VIAVI SOLUTIONS INC.
430 North McCarthy Boulevard
Milpitas, California 95035
(408) 404-3600

# Notice of Annual Meeting of Stockholders and Proxy Statement
# 2016 Annual Report

**YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, WE ENCOURAGE YOU TO READ THIS PROXY STATEMENT AND SUBMIT YOUR PROXY OR VOTING INSTRUCTIONS AS SOON AS POSSIBLE.**

**PLEASE REFER TO (I) THE INSTRUCTIONS OF THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS YOU RECEIVED IN THE MAIL, (II) THE SECTION ENTITLED GENERAL INFORMATION BEGINNING ON PAGE 1 OF THIS PROXY STATEMENT, OR (III) IF YOU REQUESTED TO RECEIVE PRINTED PROXY MATERIALS, YOUR ENCLOSED PROXY CARD.**

# GO GREEN!

## REGISTER ELECTRONICALLY FOR STOCKHOLDER MATERIALS

Viavi is pleased to take advantage of the Securities and Exchange Commission (the "SEC") rules allowing companies to furnish this Proxy Statement and Annual Report over the Internet to our stockholders who hold Common Stock. We believe that this e-proxy process, also known as "Notice and Access" will expedite the receipt of proxy materials by our stockholders, reduce our printing and mailing expenses and reduce the environmental impact of producing the materials required for our Annual Meeting.

You should refer to the "General Information" portion of the following Proxy Statement or contact our Investor Relations hotline at 408- 404-6305 for assistance regarding instructions on how to register for and access our Proxy Statement and Annual Report online.

# Viavi Solutions Inc.
# Notice of Annual Meeting of Stockholders To Be Held on November 15, 2016

September 30, 2016

Dear Viavi Stockholder:

We cordially invite you to attend the Viavi Solutions Inc. 2016 Annual Meeting of Stockholders, which will be held on November 15, 2016 at 9:00 a.m. Pacific Time at 690 North McCarthy Boulevard, Milpitas, California 95035.

This year's Annual Meeting will consider the following proposals:

1. To elect eight directors to serve until the 2017 annual meeting of stockholders and until their successors are elected and qualified.
2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending July 1, 2017.
3. To consider a non-binding advisory vote on the compensation of our named executive officers.
4. To consider such other business as may properly come before the annual meeting and any adjournment or postponement thereof.

These items of business are more fully described in the Proxy Statement which is attached and made a part hereof. Stockholders of record as of the close of business on September 19, 2016 are entitled vote at this year's Annual Meeting and any adjournment or postponement.

**YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, YOU ARE URGED TO VOTE PROMPTLY.** For specific instructions on how to vote your shares please refer to (i) the Notice of Internet Availability of Proxy Materials (the "Notice") you received in the mail, (ii) the section entitled General Information beginning on page 1 of this Proxy Statement, or (iii) if you requested to receive printed proxy materials, your enclosed Proxy Card. As specified in the Notice you may vote your shares by using the Internet or the telephone. All stockholders may also vote shares by marking, signing, dating and returning the Proxy Card in the enclosed postage-prepaid envelope. If you send in your Proxy Card and then decide to attend the Annual Meeting to vote your shares in person, you may still do so. Your proxy is revocable in accordance with the procedures set forth in the Proxy Statement.

Sincerely,

O. Khaykin

**Oleg Khaykin**
*Chief Executive Officer and President*

**VIAVI SOLUTIONS INC.**
**430 North McCarthy Boulevard**
**Milpitas, California 95035**
**(408) 404-3600**

# PROXY STATEMENT

## GENERAL INFORMATION

### Why am I receiving these proxy materials?

The Board of Directors (the "Board" or "Board of Directors") of Viavi Solutions Inc., a Delaware corporation (the "Company"), is furnishing these proxy materials to you in connection with the Company's 2016 Annual Meeting of stockholders (the "Annual Meeting"). The Company has also sent printed copies of the proxy materials by mail to each holder of Common Stock who has requested such copy. The Annual Meeting will be held at 690 North McCarthy Boulevard, Milpitas, California 95035, on November 15, 2016 at 9:00 a.m., Pacific Time. You are invited to attend the Annual Meeting and are entitled and requested to vote on the proposals outlined in this proxy statement ("Proxy Statement").

### What is the Notice of Internet Availability of Proxy Materials?

Pursuant to rules adopted by the Securities and Exchange Commission (the "SEC"), we have elected to provide stockholders with access to our proxy materials over the Internet. Most of our stockholders will not receive printed copies of the proxy materials unless they request them. Instead, the "Notice of Internet Availability of Proxy Materials" (the "Notice"), which was mailed on or about September 30, 2016 to our stockholders who held Common Stock as of the record date, will instruct you as to how you may access and review all of the proxy materials on the Internet. The Notice also instructs you as to how you may submit your proxy on the Internet. If you would like to receive a paper or e-mail copy of our proxy materials, you should follow the instructions in the Notice for requesting such materials.

### How do I obtain electronic access to the proxy materials?

The Notice will provide you with instructions regarding how to:

- View our proxy materials for the Annual Meeting on the Internet; and
- Instruct us to send our future proxy materials to you electronically by e-mail.

Choosing to receive your future proxy materials by e-mail will save us the cost of printing and mailing documents to you and will reduce the impact of printing and mailing these materials on the environment. If you choose to receive future proxy materials by e-mail, you will receive an e-mail next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by e-mail will remain in effect until you terminate it.

## What if I prefer to receive paper copies of the materials?

If you would prefer to continue receiving paper copies of proxy materials, please mark the "Paper Copies" box on your Proxy Card (or provide this information when you vote telephonically or via the Internet). The Company must provide paper copies via first class mail to any stockholder who, after receiving the Notice, requests a paper copy. Accordingly, even if you do not check the "Paper Copies" box now, you will still have the right to request delivery of a free set of proxy materials upon receipt of any Notice in the future.

Additionally, you may request a paper copy of the materials by (i) calling 1-800-579-1639; (ii) sending an e-mail to sendmaterial@proxyvote.com; or (iii) logging onto *www.ProxyVote.com*. There is no charge to receive the materials by mail. If requesting material by e-mail, please send a blank e-mail with the 12 digit "Control Number" (located on the second page of the Notice) in the subject line.

## What proposals will be voted on at the Annual Meeting?

The following proposals are scheduled to be voted on at the Annual Meeting:

1. To elect eight directors to serve until the 2017 annual meeting of stockholders and until their successors are elected and qualified.
2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm (hereinafter referred to as "independent auditors") for the fiscal year ending July 1, 2017.
3. To consider a non-binding advisory vote on the compensation of our named executive officers ("NEOs").
4. To consider such other business as may properly come before the Annual Meeting and any adjournment or postponement thereof.

## What are the recommendations of the Company's Board of Directors?

The Board recommends that you vote "**FOR**" each of the proposals presented in this Proxy Statement.

Specifically, the Board recommends you vote:

- "**FOR**" the election of the directors,
- "**FOR**" the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year ending July 1, 2017, and
- "**FOR**" the approval of the Company's executive compensation programs.

## What is the record date and what does it mean?

The record date for the Annual Meeting is September 19, 2016. The record date is established by the Board as required by Delaware law. Holders of shares of the Company's Common Stock at the close of business on the record date are entitled to receive notice of the Annual Meeting and to vote at the Annual Meeting and any adjournments or postponements thereof.

## What shares can I vote?

Each holder of the Company's common stock, par value $.001 per share ("Common Stock"), is entitled to one vote for each share of Common Stock owned as of the record date

At the record date, 231,998,230 shares of Common Stock were outstanding.

## What constitutes a quorum?

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the shares of Common Stock outstanding and entitled to vote on the record date will constitute a quorum permitting the Annual Meeting to conduct its business.

## How are abstentions and broker non-votes treated?

Under Delaware law, an abstaining vote and a broker non-vote are counted as present and are included for purposes of determining whether a quorum is present at the Annual Meeting.

Broker non-votes are not included in the tabulation of the voting results on the election of directors or issues requiring approval of a majority of the shares present or represented by proxy and entitled to vote at the Annual Meeting. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting authority with respect to that item and has not received instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held by them as nominee, brokers have the discretion to vote such shares only on routine matters. Where a matter is not considered routine, shares held by your broker will not be voted absent specific instruction from you, which means your shares may go unvoted and not affect the outcome if you do not specify a vote. None of the matters to be voted on at the Annual Meeting are considered routine, except for the ratification of the Company's independent auditors.

For the purpose of determining whether the stockholders have approved matters, other than the election of directors, abstentions will have the same effect as a vote against the proposal.

## What is the voting requirement to approve each of the proposals?

*Proposal 1.* Each director must be elected by the affirmative vote of a majority of the shares of Common Stock cast with respect to such director by the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the proposal. This means that the number of votes cast for a director must exceed the number of votes cast against that director, with abstentions and broker non-votes not counted as votes cast as either for or against such director's election.

*Proposal 2.* Ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors requires the affirmative vote of a majority of the shares of Common Stock present or represented by proxy and entitled to vote on this proposal at the Annual Meeting. As a result, abstentions will have the same effect as votes against the proposal. Brokers will have discretion to vote on this proposal.

*Proposal 3.* Approval of the non-binding advisory vote on the Company's executive compensation programs requires the affirmative vote of a majority of the shares of Common Stock present or represented by proxy and entitled to vote on this proposal at the Annual Meeting. As a result, abstentions will have the same effect as votes against the proposal. Broker non-votes will have no effect on the outcome of this vote.

All shares of Common Stock represented by valid proxies will be voted in accordance with the instructions contained therein. In the absence of instructions, proxies from holders of Common Stock will be voted in accordance with the recommendations set forth in the Proxy Statement.

## How do I vote my shares?

You can either attend the Annual Meeting and vote in person or give a proxy to be voted at the Annual Meeting:

- by mailing the enclosed proxy card or voting instruction form;
- over the telephone by calling a toll-free number; or
- electronically, using the Internet and following the instructions provided in the Notice you received by mail.

The Internet and telephone voting procedures have been set up for your convenience and are designed to authenticate the stockholders' identities, to allow them to provide their voting instructions, and to confirm that their instructions have been recorded properly. The Company believes the procedures which have been put in place are consistent with the requirements of applicable law. Specific instructions for record holders of Common Stock who wish to use the Internet or telephone voting procedures are set forth on the enclosed proxy card.

If you have any questions or require any assistance with voting your shares, please contact our proxy solicitor by any of the methods listed below:

**The Harkins Group**

1 Rockefeller Plaza, 10th Floor
New York, New York 10020

Call Collect: +1 (212) 468-5380
Call Toll-Free: +1 (844) 218-8384 (U.S. and Canada)
Email: viavi@harkinsgroup.com

## Who will tabulate the votes?

An automated system administered by Broadridge Financial Services, Inc. ("Broadridge") will tabulate votes cast by proxy at the Annual Meeting and a representative of the Company will tabulate votes cast in person at the Annual Meeting.

## Is my vote confidential?

Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within the Company or to third parties, except as necessary to meet applicable legal requirements or to allow for the tabulation and/or certification of the vote.

## Can I change my vote after submitting my proxy?

You may revoke your proxy at any time before the final vote at the Annual Meeting. You may do so by one of the following ways:

- submitting another proxy card bearing a later date;
- sending a written notice of revocation to the Company's Corporate Secretary at 430 North McCarthy Boulevard, Milpitas, California, 95035;
- submitting new voting instructions via telephone or the Internet; or
- attending AND voting in person at the Annual Meeting.

## Who is paying for this proxy solicitation?

This solicitation is made by the Company. The Company will bear the cost of soliciting proxies, including preparation, assembly, printing and mailing of the Proxy Statement. If you are a holder of Common Stock and if you choose to access the proxy materials and/or vote over the Internet, you are responsible for Internet access charges you may incur. If you choose to vote by telephone, you are responsible for telephone charges you may incur. The Company has retained the services of The Harkins Group as its proxy solicitor for this year for a fee of approximately $15,000 plus reasonable out-of-pocket costs and expenses. In addition, the Company will reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners. Proxies may be solicited by certain of the Company's directors, officers and regular employees, without additional compensation, either personally, by telephone, facsimile, or telegram.

## How can I find out the voting results?

The Company will announce the preliminary results at the Annual Meeting and publish the final results in a Current Report on Form 8-K within four business days after the Annual Meeting. Stockholders may also find out the final results by calling the Company's Investor Relations Department at (408) 404-6305.

## How do I receive electronic access to proxy materials for the current and future annual meetings?

Stockholders who have previously elected to receive the Proxy Statement and Annual Report over the Internet will be receiving an e-mail on or about September 30, 2016 with information on how to access stockholder information and instructions for voting over the Internet. Stockholders of record may vote via the Internet until 11:59 p.m. Eastern Time, November 14, 2016.

If your shares are registered in the name of a brokerage firm and you have not elected to receive your Proxy Statement and Annual Report over the Internet, you still may be eligible to vote your shares electronically over the Internet. A large number of brokerage firms are participating in the ADP online program, which provides eligible stockholders who receive a paper copy of this Proxy Statement the opportunity to vote via the Internet. If your brokerage firm is participating in ADP's program, your proxy card will provide instructions for voting online.

Stockholders can elect to view future proxy statements and annual reports over the Internet instead of receiving paper copies, which results in cost savings for the Company. If you are a stockholder of record and would like to receive future stockholder materials electronically, you can elect this option by following the instructions provided when you vote your proxy over the Internet at *www.ProxyVote.com*.

If you chose to view future proxy statements and annual reports over the Internet, you will receive an e-mail notification next year with instructions containing the Internet address of those materials. Your choice to view future proxy statements and annual reports over the Internet will remain in effect until you contact either your broker or the Company to rescind your instructions. You do not have to elect Internet access each year.

If you elected to receive this Proxy Statement electronically over the Internet and would now like to receive a paper copy of this Proxy Statement so that you may submit a paper proxy in lieu of an electronic proxy, you should contact your broker or the Company.

## How can I avoid having duplicate copies of the Proxy Statement sent to my household?

Some brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports, which results in cost savings for the Company. Householding means that only one copy of the Proxy Statement and Annual Report, or notice of internet availability of proxy materials will be sent to multiple stockholders who share an address. The Company will promptly deliver a separate copy of either document to any stockholder who contacts the Company's Investor Relations Department at (408) 404-6305 or 430 North McCarthy Boulevard, Milpitas, California, 95035 Attention: Investor Relations, requesting such copies. If a stockholder is receiving multiple copies of the Proxy Statement and Annual Report at the stockholder's household and would like to receive a single copy of those documents for a stockholder's household in the future, that stockholder should contact their broker, other nominee record holder, or the Company's Investor Relations Department to request mailing of a single copy of the Proxy Statement and Annual Report.

# When are stockholder proposals due for next year's annual meeting?

In order for stockholder proposals to be considered properly brought before an annual meeting, the stockholder must have given timely notice in writing to the Secretary of the Company. To be timely for the 2017 annual meeting of stockholders (the "2017 Annual Meeting"), a stockholder's notice must be received by the Company at its principal executive offices not less than 60 days nor more than 90 days prior to first anniversary of the date of the prior year's annual meeting; provided, however, that if no meeting was held the prior year, or if the date of the annual meeting is advanced by more than 30 days or delayed (other than as a result of adjournment) by more than 60 days, notice must be received by the Company no later than the 90th day prior to the annual meeting or the 10th day following the public announcement of the meeting date. A stockholder's notice to the Secretary must set forth as to each matter the stockholder proposes to bring before the 2017 Annual Meeting: (i) a brief description of the business desired to be brought before the 2017 Annual Meeting and the text of the proposal or business; (ii) the name and record address of the stockholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is being made; (iii) a representation that the stockholder is a holder of record of the Company's stock, is entitled to vote at the meeting and intends to appear in person or by proxy to propose the business specified in the notice; (iv) any material interest of the stockholder or any proposing person in such business; (v) the number of shares owned beneficially and of record by the stockholder or proposing person, including derivative interests, contracts or other agreements related to ownership or rights to vote the Company's shares and other economic interests in the Company's securities; and (vi) any other information required pursuant to Section 14 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Our Bylaws specify in greater detail the requirements as to the form and content of a stockholder's notice. We recommend that any stockholder wishing to bring any item before an annual meeting review a copy of our Bylaws, as amended and restated to date, which can be found at *www.viavisolutions.com*. We will not entertain any proposals at the 2017 Annual Meeting that do not meet the requirements set forth in our Bylaws. Subject to applicable laws and regulations, the Company has discretion over what stockholder proposals will be included in the agenda for the 2017 Annual Meeting and/or in the related proxy materials. If the stockholder does not also comply with the requirements of Rule 14a-4(c)(2) under the Exchange Act, we may exercise discretionary voting authority under proxies that we solicit to vote in accordance with our best judgment on any such stockholder proposal.

Proposals that a stockholder intends to present at the 2017 Annual Meeting and wishes to be considered for inclusion in the Company's Proxy Statement for the 2017 Annual Meeting must be received by the Company at its principal executive offices not less than 120 days prior to the date the Proxy Statement for the 2016 Annual Meeting was made available to stockholders. If we change the date of the 2017 Annual Meeting by more than 30 days from the anniversary of the date of this year's meeting, then the deadline to submit proposals will be a reasonable time before we begin to print and mail our proxy materials. All such proposals must comply with Rule 14a-8 under the Exchange Act, which lists the requirements for the inclusion of stockholder proposals in Company-sponsored proxy materials.

# PROPOSAL 1

## Election of Directors

At this Annual Meeting, the stockholders will elect seven directors recommended by the Governance Committee (which serves as the Company's Nominating Committee) and nominated by the Board, each to serve a one-year term until the 2017 Annual Meeting of Stockholders and until a qualified successor is elected and qualified or until the director's earlier resignation or removal. The Board has no reason to believe that the nominees named below will be unable or unwilling to serve as a director if elected.

### Considerations in Director Selection

The Company's Governance Committee is responsible for reviewing, evaluating and nominating individuals for election to the Company's Board. The Governance Committee selects nominees from a broad base of potential candidates. The Governance Committee's charter instructs it to seek qualified candidates regardless of race, color, religion, ancestry, national origin, gender, sexual orientation, etc. It is the Governance Committee's goal to nominate candidates with diverse backgrounds and capabilities, to reflect the diverse nature of the Company's stakeholders (security holders, employees, customers and suppliers), while emphasizing core excellence in areas relevant to the Company's long term business and strategic objectives.

The Board believes that it is necessary for each of the Company's directors to possess many qualities and skills. When searching for new candidates, the Governance Committee seeks individuals of the highest ethical and professional character who will exercise sound business judgment. The Governance Committee also seeks people who are accomplished in their respective field and have superior credentials. In selecting nominees, the Governance Committee seeks individuals who can work effectively together to further the interests of the Company, while preserving their ability to differ with each other on particular issues. A candidate's specific background and qualifications are also reviewed in light of the particular needs of the Board at the time of an opening.

Each candidate must have an employment and professional record which demonstrates, in the judgment of the Governance Committee, that the candidate has sufficient and relevant experience and background, taking into account positions held and industries, markets and geographical locations served, to serve on the Board in the proposed capacity. In particular, the Governance Committee seeks candidates with at least two years of experience serving as the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Director, or the equivalent of such positions, of a well-respected, publicly-traded company.

Certain individual qualifications and skills of our directors that contribute to the Board's effectiveness as a whole are described below.

## 2016 Director Nominees

### Richard E. Belluzzo

**Age** 62
**Director Since:** February 2005
**Chairman of the Board Since:** November 2012

**Experience:**
Mr. Belluzzo served as US Venture Partner of Innogest SGR SpA, a European Venture Fund since February 2015 and is also managing partner of Corso Partners LLC. From April 2011 to August 2012, he served as Executive Chairman of Quantum Corporation, a provider of backup, recovery and archive products and services. From 2002 to 2011, he was Chairman and Chief Executive Officer of Quantum Corporation. Prior to that, Mr. Belluzzo was President and Chief Operating Officer of Microsoft Corporation. Prior to becoming its President and Chief Operating Officer, Mr. Belluzzo served as Microsoft's group Vice President of the Personal Services and Devices Group, and was Group Vice President for the Consumer Group. Prior to Microsoft, Mr. Belluzzo was Chief Executive Officer of Silicon Graphics Inc. ("SGI"). Before SGI, Mr. Belluzzo held a series of increasingly senior roles at Hewlett Packard Company, culminating in his service as Executive Vice President of the Computer Products Organization. Mr. Belluzzo recently served as a Board Member of PMC-Sierra (Vancouver, Canada) and the Chairman of the board of directors, member of the governance and nominating committee, and Chairman of the compensation committee of InfoBlox. Within the past five years, Mr. Belluzzo also served on the board of directors of Quantum Corporation.

**Qualifications:**
Mr. Belluzzo's background and experience as the Chief Executive Officer of public companies, as well as his deep knowledge of the technology industry, senior leadership roles and service on the boards of other prominent public companies allow him to contribute significantly to the Board and to its Compensation and Governance Committees.

### Keith Barnes

**Age** 65
**Director Since:** October 2011

**Experience:**
Mr. Barnes served as Chief Executive Officer of Verigy Ltd, a semiconductor automatic test equipment company, from 2006 through 2010 and as Chairman of the Board of Verigy from 2008 through 2011. Prior to that he was Chairman and Chief Executive Officer of Electroglas, Inc. from 2003 through 2006 and Chairman and Chief Executive Officer of IMS from 1995 through 2001. Mr. Barnes is currently a member of the board of directors, compensation committee, and governance and nominating committee of Mentor Graphics, and a member of the board of directors, governance and nominating committee, and Chairman of the audit committee of Knowles Corporation and a member of the board of directors, governance and nominating and compensation committees of Rogers Corporation. Within the past five years, Mr. Barnes also served on the boards of directors of Intermec, Inc. and Spansion Inc.

**Qualifications:**
Mr. Barnes' extensive management experience as chief executive officer of several technology companies, test and measurement industry background, and international sales and marketing knowledge, along with his experience as a board member for several public technology companies, bring important perspective and expertise to the Board and its Audit and Corporate Development Committees.

### Tor Braham

**Age** 59
**Director Since:** October 2015

**Experience:**
Mr. Braham served as Managing Director and Global Head, Technology, Mergers and Acquisitions for Deutsche Bank Securities, from 2004 until 2012. From 2000 to 2004, he served as Managing Director and Co-head, West Coast U.S. Technology, Mergers and Acquisitions for Credit Suisse First Boston. Prior to that, Mr. Braham was an investment banker with UBS Securities and a lawyer at a prominent Silicon Valley law firm. Mr. Braham currently serves as a member of the Board of Directors at Yahoo, Inc. Within the past five years, Mr. Braham has also served on the boards of directors of Sigma Designs, Inc. and NetApp, Inc.

**Qualifications:**
Mr. Braham's substantial M&A experience will assist the Board in evaluating the Company's strategic opportunities.

## Timothy Campos

**Age** 43
**Director Since:** April 2014

**Experience:**
Mr. Campos has served as the Chief Information Officer and Vice President of Information Technology of Facebook since August 2010. Prior to Facebook, he served as the Chief Information Officer and Vice President of Information Technology at KLA-Tencor from 2005 to 2009. Prior to KLA-Tencor, Mr. Campos worked at internet startup Portera Systems where he was responsible for engineering and hosting architecture.

**Qualifications:**
Mr. Campos' extensive industry experience in enterprise networks, application hosting and managing big data provides valuable insight into those markets.

## Donald Colvin

**Age** 63
**Director Since:** October 2015

**Experience:**
Mr. Colvin was the Interim Chief Financial Officer of Isola Group Ltd. from June 2015 to July 2016. Mr. Colvin previously served as Chief Financial Officer of Caesars Entertainment Corporation from November 2012 to January 2015 and before that was Executive Vice President and Chief Financial Officer of ON Semiconductor Corp. from April 2003 to October 2012. Prior to joining ON Semiconductor, he held a number of financial leadership positions, including Vice President of Finance and Chief Financial Officer of Atmel Corporation, Chief Financial Officer of European Silicon Structures as well as several financial roles at Motorola Inc. Mr. Colvin is a Director of Agilysys, Inc. and was previously a Director of Applied Micro Circuits Corp.

**Qualifications:**
Mr. Colvin's financial expertise and service on several public company boards of directors will provide valuable perspective on the Company's operations and opportunities.

