor turnover rates are higher than we expect, or we otherwise fail to adequately manage our direct labor turnover rates, then our results of operations could be adversely affected.

Our subsidiaries in China are subject to Chinese labor laws and regulations. Changes to Chinese labor laws and regulations may increase our operating costs in China, which could adversely affect our financial results.

China Labor Contract Law, effective January 1, 2008, together with its implementing rules, effective September 18, 2008 and its amendments, effective July 1, 2013, provides certain protections to Chinese employees. Under the current rules, the probation period varies depending on contract terms and the employment contract can only be terminated during the probation period for cause upon three days' notice. Additionally, an employer may not be able to terminate a contract during the probation period on the grounds of a material change of circumstances or a mass layoff. The current law also has specific provisions on conditions when an employer has to sign an employment contract with open-ended terms. If an employer fails to enter into an open-ended contract in certain circumstances, the employer must pay the employee twice their monthly wage beginning from the time the employer should have executed an open-ended contract. Additionally an employer must pay severance for nearly all terminations, including when an employer decides not to renew a fixed-term contract.

On January 1, 2008, the Regulations on Paid Annual Leaves of Staff and Workers also took effect, followed by its implementing measures effective September 18, 2008. These regulations provide that employees who have worked consecutively for one year or more are entitled to paid annual leave. An employer must guarantee that employees receive the same wage income during the annual leave period as that for the normal working period. Where an employer cannot arrange annual leave for an employee due to production needs, upon agreement with the employee, the employer must pay daily wages equal to 300% of the employee's daily salary for each day of annual leave forfeited by such employee.

The Shenzhen municipal government, effective December 2010, issued a measure to require all government agencies, public institutions, and enterprises in Shenzhen to pay a monthly housing fund. The housing fund is designed to enhance the welfare and increase the funds available to Shenzhen employees when buying, building, renovating, or overhauling owner-occupied houses. Employee and employers are required to make equal contributions to the housing fund, which generally can range between 5% and 20% of the employees' average salary of the most recent year and we commenced making these contributions in the fourth quarter of 2010.

From time to time, the Chinese government has implemented requirements to increase the minimum wage for employees in China. These requirements have resulted in the past, and may result in the future, in higher employee costs for our personnel in China. Minimum wage rates generally vary by city and province within China and have historically increased as much as 20% on an annual basis. We were required to increase wages to comply with these requirements and it may be necessary for us to increase wages more than the minimum wage adjustment requires due to market conditions or additional government mandates. If labor costs in China continue to increase, our gross margins, profit margins and results of operations may be adversely affected. In addition, our competitive advantage against competitors

Table of Contents

with personnel costs or manufacturing in traditionally higher cost countries may be diminished. Future changes to labor laws and regulations may materially increase the costs of our operations in China.

If any of our subsidiaries in China becomes the subject of a bankruptcy or liquidation procedures, we may lose the ability to use its assets.

Because a substantial portion of our business and revenue are derived from China, if any of our subsidiaries in China goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our operations in China. Any delay, interruption or cessation of all or a part of our operations in China would negatively impact our ability to generate revenue and otherwise adversely affect our business.

We may be exposed to liabilities under the FCPA and Chinese anti-corruption laws, and any determination that we violated these laws could have a material adverse effect on our business.

We are subject to the Foreign Corrupt Practice Act of 1977, or FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute, for the purpose of obtaining or retaining business. We have operations, agreements with third parties and we make significant sales in China. China also strictly prohibits bribery of government officials. Our activities in China create the risk of unauthorized payments or offers of payments by our employees, consultants, sales agents or distributors, even though they may not always be subject to our control. Although we have implemented policies and procedures to discourage these practices by our employees, our existing safeguards and any future improvements may prove to be less than effective, and our employees, consultants, sales agents or distributors may engage in conduct for which we might be held responsible. Violations of the FCPA or Chinese anti-corruption laws may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the U.S. government may seek to hold us liable for successor liability FCPA violations committed by companies in which we invest or that we acquire.

Risks related to ownership of our common stock

Our financial results may vary significantly from quarter-to-quarter due to a number of factors, which may lead to volatility in our stock price.

Our quarterly revenue and results of operations have varied in the past and may continue to vary significantly from quarter to quarter. This variability may lead to volatility in our stock price as research analysts and investors respond to these quarterly fluctuations. These fluctuations are due to numerous factors, including:

- fluctuations in demand for our products;
- the timing, size and product mix of sales of our products;
- changes in our pricing and sales policies or the pricing and sales policies of our competitors;
- our ability to design, manufacture and deliver products to our customers in a timely and cost-effective manner and that meet customer requirements;
- quality control or yield problems in our manufacturing operations;
- our ability to timely obtain adequate quantities of the components used in our products;
- length and variability of the sales cycles of our products;
- unanticipated increases in costs or expenses; and
- fluctuations in foreign currency exchange rates.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially adversely affect our quarterly and annual results of operations in the future. In addition, a significant amount of our operating expenses is

relatively fixed in nature due to our internal manufacturing, research and development, sales and general administrative

Table of Contents

efforts. Any failure to adjust spending quickly enough to compensate for a revenue shortfall could magnify the adverse impact of such revenue shortfall on our results of operations. Moreover, our results of operations may not meet our announced financial outlook or the expectations of research analysts or investors, in which case the price of our common stock could decrease significantly. There can be no assurance that we will be able to successfully address these risks.

Our failure to comply with conditions required for our common stock to be listed on the NYSE could result in delisting of our common stock from the NYSE and have a significant negative effect on the value and liquidity of our securities as well as other matters.