## Masood A. Jabbar

**Age** 66
**Director Since:** March 2006

**Experience:**
Mr. Jabbar served as Lead Independent Director from November 2015 to February 2016. Mr. Jabbar was Chief Executive Officer of XDS Inc. from 2004 to 2006. Prior to that, he worked at Sun Microsystems Inc. from 1986 to 2003, where he served in a series of progressively responsible roles including President of the Computer Systems Division, Chief Financial Officer of the $10 billion Sun Microsystems Computer Corporation, and Executive Vice President of Global Sales Operations. Mr. Jabbar's career at Sun culminated as Executive Vice President and Advisor to the Chief Executive Officer, where he was responsible for advising the CEO on critical strategic issues. Prior to joining Sun, Mr. Jabbar spent ten years in finance and accounting at Xerox Corporation, and two years at IBM Corporation. Within the past five years, Mr. Jabbar also served on the board of directors of Silicon Image, Inc. and RF Micro Devices, Inc.

**Qualifications:**
Mr. Jabbar brings significant mergers and acquisitions, global sales and marketing and operational expertise gained from his experience in executive roles at Sun Microsystems, Inc. In addition, Mr. Jabbar's experiences at Xerox and IBM and as a senior executive of Sun Microsystems provide the Board with valuable accounting and financial reporting expertise particular relevant to his service on the Company's Audit Committee. Finally, Mr. Jabbar's service on the boards of several other technology companies provides valuable perspective in his role as a director and chair of the Company's Corporate Development Committee and member of the Audit Committee.

## Pamela Strayer

**Age** 48
**Director Since:** August 2015

**Experience:**
Ms. Strayer currently holds the position of Senior Vice President and Chief Financial Officer of Plantronics, Inc., an audio technology company. Prior to joining Plantronics, from 2005 to 2012, Ms. Strayer held senior financial management roles at Autodesk, Inc., most recently Principal Accounting Officer and Vice President Controller. From 1999 to 2005, Ms. Strayer held various senior level finance positions at Epiphany, Inc. Before Epiphany, Inc., Ms. Strayer worked in senior level finance roles at RightPoint Software, which was acquired by Epiphany, and at Informix Software, Inc. Prior to Informix Software, Ms. Strayer worked in public accounting for KPMG in Silicon Valley and for Price Waterhouse, LLP in Chicago, IL.

**Qualifications:**
Ms. Strayer is a finance executive with 25 years of experience in a broad range of corporate and finance business partner roles. Her deep technical accounting and compliance background is rounded out with experience improving business operations globally, partnering with executive management on strategy and resource allocation decisions and allows her to contribute significantly to the Board and to its Audit Committee as its chairman.

## Oleg Khaykin

**Age** 51
**Director Since:** February 2016

**Experience:**
Mr. Khaykin joined Viavi in February 2016 as President and CEO. Prior to joining the Company, Mr. Khaykin was a Senior Advisor with Silver Lake Partners from February 2015 to February 2016. Before that, he was President and CEO of International Rectifier from 2008 until its acquisition by Infineon AG in the January of 2015. He has also served as Chief Operating Officer of Amkor Technology and Vice President of Strategy & Business Development at Conexant Systems. Earlier in his career he spent eight years with The Boston Consulting Group and prior to that, he was an engineer at Motorola.

**Qualifications:**
Mr. Khaykin's hands on experience leading the Company provides him with day-to-day knowledge of the Company's operations. Additionally, Mr. Khaykin's extensive operational and strategic experience at other technology companies adds substantial value to the Board and the Company.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION TO THE BOARD OF EACH OF THE NOMINEES NAMED ABOVE.**

# CORPORATE GOVERNANCE

## Corporate Governance and Ethics

The Board and management of the Company believe that good corporate governance is an important component in enhancing investor confidence in the Company and increasing stockholder value. Continuing to develop and implement best practices throughout our corporate governance structure is a fundamental part of our strategy to enhance performance by creating an environment that increases operational efficiency and ensures long-term productivity growth. Good corporate governance practices also ensure alignment with stockholder interests by promoting fairness, transparency and accountability in business activities among employees, management and the Board.

Our corporate governance practices represent our commitment to the highest standards of corporate ethics, compliance with laws, financial transparency and reporting with objectivity and the highest degree of integrity. Steps we have taken to fulfill this commitment include, among others:

- Directors are elected on an annual basis.
- Election of directors requires the affirmative vote of a majority of the shares of Common Stock cast with respect to a director by the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the proposal, except in the case of contested elections.
- Our non-employee directors have an average tenure of 4.7 years, and half of the directors have been on the board for less than 2.5 years.
- All members of the Board are independent with the exception of the Company's Chief Executive Officer.
- All members of our Board committees are independent.
- Our Board committee charters clearly establish the roles and responsibilities of each committee.
- All employees and members of the Board are responsible for complying with our Code of Business Conduct and our Insider Trading Policy.
- We have an anonymous hotline to encourage employees to report questionable activities to our Internal Audit and Legal Departments, and the Audit Committee.
- Our independent public accountants report directly to the Audit Committee.
- Our internal audit control function maintains critical supervision over the key areas of our business and financial controls and reports directly to our Audit Committee.
- We have established procedures for stockholders to communicate with the Board by contacting the Investor Relations Department.
- The independent members of our Board and Board committees meet regularly without the presence of management.

The Company has adopted a Code of Ethics (known as the Code of Business Conduct) for its directors, officers and other employees. The Company will post on its website any amendments to, or waivers from, any provision of its Code of Business Conduct. A copy of the Code of Business Conduct is available on the Company's website at *www.viavisolutions.com*.

## Director Independence

In accordance with current NASDAQ listing standards, the Board, on an annual basis, affirmatively determines the independence of each director and nominee for election as a director. Our director independence standards include all elements of independence set forth in the NASDAQ listing standards, and can be found in our Corporate Governance Guidelines, which are included in the "Corporate Governance" section of our website at *www.viavisolutions.com*. The Board has determined that each of its non-employee directors was independent as determined by the relevant NASDAQ listing standard for board independence and for any committee on which such director served during fiscal year 2016. From August 2015 to February 2016, Richard Belluzzo assumed the role of Interim President and Chief Executive Officer. Pursuant to the NASDAQ listing standards, Mr. Belluzzo was not considered to be independent while acting this capacity, but is not disqualified from later being considered an independent director by virtue of his employment status provided that he does not serve in such capacity for more than one year.

The Company is not aware of any agreements or arrangements between any director and any person or entity other than the Company relating to compensation or other payment in connection with such director's candidacy or service as a member of the Board.

## Board Leadership

The Board has determined that it is in the best interests of the Company to maintain the Board chairperson and chief executive officer positions separately. The Board believes that having an outside, independent director serve as chairperson is the most appropriate leadership structure, as this enhances its independent oversight of management and the Company's strategic planning, reinforces the Board's ability to exercise its independent judgment to represent stockholder interests, and strengthens the objectivity and integrity of the Board. Moreover, we believe an independent chairperson can more effectively lead the Board in objectively evaluating the performance of management, including the chief executive officer, and guide it through appropriate Board governance processes. While Mr. Belluzzo held the position of Interim President and Chief Executive Officer the Board appointed Masood Jabbar as lead independent director.

## Board Oversight of Risk

The Company takes a comprehensive approach to risk management. We believe risk can arise in every decision and action taken by the Company, whether strategic or operational. The Company, therefore, seeks to include risk management principles in all of its management processes and in the responsibilities of its employees at every level. Our comprehensive approach is reflected in the reporting processes by which our management provides timely and comprehensive information to the Board to support the Board's role in oversight, approval and decision-making.

Management is responsible for the day-to-day supervision of risk, while the Board, as a whole and through its committees, has the ultimate responsibility for the oversight of risk management. Senior management attends Board meetings, provides presentations on operations including significant risks, and is available to address any questions or concerns raised by the Board. Additionally, our committees assist the Board in fulfilling its oversight responsibilities. Generally, the committee with subject matter expertise in a particular area is responsible for overseeing the management of risk in that area. For example, the Audit Committee coordinates the Board's oversight of the Company's internal controls over financial reporting and disclosure controls and procedures. Management regularly reports to the Audit Committee on these areas. Additionally, the Compensation Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs as well as succession planning for senior executives. The Governance Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks associated with board organization, membership and structure, and corporate governance topics. When any of the committees receives a report related to material risk oversight, the chairman of the relevant committee reports on the discussion to the full Board.

## Compensation Program Risk Assessment

Consistent with SEC disclosure requirements, in fiscal year 2016 a team composed of senior members of our human resources, finance and legal departments and our compensation consultant, Compensia, inventoried and reviewed elements of our compensation policies and practices. This team then reviewed these policies and practices with Company's management in an effort to assess whether any of our policies or practices create risks that are reasonably likely to have a material adverse effect on the Company. This assessment included a review of the primary design features of the Company's compensation policies and practices, the process for determining executive and employee compensation and consideration of features of our compensation program that help to mitigate risk. Management reviewed and discussed the results of this assessment with the Compensation Committee, which consulted with Compensia. Based on this review, we believe that our compensation policies and practices, individually and in the aggregate, do not create risks that are reasonably likely to have a material adverse effect on the Company.

# Board Committees and Meetings

During fiscal year 2016, the Board held 6 meetings. The Board has four regular committees: an Audit Committee, Compensation Committee, Governance Committee, and Corporate Development Committee. The members of the committees during fiscal year 2016 are identified below.

Each director attended at least 75% of the aggregate of all meetings of the Board and any committees on which he or she served during fiscal year 2016 after becoming a member of the Board or after being appointed to a particular committee. The Company encourages, but does not require, its Board members to attend the Annual Meeting. All then-current directors attended the 2015 Annual Meeting, except Timothy Campos.

## Audit Committee

The Audit Committee is responsible for assisting the full Board in fulfilling its oversight responsibilities relative to:

- the Company's financial statements;
- financial reporting practices;
- systems of internal accounting and financial control;
- internal audit function;
- annual independent audits of the Company's financial statements; and
- such legal and ethics programs as may established from time to time by the Board.

**Members:**
Pamela Strayer (Chair)
Keith Barnes
Masood Jabbar

**Meetings:** 9

The Audit Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and may retain external consultants at its sole discretion. In addition, the Audit Committee considers whether the Company's independent auditors' provision of non-audit services is compatible with maintaining the independence of the independent auditors. The Board has determined that all members of the Audit Committee are "independent" as defined in the applicable rules and regulations of the SEC and NASDAQ. The Board has further determined that Keith Barnes, Pamela Strayer and Masood A. Jabbar are "audit committee financial expert(s)" as defined by Item 401(h) of Regulation S-K of the Exchange Act. A copy of the Audit Committee charter can be viewed at the Company's website at *www.viavisolutions.com.*

## Compensation Committee

The Compensation Committee is responsible for:

- ensuring that the Company adopts and maintains responsible and responsive compensation programs for its employees, officers and directors consistent with the long-range interests of stockholders; and
- the administration of the Company's employee stock purchase plans and equity incentive plans.

**Members:**
Keith Barnes (Chair)
Richard Belluzzo
Timothy Campos

**Meetings:** 5

The chair of the Compensation Committee reports on the Compensation Committee's actions and recommendations at Board meetings. In addition, the Compensation Committee has the authority to engage the services of outside advisors, experts and others to provide assistance as needed. During fiscal year 2016, the Compensation Committee engaged Compensia, Inc. ("Compensia"), a national compensation consulting firm, to assist with the Committee's analysis and review of the compensation of our executive officers. Compensia attends all Compensation Committee meetings, works directly with the Committee Chair and Committee members, and sends all invoices, including descriptions of services rendered, to the Committee Chair for review and payment approval. Compensia performed no work for the Company that was not in support of the Committee's charter nor authorized by the Committee Chair during fiscal year 2016. All members of the Compensation Committee are "independent" as that term is defined in the applicable NASDAQ rules and regulations. A copy of the Compensation Committee charter can be viewed at the Company's website at *www.viavisolutions.com*. Additional information on the Compensation Committee's processes and procedures for consideration of executive compensation are addressed in the "Compensation Discussion and Analysis" below. Pamela Strayer temporarily replaced Mr. Belluzzo as a member of the Compensation Committee during his service as Interim President and Chief Executive Officer from August 2015 to February 2016.

## Corporate Development Committee

The Corporate Development Committee is responsible for:

- oversight of the Company's strategic transaction and investment activities.

**Members:**
Masood Jabbar (Chair)
Tor Braham
Timothy Campos
Donald Colvin

**Meetings:** 4

The Corporate Development Committee reviews and approves certain strategic transactions for which approval of the full Board is not required and makes recommendations to the Board regarding those transactions for which the consideration of the full Board is appropriate. A copy of the Corporate Development Committee charter can be viewed at the Company's website at *www.viavisolutions.com*. Messrs. Colvin and Braham were added to the Corporate Development Committee in October 2015.

## Governance Committee

The Governance Committee:

- serves as the Company's nominating committee;
- reviews current trends and practices in corporate governance; and
- recommends to the Board the adoption of governance programs.

**Members:**
Richard Belluzzo (Chair)
Keith Barnes

**Meetings:** 4

As provided in the charter of the Governance Committee, nominations for director may be made by the Governance Committee or by a stockholder of record entitled to vote. The Governance Committee will consider and make recommendations to the Board regarding any stockholder recommendations for candidates to serve on the Board. Stockholders wishing to recommend candidates for consideration by the Governance Committee may do so by writing to the Company's Corporate Secretary at 430 North McCarthy Boulevard, Milpitas, California 95035 providing the candidate's name, biographical data and qualifications, a document indicating the candidate's willingness to act if elected, and evidence of the nominating stockholder's ownership of Company's stock not less than 60 days nor more than 90 days prior to the first anniversary of the date of the preceding year's annual meeting to assure time for meaningful consideration by the Governance Committee. Our Bylaws specify in greater detail the requirements as to the form and content of the stockholder's notice. We recommend that any stockholder wishing to nominate a director review a copy of our Bylaws, as amended and restated to date, which can be found at *www.viavisolutions.com*. There are no differences in the manner in which the Governance Committee evaluates nominees for director based on whether the nominee is recommended by a stockholder. All members of the Governance Committee are "independent" as that term is defined in the applicable NASDAQ rules and regulations.

In reviewing potential candidates for the Board, the Governance Committee considers the individual's experience in the Company's industry, the general business or other experience of the candidate, the needs of the Company for an additional or replacement director, the personality of the candidate, the candidate's interest in the business of the Company, as well as numerous other subjective criteria. Of greatest importance is the individual's integrity, willingness to be involved and ability to bring to the Company experience and knowledge in areas that are most beneficial to the Company. The Governance Committee intends to continue to evaluate candidates for election to the Board on the basis of the foregoing criteria. A detailed description of the criteria used by the Governance Committee in evaluating potential candidates may be found in the charter of the Governance Committee.

The Governance Committee operates under a written charter setting forth the functions and responsibilities of the committee. A copy of the charter can be viewed at the Company's website at *www.viavisolutions.com*. Nominees for the 2016 Annual Meeting were selected by a majority of the independent directors in office. Mr. Jabbar temporarily replaced Mr. Belluzzo as a member of the Compensation Committee during his service as Interim President and Chief Executive Officer from August 2015 to February 2016.

## Compensation Committee Interlocks and Insider Participation

No interlocking relationship exists between any member of the Company's Board or Compensation Committee and any member of the board of directors or compensation committee of any other companies, nor has such interlocking relationship existed in the past. None of Messrs. Barnes or Campos or Ms. Strayer, who served on the Company's Compensation Committee during fiscal year 2016, were at any time during or prior to fiscal year 2016 an officer or employee of Viavi. Mr. Belluzzo served as the Company's Interim Chief Executive Officer for a portion of fiscal year 2016, but did not serve on the Compensation Committee during such time. In addition, none of our executive officers serves as a member of the board of directors or compensation committee of any company that has one or more of its executive officers serving as a member of our Board or Compensation Committee.

## Communication between Stockholders and Directors

Stockholders may communicate with the Company's Board through the Company's Secretary by sending an email to *bod@viavisolutions.com*, or by writing to the following address: Chairman of the Board, c/o Company Secretary, Viavi Solutions, 430 North McCarthy Boulevard, Milpitas, California 95035. The Company's Secretary will forward all correspondence to the Board, except for spam, junk mail, mass mailings, product complaints or inquiries, job inquiries, surveys, business solicitations or advertisements, or patently offensive or otherwise inappropriate material. The Company's Secretary may forward certain correspondence, such as product-related inquiries, elsewhere within the Company for review and possible response.

## Director Compensation

Each non-employee director of the Company is entitled to receive an annual cash retainer of $60,000 which is paid in quarterly installments of $15,000. During fiscal year 2016, each non-employee director received an annual grant of restricted stock units having a value of $200,000. This initial grant was pro rated for directors who joined mid-year. The restricted stock units are subject to a grant agreement which provides for vesting on the first anniversary of the grant date. Upon vesting each restricted stock unit is converted into one share of the Company's Common Stock. Upon retirement of a non-employee director, any unvested options and restricted shares of the Company's Common Stock will automatically become fully vested, and the exercise period for any such options will be extended to expire on the expiration date of such options, which is generally eight years from the date of grant. Upon initial appointment to the Board, each non-employee director receives a pro-rated portion of the annual non-employee director grant.

In addition, each non-employee director serving on the Audit Committee received an annual cash retainer of $15,000, whereas the director serving as the Audit Committee chair received an annual cash retainer of $30,000. Each non-employee director serving on the Compensation Committee received an annual cash retainer of $10,000, whereas the director serving as the Compensation Committee chair received an annual cash retainer of $20,000. Each non-employee director serving on the Governance or Corporate Development Committees received an annual cash retainer of $7,500, whereas the directors serving as the Governance or Corporate Development Committee chairs received an annual cash retainer of $15,000.

Mr. Jabbar, who served as Lead Independent Director from November 2015 to February 2016, received a pro-rated cash retainer of $18,750 as compensation for his services. Additionally, Mr. Belluzzo received a pro-rated cash retainer of $39,549 for the portion of fiscal 2016 during which he served as Chairman of the Board but not as Interim Chief Executive Officer.

A special CEO search committee was formed in August 2015. The committee members were Timothy Campos, Masood Jabbar and Keith Barnes, who served as chairman of the committee. Mr. Jabbar and Mr. Campos quarterly received cash retainers of $7,500 and Mr. Barnes received a quarterly cash retainer of $15,000. Committee members received additional compensation for any meeting attended in excess of the first 10 meetings at a rate of $500 for meetings that were shorter than an hour and $1,000 for meetings that were longer than an hour. This resulted in an additional $5,000 in fees paid to each committee member.

Directors who are also employed by the Company do not receive any compensation for their services as directors. Accordingly, Mr. Belluzzo did not receive compensation as a member of the Board while he served as Interim President and Chief Executive Officer. All directors are reimbursed for expenses incurred in connection with attending Board and committee meetings.

Director compensation described above is summarized in the following table:

| Compensation Element for Role | Board Compensation | | |
|---|---|---|---|
| **General Board Service – Cash** | | | |
| ▷ Retainer | ▷ $60,000 | | |
| ▷ Meeting Fees | ▷ Not applicable ("NA") | | |
| **General Board Service – Equity** | | | |
| ▷ RSU Value | ▷ $200,000 | | |
| ▷ Vesting Schedule | ▷ Vest on the first anniversary of the grant date<br>▷ Number of shares determined using 30 calendar day average stock price prior to date of grant | | |
| | | **Chair** | **Member** |
| **Committee Service**<br>(No meeting fees) | Audit | $30,000 | $15,000 |
| | Compensation | $20,000 | $10,000 |
| | Governance/Corporate Development | $15,000 | $7,500 |
| **Non-Employee Board Chair** | | | |
| ▷ Additional Board Retainer | ▷ $75,000 | | |
| ▷ Additional Equity | ▷ NA | | |

The director compensation policies summarized above resulted in the following total compensation for our non-management directors in fiscal year 2016:

## Director Compensation Table

| Name [(1)] | Fees Earned or Paid in Cash ($) | Stock Awards ($) [(2)] | Option Awards ($) [(2)] | Total ($) |
|---|---|---|---|---|
| Keith Barnes [(3)] | 137,500 | 246,620 | 0 | 384,120 |
| Richard E. Belluzzo [(4)] | 89,732 | 614,589 | 596 | 704,918 |
| Tor Braham [(5)] | 62,511 | 225,469 | 0 | 287,979 |
| Timothy Campos [(6)] | 97,500 | 242,257 | 0 | 339,757 |
| Donald Colvin [(7)] | 62,511 | 225,469 | 0 | 287,979 |
| Masood A. Jabbar [(8)] | 143,750 | 246,620 | 458 | 390,828 |
| Pamela Strayer [(9)] | 86,069 | 387,148 | 0 | 473,216 |

(1) Thomas Waechter and Oleg Khaykin, both of whom served as the Company's Chief Executive Officer and President during fiscal year 2016, are not included in this table as they were employees of the Company and as such received no compensation for their services as a director. Their compensation is disclosed in the Summary Compensation Table.

(2) The amounts shown in this column are the grant date fair value in the period presented as determined pursuant to stock-based compensation accounting rule FASB ASC Topic 718, excluding the effect of estimated forfeitures, as well as the incremental fair value attributable to stock awards that were modified in fiscal year 2016 in connection with the separation of the Lumentum business. The assumptions used to calculate these amounts are set forth under Note 15 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for fiscal year 2016 filed with the SEC on August 30, 2016.

(3) Mr. Barnes had no options and 52,527 restricted stock units outstanding at the end of fiscal year 2016.

(4) Mr. Belluzzo had no options and 46,275 restricted stock units outstanding at the end of fiscal year 2016. Compensation reflects only cash and stock awards granted to Mr. Belluzzo in connection with his service a member of the Board. Mr. Belluzzo's full compensation, including amounts received while he served as Interim Chief Executive Officer is disclosed in the Summary Compensation Table.

(5) Mr. Braham had no options and 36,919 restricted stock units outstanding at the end of fiscal year 2016.

(6) Mr. Campos had no options and 54,782 restricted stock units outstanding at the end of fiscal year 2016.

(7) Mr. Colvin had no options and 36,919 restricted stock units outstanding at the end of fiscal year 2016.

(8) Mr. Jabbar had no options and 52,527 restricted stock units outstanding at the end of fiscal year 2016.

(9) Ms. Strayer had no options and 67,401 restricted stock units outstanding at the end of fiscal year 2016.

# Relationships Among Directors or Executive Officers

There are no family relationships among any of the Company's directors or executive officers.

# Certain Relationships and Related Person Transactions

## Review and Approval of Related Person Transactions

We review all relationships and transaction in which the Company and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. The Company's legal staff is primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether the Company or a related person has a direct or indirect material interest in the transaction. On an annual basis, all directors and executive officers must respond to a questionnaire requiring disclosure about any related person transactions, arrangements or relationships (including indebtedness). As required under SEC rules, any transactions that are determined to be directly or indirectly material to the Company or a related person are disclosed in the Company's Proxy Statement. The Audit Committee reviews and approves or ratifies any related person transaction that is required to be disclosed. This review and approval process is evidenced in the minutes of the Audit Committee meetings.

# Executive Officers

The following sets forth certain information regarding the Company's executive officers as of the date of this Proxy Statement:

| Executive Officer | Age | Position |
|---|---|---|
| Oleg Khaykin | 51 | Chief Executive Officer and President |
| Amar Maletira | 46 | Chief Financial Officer, Executive Vice President |
| Dion Joannou | 51 | Senior Vice President, Global Sales, Network Enablement and Service Enablement |
| Paul McNab | 54 | Executive Vice President, Chief Marketing and Strategy Officer |
| Ralph Rondinone | 54 | Senior Vice President, Global Operations, Network Service Enablement |
| Luke Scrivanich | 54 | Senior Vice President & General Manager, Optical Security & Performance Products |
| Kevin Siebert | 47 | Vice President, General Counsel and Secretary |
| Susan Spradley | 55 | Executive Vice President & General Manager Product Line Management & Design, Network Enablement and Service Enablement |

***Oleg Khaykin*** joined Viavi in February 2016 as President and CEO. Prior to joining the Company, Mr. Khaykin was a Senior Advisor with Silver Lake Partners from February 2015 to February 2016. Before that, Mr. Khaykin was President and CEO of International Rectifier from 2008 until its acquisition by Infineon AG in the January of 2015. He has also served as Chief Operating Officer of Amkor Technology and Vice President of Strategy & Business Development at Conexant Systems. Earlier in his career he spent eight years with The Boston Consulting Group and prior to that, he was an engineer at Motorola. Mr. Khaykin holds an MBA from Kellogg School of Management at Northwestern University and a B.S. in Electrical and Computer Engineering with honors from Carnegie-Mellon University.

***Amar Maletira*** joined the Company in September 2015 as Chief Financial Officer. Prior to joining the Company, Mr. Maletira spent 14 years at Hewlett Packard serving in a number of senior positions in Finance, most recently as Chief Financial Officer & Vice President, Enterprise Services Americas. From 1998 to 2000, Mr. Maletira was Chief Operating Officer and Vice President of a start-up IT consulting company, DPP Incorporated. Prior to that, Mr. Maletira led sales teams at Siemens and HCL in India. Mr. Maletira holds a B.S. in Electronics & Communication Engineering from Gogte Institute of Technology at Karnataka University in India and an M.B.A. from the Ross School of Business in Ann Arbor, Michigan.

***Dion Joannou*** joined the Company as Senior Vice President of global sales in January 2015. Prior to joining the Company, Mr. Joannou served as Chief Executive Officer of Advantix Systems from 2011 to 2013. From 2009 to 2010, Mr. Joannou served as Chief Executive Officer at The Neptune Society. Mr. Joannou also held a number of executive positions during his 15-year career at Nortel Networks, including roles as president for North America for both the enterprise and carrier markets, chief strategy officer, president for the Caribbean and Latin America, and vice president of Vodafone global account. Mr. Joannou holds a B.A. in business administration from Southern Illinois University and an M.B.A from the University of Miami.

***Paul McNab*** joined the Company in September 2014 as Executive Vice President and Chief Marketing and Strategy Officer. Prior to joining the Company, Mr. McNab was CEO of Puro Networks from 2013 to 2014. Before that, Mr. McNab was with Cisco Systems, Inc. for sixteen years where he held increasingly senior roles including Vice President and Chief Technology Officer, Data Center Switching and Vice President, Enterprise Marketing. Mr. McNab holds a B.S. in Engineering from Manchester Metropolitan University in the United Kingdom.

***Ralph Rondinone*** joined the Company in April 2012 as Senior Vice President of Global Operations and Services. Prior to joining the Company, Mr. Rondinone served as Senior Vice President of Operations at BigBand Networks from 2006 to 2012. Prior to that, Mr. Rondinone held executive positions in operations at Lucent Technologies, Ascend Communications, and Digital Equipment Corporation. Mr. Rondinone holds a B.S. in mechanical engineering from Worcester Polytechnic Institute.

***Luke Scrivanich*** became the Vice President and General Manager of Optical Security and Performance Products (OSP) in June 2012 and became Senior Vice President and General Manager of OSP in August 2012. Mr. Scrivanich joined the Company in April 2008 as Vice President and General Manager of Flex Products. Prior to joining the Company in 2008, Mr. Scrivanich was with PPG Industries where he served in general management, marketing and strategic planning positions for various divisions, including fine chemicals, optical products and coatings. He previously held senior marketing positions at AGR International, Inc., a manufacturer of packaging inspection equipment. Mr. Scrivanich holds a B.S. in Chemical Engineering from Cornell University and an M.B.A. from the Harvard Graduate School of Business Administration.

***Kevin Siebert*** joined the Company in September 2007 and became Vice President, General Counsel and Secretary in February 2015. Before assuming the General Counsel role, Mr. Siebert held increasingly senior roles within the Company's legal department. Before joining the Company, Mr. Siebert was Senior Counsel at France Telecom from 2004 to 2007 where he primarily had legal responsibility for North American operations and also handled mergers and acquisitions, among other functions. Prior to that, Mr. Siebert served as in-house counsel at a technology company and held associate roles in private practice, focusing on mergers and acquisitions, corporate and telecommunications matters. Mr. Siebert holds a B.A. in Political Science from the University of Richmond and a J.D. from the Washington University School of Law.

***Susan Spradley*** joined the Company in January 2013 and became Executive Vice President and General Manager NSE Solutions and R&D in July 2015. Before joining the Company, Ms. Spradley served as executive director at US-Ignite from April 2011 to December 2012. Prior to that, Ms. Spradley was President of the North America region at Nokia Siemens Networks from 2007 to 2011 responsible for regional p&l, sales and service. From 1997 to 2005 she held executive positions at Nortel. She is also chair of a White House and National Science Foundation initiative, called U.S. Ignite. Ms. Spradley holds a B.S. in Computer Science from University of Kansas, Lawrence and completed an Advanced Management Program at Harvard Business School.

# PROPOSAL 2

## Ratification of Independent Auditors

The Audit Committee of the Board of Directors has appointed PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year ending July 1, 2017, and the Board has directed that the selection of the independent auditors be submitted for ratification by the stockholders at the Annual Meeting.

Although the Company is not required to seek stockholder approval of its selection of the independent auditors, the Board believes it to be sound corporate governance to do so. If the appointment is not ratified, the Board will investigate the reasons for stockholder rejection and will reconsider its selection of the independent auditors. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the fiscal year if the Audit Committee determines that such a change would be in the Company's and its stockholders' best interests.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

### Audit and Non-Audit Fees

The following table presents fees billed for professional audit services rendered by PricewaterhouseCoopers LLP for the audit of the Company's annual financial statements for the years ended July 2, 2016 and June 27, 2015, respectively, and fees billed for other services rendered by PricewaterhouseCoopers LLP and during those periods.

| | **Fiscal 2016** | **Fiscal 2015** |
|---|---|---|
| Audit Fees (1) | $2,963,443 | $ 5,442,605 |
| Audit-Related Fees | 0 | 0 |
| Tax Fees (2) | 1,023,866 | 501,785 |
| All Other Fees (3) | 0 | 100,165 |
| Total | $3,987,309 | $ 6,044,555 |

(1) Audit Fees are related to professional services rendered in connection with the audit of the Company's annual financial statements, the audit of internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, reviews of financial statements included in the Company's Quarterly Reports on Form 10-Q, and audit services provided in connection with other statutory and regulatory filings. Fees include $692,000 and $2,320,000 for fiscal 2016 and 2015, respectively, for services performed by PricewaterhouseCoopers LLP in connection with the separation and spin-off of Lumentum Holdings Inc.

(2) Tax Fees for fiscal 2016 and 2015 include professional services rendered in connection with transfer pricing consulting, tax audits, planning services and other tax consulting. The fees include $860,000 and $397,000 for fiscal 2016 and 2015, respectively, for services performed by PricewaterhouseCoopers LLP in connection with the separation and spin-off of Lumentum Holdings Inc.

(3) All Other Fees in fiscal 2015 are related to the annual Workforce Engagement Survey and other non-audit related services.

For fiscal year 2016, the Audit Committee considered whether audit-related services and services other than audit-related services provided by PricewaterhouseCoopers LLP are compatible with maintaining the independence of PricewaterhouseCoopers LLP and concluded that the independence of PricewaterhouseCoopers LLP was maintained.

## Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent auditors. Under the policy, pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. In addition, the Audit Committee may also pre-approve particular services on a case-by-case basis. For each proposed service, the independent auditors are required to provide detailed back-up documentation at the time of approval. Pursuant to the Sarbanes-Oxley Act of 2002, the fees and services provided as noted in the table above were authorized and approved by the Audit Committee in compliance with the pre-approval policies and procedures described herein.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE YEAR ENDING JULY 1, 2017.**

# PROPOSAL 3

## Advisory Vote on Executive Compensation

The Company's goal for its executive compensation program is to attract, motivate and retain the executive talent necessary to achieve its business objectives. The Company believes that it can best drive long-term stockholder value by establishing a strong pay-for-performance system.

At the Company's 2015 annual meeting of stockholders, approximately 73% of the votes cast were voted in favor of approving the compensation of the Company's Named Executive Officers ("NEOs"). In the months leading up to and following the vote, the Company reached out to a significant number of its major stockholders. After considering their feedback, as well as current market practices, in May 2015 the Company modified its stock ownership guidelines so that unvested restricted stock units would no longer count towards the ownership requirements for directors and executive officers.

The Compensation Discussion and Analysis ("CD&A") section of this Proxy Statement includes a detailed description of the Company's compensation philosophy, as well as an analysis of how the compensation of its NEOs in fiscal year 2016 aligned with that philosophy. Highlights of the Company's compensation practices include:

- Approximately 50% of each NEO's total target compensation is performance-based, consisting of cash incentive compensation and RSUs with performance-based vesting conditions, as described below.
- The Company emphasizes pay for performance. Cash incentive compensation paid to its NEOs is generally paid pursuant to the Company's Variable Pay Plan (the "VPP"), with payments directly tied to attainment of the Company's operating income objective.
- 50% of the RSUs awarded to the Company's NEOs have time-based vesting requirements – the ultimate value of these awards is directly tied to the performance of the Company's stock, encouraging management to drive stockholder value which also encouraging retention of key employees. The other 50% of RSUs awarded to the Company's NEOs have vesting requirements tied to the performance of the Company's stock as compared to the NASDAQ telecommunications index, and could vest at a higher or lower rate or not at all, based on this relative performance. We refer to these performance-based RSUs as market stock units, or "MSUs."
- The Company does not generally provide perquisites or other benefits to its NEOs that are not available to all employees.
- We regularly evaluate our compensation practices and modify our programs as appropriate to address evolving best practices. For example, in fiscal year 2016 we modified the vesting conditions for the MSUs to make them more difficult to achieve and modified our stock ownership guidelines to further align executive compensation with stockholder interests.

We urge stockholders to read the CD&A section of this Proxy Statement beginning on page 23 which describes in more detail how our executive compensation practices operate and are designed to achieve our compensation objectives.

In accordance with section 14A of the Securities Exchange Act, stockholders will have the opportunity to cast a non-binding, advisory vote on the compensation of our NEOs. You are encouraged to read the Executive Compensation section of this Proxy Statement, including the CD&A, along with the accompanying tables and narrative disclosure. Accordingly, we are asking you to approve, on an advisory basis, the compensation of the Company's NEOs, as described in the CD&A, the accompanying tables and the related narrative disclosure contained therein.

The following resolution will be submitted for stockholder vote at the Annual Meeting:

"RESOLVED, that the stockholders approve, on an advisory basis, the compensation of the Company's named executive officers, as disclosed in the Company's proxy statement for the 2016 Annual Meeting of stockholders pursuant to the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis, compensation tables and related narrative discussion."

Although the advisory vote is non-binding, the Compensation Committee and the Board will review the results of the vote and the Compensation Committee will consider the results of the vote when making future compensation decisions. Unless the Board of Directors modifies its determination on the frequency of future advisory votes, the next advisory vote on the compensation of the Company's NEOs will be held at the fiscal 2017 annual meeting of stockholders.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE, ON AN ADVISORY BASIS, "FOR" THE APPROVAL OF THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS, AS DESCRIBED IN THE CD&A, THE COMPENSATION TABLES AND THE RELATED NARRATIVE DISCUSSION IN THIS PROXY STATEMENT.**

# SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to the Company with respect to the beneficial ownership as of August 31, 2016, by (i) all persons who are beneficial owners of five percent (5%) or more of the Company's Common Stock, (ii) each director and nominee, (iii) the Company's named executive officers, and (iv) all current directors and executive officers as a group.

As of August 31, 2016, there were 232,733,763 shares of the Company's Common Stock outstanding. The amounts and percentages of Common Stock beneficially owned are reported on the basis of regulations of the Securities and Exchange Commission ("SEC") governing the determination of beneficial ownership of securities. Under the SEC rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of securities as to which such person has no economic interest.

| | Number of Shares Beneficially Owned | |
|---|---|---|
| **Name** | **Number** | **Percentage** |
| **5% or more Stockholders [1]** | | |
| Capital Research Global Investor 333 South Hope Street Los Angeles, CA 90071 | 27,669,274 | 11.90% |
| The Bank of New York Mellon Corporation One Wall Street, 31st Floor New York, NY 10022 | 16,693,348 | 7.17% |
| BlackRock, Inc. 40 East 52nd Street New York, NY 10022 | 23,443,879 | 10.07% |
| The Vanguard Group 100 Vanguard Boulevard Malvern, PA 19355-2331 | 17,461,158 | 7.50% |
| Goldman Sachs Asset Management 200 West Street c/o Goldman Sachs & Co. New York, NY 10282 | 16,802,154 | 7.22% |
| **Directors and Executive Officers** | | |
| Oleg Khaykin | 0 | * |
| Amar Maletira [2] | 95,454 | * |
| Susan Spradley [3] | 68,383 | * |
| Dion Joannou [4] | 17,333 | * |
| Luke Scrivanich [5] | 155,287 | * |
| Thomas Waechter [6] | 537,060 | * |
| Rex S. Jackson [7] | 201,397 | * |
| Richard E. Belluzzo | 140,128 | * |
| Keith Barnes | 44,164 | * |
| Tor Braham [8] | 4,186 | * |
| Timothy Campos | 20,092 | * |
| Donald Colvin [9] | 4,186 | * |
| Masood A. Jabbar | 96,201 | * |
| Pamela Strayer | 11,556 | * |
| All directors and executive officers as a group (15 persons) [10] | 825,891 | * |

* Less than 1%.

(1) Based on information set forth in various Schedule 13 filings with the SEC current as of August 31, 2016 and the Company's outstanding common stock data as of August 31, 2016.

(2) Includes (i) 47,727 RSUs which vest within 60 days of August 31, 2016 and (ii) 47,727 market stock units ("MSUs"). MSUs are reported at 100% of the target number of shares scheduled to vest within 60 days of August 31, 2016. The actual number of shares that vest will range from 0% to 150% of the target amount. Details of the conditions and terms under which the MSUs will vest begin on page 32 of this Proxy Statement.

(3) Includes 50,865 MSUs which vest within 60 days of August 31, 2016

(4) Includes 17,333 MSUs which vest within 60 days of August 31, 2016.

(5) Includes (i) 88,530 shares subject to stock options currently exercisable within 60 days of August 31, 2016 and (ii) 47,819 MSUs which vest within 60 days of August 31, 2016.

(6) Includes 537,060 shares subject to stock options currently exercisable within 60 days of August 31, 2016.

(7) Includes 201,397 shares subject to stock options currently exercisable within 60 days of August 31, 2016.

(8) Includes 4,186 RSUs which vest within 60 days of August 31, 2016.

(9) Includes 4,186 RSUs which vest within 60 days of August 31, 2016.

(10) Includes (i) 88,530 shares subject to stock options currently exercisable within 60 days of August 31, 2016, (ii) 100,854 RSUs which vest within 60 days of August 31, 2016, and (iii) 279,156 MSUs which vest within 60 days of August 31, 2016.

# EXECUTIVE COMPENSATION

## Compensation Discussion and Analysis

### Executive Summary

#### Performance Overview

Fiscal year 2016 was a transformative year for the Company, beginning with the successful spin-off of Lumentum in the first fiscal quarter and the hiring of a new executive team, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). When setting executive compensation for fiscal year 2016, the Compensation Committee of the Board (the "Committee") considered a comprehensive set of factors, including:

- The Company's prior fiscal year performance and the prior three-year period, in keeping with the Company's focus on long-term growth and performance.
- The achievements of the Company's named executive officers' ("NEOs") and others in completing the spin-off.
- The importance of retaining certain individuals in light of their prior contributions and in recognition of the importance of continuity in achieving the Company's goals during fiscal year 2016.

In determining the new hire compensation packages for Oleg Khaykin, who became the Company's CEO in February 2016, and Amar Maletira, who became the Company's CFO in September 2015, the Committee recognized the importance of attracting individuals with the skills required to continue the Company's transformative efforts and drive future growth. In addition, the Committee recognized that new hire compensation packages usually involve equity grants that are larger than the annual equity grants awarded to NEOs and vest over a longer period of time.

#### Compensation Best Practices

We maintain the following corporate governance policies to ensure our executive compensation practices support our pay-for-performance philosophy and manage our compensation risks:

- ✓ The Committee is comprised solely of independent directors.
- ✓ The Committee has engaged an independent compensation consultant to assist it with its review of executive compensation.
- ✓ Half of the annual equity incentive grants awarded to our executive officers are performance awards.
- ✓ We do not generally provide perquisites to any of our executive officers.
- ✓ We have a clawback policy that applies to both cash incentives and equity awards.
- ✓ We prohibit our executive officers from engaging in hedging or other speculative transactions involving Company stock.
- ✓ We maintain stock ownership guidelines that require our directors and executive officers to maintain an equity interest in Company stock that is between one and three times their base salary (or cash retainer in the case of directors).

#### Results of 2015 Advisory Vote on Executive Compensation

We conducted an advisory vote on executive compensation at our 2015 Annual Meeting of stockholders. The Board and the Committee value the opinions of our stockholders and, to the extent that there is any significant vote against the compensation of the NEOs, work to identify the specific concerns driving negative votes and evaluate whether any actions are necessary to address those concerns.

At the 2015 Annual Meeting of stockholders, approximately 73% of the votes cast were in favor of the NEOs' compensation as disclosed in the 2015 Proxy Statement. In the months leading up to and following our 2015 Annual Meeting, we spoke with a significant number of our major stockholders. After considering their feedback, as well as current market practices, in May 2015 the Committee modified the Company's stock ownership guidelines so that unvested restricted stock units would no longer count towards the ownership requirements for directors and executive officers.

# Compensation Philosophy and Elements

## Our Executive Compensation Philosophy

Our executive compensation programs are intended to achieve certain fundamental objectives:

- Attract, motivate and retain superior executive talent;
- Create a direct relationship between pay and performance; and
- Create incentives to maximize stockholder value over time.

Our compensation philosophy is designed to achieve these objectives through the following key principles:

Competitive Compensation
The executive compensation program should provide a fair and competitive opportunity that enables us to attract and retain high caliber talent.

Alignment with Stockholder Interest
Executive compensation should be structured to include variable elements that link financial reward to achievement of goals and stockholder return, and executive stock ownership should be encouraged.

"At risk" compensation
A significant portion of each executive's compensation should be "at risk" and tied to the Company's attainment of annual and long-term business objectives and stockholder value. For example, in fiscal 2016, approximately 45% of our Chief Executive Officer's compensation and 43% of our Chief Financial Officer's compensation were at risk.

We believe that the quality, experience, skills, engagement and dedication of our executive officers are critical factors affecting the Company's performance and our ability to drive long-term stockholder value.

## Elements of Executive Compensation

In support of this compensation philosophy, the Committee utilizes three material compensation elements. We also provide 401 (k) retirement benefits and severance benefits.

| Pay Element | Objective/Purpose |
|---|---|
| **Base salary** | To attract and retain highly-qualified executive talent |
| **Cash incentive bonuses** | To incentivize and reward achievement of near-term financial and business results |
| **Equity grants, including:**<br>• **Time-based restricted stock units ("RSUs"); and**<br>• **Market-based RSUs ("MSUs")** | To align our executives' interests with those of our stockholders, drive long-term value, and reinforce longer-term retention |

## Fiscal Year 2016 Named Executive Officers

Throughout this proxy statement, the individuals who served as the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") during fiscal year 2016, as well as the other individuals included in the Summary Compensation Table, are referred to as the "named executive officers" (or "NEOs"). Our NEOs for fiscal year 2016 were:

| Named Executive Officer | Position |
|---|---|
| **Oleg Khaykin** [1] | President and CEO |
| **Amar Maletira** [2] | Executive Vice President and CFO |
| **Susan Spradley** | Executive Vice President and General Manager Product Line Management & Design, Network Enablement ("NE") and Service Enablement ("SE") |
| **Dion Joannou** | Senior Vice President, Global Sales, NE and SE |
| **Luke Scrivanich** | Senior Vice President & General Manager, Optical Security and Performance Products ("OSP") |
| **Thomas Waechter** | Former President and CEO |
| **Rex Jackson** | Former Executive Vice President and CFO |
| **Richard Belluzzo** [3] | Interim CEO |

1 Mr. Khaykin joined the Company on February 3, 2016.

2 Mr. Maletira joined the Company on September 9, 2015.

3 Mr. Belluzzo served as the Company's Interim CEO from August 11, 2015 through February 2, 2016.

Mr. Waechter stepped down as the Company's President and Chief Executive Officer, effective August 11, 2015. In connection with Mr. Waechter's departure, the Company entered into a Separation Agreement and General Release (the "Waechter Agreement") pursuant to which Mr. Waechter received a lump sum cash payment of $2,680,000, eighteen months of COBRA payments for him and his wife, and full acceleration of his time-based equity awards. In addition, the term during which vested options were exercisable was extended to the later of September 18, 2018, or the expiration date of each respective award. The Company also entered into a consulting arrangement with Mr. Waechter whereby he agreed to provide consulting services to the Company for a one year period through September 18, 2016, in exchange for an annual fee of $533,000, payable in equal monthly installments with a completion bonus of $267,000 to be paid at the end of the term of the consulting arrangement, subject to certain conditions. The Board believed that entering into such an arrangement with Mr. Waechter was necessary to facilitate an orderly transition during the search for a new Chief Executive Officer.

Mr. Jackson's employment with the Company terminated on September 30, 2015. In connection with his departure, on February 24, 2015, the Company entered into a separation agreement (the "Jackson Agreement") pursuant to which he received certain severance benefits including: (i) immediate vesting of any outstanding and unvested equity awards, including market-based restricted stock units at 100% of the target amount, (ii) a lump sum cash payment equal to 2 years of base salary as of September 30, 2015, less applicable withholdings, and (iii) Company paid COBRA benefits for up to 12 months. The Committee concluded that the terms of the Jackson Agreement were necessary to induce Mr. Jackson to remain with the Company through the completion of the spin-off and the filing of the Company's FY15 annual report.

Mr. Belluzzo served as Interim President and CEO from August 11, 2015 through February 2, 2016. In connection with his appointment, the Company entered into an agreement (the "Belluzzo Agreement") governing the terms of his employment. Pursuant to the terms of the Belluzzo Agreement, in connection with his services as Interim President and Chief Executive Officer, Mr. Belluzzo received an annual base salary of $600,000, with a guaranteed minimum salary of $200,000. In addition, Mr. Belluzzo accrued a bonus at the rate of $50,000 per month, which was paid once a permanent Chief Executive Officer commenced employment with the Company, with a guaranteed minimum bonus of $200,000. Mr. Belluzzo received a grant of restricted stock units having a value on the grant date of $400,000 which vested in full upon the date his employment terminated in connection with a permanent Chief Executive Officer commencing employment with the Company. Mr. Belluzzo did not receive any compensation under the Company's non-employee director compensation program while he served as Interim President and Chief Executive Officer. The Board concluded that the terms of the Belluzzo Agreement were necessary and reasonable due to Mr. Belluzzo's unique ability to step into the role of Interim President and CEO given that he had over a decade of experience as a member of the Board. In recognition of Mr. Belluzzo's leadership and performance and the Company's performance during his tenure as Interim President and CEO, including exceeding performance goals for two consecutive quarters, the Board approved a discretionary bonus of $100,000.

The terms of the Waechter Agreement, the Jackson Agreement and the Belluzzo Agreement were individually negotiated based on the unique circumstances under which they provided services to the Company. As such, they were outside the Committee's regular process for setting executive compensation, which is described in greater detail below.

## Implementing Our Philosophy – Determining Executive Compensation

When setting NEO compensation, the Committee considers both the Company's overall performance and each NEO's performance against his individual objectives. The Committee also engages an independent third-party consultant, as described below, to compare proposed NEO compensation against a group of the Company's peers. This comparative data helps ensure that each element of executive compensation, as well as total compensation, is competitive and meets the Company's goal of attracting, motivating and retaining the talent required to achieve the Company's business objectives and drive stockholder value.

### Considerations in Determining NEO Compensation

The Committee considers a comprehensive set of factors when determining NEO Compensation. Some of the key considerations include:

- The individual executive's performance, based on assessments of his or her contributions to the Company's overall performance, ability to lead his or her business unit or function, to work as part of a team and to reflect the Company's core values;
- Internal parity between executives based on the NEO's duties, responsibilities and contributions to the Company;
- Each individual executive's skills, experience, qualifications and marketability;
- The Company's performance against financial goals and objectives established by the Committee and the Board;
- The Company's performance relative to industry competitors and its peer group;
- The positioning of each executive's compensation in a ranking of Peer Group compensation data; and
- The compensation practices of the Company's peer group.

### Assessing an Executive's Performance

The CEO periodically updates the Committee of his assessment of each executive officer's performance to ensure that compensation decisions are aligned with individual performance. The CEO bases this evaluation on his personal knowledge of each executive officer's performance, actual results against specific objectives and feedback provided by others within and outside of the Company. In addition, the members of the Committee have periodic interactions with each NEO during the year that allow them to make independent assessments of the NEO's performance. NEOs are not present for, nor do they participate in, Committee or Board discussions or approvals regarding their own compensation. The Committee ultimately is responsible for the final determination of all compensation for NEOs other than the CEO, whose compensation is determined by the full Board.

The CEO's performance is reviewed periodically by the Committee and the independent members of the full Board using performance criteria developed by the Committee and approved by the full Board's independent directors. In assessing CEO performance, the Committee and independent members of the Board review Company business, operational and financial performance against specific objectives and take into account other factors that may be included in the CEO's individual objectives as well as any feedback received from the CEO's direct reports and other employees. The Committee also engages in discussions with the CEO regarding his performance against objectives set by the Board. The Committee recommends all elements of compensation for the CEO to the independent members of the Board for review, consideration and approval.