As a result of our failure to timely file our Annual Report on Form 10-K for the year ended December 31, 2013, as well as our Quarterly Report on Form 10-Q for the three months ended March 31, 2014, we were not in full compliance with the NYSE Listed Company Manual, Section 802.01E. We cured this deficiency in June 2014 by our filings of our Annual Report on Form 10-K for the year ended December 31, 2013 and our Quarterly Report on Form 10-Q for the three months ended March 31, 2014. We are required to comply with the NYSE Listed Company Manual as a condition for our common stock to continue to be listed on the NYSE. If we are unable to comply with such conditions, then our shares of common stock are subject to delisting from the NYSE.

If our common stock is delisted from the NYSE, such securities may be traded over-the-counter on the “pink sheets.” The alternative market, however, is generally considered to be less efficient than, and not as broad as, the NYSE. Accordingly, delisting of our common stock from the NYSE could have a significant negative effect on the value and liquidity of our securities. In addition, the delisting of such stock could adversely affect our ability to raise capital on terms acceptable to us or at all. In addition, delisting of our common stock may preclude us from using exemptions from certain state and federal securities regulations.

Our stock price may be volatile.

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the risk factors described in this section of our Quarterly Report on Form 10-Q, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us.

The stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions, such as recessions, sovereign debt or liquidity issues, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock.

In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may become the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management’s attention from other business concerns, which could seriously harm our business.

If research analysts do not publish research about our business or if they issue unfavorable commentary or downgrade our common stock, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that research analysts publish about us and our business. The price of our common stock could decline if one or more research analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business. If one or more of the research analysts ceases coverage of our company or fails to publish reports on us regularly,

demand for our common stock could decrease, which could cause our stock price or trading volume to decline.

Table of Contents

*The concentration of our capital stock ownership with our principal stockholders, executive officers and directors and their affiliates may limit other stockholders' ability to influence corporate matters.

As of March 31, 2015, our executive officers and directors, and entities that are affiliated with them or that have a right to designate a director, beneficially own an aggregate of approximately 33% of our outstanding common stock. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Also, as a result, these stockholders, acting together, may be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Consequently, this concentration of ownership may have the effect of delaying or preventing a change in control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if such a change in control would benefit our other stockholders.

We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.

We currently do not plan to declare dividends on shares of our common stock in the foreseeable future. In addition, the terms of our U.S. revolving credit agreement with Comerica Bank restrict our ability to pay dividends. Consequently, your only opportunity to achieve a return on your investment in our company will be if the market price of our common stock appreciates and you sell your shares at a profit. There is no guarantee that the price of our common stock that will prevail in the market will ever exceed the price that you pay.

Our charter documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- providing for a classified board of directors with staggered, three-year terms;
- not providing for cumulative voting in the election of directors;
- authorizing our board of directors to issue, without stockholder approval, preferred stock rights senior to those of common stock;
- prohibiting stockholder action by written consent;
- limiting the persons who may call special meetings of stockholders; and
- requiring advance notification of stockholder nominations and proposals.

In addition, we have been governed by the provisions of Section 203 of the Delaware General Corporate Law since the completion of our initial public offering. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding common stock, from engaging in certain business combinations without approval of substantially all of our stockholders for a certain period of time.

These and other provisions in our amended and restated certificate of incorporation, our amended and restated bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than it would be without these provisions.

ITEM 2.UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Table of Contents

ITEM 3.DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4.MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5.OTHER INFORMATION

None.

ITEM 6.EXHIBITS

See Index to Exhibits at the end of this report.

Table of Contents

SIGNATURE

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

NeoPhotonics Corporation

Date: November 6, 2015 By: /S/ CLYDE RAYMOND WALLIN
Clyde Raymond Wallin
Chief Financial Officer and Senior Vice President
(Principal Financial and Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit no.	Description of exhibit	Form	SEC File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of NeoPhotonics Corporation.	Form 8-K	001-35061	3.1	February 10, 2011	
3.2	Amended and Restated Bylaws of NeoPhotonics Corporation.	Form S-1	333-166096	3.4	November 22, 2010	
4.1	Specimen Common Stock Certificate of NeoPhotonics Corporation.	Form S-1	333-166096	4.1	May 17, 2010	
4.2	2008 Investors' Rights Agreement by and between NeoPhotonics Corporation and the investors listed on Exhibit A thereto, dated May 14, 2008.	Form S-1	333-166096	4.2	April 15, 2010	
4.3	Warrant to Purchase Common Stock by and between NeoPhotonics Corporation and Comerica Bank, dated December 20, 2007.	Form S-1	333-166096	4.3	April 15, 2010	
4.4	Commitment to File Registration Statement and Related Waiver of Registration Rights by and between NeoPhotonics Corporation and Open Join Stock Company "RUSNANO" dated as of December 18, 2014.	Form S-1	333-201180	4.4	December 19, 2014	
10.1	Amendment to Rights Agreement, dated as of July 13, 2015 and effective commencing June 30, 2015, by and between NeoPhotonics Corporation and Open Joint Stock Company "RUSNANO".	Form 8-K	001-35061	10.1	July 15, 2015	
10.2	Amendment to Credit Agreement and Amendment to Security Agreement, dated October 20, 2015, by and between					X

	NeoPhotonics Corporation and CITIC Bank (Translated to English of an original Chinese document).	
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a).	X
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a).	X
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101.INS	XBRL Instance Document.	
101.SCH	XBRL Taxonomy Extension Schema Document.	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	