### The Role of Compensation Consultants and Peer Group Data

To assist the Committee in its review of executive compensation, the Company's Human Resources Department and the Committee's primary external compensation consultant, Compensia, Inc. ("Compensia"), provide compensation data from companies that the Committee selects as a "peer group" of technology companies for executive compensation analysis purposes, as well as a broader cut of market data based on Radford survey data. The Committee also periodically sought input from Compensia on a range of external market factors, including evolving compensation trends, the selection of appropriate peer group companies and market survey data. In fiscal year 2016, the Committee assessed the independence of Compensia as required by SEC and NASDAQ rules and concluded that no conflict of interest exists that would prevent Compensia from serving as an independent consultant to the Committee.

The peer group used by the Committee when considering executive compensation for fiscal year 2016 was determined based upon annual revenue (with peer companies ranging from approximately 42% to 188% of the Company's annual revenue and the median annual revenue equal to approximately 75% of the Company's annual revenue) market capitalization, industry and geography.

The list of peer group companies (the "Peer Group") the Committee considered when setting executive compensation for fiscal year 2016 was:

> ADTRAN, Inc., Arista Networks, Inc., Commvault Systems, Inc., F5 Networks, Inc., Fortinet, Inc., Harmonic Inc., Ixia, National Instruments Corporation, NetGear, Inc., Palo Alto Networks, Inc., Polycom, Inc., QLogic Corporation, Splunk Inc., Teradyne, Inc., Ubiquity Networks, Inc., Verisign, Inc. and ViaSat, Inc.

The Committee uses the Peer Group market data provided by Compensia and others to ensure that the compensation provided to the Company's NEOs remains competitive. For fiscal year 2016, the Committee did not set targets for any individual element of executive compensation relative to the market data, but did review proposed compensation levels against the market data to ensure that compensation was competitive.

## Considerations in Setting Fiscal Year 2016 Compensation

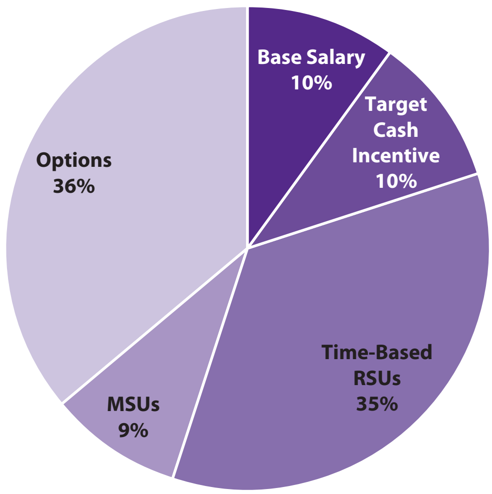
In determining appropriate levels of executive compensation for fiscal year 2016, the Committee considered the Company's financial performance relative to the Peer Group, as well as performance against the Company's competition and strategic and operational objectives. The Committee recognized that the Company had achieved a significant milestone in spinning off the Lumentum business but the service enablement market did not perform as expected. Given the exceptional changes to the Company's business and management that were anticipated for fiscal year 2016, the Committee also strongly considered the importance of retaining key employees who were critical to the Company's plans to unlock stockholder value and transform the remaining NSE and OSP businesses.

# Fiscal Year 2016 Executive Compensation

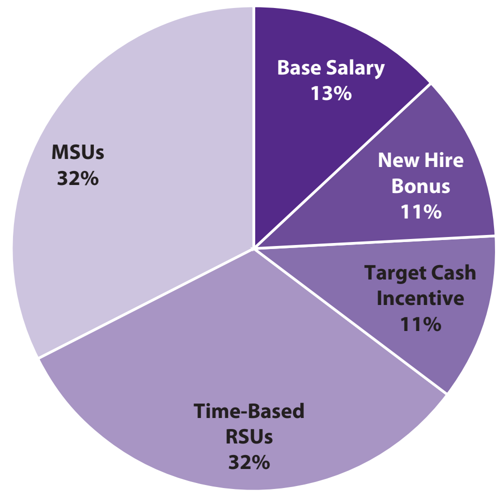
The fundamental policy of the Committee is to provide NEOs competitive compensation opportunities based upon the financial and operational performance of the Company and its individual operating segments, each NEO's specific current and anticipated future contributions to the financial and operational success of the Company and personal performance relative to business performance objectives. It is the Committee's objective to have a significant portion of each NEO's compensation contingent upon the Company's performance, and as applicable, individual operating segment performance, as well as upon his or her own individual contributions to the achievement of business objectives. As an executive officer's level of responsibility increases, a greater proportion of such executive's total target compensation is comprised of cash incentive bonuses and equity compensation vehicles in order to align total target compensation with the actual achievement of Company and operating segment business and financial performance objectives. As illustrated in the chart below, approximately 50% of the target total direct compensation to our NEOs was performance-based.[4]

4 Percentages may not equal 100% due to rounding.

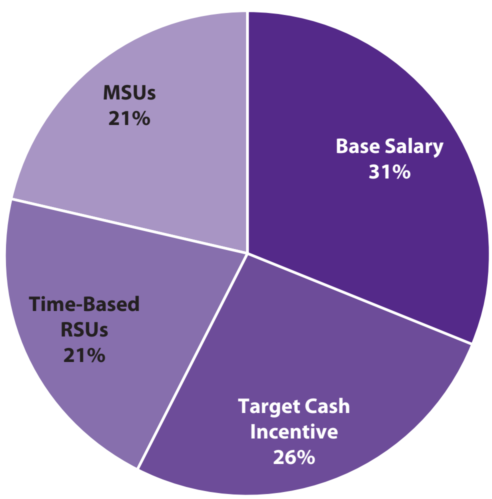
**Khaykin**



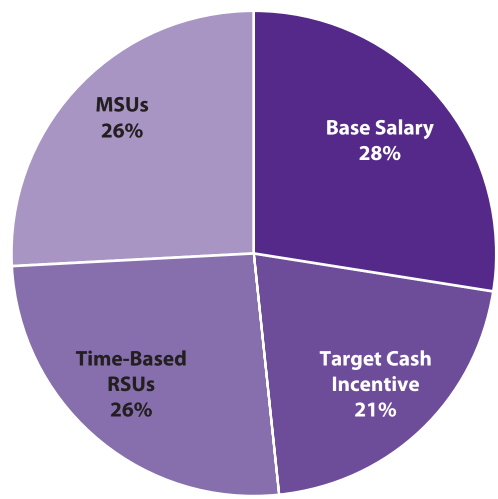

**Maletira**



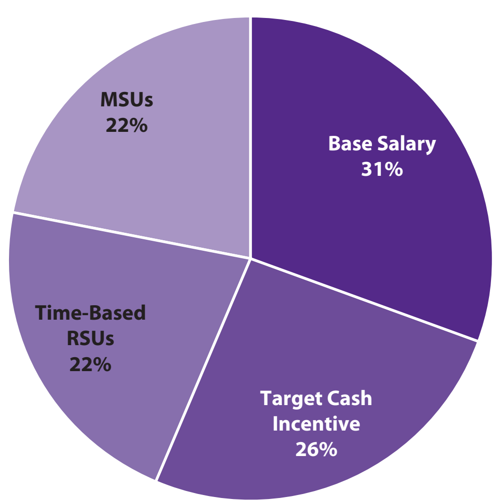

**Spradley**




**Joannou**




**Scrivanich**



The individual components of each NEO's compensation package for fiscal year 2016 are summarized below.

***Base Salary.*** The base salary for each NEO is determined on the basis of the following factors: scope of responsibilities, experience, skill level, past performance and expected future contribution, and salary levels in effect for comparable positions at our peer group companies. Salary levels generally are considered annually as part of the Company's performance review process as well as upon a promotion or other change of position or level of responsibility. Merit based increases to salaries of the Company's NEOs other than the CEO are recommended by the CEO to the Committee, and all increases are based on the Committee's (and in the case of the CEO, the independent directors of the full Board) review and assessment of the individual's performance, skill set and competitive market factors.

The Committee reviewed the base salaries of Ms. Spradley and Messrs. Joannou and Scrivanich in August and November 2015, and approved base salary increases for the remainder of fiscal year 2016 for each, effective October 2015. The increase to Ms. Spradley's base salary reflected continued growth in her role, including her promotion in July 2015 from Senior Vice President to Executive Vice President. The increase to Mr. Joannou's base salary reflected his responsibility for a substantially larger portion of the Company's sales revenue following the spin-off. Additionally, it was determined that the increase to Mr. Scrivanich's base salary was required to keep his cash compensation competitive with market salaries for his position.

Mr. Khaykin and Mr. Maletira were hired in February 2016 and September 2015, respectively and their base salaries were set based on the negotiated terms of their employment agreements.

| Named Executive Officer | FY 2015 Base Salary | FY 2016 Base Salary | Percentage Increase |
|---|---|---|---|
| Oleg Khaykin | n/a | $750,000 | n/a |
| Amar Maletira | n/a | $425,000 | n/a |
| Susan Spradley | $464,000 | $470,000 | 1.4% |
| Dion Joannou | $400,000 | $408,000 | 2.0% |
| Luke Scrivanich | $336,000 | $372,000 | 10.12% |

***Cash Incentive Compensation.*** The Company utilizes a single cash incentive program for the majority of its employees globally, including all NEOs except Mr. Joannou, referred to as the Company's Variable Pay Plan ("VPP"). Under the VPP, incentive bonuses are determined based on a quarterly performance metric, and are paid semi-annually. These awards are designed to incentivize and reward short-term performance and achievement of the Company's operating income targets.

The performance criteria for the VPP were modified by the Board in November 2015 to better align the program with the goals of the Company's individual business segments. During fiscal year 2016, the Company maintained separate performance targets and payout metrics for employees of the Company's (i) Optical Security and Performance Products business segment (the "OSP VPP") and (ii) Network Enablement and Service Enablement business segments, as well as for shared services employees (the "NSE VPP").

Each participant in the VPP is assigned a target incentive opportunity ("TIO") equal to a percentage of his or her base salary, based upon the individual's grade level within the Company. Each NEO's TIO is annually reviewed by the Committee and compared against the Peer Group data. For fiscal year 2015 and fiscal year 2016 the assigned TIOs for each of the NEOs were as follows:

| Named Executive Officer | FY 2015 TIO | FY 2016 TIO |
|---|---|---|
| Oleg Khaykin | n/a | 100% |
| Amar Maletira | n/a | 85% |
| Susan Spradley | 60% | 85% |
| Dion Joannou | 60% | n/a |
| Luke Scrivanich | 85% | 85% |

Mr. Khaykin joined the company in February 2016 and therefore did not participate in the VPP for the first half of fiscal year 2016. During the second half of fiscal year 2016, pursuant to the terms of his employment agreement, Mr. Khaykin's target bonus was guaranteed to be not less than 100% of his actual base salary earned during the period. His actual bonus had the potential to be increased up to 150% of the target to the extent that the Company's actual operating income exceeded 100% of the target operating income as set forth in the Company's Annual Operating Plan. Mr. Khaykin received 100% of his target bonus for the second half of fiscal year 2016, as the Company did not exceed its operating income target.

Mr. Maletira was eligible to participate in both the OSP VPP and NSE VPP, with 80% of his incentive calculated under the NSE VPP and 20% calculated under the OSP VPP. Ms. Spradley participated exclusively in the NSE VPP and Mr. Scrivanich participated exclusively in the OSP VPP.

During fiscal year 2016, Mr. Joannou did not participate in the Company's VPP. His cash incentive compensation was determined based on an individual Sales Incentive Plan ("SIP"). Pursuant to the SIP, Mr. Joannou's target incentive compensation was set at $300,000 ("Target Bonus") which was tied to the achievement of an NSE bookings target.

The Target Bonus amount for Mr. Joannou was determined on a sliding scale, with a cap at 200%:

| NSE Bookings as a % of Target | % of Bookings Bonus Received |
|---|---|
| 0 – 70% | up to 40% |
| >70 - 100% | up to 100% |
| >100 - 120% | up to 200% |

No payment was made under the NSE VPP unless NSE exceeded the operating income target under the annual operating plan ("AOP") for the NSE business, and at such point 50% of the amount by which the NSE business exceeded the target was contributed to the NSE VPP pool. Based on the size of the pool, participating employees received a percentage of their TIO that increased from 0% to 200% of TIO. For employees at the level of Director and above, no payout occurred until the NSE Operating Income was at or above 110% of AOP.

The actual incentive payments under the NSE VPP may be adjusted lower or higher by up to 25% based upon the discretion of the CEO. No CEO discretion was applied during fiscal year 2016.

No payments were made under the OSP VPP until OSP exceeded 75% of the operating income target under the AOP for the OSP business. The percentage of a participating employee's TIO was determined on a sliding scale, with a cap at 200% of TIO.[5]

| OSP Operating Income as a % of Target | % of TIO |
|---|---|
| 0 – 75% | 0% |
| >75 - 100% | up to 100% |
| >100 - 125% | up to 200% |

Final payments for the Company's chief executive officer, including any adjustments that would affect the chief executive officer, must be approved by the independent members of the Board. Final payments, including any adjustments that would affect the other NEOs, must be approved by the Committee.

Actual incentive payments awarded to our NEOs in fiscal year 2016 are indicated in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table.

The actual semi-annual VPP payment to each participant thus was calculated based upon the following formula (excluding CEO and Board discretion):

Semi-Annual Eligible Base Pay Earnings (for the employee) X TIO % X Achievement %

Actual achievement for the Company for each fiscal quarter 2016 was as follows:

| | H1 FY16 VPP Achievement | | H2 FY16 VPP Achievement | |
|---|---|---|---|---|
| Participating Segments | NSE | OSP | NSE | OSP |
| Senior Manager & below | 69% | 200% | 0% | 200% |
| Director & above | 69% | 200% | 0% | 200% |

5 The methods for determination of the actual VPP are recommended by management and reviewed and approved by the Committee (and the independent members of the Board relative to the CEO's participation in the VPP). The operating income and bookings targets utilized for purposes of determining payments under the VPP and SIP, reflect the actual financial and business performance objectives, projections and estimates approved by the Board and used by management and the Board for purposes of annual financial and business planning and analysis. As such, the targets reflects the Company's confidential and commercially sensitive analysis, expectations and objectives for its financial, operating and overall business performance, taking into consideration then current forecasted economic conditions, the outlook for the industry and the Company's businesses, technology and new product development, and strategic objectives intended to drive growth in long-term stockholder value, among other factors. Due to the confidential and commercially sensitive nature of these analyses, expectations and objectives and elements, their specific disclosure would result in competitive harm to the Company. It is for this reason that they are not disclosed. The use of financial metrics and defined operating objectives for the establishment of the Company's incentive bonus performance criteria is intended to set challenging goals and is designed to ensure that all participants, including our NEOs, are focused on operating the Company in a disciplined manner in accordance with the Committee's and Board's compensation objectives discussed above.

***Long-Term Incentive Compensation.*** Long-term incentives are provided through time-based restricted stock units ("RSUs') and market-based restricted stock units ("MSUs"), which are described in detail below. The Committee believes that stock-based compensation aligns the interests of employees with long-term stockholder value creation, providing each NEO with an incentive to manage the Company from the perspective of an owner. The Committee also believes stock-based compensation provides the Company with an important long-term retention tool in a highly competitive market for executive talent. The Committee sets equity grant levels to executive officers based on a variety of factors, including the individual performance of the executive officer, an assessment of the value of the individual's current and anticipated future services to the Company, relative business criticality of the position held, the awards given to other executives and the desire to keep the Company's overall compensation competitive.

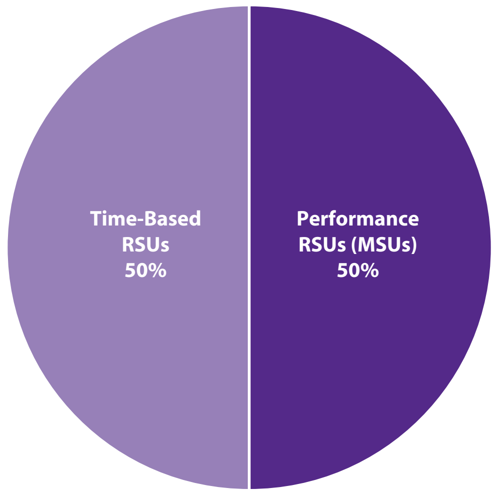
The number of shares of Common Stock subject to each grant is set at a level intended to create a meaningful opportunity for stock ownership and resulting compensation opportunity based on the executive officer's current position with the Company, the average size and potential returns of comparable awards made to executive officers in similar positions within the industry and the Peer Group, the executive officer's potential for increased responsibility and promotion over the grant term and the executive officer's personal performance in recent periods. The Committee also takes into account the value of vested and unvested equity incentives held by the executive officer in order to maintain an appropriate level of equity incentives for that executive officer. Additionally, the Committee generally grants equity awards to executive officers upon commencement of their employment with the Company or their promotion, with the level of award based on factors similar to those considered in connection with awards to existing executive officers. Finally, the Committee considers the number of shares of Common Stock which would be subject to proposed equity incentive awards to individual NEOs for consistency with the Committee's objective to limit actual net dilution attributable to equity awards to all Company employees to at or below a long-term average of less than 3% per annum.

In order to ensure equity compensation awards are aligned with the Committee's commitment to pay-for-performance, it is the Committee's practice that:

- at least 50% of the target number of shares of all such equity awards to the Company's NEOs are market-based and are earned or otherwise vest based on the achievement of performance targets; and
- criteria applicable to such market-based equity awards are disclosed in the proxy statement for each applicable fiscal year.

With the exception of Mr. Khaykin's new hire grants, all equity compensation awards issued to the Company's NEOs in fiscal year 2016 complied with this practice which is illustrated below.

**Equity Compensation***




* Based on target number of shares granted.

Since August 2011, we have granted market-based RSUs, also known as market stock units ("MSUs"), for executive officers. The Board believed that MSUs provide an accurate measurement of the Company's relative performance and support the Company's pay-for-performance philosophy. When granting MSUs, the Committee assigns a target award for each grant. MSUs generally vest over three years, and the number of shares actually earned on each vesting date is determined by comparing the Company's total stockholder return ("TSR") for the relevant period against the TSR of the component companies of the NASDAQ Telecom Index (the "Index") on a straight-line scale from 0% to 150%. The vesting criteria for the fiscal year 2016 MSUs is described in the following table.[6]

| Relative Performance | Percent of Target Award Vesting |
|---|---|
| Company TSR 0-25th percentile | 0% |
| Company TSR at 25th – 55th percentile | 0% - 100% |
| Company TSR at 55th – 100th percentile | 100% - 150% |

TSR is initially calculated for a baseline period, which for grants made in fiscal year 2016, was August 1, 2015 through September 15, 2015 (the "Initial Measurement Period"). Vesting is then determined by comparing the TSR during each subsequent August 1 through September 15 of each year during the vesting period (the "Measurement Period") against the Initial Measurement Period.[7 8]

Ms. Spradley and Messrs. Joannou and Scrivanich were awarded RSUs and MSUs in August 2015 as an element of the Company's fiscal year 2016 equity award and review process. Messrs. Maletira and Khaykin received RSUs and MSUs in September 2015 and February 2016, respectively, in connection with each commencing employment. The 2015 Time-Based Awards granted to Ms. Spradley and Messrs. Joannou and Scrivanich were subject to a vesting schedule providing that one-third of the award will vest on the first anniversary of the grant date, with the remaining two-thirds of the award vesting in eight equal quarterly installments thereafter, subject to continued employment with the Company.

6 When evaluating each NEO's performance-based target in comparison to the relevant market data, the Committee assumes for comparison purposes that MSUs will vest at 100% of the MSU target. Actual MSU grant awards are made at the 150% achievement level to ensure a sufficient number of shares will have been granted if the maximum TSR is achieved. However, actual vesting of the individual MSU award will range anywhere from 0% to 150%, as described above.

7 For purposes of calculating TSR, (a) dividends are assumed to have been reinvested, (b) share prices are rounded to the nearest $0.01 and dividends are rounded to the nearest $0.001, and (c) companies without a stock price history for the entire performance or averaging period are excluded.

8 The Initial Measurement Period for Mr. Khaykin's MSU award was January 29, 2016 through March 13, 2016.

## New Hire Awards for Mr. Khaykin

Pursuant to the terms of his employment agreement, Mr. Khaykin received the following equity grants upon hire, resulting in approximately 56% of his new hire grants being subject to either market performance conditions (MSUs) or stock appreciation risk (options):

- An option grant valued at $2,750,000 vesting in four equal annual installments.
- A Time-Based Award valued at $2,062,500 vesting over four equal annual installments.
- An MSU awards valued at $687,500 vesting as described above.
- A Time-Based RSU for 100,000 shares of common stock that vests 2/3 on the first anniversary of Mr. Khaykin's employment and quarterly for two quarters thereafter.

## New Hire Awards for Mr. Maletira

Pursuant to the terms of his employment agreement, Mr. Maletira received the following equity grants upon hire:

- A Time-Based Award valued at $1,050,00 vesting over four equal annual installments.
- An MSU award valued at $1,050,00 vesting over four equal annual installments.

Actual awards to NEOs are shown in the Grants of Plan-Based Awards Table.

# Perquisites and Other Personal Benefits

We believe that our executive officers should not operate under different standards than other employees. Accordingly, the Company's healthcare, insurance, and other welfare and employee benefit programs are the same for all eligible employees, including executive officers. The Company generally does not have programs for providing personal benefit perquisites to NEOs, such as defraying the cost of financial or legal advice, personal entertainment, recreational club memberships or family travel. The Company has no outstanding loans of any kind to any of its executive officers, and it expects its officers to be role models under its Code of Business Conduct, which applies equally to all employees.

Mr. Khaykin received relocation benefits of $200,000 (the "Relocation Bonus") due to the fact that he was required to move to the San Francisco Bay Area as a term of his employment agreement. The Relocation Bonus must be repaid by Mr. Khaykin if he terminates his employment other than for Good Reason (as defined in his employment agreement) or does not relocate within 18 months of his hire date. Additionally, if and when he sells his prior residence the Company has agreed to reimburse up to 6% of the sales commission paid by Mr. Khaykin.

Mr. Maletira received a new hire bonus of $370,000, to induce Mr. Maletira to join the Company prior to equity vesting and the payment of his annual cash bonus at his previous employer. The new hire bonus was repayable to the Company on a pro-rated basis if he voluntarily terminated his employment within 12 months of his start date.

# Compensation Recovery Policy

The Committee adopted the "Viavi Compensation Clawback Policy" (the "Policy") in February 2010. The Policy applies to cash incentive payments and equity compensation awards provided to Section 16 officers and directors under any applicable Company incentive plan. In the event of fraud or intentional misconduct of Section 16 officers or directors, the Committee may seek:

- repayment of any cash incentive payment,
- cancellation of unvested or unexercised equity incentive awards, and
- repayment of any compensation earned on previously exercised equity incentive awards,

where such payments, equity incentive awards and/or compensation earned on previously exercised equity incentive awards was predicated on results that were augmented by such fraud or intentional misconduct ("Excess Compensation"), whether or not such activity resulted in a financial restatement. The Committee will have sole discretion under the Policy, consistent with any applicable statutory requirements, to seek reimbursement of Excess Compensation.

Further, following a restatement of the Company's financial statements, the Company will recover any compensation received by the Chief Executive Officer and Chief Financial Officer that is required to be recovered by Section 304 of the Sarbanes-Oxley Act of 2002.

For purposes of the Policy, Excess Compensation will be measured as the positive difference, if any, between the compensation earned by an Executive Officer and the compensation that would have been earned by the Executive Officer had the fraud or misconduct not occurred.

## Executive Stock Ownership Policy

The Committee recommended and the full Board approved formal stock ownership requirements for non-employee directors and executive officers of the Company in fiscal year 2005 and amended this policy in August 2010 and May 2016. Under the policy, each non-employee director of the Company was required to have a minimum equity interest in the Company's stock at least equal to three times that non-employee director's annual cash retainer by the fifth anniversary of his or her first election to the Board. Likewise, each executive officer of the Company (except for the CEO) was required to have a minimum equity interest in the Company's stock at least equal to that executive officer's annual base salary by the fifth anniversary of his or her hire date (or, if later, promotion to executive officer), and the CEO was required to have a minimum equity interest in the Company's stock at least equal to three times the CEO's then current annual base salary by the fifth anniversary of his or her promotion date. The shares that count towards this Company policy include stock owned outright and any stock options exercisable within 60 days of the valuation date. The equity incentive awards granted in fiscal year 2016 to each of the current NEOs are listed in the Outstanding Equity At Fiscal Year End Table. Each of the non-employee directors and executive officers of the Company were in compliance with this policy during fiscal year 2016.

| | **Ownership Requirement** | **Deadline for Compliance** |
|---|---|---|
| Non-Employee Directors | 3x annual cash retainer | 5th anniversary of election to the Board |
| Chief Executive Officer | 3x annual base salary | 5th anniversary of hire or promotion date |
| Executive Officers (excluding CEO) | 1x annual base salary | 5th anniversary of hire or promotion date |

Both hedging and pledging of Company securities are prohibited by the Company's Insider Trading Policy.

## Equity Grant Practices

In fiscal year 2012, the Committee transitioned from a policy of granting both RSUs and stock options to generally granting only RSUs. The Company's policy is that any stock option awards made to our NEOs, as well as all other Company employees, have an exercise price equal to the fair market value of our common stock on the date of grant. Fair market value is defined under our equity compensation plans as the closing market price of one share of our common stock on the NASDAQ Stock Market on the date of grant.

The Committee generally makes grants, which currently include a mix of RSUs and MSUs as described above, to our NEOs and other senior management on a once-a-fiscal year basis, but the Committee retains the discretion to make additional awards to NEOs at other times in connection with the initial hiring of a new officer, for retention, promotion, or otherwise. New hire equity incentive awards are generally granted on the 15th day of the month immediately following the first day of employment of such new employee.

The Company does not have any program, plan or practice to time equity compensation grants to its executives in coordination with the release of material nonpublic information. The Company has not timed, nor does it plan to time, the release of material nonpublic information for the purpose of affecting the value of executive compensation, nor are equity compensation grants timed with regard to current share price or factors which may affect future share price.

## Tax Considerations

The Committee endeavors to maximize deductibility of compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") to the extent practicable while maintaining a competitive, performance-based compensation program. Based on the amount of deductions the Company can take each year, the actual impact of the loss of deduction for compensation paid to any NEO over the $1 million limitation is extremely small and has a de minimus impact on the Company's overall tax position. For the foregoing reasons, the Committee, while considering tax deductibility as one of the factors in determining compensation, will not limit compensation to those levels or types of compensation that will be deductible. The Committee will, of course, consider alternative forms of compensation that, consistent with its compensation goals, preserve deductibility.

The Company's 2003 Equity Incentive Plan (the "2003 Plan") is structured such that compensation deemed paid to an executive officer when he or she exercises an outstanding option under the 2003 Plan, with an exercise price equal to the fair market value of the option shares on the grant date, will qualify as performance-based compensation which will not be subject to the $1 million limitation. In addition, other stock based awards issued under the 2003 Plan may be exempt from the $1 million limitation if such awards are subject to performance criteria and administered in accordance with Section 162(m) of the Code. The Company has discretion to issue other stock based awards which are intended to be exempt from the $1 million limitation as well as other stock based awards that are not intended to be exempt from the $1 million limitation.

## Payments Upon a Termination or Change of Control

In October 2015, the Committee adopted an Executive Severance and Retention Plan (the "Retention Plan"). The Retention Plan provides for severance and retention benefits to certain executives at the level of vice president and above, including the Company's NEOs. In the event of a participant's Involuntary Termination (as defined in the Retention Plan) and dependent upon a participant's position and when the Involuntary Termination occurs, the participant will generally be entitled to the following severance benefits:

| Position | Involuntary Termination Occurs Other than During Retention Period | Involuntary Termination Occurs During Retention Period* |
|---|---|---|
| Senior Vice President or above | • Within Two Years From Date of Appointment to SVP: A lump sum cash payment equal to 12 months of salary at the time of termination<br>• After Two Years From Date of Appointment to SVP: A lump sum cash payment equal to 18 months of salary at the time of termination | • A lump sum cash payment equal to 18 months of salary at the time of termination<br>• 18 months acceleration of time-based RSUs<br>• Remain eligible for receipt of performance based equity awards based on a revised post-termination performance period as set forth in the Retention Plan |
| Vice President | • A lump sum cash payment equal to 6 months of salary at the time of termination | • A lump sum cash payment equal to 12 months of salary at the time of termination<br>• 12 months acceleration of time-based RSUs<br>• Remain eligible for receipt of performance based equity awards based on a revised post-termination performance period as set forth in the Retention Plan |

* Retention Period means the 12-month period commencing on the date of the hiring of a permanent Chief Executive Officer (i.e. February 2, 2016 to February 3, 2017).

In December 2015, the Committee adopted a Change of Control Benefits Plan (the "Change of Control Plan"), which superseded its prior plans. Pursuant to the Change of Control Plan, eligible executives, including the NEOs (except for the CEO), will receive cash payments and accelerated vesting of options and other securities in the event of a qualifying termination within 12 months after a change of control of the Company or, in certain cases, a spin-off or sale of the Company's NSE or OSP operating segments. If the eligible executive has received an MSU award, the vesting will accelerate at 100% of the target amount of the award.

The Committee believes these agreements are beneficial to our stockholders because they minimize the uncertainty presented to our valuable workforce following the spin-off and in the case of a change of control.

On August 13, 2015, the Company entered into a Separation Agreement and General Release with Mr. Waechter. Additionally, the Company entered into Separation Agreement with Mr. Jackson that triggered benefits under the Company's previous Change of Control Benefits Plan.

See "Potential Payments Made Upon Termination or Change of Control" below for a more complete summary of the terms of the Change of Control Benefits Plan, and the Separation Agreements with Messrs. Waechter and Jackson, including the amounts paid in connection with their termination and estimates of the compensation that would have been payable to the remaining NEOs had they been triggered on July 2, 2016, the final day of fiscal year 2016.

# COMPENSATION COMMITTEE REPORT

*The information contained in the following report shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, except to the extent that the Company specifically requests that the information be treated as soliciting material or incorporates it by reference into a document filed under the Securities Act or the Exchange Act. The information will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.*

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Compensation Committee

Keith Barnes, Chair
Timothy Campos
Richard Belluzzo

# SUMMARY COMPENSATION TABLE

The following table summarizes the total compensation of our chief executive officer, chief financial officer, and the three other most highly-compensated executive officers (collectively, the "NEOs") in fiscal years 2016, 2015 and 2014. For fiscal year 2016, our NEOs also include our former chief executive officer, chief financial officer and interim chief executive officer, but who were not serving in those positions at the end of the fiscal year.

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($) (1) | Option Awards ($) (1) | Non-Equity Incentive Plan Compensation ($) (2) | All Other Compensation ($) (3) | Total ($) |
|---|---|---|---|---|---|---|---|---|
| **Oleg Khaykin**<br>President and Chief Executive Officer | 2016 | 282,692 | 0 | 3,576,115 | 2,750,707 | 297,115 | 200,000 | 7,106,629 |
| **Amar Maletira**<br>Executive Vice President and Chief Financial Officer | 2016 | 331,827 | 370,000 | 2,894,420 | 0 | 175,423 | 0 | 3,771,670 |
| **Susan Spradley**<br>Executive Vice President and General Manager Product Line Management & Design, Network Enablement ("NE") and Service Enablement ("SE") | 2016 | 458,961 | 0 | 941,595 | 0 | 147,110 | 0 | 1,547,666 |
| **Dion Joannou**<br>Senior Vice President, Global Sales, NE and SE | 2016 | 397,692 | 0 | 936,139 | 0 | 239,201 | 0 | 1,573,032 |
| | 2015 | 184,615 | 0 | 1,173,263 | 0 | 65,077 | 0 | 1,422,955 |
| **Luke Scrivanich**<br>Senior Vice President & General Manager, Optical Security and Performance Products ("OSP") | 2016 | 353,769 | 0 | 853,032 | 112,355 | 635,539 | 4,000 | 1,958,695 |
| | 2015 | 331,077 | 0 | 597,500 | 0 | 141,513 | 4,000 | 1,074,090 |
| | 2014 | 313,846 | 0 | 862,600 | 0 | 98,888 | 4,000 | 1,279,334 |
| **Thomas Waechter** (4)<br>Former President and Chief Executive Officer | 2016 | 184,615 | 0 | 1,555,708 | 762,541 | 0 | 3,112,093 | 5,214,957 |
| | 2015 | 800,000 | 0 | 3,585,000 | 0 | 463,777 | 4,000 | 4,852,777 |
| | 2014 | 800,000 | 0 | 3,594,168 | 0 | 415,177 | 4,000 | 4,813,345 |
| **Rex Jackson** (5)<br>Former Executive Vice President and Chief Financial Officer | 2016 | 119,105 | 0 | 340,098 | 74,784 | 0 | 925,291 | 1,459,278 |
| | 2015 | 450,662 | 0 | 1,356,498 | 0 | 157,422 | 4,000 | 1,968,695 |
| | 2014 | 433,846 | 0 | 1,380,434 | 0 | 124,399 | 4,000 | 1,942,679 |
| **Richard Belluzzo** (6)<br>Interim Chief Executive Officer | 2016 | 410,501 | 410,000 | 614,589 | 596 | 0 | 0 | 1,435,686 |

(1) Amounts shown do not reflect compensation actually received by the NEO. Instead, the amounts shown are the grant date fair value in the period presented as determined pursuant to stock-based compensation accounting rule FASB ASC Topic 718, excluding the effect of estimated forfeitures. The assumptions used to calculate these amounts are set forth under Note 15 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for fiscal year 2016 filed with the SEC on August 30, 2016.

- Stock Awards for Ms. Spradley include the incremental fair value attributable to stock awards that were modified in fiscal year 2016 in connection with the separation of the Lumentum business. These modifications resulted in additional stock-based compensation expense of $339,157.
- Stock Awards for Mr. Joannou include the incremental fair value attributable to stock awards that were modified in fiscal year 2016 in connection with the separation of the Lumentum business. These modifications resulted in additional stock-based compensation expense of $199,038.
- Stock Awards and Option Awards for Mr. Scrivanich include the incremental fair value attributable to stock awards and option awards that were modified in fiscal year 2016 in connection with the separation of the Lumentum business. These modifications resulted in additional stock-based compensation expense of $215,157 and $112,355 for stock and option awards, respectively.
- Stock Awards and Option Awards for Mr. Waechter include the incremental fair value attributable to stock awards and option awards that were modified in fiscal year 2016 in connection with the separation of the Lumentum business as well as the extension of the exercise period for Mr. Waechter's outstanding option awards pursuant to the terms of his Separation Agreement. These modifications resulted in additional stock-based compensation expense of $1,155,708 and $762,541 for stock and option awards, respectively. No new grants were awarded to Mr. Jackson during fiscal year 2016.
- Stock Awards and Option Awards for Mr. Jackson include the incremental fair value attributable to stock awards and option awards that were modified in fiscal year 2016 in connection with the separation of the Lumentum business as well as the extension of the exercise period for Mr. Jackson's outstanding option awards pursuant to the terms of his Separation Agreement. These modifications resulted in additional stock-based compensation expense of $340,098 and $74,784 for stock and option awards, respectively. No new grants were awarded to Mr. Jackson during fiscal year 2016.
- Stock Awards and Option Awards for Mr. Belluzzo include the incremental fair value attributable to stock awards and option awards that were modified in fiscal year 2016 in connection with the separation of the Lumentum business. These modifications resulted in additional stock-based compensation expense of $45,639 and $596 for stock and option awards, respectively.

(2) All non-equity incentive plan compensation was paid pursuant to the Variable Pay Plan, except fiscal year 2016 payments to Mr. Joannou, which were made pursuant to a Sales Incentive Plan.

(3) Amounts include:
- Mr. Khaykin: a $200,000 relocation bonus.
- Mr. Waechter: (i) $2,680,000 severance payment paid pursuant to the Waechter Agreement; (ii) $11,612 COBRA benefit paid pursuant to the Waechter Agreement and (iii) $420,481 in consulting fees paid after termination pursuant to the Consulting Agreement between Mr. Waechter and the Company.
- Mr. Jackson: (i) $910,800 severance payment paid pursuant to the Separation Agreement and (ii) $14,491 COBRA benefit paid pursuant to the Jackson Agreement.
- All others: $4,000 401(k) matching contributions by the Company.

(4) On August 11, 2015, Mr. Waechter stepped down from his position as President and Chief Executive Officer.

(5) On September 30, 2015, Mr. Jackson stepped down from his position as Executive Vice President and Chief Financial Officer.

(6) Mr. Belluzzo served as Interim Chief Executive Officer from August 11, 2016 to February 2, 2016. Amounts for Mr. Belluzzo include compensation earned in his role as Chairman of the Board of Directors. Mr. Belluzzo did not receive any compensation for serving as a director of the Company while he was Interim Chief Executive Officer. Director compensation is separately reported in the Director Compensation Table above.

# Employment Contracts, Termination of Employment and Change in Control Arrangements

## Khaykin Agreement

On January 28, 2016, the Company entered into an Employment Agreement with Mr. Khaykin (the "Khaykin Agreement") pursuant to which Mr. Khaykin's starting base salary was set at $750,000. Mr. Khaykin was also eligible to participate in the Company's Variable Pay Plan. For the second half of the Company's fiscal year 2016, Mr. Khaykin's target bonus was guaranteed at not less than 100% of his actual base salary earned during the period. His actual bonus was eligible to be increased up to 150% the target determined on a proportional basis to the extent that the Company's actual operating income exceeded 100% of the target operating income as set forth in the Company's Annual Operating Plan. For the Company's fiscal year 2017, Mr. Khaykin's target bonus will equal 100% of his base salary. If he achieves certain revenue and operating income objectives, Mr. Khaykin's actual bonus will range from 100% of target to 150% of target. Mr. Khaykin received a $200,000 lump-sum relocation benefit as well as a relocation bonus equal to the amount of the sales commission on his current residence, not to exceed 6%, if and when sold. If Mr. Khaykin terminates his employment other than for Good Reason (as defined in the Khaykin Agreement) within 12 months, or does not relocate to the San Francisco Bay area within 18 months, he will be responsible for repaying the $200,000 relocation benefit.

For a complete summary of the termination and change of control provisions of the Khaykin Agreement please see the section titled "Potential Payments Made Upon Termination or Change of Control" below.

## Maletira Agreement

On August 6, 2015, the Company extended an offer letter to Mr. Maletira (the "Maletira Agreement") pursuant to which Mr. Maletira's starting base salary was set at $425,000 and was eligible to participate in the Company's Variable Pay Plan with a target incentive opportunity of 85% of his base salary. In addition, Mr. Maletira received a $370,000 signing bonus.

## Waechter Agreements

On August 13, 2015, the Company entered into a Separation Agreement and General Release with Thomas Waechter (the "Waechter Agreement"). Pursuant to the Waechter Agreement, Mr. Waechter received a lump sum cash payment of $2,680,000, eighteen months of COBRA payments for him and his wife, and the full acceleration of vesting of time-based equity awards. In addition, the term during which vested options shall be able to be exercised was extended to the later of three years from September 18, 2015, or the expiration date of each respective award.

Mr. Waechter and the Company also agreed to an arrangement whereby Mr. Waechter will provide consulting services to the Company for a one-year period through September 18, 2016, in exchange for an annual fee of $533,000, payable in equal monthly installments with a completion bonus of $267,000 to be paid at the end of the term of the consulting arrangement, subject to certain conditions.

## Jackson Agreement

On February 24, 2015, the Company entered into a Separation Agreement with Rex Jackson (the "Jackson Agreement"), pursuant to which Mr. Jackson will continue to be employed by the Company until September 30, 2015. Pursuant to the Jackson Agreement, Mr. Jackson received certain severance benefits upon termination specified in the Company's 2008 Change of Control Benefits Plan. These benefits included: (i) immediate vesting of any outstanding and unvested equity awards, including performance-based restricted stock units which vested at 100% of the target amount, (ii) a lump sum cash payment equal to 2 years base salary as September 30, 2015, less applicable withholdings, and (iii) Company paid COBRA benefits for a period of up to 12 months.

## Retention Plan

A summary of the Viavi Solutions Inc. Executive Severance and Retention Plan that the Company adopted on October 14, 2015, which explains the severance payments to which Ms. Spradley, Mr. Joannou and Mr. Scrivanich are entitled under certain circumstances, can be found under the section titled "Potential Payments Made Upon Termination or Change of Control" below.

## Change of Control Plan

A summary of the 2015 Change of Control Benefits Plan that the Company adopted on December 14, 2015, which explains the termination benefits available to Mr. Maletira, Ms. Spradley, Mr. Joannou and Mr. Scrivanich can be found under the section titled "Potential Payments Made Upon Termination or Change of Control" below.

# GRANTS OF PLAN-BASED AWARDS TABLE

The following table provides information about equity and non-equity awards granted to the NEOs in fiscal year 2016:

| Name | Grant Date | Approval Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards [1] Threshold ($) | Target ($) | Maximum ($) | Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#) | Target (#) | Maximum (#) | All Other Stock Awards: Number of Shares of Stock or Units (#) | Exercise or Base Price of Option Awards ($/Sh) | Grant Date Fair Value of Stock and Option Awards ($) [2] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Oleg Khaykin [11] | 2/15/2016 | 2/9/2016 | | | | 57,773 [3] | 115,546 [3] | 173,319 [3] | | | 918,619 |
| | 2/15/2016 | 2/9/2016 | | | | | | | 1,180,257 [4] | | 2,750,707 |
| | 2/15/2016 | 2/9/2016 | | | | | | | 346,638 [5] | | 2,062,496 |
| | 2/15/2016 | 2/9/2016 | | | | | | | 100,000 [6] | | 595,000 |
| | N/A | N/A | 1,500,000 | 1,500,000 | 2,250,000 | | | | | | N/A |
| Amar Maletira | 9/15/2015 | 8/6/2015 | | | | 95,455 [3] | 190,909 [3] | 286,364 [3] | | | 1,823,420 |
| | 9/15/2015 | 8/6/2015 | | | | | | | 190,909 [5] | | 1,070,999 |
| | N/A | N/A | 0 | 361,250 | 722,250 | | | | | | N/A |
| Susan Spradley | 8/20/2015 | 8/18/2015 | | | | 21,250 [7] | 42,500 [7] | 63,750 [7] | | | 372,088 |
| | 8/20/2015 | 8/18/2015 | | | | | | | 42,500 [8] | | 230,350 |
| | N/A | N/A | 0 | 399,500 | 799,000 | | | | | | N/A |
| Dion Joannou | 8/20/2015 | 8/18/2015 | | | | 26,000 [7] | 52,000 [7] | 78,000 [7] | | | 455,261 |
| | 8/20/2015 | 8/18/2015 | | | | | | | 52,000 [8] | | 281,840 |
| | N/A | N/A | 0 | 300,000 | 600,000 | | | | | | N/A |
| Luke Scrivanich | 8/20/2015 | 8/18/2015 | | | | 22,500 [7] | 45,000 [7] | 67,500 [7] | | | 393,975 |
| | 8/20/2015 | 8/18/2015 | | | | | | | 45,000 [8] | | 243,900 |
| | N/A | N/A | 0 | 316,200 | 632,400 | | | | | | N/A |
| Richard Belluzzo | 8/19/2015 | 8/19/2015 | | | | | | | 72,333 [9] | | 400,001 |
| | 2/22/2016 | 8/18/2015 | | | | | | | 26,481 [10] | | 168,945 |
| Tom Waechter | | | | | | None | | | | | |
| Rex Jackson | | | | | | None | | | | | |

(1) These columns show the potential cash value of the payout for each NEO under the Company's Variable Pay Plan ("VPP"), or in the case of Mr. Joannou, the Sales Incentive Plan, as described in the Compensation Discussion and Analysis above. The potential payouts are performance-driven and therefore completely at risk. The amounts actually earned by each NEO in fiscal year 2016 are summarized in the Summary Compensation Table above.

(2) The amounts shown in this column are the grant date fair value in the period presented as determined pursuant to stock-based compensation accounting rule FASB ASC Topic 718, excluding the effect of estimated forfeitures. The assumptions used to calculate these amounts are set forth under Note 15 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for fiscal year 2016 filed with the SEC on August 30, 2016. The NASDAQ closing price of our Common Stock was $5.53 on August 19, 2015, $5.42 on August 20, 2015, $5.61 on September 15, 2015, $5.95 on February 12, 2016 and $6.38 on February 22, 2016.

(3) These grants are restricted stock unit awards with market conditions, which we refer to as market stock units ("MSUs"). The MSUs are performance-based stock units which will vest in four annual tranches based upon the Company's total stockholder return ("TSR") relative to the performance of the component companies of the NASDAQ Telecommunications Index over the four-year period. Details of the conditions and terms under which the MSUs will vest begin on page 32 of this Proxy Statement.

(4) Option grant that vests in four equal annual installments.

(5) Time-based RSUs that vest 1/4 of the shares on the first anniversary of the grant date and the remainder of the shares in equal annual installments for three years thereafter.

(6) Time-based RSUs that vest 2/3 on the first anniversary of Mr. Khaykin's employment and quarterly for two quarters thereafter.

(7) These grants are MSUs which vest in three annual tranches.

(8) These grants are time-based RSUs that vest 1/3 of the shares on the first anniversary of the grant date and the remainder of the shares in equal quarterly installments for two years thereafter.

(9) Time-based RSUs that vest 100% upon the earlier of one year from the grant date or the date on which a permanent CEO commenced employment.

(10) Time-based RSU that vest 100% one year from the grant date. This award was granted in connection with Mr. Belluzzo's service as a member of the Board and was pro rated since he did not receive any compensation as a member of the Board for the portion of the year during which he served as Interim CEO.

(11) All equity grants, except those awarded to Mr. Khaykin, were granted under the Company's Amended and Restated 2003 Equity Incentive Plan.

# OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

The following table provides information regarding outstanding equity awards and applicable market values at the end of fiscal year 2016.

| | Option Awards | | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price ($) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested ($) [(1)] | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) [(1)] |
| Oleg Khaykin | 0 [(2)] | 1,180,257 | $5.95 | 2/15/2024 | | | | |
| | | | | | 346,638 [(3)] | 2,291,277 | | |
| | | | | | 100,000 [(4)] | 661,000 | | |
| | | | | | | | 115,546 [(5)] | 763,759 |
| Amar Maletira | | | | | 190,909 [(6)] | 1,261,908 | | |
| | | | | | | | 190,909 [(5)] | 1,261,908 |
| Susan Spradley | | | | | 42,500 [(7)] | 280,925 | | |
| | | | | | 22,377 [(6)] | 147,912 | | |
| | | | | | 4,498 [(7)] | 29,732 | | |
| | | | | | 23,612 [(7)] | 156,075 | | |
| | | | | | | | 42,500 [(8)] | 280,925 |
| | | | | | | | 22,377 [(5)] | 147,912 |
| | | | | | | | 17,902 [(8)] | 118,332 |
| | | | | | | | 37,594 [(8)] | 248,496 |
| Dion Joannou | | | | | 52,000 [(7)] | 343,720 | | |
| | | | | | 60,417 [(6)] | 399,356 | | |
| | | | | | | | 52,000 [(8)] | 343,720 |
| | | | | | | | 60,417 [(5)] | 399,356 |

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

| | Option Awards | | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price ($) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested ($) [1] | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) [1] |
| Luke Scrivanich | 26,555 [9] | 0 | 1.99 | 2/15/2017 | | | | |
| | 39,563 [9] | 0 | 3.28 | 8/15/2017 | | | | |
| | 48,967 [9] | 0 | 5.74 | 8/15/2018 | | | | |
| | | | | | 45,000 [7] | 297,450 | | |
| | | | | | 4,498 [7] | 29,732 | | |
| | | | | | 18,738 [7] | 123,858 | | |
| | | | | | | | 45,000 [8] | 297,450 |
| | | | | | | | 17,920 [8] | 118,332 |
| | | | | | | | 29,836 [8] | 197,216 |
| Thomas Waechter | 179,020 [9] | 0 | 5.74 | 8/15/2018 | | | | |
| | 358,040 [9] | 0 | 5.74 | 8/15/2018 | | | | |
| Rex Jackson | 134,265 [9] | 0 | 9.93 | 9/30/2017 | | | | |
| | 67,132 [9] | 0 | 9.93 | 9/30/2017 | | | | |
| Richard Belluzzo | | | | | 26,481 [10] | 175,039 | | |
| | | | | | 6,312 [11] | 41,722 | | |
| | | | | | 13,482 [11] | 89,116 | | |

(1) Amounts reflecting market value of RSUs are based on the price of $6.61 per share, which was the closing price of our common stock as reported on NASDAQ on July 1, 2016.

(2) Stock option with 1/4 of the shares vesting on each of the first four anniversaries of the hire date.

(3) Time-based RSUs with 1/4 of the units vesting on each of the first four anniversaries of the hire date.

(4) Time-based RSU with 66.6% of the units vesting on the first anniversary of the hire date and 16.7% of the units vesting every three months thereafter.

(5) Market stock units ("MSUs") that vest in four annual tranches based upon the Company's total stockholder return ("TSR") relative to the performance of the component companies of the NASDAQ Telecommunications Index over the four-year period. The actual number of shares that vest range from 0% to 150% of the target amount for each vesting tranche. The number of MSUs disclosed in the table above reflects vesting at 100% of the target amount. Details of the conditions and terms under which the MSUs will vest begin on page 32 of this Proxy Statement.

(6) Time-based RSUs with 1/4 of the units vesting on each of the first four anniversaries of the grant date.

(7) Time-based RSUs with 1/3 of the units vesting on the first anniversaries of the grant date and the remainder vesting in equal quarterly installments for two years thereafter.

(8) MSUs that vest in three annual tranches based upon the Company's total stockholder return ("TSR") relative to the performance of the component companies of the NASDAQ Telecommunications Index over the three-year period. The actual number of shares that vest range from 0% to 150% of the target amount for each vesting tranche. The number of MSUs disclosed in the table above reflects vesting at 100% of the target amount. Details of the conditions and terms under which the MSUs will vest begin on page 32 of this Proxy Statement.

(9) Fully vested stock option.

(10) Time-based RSUs that vest one year after the grant date.

(11) Time-based RSUs with 1/3 of the units vesting on each of the first three anniversaries of the grant date.

# OPTION EXERCISES AND STOCK VESTED TABLE

The following Option Exercises and Stock Vested Table provides additional information about the value realized by the NEOs due to the exercise of option awards and vesting of restricted stock units during fiscal year 2016.

| | Option Awards | | Stock Awards | |
|---|---|---|---|---|
| **Name** | **Number of Shares Acquired on Exercise (#)** | **Value Realized on Exercise ($) (1)** | **Number of Shares Acquired on Vesting (#)** | **Value Realized on Vesting ($) (2)** |
| Oleg Khaykin | 0 | 0 | 0 | 0 |
| Amar Maletira | 0 | 0 | 0 | 0 |
| Susan Spradley | 0 | 0 | 126,194 | 699,074 |
| Dion Joannou | 0 | 0 | 44,789 | 226,632 |
| Luke Scrivanich | 0 | 0 | 100,295 | 620,725 |
| Tom Waechter | 0 | 0 | 635,457 | 3,506,915 |
| Rex Jackson | 0 | 0 | 255,266 | 1,389,143 |
| Richard Belluzzo (3) | 0 | 0 | 93,845 | 586,762 |

(1) Represents the amounts realized based on the difference between the market price of our Common Stock on the date of exercise and the exercise price.

(2) Represents the amounts realized based on the product of the number of units vested and the closing price of our Common Stock on NASDAQ on the vesting day (or, if the vesting day falls on a day on which our stock is not traded, the prior trading day).

(3) Includes 72,333 shares acquired upon vesting of equity awards granted in connection with service as a member of the Board with an aggregate value of $400,001.

## Potential Payments Made Upon Termination or Change of Control

The descriptions and table below reflect the amount of compensation to be paid to each of the NEOs in the event of termination of such executive's employment. The figures shown below, except the amounts for Mr. Waechter and Mr. Jackson, assume that such termination was effective as of July 2, 2016 (and therefore use the closing price of our Common Stock on NASDAQ as of July 1, 2016 for all equity-based calculations), and thus include amounts earned through such time and are estimates of the amounts which would be paid out to the executives upon their termination. The amounts for Mr. Waechter and Mr. Jackson were calculated based on the actual amounts they received in connection with their terminations. The actual amounts that would be paid for the other NEOs can only be determined at the time of such executive's separation from the Company.

### 2015 Change of Control Benefits Plan

The Company's 2015 Change of Control Benefits Plan (the "2015 Plan"), which covers all currently employed NEOs except Mr. Khaykin, provides the following benefits if a termination is without Cause or is for Good Reason (each as defined in the 2015 Plan) within the 12-month period beginning upon a Change of Control: (a) accelerated vesting of any unvested stock options and other securities or similar incentives held at the time of termination (including accelerated vesting of any performance-based awards at 100% of the target achievement level), (b) a lump sum payment equal to two years' base salary, or 18 months base salary in the case of Mr. Joannou (in each case, less applicable tax and other withholdings), and (c) a cash payment equal to 12 months of COBRA premiums for the NEO and his or her eligible dependents The same benefits are payable if the NEO is terminated due to Death or Disability during the coverage period.

## Khaykin Agreement

Pursuant to the terms of the Khaykin Agreement, if the Company terminates Mr. Khaykin's employment without Cause or he terminates his employment for Good Reason (each, as defined in the Khaykin Agreement, an "Involuntary Termination"), in addition to any accrued payments to which he is entitled, and provided that he signs a separation agreement and release of claims, Mr. Khaykin will receive the following severance benefits.

If an Involuntary Termination occurs within three months prior to, or one year after a Change of Control (as defined in the Employment Agreement), Mr. Khaykin will receive:

- If the termination date occurs on or before the second anniversary of his hire date, a lump sum payment equal to 200% of his annual base salary plus 300% of his target annual bonus.
- If the termination date occurs after the second anniversary of his hire date, a lump sum payment equal to 150% of his annual base salary plus 225% of his target annual bonus.
- Immediate vesting of all equity awards, with performance awards treated as earned at the greater of the target amount or the actual achievement attained as of the termination date.

If an Involuntary Termination occurs during a time that is not within three months before or one year after a Change of Control, or is a termination upon Death or Disability (each as defined in the Khaykin Agreement), Mr. Khaykin will receive:

- A prorated portion of the Annual Bonus for the fiscal year in which the termination date occurs, which will be determined at the end of the Company's fiscal year based on the Company's actual performance.
- An additional amount equal to the sum of (i) 150% of Mr. Khaykin's base salary at the time of termination and (ii) 150% of his target Annual Bonus.
- Immediate vesting of all equity awards to the extent that they would have otherwise vested within 18 months of the termination date, with performance awards treated as earned at the target amount.

Whether or not an Involuntary Termination occurs within one year after a Change of Control, Mr. Khaykin will also be reimbursed for 18 months the amount equal to the difference between the monthly cost of his COBRA health and dental benefits and the amount he would have been required to contribute for health and dental coverage if he remained an active employee of the Company.

## Retention Plan

On October 14, 2015, the Compensation Committee approved the Viavi Solutions Inc. Executive Severance and Retention Plan (the "Retention Plan"). The Retention Plan provides for severance and retention benefits to certain executives at the level of vice president and above, including Ms. Spradley and Messrs. Joannou and Scrivanich. If an NEO is Involuntary Terminated (as defined in the Plan), he or she will generally be entitled to the following severance benefits:

| Position | Involuntary Termination Occurs Other than During Retention Period | Involuntary Termination Occurs During Retention Period* |
|---|---|---|
| Senior Vice President | • Within Two Years From Date of Appointment to SVP: A lump sum cash payment equal to 12 months of salary at the time of termination<br>• After Two Years From Date of Appointment to SVP: A lump sum cash payment equal to 18 months of salary at the time of termination | • A lump sum cash payment equal to 18 months of salary at the time of termination<br>• 18 months acceleration of time-based RSUs<br>• Remain eligible for receipt of performance based equity awards based on a revised post-termination performance period as set forth in the Plan |
| Vice President | • A lump sum cash payment equal to 6 months of salary at the time of termination | • A lump sum cash payment equal to 12 months of salary at the time of termination<br>• 12 months acceleration of time-based RSUs<br>• Remain eligible for receipt of performance based equity awards based on a revised post-termination performance period as set forth in the Plan |

* Retention Period means the period commencing on the date of the hiring of a permanent Chief Executive Officer (February 3, 2016) and ending on the later of one year from the date of the hiring or December 31, 2016.

## Maletira Agreement

Pursuant to the terms of the Maletira Agreement, if Mr. Maletira's employment is terminated other than for Cause (as defined in the Maletira Agreement), provided that he signs a separation agreement and release of claims, he will receive:

- a severance payment equal to 18-months base salary, and
- if the termination occurs within the first 18 months of his employment, Mr. Maletira will receive accelerated vesting of his new hire equity awards, as follows:
  - 100% vesting of all Time-Based RSUs that are not vested at the date of termination; and
  - 100% vesting of all Performance RSUs at target given the Company is at a minimum 90% attainment of its Annual Operating Plan Income target on a year-to-date basis for the then-current fiscal year.

## Potential Payments Upon Termination or Change in Control

| Name | Benefit | Within 12 Months After a Change in Control | Termination Not in Connection with a Change in Control |
|---|---|---|---|
| Oleg Khaykin (1) | Salary | 3,750,000 | 2,250,000 |
| | Securities | 11,517,535 | 4,350,318 |
| | COBRA | 30,942 | 30,942 |
| Amar Maletira | Salary | 850,000 | 637,500 |
| | Securities | 2,523,817 | 1,261,908 |
| | COBRA | 21,851 | 0 |
| Susan Spradley | Salary | 940,000 | 705,000 |
| | Securities | 1,410,310 | 880,274 |
| | COBRA | 15,829 | 0 |
| Dion Joannou | Salary | 612,000 | 612,000 |
| | Securities | 1,486,153 | 505,050 |
| | COBRA | 21,851 | 0 |
| Luke Scrivanich | Salary | 744,000 | 558,000 |
| | Securities | 1,064,038 | 692,384 |
| | COBRA | 21,851 | 0 |
| Tom Waechter (2) | Salary | 2,680,000 | 2,680,000 |
| | Securities | 1,399,258 | 1,399,258 |
| | COBRA | 23,469 | 23,469 |
| Rex Jackson (2) | Salary | 910,800 | 910,800 |
| | Securities | 802,869 | 802,869 |
| | COBRA | 14,491 | 14,491 |
| Richard Belluzzo (3) | Salary | n/a | n/a |
| | Securities | 305,878 | 305,878 |
| | COBRA | n/a | n/a |

(1) Benefits for Mr. Khaykin are also payable if he is terminated within three months prior to a Change of Control and include (a) a lump sum payment equal to 200% of his base salary plus 300% of his annual target bonus, (b) accelerated vesting of any unvested stock options and other securities held at the time of termination (including accelerated vesting of any performance-based awards at the greater of 100% of the target achievement level or the actual achievement level, if measurable as of the termination date) and (c) reimbursement of COBRA premiums for a period of up to 18 months.

(2) Amounts shown for Mr. Waechter and Mr. Jackson reflect the amounts actually paid upon termination. COBRA amounts assume payment of COBRA benefits for the full eligibility period.

(3) Pursuant to the terms of the awards, RSUs held by Mr. Belluzzo are accelerated upon termination.

# EQUITY COMPENSATION PLANS

The following table sets forth information about shares of the Company's Common Stock that may be issued under the Company's equity compensation plans, including compensation plans that were approved by the Company's stockholders as well as compensation plans that were not approved by the Company's stockholders. Information in the table is as of July 2, 2016.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) |
|---|---|---|---|
| Equity compensation plans Approved by security holders | 10,633,409 (1) | $5.88 | 23,421,586 (2) |
| Equity compensation plans Not approved by security holders | 1,849,604 (3) | $5.61 | 1,486,385 |
| Total / Weighted Ave./ Total | 12,483,013 (4) | $5.84 | 24,907,971 |

(1) Represents shares of the Company's Common Stock issuable upon exercise of options and restricted stock units outstanding under the Company's Amended and Restated 2003 Equity Incentive Plan. Excluding outstanding RSUs, which have no exercise price, as of July 2, 2016, there were options to purchase 1,878,930 shares outstanding at a weighted average exercise price of $5.88.

(2) Represents shares of the Company's Common Stock authorized for future issuance under the following equity compensation plans: Amended and Restated 2003 Equity Incentive Plan (under which 17,948,316 shares remain available for grant); Amended and Restated 1998 Employee Stock Purchase Plan (under which 5,473,270 shares remain available for grant).

(3) Represents shares of the Company's Common Stock issuable upon exercise of options outstanding or authorized for future issuance under the following equity compensation plans: Amended and Restated 2005 Acquisition Equity Incentive Plan and the inducement grants awarded to Oleg Khaykin on February 15, 2016.

(4) Excluding outstanding RSUs, which have no exercise price, as of June 27, 2015 there were options to purchase 1,878,930 shares outstanding at a weighted average exercise price of $5.88.

The following are descriptions of the material features of the Company's equity compensation plan that was not approved by the Company's stockholders:

## 2005 Acquisition Equity Incentive Plan

The Board of Directors adopted the 2005 Acquisition Equity Incentive Plan (the "2005 Plan") in August 2005. The 2005 Plan is administered by the Compensation Committee. Pursuant to the 2005 Plan, the Compensation Committee may grant stock options, SARs, Dividend Equivalent Rights, Restricted Stock, Restricted Stock Units and Performance Units to employees (including directors and officers) of the Company or any parent or subsidiary corporation of the Company, or any other such entity in which the Company holds a substantial ownership interest. Pursuant to NASDAQ listing rules regarding equity compensation plans not approved by security holders, the Company can and will only issue awards under the 2005 Plan to individuals joining the Company as a result of acquisitions or related strategic transactions or certain new hires to the extent permitted by NASDAQ rules, and not for new grants to continuing employees of the Company, nor to regular new hires. The 2005 Plan will continue in effect until terminated by the Board of Directors.

As of July 2, 2016, there were 1,486,385 shares remaining available for future grants under the 2005 Plan. Shares underlying awards that are forfeited, canceled or expired are not counted as having been issued under the 2005 Plan. Stock options and any awards intended to qualify as performance-based compensation issued under the 2005 Plan must have an exercise price of not less than 100% of the fair market value of the Company's Common Stock on the date of grant of the award. Awards are generally non-transferable. The term of all awards granted under the Plan shall not exceed eight years from the date of grant.

# AUDIT COMMITTEE REPORT

*The information contained in the following report shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, except to the extent that the Company specifically requests that the information be treated as soliciting material or incorporates it by reference into a document filed under the Securities Act or the Exchange Act. The information will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.*

The Audit Committee of the Board of Directors is responsible for assisting the full Board in fulfilling its oversight responsibilities relative to the Company's financial statements, financial reporting practices, systems of internal accounting and financial control, the internal audit function, annual independent audits of the Company's financial statements, and such legal and ethics programs as may be established from time to time by the Board. The Audit Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and may retain external consultants at its sole discretion. The Audit Committee is composed solely of non-employee directors, as such term is defined in Rule 16b-3 under the Securities and Exchange Act of 1934, as amended, all of whom satisfy the independence, financial literacy and experience requirements of Section 10A of the Securities Exchange Act of 1934, as amended, the Sarbanes-Oxley Act of 2002, rules applicable to NASDAQ-listed issuers, and any other regulatory requirements. All members of the Committee are required to have a working knowledge of basic finance and accounting, and at all times at least one member of the Committee qualifies as a "financial expert" as defined by the Sarbanes-Oxley Act of 2002.

Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and for issuing a report thereon. The Audit Committee has the general oversight responsibility with respect to the Company's financial reporting and reviews the scope of the independent audits, the results of the audits and other non-audit services provided by the Company's independent registered public accounting firm.

The following is the Report of the Audit Committee with respect to the Company's audited financial statements included in the Annual Report on Form 10-K for the fiscal year ended July 2, 2016, which includes the consolidated balance sheets of the Company as of July 2, 2016 and June 27, 2015, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 2, 2016, and the notes thereto.

## Review with Management

The Audit Committee has reviewed and discussed the Company's audited financial statements with management.

## Review and Discussions with Independent Registered Public Accounting Firm

The Audit Committee has discussed with PricewaterhouseCoopers LLP ("PricewaterhouseCoopers"), the Company's independent registered public accounting firm, the matters required to be discussed by Statement on Accounting Standards No. 61, "Communications with Audit Committees" which as amended (AICPA, Professional Standards, Vol. 1. section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T, which includes, among other items, matters related to the conduct of the audit of the Company's financial statements, and both with and without management present, discussed and reviewed the results of PricewaterhouseCoopers' examination of the financial statements.

The Audit Committee has received the written disclosures letter from PricewaterhouseCoopers required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent public accountant's communications with the Audit Committee concerning independence, and has discussed with PricewaterhouseCoopers the independent public accountant's independence.

During the course of fiscal year 2016 management engaged in documentation, testing and evaluation of the Company's system of internal control over financial reporting in response to the requirements set forth in Section 404 of the Sarbanes-Oxley

Act of 2002 and related regulations. The Audit Committee was kept apprised of the progress of the evaluation and provided oversight and advice to management during the process. In connection with this oversight, the Audit Committee received periodic updates provided by management and PricewaterhouseCoopers at Audit Committee meetings. At the conclusion of the process, management provided the Audit Committee with, and the Audit Committee reviewed, a report on the effectiveness of the Company's internal control over financial reporting. The Audit Committee continues to oversee the Company's efforts related to its internal control over financial reporting and management's preparations for the evaluation for fiscal year 2017.

## Conclusion

Based on the review and discussions referred to above, the Audit Committee recommended to the Company's Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 2016.

Audit Committee

Pamela Strayer, *Chair*
Keith Barnes
Masood A. Jabbar

# BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange requires the Company's directors, executive officers and any persons who directly or indirectly hold more than 10 percent of the Company's Common Stock ("Reporting Persons") to file reports of ownership and changes in ownership with the SEC. Reporting Persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received and written representations from certain Reporting Persons that no such forms were required, the Company believes that during fiscal year 2016 all Reporting Persons complied with the applicable filing requirements on a timely basis.

# ANNUAL REPORT ON FORM 10-K AND ANNUAL REPORT TO STOCKHOLDERS

**THE COMPANY WILL PROVIDE, WITHOUT CHARGE, TO EACH PERSON SOLICITED A COPY OF THE FISCAL YEAR 2016 ANNUAL REPORT, INCLUDING FINANCIAL STATEMENTS AND SCHEDULES FILED THEREWITH UPON WRITTEN REQUEST TO THE CORPORATE SECRETARY, SENT TO:**

**VIAVI SOLUTIONS INC.**
**430 NORTH MCCARTHY BOULEVARD**
**MILPITAS, CALIFORNIA 95035.**

By Order of the Board of Directors,

Oleg Khaykin
*Chief Executive Officer and President*

Milpitas, California
September 30, 2016

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

# FORM 10-K

(Mark One)

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

**For the fiscal year ended July 2, 2016**

**OR**

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

**For the transition period from to**

**Commission File Number 0-22874**

# VIAVI SOLUTIONS INC.
*(Exact name of Registrant as specified in its charter)*

| | |
|---|---|
| **Delaware** | **94-2579683** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification Number)* |

**430 North McCarthy Boulevard, Milpitas, California 95035**
*(Address of principal executive offices including Zip code)*

**(408) 404-3600**
*(Registrant's telephone number, including area code)*

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

| Title of each class | Name of exchange on which registered |
|---|---|
| *Common Stock, par value of $0.001 per share* | *The NASDAQ Stock Market LLC* |

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

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ | Non-accelerated filer ☐ (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 **December 31, 2015** the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately $1.4 billion, based upon the closing sale prices of the common stock as reported on the NASDAQ Stock Market LLC. Shares of common stock held by executive officers and directors have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of **July 29, 2016**, the Registrant had 232,298,097 shares of common stock outstanding.

**Documents Incorporated by Reference:** Portions of the Registrant's Notice of Annual Meeting of Stockholders and Proxy Statement to be filed pursuant to Regulation 14A within 120 days after Registrant's fiscal year end of July 2, 2016 are incorporated by reference into Part III of this Report.

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## FORWARD-LOOKING STATEMENTS

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

- *Our expectations regarding demand for our products, including industry trends and technological advancements that may drive such demand, the role we will play in those advancements and our ability to benefit from such advancements;*
- *Our plans for growth and innovation opportunities;*
- *The anticipated costs, benefits and other impacts of the separation of the Lumentum business;*
- *Financial projections and expectations, including profitability of certain business units, plans to reduce costs and improve efficiencies, the effects of seasonality on certain business units, continued reliance on key customers for a significant portion of our revenue, future sources of revenue, competition and pricing pressures, the future impact of certain accounting pronouncements and our estimation of the potential impact and materiality of litigation;*
- *Our plans for continued development, use and protection of our intellectual property;*
- *Our strategies for achieving our current business objectives, including related risks and uncertainties;*
- *Our plans or expectations relating to investments, acquisitions, partnerships and other strategic opportunities;*
- *Our strategies for reducing our dependence on sole suppliers or otherwise mitigating the risk of supply chain interruptions;*
- *Our research and development plans and the expected impact of such plans on our financial performance; and*
- *Our expectations related to our products, including costs associated with the development of new products, product yields, quality and other issues.*

*Management cautions that forward-looking statements are based on current expectations and assumptions and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected in such forward-looking statements. These forward-looking statements are only predictions and are subject to risks and uncertainties including those set forth in Part I, Item 1A "Risk Factors" and elsewhere in this Annual Report on Form 10-K and in other documents we file with the Securities and Exchange Commission. Moreover, neither we assume nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. Forward-looking statements are made only as of the date of this Report and subsequent facts or circumstances may contradict, obviate, undermine or otherwise fail to support or substantiate such statements. We are under no duty to update any of the forward-looking statements after the date of this Form 10-K to conform such statements to actual results or to changes in our expectations.*

# PART I

## ITEM 1. BUSINESS

## GENERAL

### Overview

Viavi Solutions Inc. (“Viavi,” also referred to as “the Company,” “we,” “our,” and “us”), formerly JDS Uniphase Corporation (“JDSU”), is a global provider of network test, monitoring and assurance solutions to communications service providers, enterprises and their ecosystems, supported by a worldwide channel community. Our solutions deliver end-to-end visibility across physical, virtual and hybrid networks, enabling customers to optimize connectivity, quality of experience and profitability. Viavi is also a leader in high performance thin film optical coatings, providing light management solutions to anti-counterfeiting, consumer and industrial, government and healthcare and other markets. On August 1, 2015, we completed the separation (“Separation”) of our optical components and lasers business and created two publicly-traded companies:

- an optical components and commercial lasers company, Lumentum Holdings Inc. (“Lumentum”), consisting of our former Communications and Commercial Optical Products (“CCOP”) segment and the WaveReady product line within our Network Enablement (“NE”) segment; and
- a network and service enablement and optical coatings company, renamed Viavi, consisting of our NE, Service Enablement (“SE”) and Optical Security and Performance Products (“OSP”) segments.

In connection with the Separation we distributed approximately 80.1% of the outstanding shares of Lumentum common stock to our stockholders on August 1, 2015. The Company was renamed Viavi and, at the time of the distribution, retained ownership of approximately 19.9% of Lumentum’s outstanding shares. Activities related to the Lumentum business have been presented as discontinued operations in all periods of the Company’s consolidated financial statements in this Annual Report on Form 10-K and the accompanying disclosures, discussion and analysis herein pertains to the Company’s continuing operations, unless noted otherwise.

To serve our markets, during fiscal 2016 we operated the following business segments:

- Network Enablement
- Service Enablement
- Optical Security and Performance Products

### Industry Trends

### NE and SE

There is a convergence of multiple technologies taking place in the networking industry to meet the needs of increased network capacity and faster transmission speeds across the physical network and across the airwaves. In order to meet these demand challenges, the network needs to be more agile, flexible, programmable and cost-effective. This will require networks to transition from a hardware-centric approach to a virtualized software-centric approach. These transformative changes in the network are driving the shift to software defined networking (“SDN”) and network function virtualization (“NFV”).

Our NE and SE products and solutions are well positioned to meet these industry trends in the deployment of next generation network technologies. There is a race towards providing 1 gigabit per second (“Gbps”) speed with the deployment of optical fiber-to-the-home (“FTTH”) and to “everywhere” (“FTTx”). Cable service providers are investing in high speed connection and increased bandwidth availability with the deployment of DOCSIS 3.1. Network service providers are also upgrading digital subscriber line (“DSL”) to G.fast technology. With the growing number of connected smart mobile devices and demand for high-speed broadband access to support video and other high-bandwidth applications, capacity is increasing at the edge of the network pushing the expansion of the overall network and larger links along with new networks requiring re-architecture for scalability and flexibility. Over the airwaves, 5G is expected to augment and expand the 4G/Long Term Evolution (“LTE”) wireless technology within the next five years which is expected to provide 100x faster speeds (about 1 Gbps) and 50x lower latency time (about 1 millisecond). All this network expansion and new technology deployment requires sophisticated network monitoring and assurance of quality of the overall network.

**OSP**

Counterfeiting of bank notes and other goods is on the rise because counterfeiters now have access to a broad range of advanced but relatively low-cost imaging technologies and printing tools giving them the ability to create convincing simulations of actual documents and products for illicit purposes. At the same time, the penalties for counterfeiting can often be relatively modest when compared to the penalties for other crimes. We have decades of anti-counterfeiting expertise leveraging our Optically Variable Pigment ("OVP®"), and more recently our Optically Variable Magnetic Pigment ("OVMP®") technologies to protect the integrity of banknotes and other high-value documents by delivering optical effects that are very easy for consumers to recognize but also very difficult for counterfeiters to reproduce. We also provide optical technologies for government, healthcare, consumer electronics and industrial markets.

In addition to network and anti-counterfeiting solutions, we extend our technology expertise to solve complex problems and deliver unique solutions in other industries. For example, we manufacture and sell optical filters for 3D sensing products that separate out ambient light from incoming data to allow devices to be controlled by a person's movements or gestures.

**Sales and Marketing**

Communication service providers ("CSPs"), consisting of telecommunications, cable and cloud service providers, make up the majority of NE and SE revenues. We also market and sell our products to network-equipment manufacturers ("NEMs"), original equipment manufacturers ("OEMs"), enterprises, governmental organizations, distributors and strategic partners worldwide. We have a dedicated sales force organized around the markets our segments serve that works directly with customers' executive, technical, manufacturing and purchasing personnel to determine design, performance, and cost requirements. We are also supported by a worldwide channel community, including Viavi's Velocity Solution Partners who support our NE and SE segments.

A high level of support is a critical part of our strategy to develop and maintain long-term collaborative relationships with our customers. We develop innovative products by engaging our customers at the initial design phase and continue to build that relationship as our customers' needs change and develop. Service and support are provided through our offices and those of our partners worldwide.

**Additional Information**

We were incorporated in California in 1979 as Uniphase Corporation and reincorporated in Delaware in 1993. We are the product of several significant mergers and acquisitions including, among others, the combination of Uniphase Corporation and JDS FITEL in 1999. In 2000 we acquired Optical Coatings Lab, Inc., which is currently part of our OSP business, and in 2005 we acquired Acterna, Inc. which is currently part of our Network and Service Enablement ("NSE") business, which consists of our NE and SE segments. Following these acquisitions, we operated as a company comprised of a portfolio of businesses with a focus on optical innovation, communications network and service enablement, commercial lasers and anti-counterfeiting solutions. In August 2015, we separated our portfolio of businesses into two separate publicly-traded companies to gain greater strategic flexibility to address rapidly changing market dynamics. At the same time, we changed our name to Viavi Solutions Inc.

We are subject to the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, pursuant to which we file annual, quarterly and periodic reports, proxy statements and other information with the SEC. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. We also make available free of charge all of our SEC filings on our website at www.viavisolutions.com/investors as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. The information on our web site is not part of this Annual Report on Form 10-K.

## CORPORATE STRATEGY

Our objective is to continue to be a leading provider for all markets and industries we serve. In support of our business segments, we are pursuing a corporate strategy that we believe will best position us for future opportunities. The key elements of our corporate strategy include:

- *Enable our customers through collaborative innovation*

  We are committed to working closely with our customers from initial product design and manufacturing through solution deployment and training. We strive to engage with our customers at the early stages of development to provide them with the most innovative and timely products and services and ensure that our focus remains aligned with their evolving requirements. Our sales, customer support, product marketing, and development efforts are organized to maximize effectiveness in our customer interactions.

- *Maintain and improve our financial flexibility*

  We continue to take actions to maintain and improve our financial flexibility in order to support our global business operations and to enable additional investments in growth and innovation. Key elements of this strategy include maintaining a healthy balance sheet with a strong liquidity position, generating positive cash flow, diligently managing our cash conversion cycle, managing our capital structure to minimize cost of capital and preserve access to additional financing, managing capital market risk and refinancing risk with periodic debt issuance and/or maintenance of revolving credit facilities, and maintaining healthy bank relationships.

- *Build a lean, focused and agile business*

  In August 2015, we completed the Separation of the Lumentum business, which we believe will allow us to manage our remaining businesses with greater agility to respond to the rapidly changing dynamics of these markets. Following the Separation, we plan to focus on increasing our presence in higher-growth markets and realizing cost reductions from streamlined teams and site consolidations.

- *Invest in profitable, market-based innovation*

  Based on current and anticipated demand, we continue to invest in research and development ("R&D") and pursue acquisitions and partnerships to develop new technologies, products and services that offer our customers increased value and strengthen our leadership position in our core markets.

- *Expand our global market presence*

  Long term, we expect growth in Asia-Pacific, Eastern Europe and Latin America. Therefore, we are developing products, sales, marketing and customer support to meet the specific customer requirements in these regions to serve these customers.

Although we expect to successfully implement our strategy, internal and/or external factors could impact our ability to meet any, or all, of our objectives. These factors are discussed under Item 1A—Risk Factors.

## BUSINESS SEGMENTS

Following the Separation of the Lumentum business on August 1, 2015, we operated in two broad business categories: NSE and OSP. NSE operates in two reportable segments, NE and SE, whereas OSP operates as a single segment. Our NSE and OSP businesses each are organized with its own engineering, manufacturing and dedicated sales and marketing groups focused on each of the markets we serve to better support our customers and respond quickly to market needs. In addition, our segments share common corporate services that provide capital, infrastructure, resources and functional support, allowing them to focus on core technological strengths to compete and innovate in their markets.

The table below discloses the percentage of our total net revenue attributable to each of our three reportable segments.

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Network Enablement | 55.7% | 58.0% | 61.5% |
| Service Enablement | 16.9 | 19.9 | 16.8 |
| Optical Security and Performance Products | 27.4 | 22.1 | 21.7 |

### Network Enablement

Our NE segment provides an integrated portfolio of testing solutions that access the network to perform build-out and maintenance tasks. These solutions include instruments, software and services to design, build, activate, certify, troubleshoot and optimize networks. They also support more profitable, higher-performing networks and facilitate time-to-revenue. Our test instrument portfolio is one of the largest in the industry, with hundreds of thousands of units in active use by major NEMs, operators and services providers worldwide. Our solutions address lab and production environments, field deployment and service assurance for wireless and fixed communications networks, including storage networks.

#### *Markets*

Viavi's NE segment provides solutions for CSPs, as well as NEMs and data center providers that deliver and/or operate broadband/IP networks (fixed and mobile) supporting voice, video and data services as well as a wide range of applications. These solutions support the development and production of network equipment, the deployment of next generation network technologies and services, and ensure a higher-quality customer experience.

#### *Customers*

NE customers include wireless and fixed services providers, NEMs, government organizations and large corporate customers, such as major telecom, mobility and cable operators, chip and infrastructure vendors, storage-device manufacturers, storage-network and switch vendors, and deployed private enterprise customers. Our customers include Alcatel-Lucent International, América Móvil, S.A.B. de C.V., AT&T Inc., British Telecommunications, Plc., CenturyLink, Inc., Cisco Systems, Inc., Comcast Corporation, Lumentum Holdings Inc., Time Warner Inc., and Verizon Communications Inc.

Following the separation from Lumentum, one NSE customer generated more than 10% of Viavi net revenue from continuing operations in fiscal 2014. During fiscal 2014 net revenue from AT&T Inc. represented 11.5% Viavi net revenue from continuing operations. No single customer accounted for more than 10% of Viavi net revenue from continuing operations during fiscal 2016 or 2015.

#### *Trends*

Our NE products are well positioned to meet next generation network technology deployment trends. Growing bandwidth demand combined with the rapid pace at which technology continues to evolve are impacting the way that NEMs and operators design, build and deploy new network systems and technologies. Integrating legacy and next generation network technology and services creates new challenges for communications service providers and impact service quality and reliability.

These trends are driving shifts in capital spending in network technologies related 100G Metro optical fiber deployment, a cable upgrade cycle to DOCSIS 3.1, a DSL access upgrade cycle to G.fast as well as increased wireless deployment of 4G/LTE with emerging 5G within the next five years. Our communication service provider customers continue to face pressure to increase their average revenue per user ("ARPU") and are turning to our NE products solutions to reduce customer service call truck rolls through faster installation and repair completion and improve user satisfaction.

### *Strategy*

We plan to continue evolving our test instrument portfolio and supporting software to maintain our current leadership position in field test instrumentation. We strive to deliver customer value that includes faster time to revenue, a quality end user experience, increased ARPU, reduced customer churn and lower operating expenses.

### *Competition*

Our NE segment competes against various companies, including Anritsu Corporation, Exfo Inc., Ixia, NetScout Systems Inc. and Spirent Communications plc. While we face multiple competitors for each of our product families, we continue to have one of the broadest portfolios of wireline and wireless products available in the network enablement industry.

### *Offerings*

Viavi's NE solutions include instruments and software that support the development and production of network systems in the lab. These solutions activate, certify, troubleshoot and optimize networks that are differentiated through superior efficiency, higher profitability, reliable performance and greater customer satisfaction. Designed to be mobile, these products include instruments and software that access the network to perform installation and maintenance tasks. They help service provider technicians assess the performance of network elements and segments and verify the integrity of the information being transmitted across the network. These instruments are highly intelligent and have user interfaces that are designed to simplify operations and minimize the training required to operate them. Our NE solutions are also used by NEMs in the design and production of next-generation network equipment. Thorough testing by NEMs plays a critical role in producing the components and equipment that are the building blocks of network infrastructure. We leverage our installed base and knowledge of network management methods and procedures to develop these advanced customer experience solutions.

The company also offers a range of product support and professional services designed to comprehensively address our customers' requirements. These services include repair, calibration, software support and technical assistance for our products. We offer product and technology training as well as consulting services. Our professional services, provided in conjunction with system integration projects, include project management, installation and implementation.

During the first quarter of fiscal 2016, we re-grouped our NE products and associated services from seven product groupings to three as described below:

*Wireline:* Primarily consisting of (a) Access and Cable products (formerly components of Media, Access and Content); (b) Fiber Instrument products (formerly a component of Fiber) and (c) Metro products (formerly a component of Ethernet).

*Wireless:* Consisting of Wireless products which were formerly a component of Mobility.

*Lab:* Primarily consisting of (a) Capacity Advisor products (formerly a component of Mobility); (b) Fiber Optical Transport Products (formerly a component of Fiber); (c) Optical Transport products (formerly a component of Ethernet); and (d) Storage Network Test products (formerly a component of Cloud and Data Center).

Additionally, following the Separation we no longer sell products or services from the WaveReady product line. We also moved our Video Assurance products (formerly a component of Media, Access and Content) to our SE segment. For the purposes of providing year-over-year variance analysis in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Annual Report on Form 10-K, we have reflected these changes for all prior periods presented so that they are comparable with our current groupings.

## Service Enablement

Our SE segment is a provider of embedded systems and enterprise performance management solutions to global CSPs and enterprises with visibility into network, service and application data. Our portfolio of SE solutions - which primarily consist of instruments, microprobes and software - address the same lab and production environments, field deployment and service assurance for wireless and fixed communications networks, including storage networks, as our NE portfolio. Our SE solutions allow carriers to remotely monitor performance and quality of network, service and applications performance throughout the entire network. Remote monitoring decreases operating expenses, while early detection helps provide increased uptime, preserves revenue, and allows operators to better monetize their networks.

***Markets***

Our SE segment provides solutions and services primarily for communication service providers and enterprises that deliver and/or operate broadband/IP networks (fixed and mobile) supporting voice, video and data services as well as a wide range of applications. These solutions provide network and application visibility to enable more cost-effective ways to provide a higher-quality customer experience.

***Customers***

SE customers include similar CSPs, NEMs, government organizations, large corporate customers, and storage-segment customers that are served by our NE segment.

***Trends***

Our Service Enablement solutions portfolio is a result of several acquisitions made during the past several years to address the network industry shift to a more agile, flexible, programmable, and cost-effective virtualized software-centric network. CSPs along with hyperscale data centers are adopting SDN and NFV which our SE solutions address. Network operators require improved network visibility and intelligence in order to ensure reliable network and service performance as well as identify locations for more optimal network deployment and expansion. Traditional data centers are becoming legacy networks that are not programmable and difficult to integrate with third-party applications and have given rise to cloud networks that provide greater network agility and programmability. Our Enterprise product and solutions offerings address customers' needs to support data center network traffic through application and performance monitoring. CSPs are increasingly demanding Ethernet assurance solutions to provide active performance monitoring and validate the quality of service of the networks.

While the network industry is shifting towards SDN and NFV, in fiscal 2016 we experienced a decline in SE net revenue compared to fiscal 2015 and certain growth products will require a longer investment cycle than originally expected. In accordance with the authoritative guidance, the Company recorded a goodwill impairment charge of $91.4 million related to our SE segment in fiscal 2016. Refer to "Note 9. Goodwill" included in Item 8 of this Annual Report on Form 10-K.

***Strategy***

We plan to evolve the SE portfolio and determine which products/solutions we believe will provide meaningful return on investment ("ROI") and devote greater focus in these areas to drive profitability.

***Competition***

Our NE and SE segments compete against many of the same companies. Competitors of SE include NetScout Systems, Inc. Riverbed Technology, and Spirent Communications plc. While we face multiple competitors for each of our product families, we continue to have one of the broadest portfolios of wireline and wireless monitoring solutions available in the service enablement industry.

***Offerings***

Viavi's SE solutions are embedded network systems-including microprobes and software-that collect and analyze network data to reveal the actual customer experience and identify opportunities for new revenue streams. These solutions provide enhanced network management, control, optimization and differentiation for our customers. Using these solutions, our customers are able to access and analyze the growing amount of network data from a single console, simplifying the process of deploying, provisioning and managing network equipment and services. These capabilities allow network operators to initiate service to new customers faster, decrease the need for technicians to make on-site service calls, help to make necessary repairs faster and, as a result, lower costs while providing higher quality and more reliable services.

During the first quarter of fiscal 2016, we re-grouped our SE products and associated services from five product groupings to three as described below:

*Enterprise:* Consisting of our Enterprise products (no change from our former Enterprise group).

*Wireless:* Consisting of our Location Intelligence and RAN Solutions products.

*Assurance:* Primarily consisting of our (a) Legacy Assurance, Protocol Test and xSIGHT products (formerly components of Mobile, Assurance and Analytics); (b) Legacy Wireline products (formerly a component of Packet Portal); (c) Packet Portal products (formerly Packet Portal, excluding Legacy Wireline products); and (d) Video Assurance products (formerly included in our NE segment).

For the purposes of providing year-over-year variance analysis in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Annual Report on Form 10-K, we have reflected these changes for all prior periods presented so that they are comparable with our current groupings.

**Optical Security and Performance Products**

Our OSP segment leverages its core optical coating technologies and volume manufacturing capability to design, manufacture, and sell products targeting anti-counterfeiting, consumer and industrial, government, healthcare and other markets.

Our security offerings for the currency market include OVP®, OVMP® and banknote thread substrates. OVP® enables a color-shifting effect used by banknote issuers and security printers worldwide for anti-counterfeiting applications on banknotes and other high-value documents. Our technologies are deployed on the banknotes of more than 100 countries today. OSP also develops and delivers overt and covert anti-counterfeiting products that utilize its proprietary printing platform and are targeted primarily at the pharmaceutical and consumer-electronics markets.

Leveraging our expertise in spectral management and our unique high-precision coating capabilities, OSP provides a range of products and technologies for the consumer and industrial market, including, for example, 3D sensing optical filters.

OSP value-added solutions meet the stringent requirements of commercial and government customers. Our products are used in a variety of aerospace and defense applications, including optics for guidance systems, laser eye protection and night vision systems. These products, including coatings and optical filters, are optimized for each specific application.

***Markets***

Our OSP segment delivers overt and covert features to protect governments and brand owners against counterfeiting, with a primary focus on the currency market. OSP also produces precise, high-performance, optical thin-film coatings for a variety of applications in consumer electronics, government, healthcare and other markets. For example, optical filters are used in 3-D sensing products and other applications.

In addition, we offer custom color solutions that include innovative optically-based color-shifting and other features that provide product enhancement for brands in the automotive and other industries.

***Customers***

OSP serves customers such as FLIR Systems, Kingston Digital, L-3 Communications, Lockheed Martin and SICPA. Following the separation from Lumentum, one OSP customer generated more than 10% of Viavi net revenue from continuing operations. During fiscal 2016, 2015 and 2014, net revenue from SICPA represented 21.0%, 16.4% and 12.8%, respectively, of Viavi net revenue from continuing operations.

***Trends***

Counterfeiting of banknotes and other goods is on the rise because counterfeiters now have access to a broad range of advanced but relatively low-cost imaging technologies and printing tools, giving them the ability to create convincing simulations of actual documents and products for illicit purposes. At the same time, the penalties for counterfeiting can often be relatively modest when compared to the penalties for other crimes. As a result of these trends, demand is increasing for sophisticated overt anti-counterfeiting features, such as Viavi's OVP® and OVMP® technologies, which are easy for consumers to validate without the use of special tools but are difficult to create or simulate using conventional printing technology.

The aerospace, defense, consumer electronics and medical/environmental instrumentation markets require customized, high-precision coated products and optical components that selectively absorb, transmit or reflect light to meet the performance requirements of sophisticated systems. Our custom optics products offer an array of advanced technologies and precision optics-from the UV to the far IR portion of the light spectrum to meet the specific requirements of our customers.

***Strategy***

Our strategy is to expand our position as a leading global supplier of anti-counterfeiting technologies to our customers by providing new optical features that deliver innovative visual effects and new applications which extend the range of delivery mechanisms for our technologies. We also plan to continue to advance our growth strategy in 3-D sensing and other applications for consumer electronics. In addition, we plan to continue leveraging our intellectual property and leading expertise in optics, light management and material science to develop new solutions in the government and healthcare markets.

***Competition***

OSP's competitors include providers of anti-counterfeiting features such as Giesecke & Devrient; special-effect pigments like Merck KGA; coating companies such as Nidek, Toppan, and Toray and optics companies such as Materion and Deposition Sciences.

***Offerings***

Viavi's OSP business provides innovative optical security and performance products which serve a variety of applications for customers in the anti-counterfeiting, consumer and industrial, government, healthcare and other markets.

*Anti-counterfeiting:* Viavi's OVP® technology has become a standard used by many governments worldwide for currency protection. This technology provides a color-shifting effect that enables intuitive visual verification of banknotes. We also provide other technologies to the banknote market including OVMP®, a technology that delivers depth and other visual effects for intuitive overt verification. In addition, our proprietary printing processes deliver anti-counterfeiting solutions for security labels, used by the pharmaceutical and consumer electronics industries for brand protection.

For product differentiation and brand enhancement, we provide custom color solutions for a variety of applications using our ChromaFlair® and SpectraFlair® pigments to create color effects that emphasize body contours, create dynamic environments, or enhance products in motion. These pigments are added to paints, plastics or textiles for products and packaging.

*Consumer and Industrial:* Our OSP business manufactures and sells optical filters for 3-D sensing products that separate out ambient light from incoming data to allow devices to be controlled by a person's movements or gestures.

*Government:* Viavi products are used in a variety of aerospace and defense applications, including optics for guidance systems, laser eye protection and night vision systems. These products, including coatings and optical filters, are optimized for each specific application.

*Healthcare and Other Markets:* Viavi provides multicavity and linear variable optical filters on a variety of substrates for applications including, thermal imaging, and spectroscopy and pollution monitoring. We also develop and manufacture miniature spectrometers that leverage our linear variable optical filters for use in applications for agriculture, pharmaceuticals, government and other markets.

## ACQUISITIONS

As part of our strategy, we are committed to the ongoing evaluation of strategic opportunities and, where appropriate, the acquisition of additional products, technologies or businesses that are complementary to, or strengthen, our existing products. We believe we have strengthened our business model by fortifying our core businesses through acquisition as well as through organic initiatives and will continue to seek strategic opportunities that support the ongoing development of an end-to-end platform to serve our NE and SE customers.

In January 2014, we completed the acquisition of Network Instruments, a privately-held U.S. company and leading developer of enterprise network and application-performance management solutions for global 2000 companies. The acquisition further strengthened our position as a key solutions provider to the enterprise, data center and cloud networking markets. Network Instruments helps enterprises simplify the management and optimization of their networks with high-performance solutions that provide actionable intelligence and deep network visibility. We acquired all outstanding shares of Network Instruments for a total purchase price of approximately $208.5 million in cash. This acquisition was integrated into our SE segment.

In December 2013, we acquired certain technology and other assets from Trendium, a privately-held provider of real-time intelligence software solutions for customer experience assurance (“CEA”), asset optimization and monetization of big data for 4G/LTE mobile network operators. The addition of Trendium employees and technology enabled the Company to introduce a new paradigm of CEA in our Assurance solutions, enabling operators of 4G/LTE networks to achieve a real and relevant improvement in customer satisfaction while maximizing productivity and profitability for dynamic converged 4G/LTE networks and beyond. We acquired certain technology and other assets from Trendium for a total purchase price of approximately $26.1 million in cash. This acquisition was integrated into SE segment.

Please refer to “Note 6. Mergers and Acquisitions” of the Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K for further discussion of the acquisitions completed during fiscal 2016, 2015 and 2014.

## RESTRUCTURING PROGRAMS

We continue to engage in targeted restructuring events intended to consolidate our operations, and align our businesses in response to market conditions and our current investment strategy. Subsequent to the Separation of the Lumentum business, we focused on streamlining our teams to gain greater cost efficiencies as we transition from a portfolio company to a more agile company focused on our NSE and OSP businesses. In fiscal 2016, we initiated restructuring plans in our NE and SE segments as well as our shared service function as part of this ongoing commitment. We also continued to restructure and reorganize our segments to eliminate certain positions by consolidating and shifting resources in our sales, manufacturing and R&D functions to focus on our strategic growth areas and optimize our operational efficiency.

Please refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 and “Note 12. Restructuring and Related Charges” under Item 8 of this Annual Report on Form 10-K for further discussion on these charges.

## RESEARCH AND DEVELOPMENT

During fiscal 2016, 2015 and 2014, we incurred R&D expenses of $166.4 million, $173.3 million, and 161.8 million, respectively. The number of employees engaged in R&D was approximately 800 as of July 2, 2016.

We devote substantial resources to R&D to develop new and enhanced products to serve our markets. Once the design of a product is complete, our engineering efforts shift to enhancing both product performance and our ability to manufacture it in greater volume and at lower cost.

In our NE and SE segments, we develop portable test instruments for field service technicians, systems and software used in Network Operations Centers, and instruments used in the development, testing and production of communications network components, modules and equipment. We are increasing our focus on IP-based service assurance and customer experience management, and test instruments for wireless networks and services, while continuing to develop tools for fiber optic, optical transport, Ethernet, broadband access, video test and storage network testing. We have centers of excellence for product marketing and development in Asia, Europe and North America.

In our OSP segment, our R&D efforts concentrate on developing more innovative technologies and products for customers in the anti-counterfeiting, consumer electronics government, healthcare and automotive markets. Our strength in the banknote anti-counterfeiting market is complemented by our advances in developing novel pigments and foils for a variety of applications. Other areas of R&D focus for OSP include our efforts to leverage our optical coating technology expertise to develop applications for the government and defense markets as well as efforts related to new products for 3-D sensing and smart phone sensors. OSP has also introduced an innovative handheld spectrometer solution with applications in the agriculture, healthcare and defense markets.

## MANUFACTURING

As of July 2, 2016 significant manufacturing facilities for our NE, SE and OSP segments were located in China, France, Germany, Korea and the United States and our significant contract manufacturing partners were located in China and Mexico.

## SOURCES AND AVAILABILITY OF RAW MATERIALS

Viavi uses various suppliers and contract manufacturers to supply parts and components for the manufacture and support of multiple product lines. Although our intention is to establish at least two sources of supply for materials whenever possible, for certain components we have sole or limited source supply arrangements. We may not be able to procure these components from alternative sources at acceptable prices within a reasonable time, or at all; therefore, the loss or interruption of such arrangements could impact our ability to deliver certain products on a timely basis.

## PATENTS AND PROPRIETARY RIGHTS

Intellectual property rights apply to our various products include patents, trade secrets and trademarks. We do not intend to broadly license our intellectual property rights unless we can obtain adequate consideration or enter into acceptable patent cross-license agreements. As of July 2, 2016, we owned approximately 700 U.S. patents and 925 foreign patents and have 500 patent applications pending throughout the world.

## BACKLOG

Backlog consists of purchase orders for services and products for which we have assigned shipment dates. As of July 2, 2016 and June 27, 2015, our backlog was approximately $234 million for both periods, excluding the backlog related to Lumentum as of June 27, 2015.

Due to possible changes in product delivery schedules and cancellation of product orders, and because our sales often reflect orders shipped in the same quarter in which they are received, our backlog at any particular date is not necessarily indicative of actual revenue or the level of orders for any succeeding period.

## EMPLOYEES

We employed approximately 3,000 employees as of July 2, 2016, which included approximately 900 employees in manufacturing, 800 employees in R&D, 850 employees in sales and marketing, and 450 employees in general and administration. This compared to a workforce of approximately 4,900 and 5,100 as of June 27, 2015 and June 28, 2014, respectively, which also included employees who transferred to Lumentum as part of the Separation. On August 1, 2015, approximately 1,700 employees were transferred to Lumentum as part of the separation of the Lumentum business which included approximately 850 employees from manufacturing, 550 employees from R&D, 150 employees from sales and marketing and 150 employees general and administration.

Similar to other technology companies, we rely upon our ability to use "Full Value Awards" (as defined below) and other forms of stock-based compensation as key components of our executive and employee compensation structure. Full Value Awards refer to Restricted Stock Units ("RSUs") and performance-based RSUs that are granted with the exercise price equal to zero and are converted to shares immediately upon vesting. The performance-based RSUs are also referred to as Market Stock Units and have vesting requirements tied to the performance of the Company's stock as compared to the NASDAQ telecommunications index, and could vest at a higher or lower rate or not at all, based on this relative performance. Historically, these components have been critical to our ability to retain important personnel and offer competitive compensation packages. Without these components, we would be required to significantly increase cash compensation levels or develop alternative compensation structures to retain our key employees.

Outside of the United States, our businesses are subject to labor laws that differ from those in the United States. The Company follows statutory requirements, and in certain European countries it is common for a works council, consisting of elected employees, to represent the sites when discussing matters such as compensation, benefits or terminations of employment. We consider our employee relations to be good.

## ITEM 1A. RISK FACTORS

**We have a history of net losses, and our future profitability is not assured.**

We incurred net losses of $99.2 million, $88.1 million and $17.8 million in fiscal 2016, 2015 and 2014, respectively. Historically, Viavi operated as a portfolio company comprised of many product lines, with diverse operating metrics and markets. As a result, our profitability in a particular period was impacted by both revenue and product mix due to the fact that gross margin varies significantly across our product portfolio and business segments. While we recently completed the separation of our Lumentum business, this variability continues to be a factor across our remaining business segments.

Additionally, for the last several years, we have undergone multiple manufacturing, facility, organizational and product line transitions. We expect some of these activities to continue for the foreseeable future. These activities are costly and can impair our profitability objectives. Specific factors that may undermine our financial objectives include, among others:

- uncertain future telecom carrier and cable operator capital and R&D spending levels, which particularly affects our NE and SE segments;
- adverse changes to our product mix, both fundamentally (resulting from new product transitions, the declining profitability of certain legacy products and the termination of certain products with declining margins, among other things) and due to quarterly demand fluctuations;
- pricing pressure across our product lines due to competitive forces, increasingly from Asia, and to a highly concentrated customer base for many of our product lines, which continues to offset many of the cost improvements we are realizing quarter over quarter;
- limited availability of components and resources for our products which leads to higher component prices;
- increasing commoditization of previously differentiated products, and the attendant negative effect on average selling prices and profit margins;
- execution challenges, which limit revenue opportunities and harm profitability, market opportunities and customer relations;
- decreased revenue associated with terminated or divested product lines;
- redundant costs related to periodic transitioning of manufacturing and other functions to lower-cost locations;
- ongoing costs associated with organizational transitions, consolidations and restructurings, which are expected to continue in the nearer term;
- continuing high levels of selling, general and administrative, (“SG&A”) expenses; and
- cyclical demand for our currency products.

Taken together, these factors limit our ability to predict future profitability levels and to achieve our long-term profitability objectives. If we fail to achieve profitability expectations, the price of our debt and equity securities, as well as our business and financial condition, may be materially adversely impacted.

**The separation of the Lumentum business could result in substantial tax liability to us and our stockholders.**

One of the conditions for completing the separation was our receipt of a tax opinion from our advisors substantially to the effect that, for U.S. federal income tax purposes, the separation will qualify as a tax-free distribution under certain sections of the Internal Revenue Code. If any of the factual representations and assumptions made in connection with obtaining the tax opinion were inaccurate or incomplete in any material respect, then we will not be able to rely on the tax opinion. Furthermore, the tax opinion is not binding on the Internal Revenue Service (IRS) or the courts. Accordingly, the IRS or the courts may challenge the conclusions stated in the tax opinion and such challenge could prevail.

If, notwithstanding our receipt of the tax opinion, the separation is determined to be taxable, then (i) we would be subject to tax as if we sold the stock distributed in the separation in a taxable sale for its fair market value; and (ii) each stockholder who received stock distributed in the separation would be treated as receiving a distribution of property in an amount equal to the fair market value of the stock that would generally result in tax liabilities for each stockholder, which may be substantial.

**Management turnover creates uncertainties and could harm our business.**

We hired a new President and Chief Executive Officer in February 2016 and a new Chief Financial Officer in September 2015. In addition, during fiscal year 2016 we made leadership changes in several other key functions throughout the Company, including HR, IT and others. The extent of our management changes could adversely impact our results of operations and our customer relationships and may make recruiting for future management positions more difficult. If we are unable to attract and retain qualified executives and employees, or to successfully integrate any newly-hired personnel within our organization, we may be unable to achieve our operating objectives, which could negatively impact our financial performance and results of operations.

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

Economic conditions worldwide have from time to time contributed to slowdowns in the technology industry at large, as well as to the specific segments and markets in which we operate. The global economic downturn that began in 2008 led to increased uncertainty in the timing and overall demand from our customers which has continued despite the economic recovery that has occurred in some sectors. Continuing concerns about global economic conditions could decrease or delay customer spending, increase price competition for our products, increase our risk of excess and obsolete inventories and higher overhead costs as a percentage of revenue. Continued economic challenges could further negatively impact our operations by affecting the solvency of our customers, the solvency of our key suppliers or the ability of our customers to obtain credit to finance purchases of our products. In particular, we have seen recent demand for our products affected by economic uncertainty in Europe and Latin America. If the global economy and credit markets deteriorate and our future sales decline, our financial condition and results of operations would likely be materially adversely impacted.

In addition, we have significant long-lived assets recorded on our balance sheet. We evaluate intangible assets and goodwill for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We monitor factors or indicators, such as unfavorable variances from forecasted cash flows, established business plans or volatility inherent to external markets and industries that would require an impairment test. The test for impairment of intangible assets requires a comparison of the carrying value of the asset or asset group with their estimated undiscounted future cash flows. If the carrying value of the asset or asset group is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the asset or asset group exceeds its fair value. The test for impairment of goodwill requires a comparison of the carrying value of the reporting unit for which goodwill is assigned with the fair value of the reporting unit calculated based on discounted future cash flows. If the carrying value of the reporting unit is greater than its fair value a second step is performed to calculate any impairment. When testing goodwill for impairment during the fourth quarter of fiscal 2016, we concluded that the carrying value of the SE reporting unit was higher than its fair value. Accordingly step two of the impairment analysis was performed which indicated that all of the entire SE goodwill balance was impaired resulting in an impairment charge of $91.4 million. This charge does not impact our liquidity, cash flows from operations, future operations, or compliance with debt covenants. Although the analysis indicated only the SE reporting unit was impaired, we will continue to monitor the remaining reporting units which had an excess fair value over carrying value as of the date of annual impairment assessment. As of July 2, 2016 our NE and OSP reporting goodwill balances were $143.8 million and $8.3 million, respectively.

We will continue to evaluate the recoverability of the carrying amount of our goodwill and long-lived assets on an ongoing basis, and we may incur substantial impairment charges, which would adversely affect our financial results. There can be no assurance that the outcome of such reviews in the future will not result in substantial impairment charges. Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs, holding periods or other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions we used in testing for impairment are reasonable, significant changes in any one of our assumptions could produce a significantly different result. If, in any period, our stock price decreases to the point where the fair value of the Company, as determined by our market capitalization, is less than our book value, this too could indicate a potential impairment and we may be required to record an impairment charge in that period.

The manufacture, quality and distribution of our products, as well as our customer relations, may be affected by several factors, including the rapidly changing market for our products, supply issues and internal restructuring efforts. We expect the impact of these issues will become more pronounced as we continue to introduce new product offerings and when overall demand increases.

Our success depends upon our ability to deliver both our current product offerings and new products and technologies on time and at acceptable cost to our customers. The markets for our products are characterized by rapid technological change, frequent new product introductions, substantial capital investment, changes in customer requirements and a constantly evolving industry. Our future performance will depend on the successful development, introduction and market acceptance of new and enhanced products that address these issues and provide solutions that meet our customers' current and future needs. As a technology company, we also constantly encounter quality, volume and cost concerns such as:

- Our continuing cost reduction programs, which include site and organization consolidations, asset divestitures, outsourcing the manufacture of certain products to contract manufacturers, other outsourcing initiatives, and reductions in employee headcount, require the re-establishment and re-qualification by our customers of complex manufacturing lines, as well as modifications to systems, planning and operational infrastructure. During this process, we have experienced, and may continue to experience, additional costs, delays in re-establishing volume production levels, planning difficulties, inventory issues, factory absorption concerns and systems integration problems.
- We have experienced variability of manufacturing yields caused by difficulties in the manufacturing process, the effects from a shift in product mix, changes in product specifications and the introduction of new product lines. These difficulties can reduce yields or disrupt production and thereby increase our manufacturing costs and adversely affect our margin.
- We may incur significant costs to correct defective products (despite rigorous testing for quality both by our customers and by us), which could include lost future sales of the affected product and other products, and potentially severe customer relations problems, litigation and damage to our reputation.
- We are dependent on a limited number of vendors, who are often small and specialized, for raw materials, packages and standard components. We also rely on contract manufacturers around the world to manufacture certain of our products. Our business and results of operations have been, and could continue to be adversely affected by this dependency. Specific concerns we periodically encounter with our suppliers include stoppages or delays of supply, insufficient vendor resources to supply our requirements, substitution of more expensive or less reliable products, receipt of defective parts or contaminated materials, increases in the price of supplies, and an inability to obtain reduced pricing from our suppliers in response to competitive pressures. Additionally, the ability of our contract manufacturers to fulfill their obligations may be affected by economic, political or other forces that are beyond our control. Any such failure could have a material impact on our ability to meet customers' expectations and may materially impact our operating results.
- New product programs and introductions involve changing product specifications and customer requirements, unanticipated engineering complexities, difficulties in reallocating resources and overcoming resource limitations and with their increased complexity, which expose us to yield and product risk internally and with our suppliers.

These factors have caused considerable strain on our execution capabilities and customer relations. We have and could continue to see (a) periodic difficulty responding to customer delivery expectations for some of our products, (b) yield and quality problems, particularly with some of our new products and higher volume products, and (c) additional funds and other resources required to respond to these execution challenges. From time to time, we have had to divert resources from new product R&D and other functions to assist with resolving these matters. If we do not improve our performance in all of these areas, our operating results will be harmed, the commercial viability of new products may be challenged and our customers may choose to reduce or terminate their purchases of our products and purchase additional products from our competitors.

**We rely on a limited number of customers for a significant portion of our sales.**

We believe that we will continue to rely upon a limited number of customers for a significant portion of our revenues for the foreseeable future. Any failure by us to continue capturing a significant share of these customers could materially harm our business. Dependence on a limited number of customers exposes us to the risk that order reductions from any one customer can have a material adverse effect on periodic revenue. Further, to the extent that there is consolidation among communications equipment manufacturers and service providers, we will have increased dependence on fewer customers who may be able to exert increased pressure on our prices and other contract terms. Customer consolidation activity and periodic manufacturing and inventory initiatives could also create the potential for disruptions in demand for our products as a consequence of such customers streamlining, reducing or delaying purchasing decisions.

We have a strategic alliance with SICPA, our principal customer for our light interference microflakes that are used to, among other things, provide security features in currency. Under a license and supply agreement, we rely exclusively on SICPA to market and sell one of these product lines, optically variable pigment, for document authentication applications worldwide. The agreement requires SICPA to purchase minimum quantities of these pigments over the term of the agreement. If SICPA fails to purchase these quantities, as and when required by the agreement, our business and operating results (including, among other things, our revenue and gross margin) will be harmed as we may be unable to find a substitute marketing and sales partner or develop these capabilities ourselves.

**Movement towards virtualized networks and software solutions may result in lower demand for our hardware products and increased competition.**

The markets for our NE and SE segments are increasingly looking towards virtualized networks and software solutions. While we are devoting substantial resources to meet these needs, this trend may result in lower demand for our legacy hardware products. Additionally barriers to entry are generally lower for software solutions, which may lead to increased competition for our products and services.

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

Our strategy continues to include periodic acquisitions and divestitures of businesses and technologies. Strategic transactions of this nature involve numerous risks, including the following:

- difficulties and costs in integrating or disintegrating the operations, technologies, products, IT and other systems, facilities, and personnel of the affected businesses, particularly the separation of the Lumentum business;
- inadequate internal control procedures and disclosure controls to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or poor integration of a target company's or business's procedures and controls;
- diversion of management's attention from normal daily operations of the business;
- potential difficulties in completing projects associated with in-process R&D;
- difficulties in entering markets in which we have no or limited prior experience and where competitors have stronger market positions;
- difficulties in obtaining or providing sufficient transition services and accurately projecting the time and cost associated with providing these services;

- an acquisition may not further our business strategy as we expected or we may overpay for, or otherwise not realize the expected return on, our investments;
- insufficient net revenue to offset increased expenses associated with acquisitions;
- potential loss of key employees of the acquired companies; and
- difficulty in forecasting revenues and margins.

Acquisitions may also cause us to:

- issue common stock that would dilute our current stockholders' percentage ownership and may decrease earnings per share;
- assume liabilities, some of which may be unknown at the time of the acquisitions;
- record goodwill and non-amortizable intangible assets that will be subject to impairment testing and potential periodic impairment charges;
- incur additional debt to finance such acquisitions;
- incur amortization expenses related to certain intangible assets; or
- acquire, assume, or become subject to litigation related to the acquired businesses or assets.

**Certain of our products are subject to governmental and industry regulations, certifications and approvals.**

The commercialization of certain of the products we design, manufacture and distribute through our OSP segment may be more costly due to required government approval and industry acceptance processes. Development of applications for our light interference and diffractive microflakes may require significant testing that could delay our sales. For example, certain uses in cosmetics may be regulated by the U.S. Food and Drug Administration, which has extensive and lengthy approval processes. Durability testing by the automobile industry of our decorative microflakes used with automotive paints can take up to three years. If we change a product for any reason, including technological changes or changes in the manufacturing process, prior approvals or certifications may be invalid and we may need to go through the approval process again. If we are unable to obtain these or other government or industry certifications in a timely manner, or at all, our operating results could be adversely affected.

**We face risks related to our international operations and revenue.**

Our customers are located throughout the world. In addition, we have significant operations outside North America, including product development, manufacturing, sales and customer support operations.

Our international presence exposes us to certain risks, including the following:

- currency fluctuations;
- our ability to comply with a wide variety of laws and regulations of the countries in which we do business, including, among other things, customs, import/export, anti-bribery, anti-competition, tax and data privacy laws, which may be subject to sudden and unexpected changes;
- difficulties in establishing and enforcing our intellectual property rights;
- tariffs and other trade barriers;
- political, legal and economic instability in foreign markets, particularly in those markets in which we maintain manufacturing and product development facilities;
- difficulties in staffing and management;
- language and cultural barriers;
- seasonal reductions in business activities in the countries where our international customers are located;

- integration of foreign operations;
- longer payment cycles;
- difficulties in management of foreign distributors; and
- potential adverse tax consequences.

Net revenue from customers outside the Americas accounted for 48.9%, 44.3% and 45.3% of our total net revenue, for fiscal 2016, 2015 and 2014 respectively. We expect that net revenue from customers outside North America will continue to account for a significant portion of our total net revenue. Lower sales levels that typically occur during the summer months in Europe and some other overseas markets may materially and adversely affect our business. In addition, the revenues we derive from many of our customers depend on international sales and further expose us to the risks associated with such international sales.

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

We rely upon the capacity, reliability and security of our information technology infrastructure and our ability to expand and continually update this infrastructure in response to our changing needs. In some cases, we rely upon third party hosting and support services to meet these needs. Any failure to manage, expand and update our information technology infrastructure, any failure in the extension or operation of this infrastructure, or any failure by our hosting and support partners in the performance of their services could materially and adversely harm our business.

Despite our implementation of security measures, our systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access and other similar disruptions. Any system failure, accident or security breach could result in disruptions to our operations. To the extent that any disruptions or security breach results in a loss or damage to our data, or in inappropriate disclosure of confidential information, it could cause significant damage to our reputation and affect our relationships with our customers and ultimately harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

**Failure to maintain effective internal controls may adversely affect our stock price.**

Effective internal controls are necessary for us to provide reliable financial reports and to effectively prevent fraud. The SEC adopted rules requiring public companies to include a report by management on the effectiveness of the Company's internal control over financial reporting in their annual reports on Form 10-K. In addition, our independent registered public accounting firm must report on the effectiveness of our internal control over financial reporting. Although we review our internal control over financial reporting in order to ensure compliance with these requirements, in August 2016 we determined that we had a material weakness related to an error in the determination of interim income taxes issue which caused our independent registered public accounting firm to issue a qualified report on our Consolidated Financial Statements included in this Annual Report on Form 10-K. The Company will implement an enhanced process and design a control to ensure a more precise review of the interim income tax provision beginning in the first quarter of fiscal 2017. In accordance with the Company's internal control over financial reporting compliance program, the material weakness designation cannot be remediated in full until the enhanced processes have been operational for a period of time and successfully tested. Such remediation is anticipated to be completed later in fiscal 2017. Additionally, if we or our independent registered public accounting firm is not satisfied with our internal control over financial reporting or the level at which these controls are documented, designed, operated or reviewed in the future, or if our independent registered public accounting firm interprets the requirements, rules and/or regulations differently from our interpretation, then they may issue a qualified report. Furthermore, we may discover that the internal controls of businesses we acquire are inadequate or changes to our existing businesses may impact the effectiveness of our internal controls. These situations could require us to make changes to our internal controls and could cause our independent registered public accounting firm to issue a qualified report, which could result in a loss of investor confidence in the reliability of our financial statements, and could negatively impact our stock price.

**In August 2013, we issued $650.0 million of 0.625% Senior Convertible Notes due 2033, which could dilute our existing stockholders and lower our reported earnings per share.**

We issued $650.0 million of indebtedness in August 2013 in the form of 0.625% Senior Convertible Notes due 2033 (the “2033 Notes”). The issuance of the 2033 Notes substantially increased our principal payment obligations. Additionally, in fiscal 2016 we contributed $137.6 million in cash to Lumentum in connection with the separation of the Lumentum business, subject to the requirements as set forth in the Contribution Agreement between the Company and Lumentum Operations LLC. All of the obligations related to the 2033 Notes are being retained by the Company. Following the separation we had substantially lower cash flow which increased our leverage. The degree to which we are leveraged could materially and adversely affect our ability to successfully obtain financing for working capital, acquisitions or other purposes and could make us more vulnerable to industry downturns and competitive pressures. In addition, the holders of the 2033 Notes are entitled to convert the 2033 Notes into shares of our common stock or a combination of cash and shares of common stock under certain circumstances which would dilute our existing stockholders and lower our reported per share earnings.

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

*Our intellectual property rights may not be adequate to protect our products or product roadmaps.*

We seek to protect our products and our product roadmaps in part by developing and/or securing proprietary rights relating to those products, including patents, trade secrets, know-how and continuing technological innovation. The steps taken by us to protect our intellectual property may not adequately prevent misappropriation or ensure that others will not develop competitive technologies or products. Other companies may be investigating or developing other technologies that are similar to our own. It is possible that patents may not be issued from any of our pending applications or those we may file in the future and, if patents are issued, the claims allowed may not be sufficiently broad to deter or prohibit others from making, using or selling products that are similar to ours. We do not own patents in every country in which we sell or distribute our products, and thus others may be able to offer identical products in countries where we do not have intellectual property protection. In addition, the laws of some territories in which our products are or may be developed, manufactured or sold, including Europe, Asia-Pacific or Latin America, may not protect our products and intellectual property rights to the same extent as the laws of the United States.

Any patents issued to us may be challenged, invalidated or circumvented. Additionally, we are currently a licensee in all of our operating segments for a number of third-party technologies, software and intellectual property rights from academic institutions, our competitors and others, and are required to pay royalties to these licensors for the use thereof. Unless we are able to obtain such licenses on commercially reasonable terms, patents or other intellectual property held by others could inhibit our development of new products, impede the sale of some of our current products, substantially increase the cost to provide these products to our customers, and could have a significant adverse impact on our operating results. In the past, licenses generally have been available to us where third-party technology was necessary or useful for the development or production of our products. In the future licenses to third-party technology may not be available on commercially reasonable terms, if at all.

*Our products may be subject to claims that they infringe the intellectual property rights of others.*

Lawsuits and allegations of patent infringement and violation of other intellectual property rights occur in our industry on a regular basis. We have received in the past, and anticipate that we will receive in the future, notices from third parties claiming that our products infringe their proprietary rights. Over the past several years there has been a marked increase in the number and potential severity of third-party patent infringement claims, primarily from two distinct sources. First, large technology companies, including some of our customers and competitors, are seeking to monetize their patent portfolios and have developed large internal organizations that have approached us with demands to enter into license agreements. Second, patent-holding companies, entities that do not make or sell products (often referred to as “patent trolls”), have claimed that our products infringe upon their proprietary rights. We will continue to respond to these claims in the course of our business operations. In the past, the resolution of these disputes has not had a material adverse impact on our business or financial condition, however this may not be the case in the future. Further, the litigation or settlement of these matters, regardless of the merit of the claims, could result in significant expense to us and divert the efforts of our technical and management personnel, whether or not we are successful. If we are unsuccessful, we could be required to expend significant resources to develop non-infringing technology or to obtain licenses to the technology that is the subject of the litigation. We may not be successful in such development, or such licenses may not be available on terms acceptable to us, if at all. Without such a license, we could be enjoined from future sales of the infringing product or products, which could adversely affect our revenues and operating results.

*The use of open source software in our products, as well as those of our suppliers, manufacturers and customers, may expose us to additional risks and harm our intellectual property position.*

Certain of the software and/or firmware that we use and distribute (as well as that of our suppliers, manufacturers and customers) may be, be derived from, or contain, "open source" software, which is software that is generally made available to the public by its authors and/or other third parties. Such open source software is often made available under licenses which impose obligations in the event the software or derivative works thereof are distributed or re-distributed. These obligations may require us to make source code for the derivative works available to the public, and/or license such derivative works under a particular type of license, rather than the forms of license customarily used to protect our own software products. While we believe we have complied with our obligations under the various applicable licenses for open source software, in the event that a court rules that these licenses are unenforceable, or in the event the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public and/or stop distribution of that work. Additionally, open source licenses are subject to occasional revision. In the event future iterations of open source software are made available under a revised license, such license revisions may adversely affect our ability to use such future iterations.

**We face certain litigation risks that could harm our business.**

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

**We may be subject to environmental liabilities which could increase our expenses and harm our operating results.**

We are subject to various federal, state and foreign laws and regulations governing the environment, including those governing pollution and protection of human health and the environment and, recently, those restricting the presence of certain substances in electronic products and holding producers of those products financially responsible for the collection, treatment, recycling and disposal of certain products. Such laws and regulations have been passed in several jurisdictions in which we operate, are often complex and are subject to frequent changes. We will need to ensure that we comply with such laws and regulations as they are enacted, as well as all environmental laws and regulations, and as appropriate or required, that our component suppliers also comply with such laws and regulations. If we fail to comply with such laws, we could face sanctions for such noncompliance, and our customers may refuse to purchase our products, which would have a materially adverse effect on our business, financial condition and results of operations.

With respect to compliance with environmental laws and regulations in general, we have incurred and in the future could incur substantial costs for the cleanup of contaminated properties, either those we own or operate or to which we have sent wastes in the past, or to comply with such environmental laws and regulations. Additionally, we could be subject to disruptions to our operations and logistics as a result of such clean-up or compliance obligations. If we were found to be in violation of these laws, we could be subject to governmental fines and liability for damages resulting from such violations. If we have to make significant capital expenditures to comply with environmental laws, or if we are subject to significant expenditures in connection with a violation of these laws, our financial condition or operating results could be materially adversely impacted.

**We are subject to provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act that could subject us to additional costs and liabilities.**

We are subject to the SEC rules implementing the requirements of Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act which establish disclosure and reporting requirements for companies who use "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries in their products. Complying with the disclosure requirements requires substantial diligence efforts to determine the source of any conflict minerals used in our products and may require third-party auditing of our diligence process. These efforts may require internal resources that would otherwise be directed towards operational activities.

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

**Certain provisions in our charter and under Delaware laws could hinder a takeover attempt.**

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

**Our ability to use our net operating loss carryforwards to offset future taxable income may be subject to certain limitations.**

As of July 2, 2016, we had U.S. federal and state net operating losses, or NOLs, of $5,008.3 million and $886.0 million, respectively, and U.S. federal and state tax credit carryforwards of $100.7 million and $39.6 million, respectively, which may be utilized against future income taxes. Utilization of these NOLs and tax credit carryforwards may be subject to a substantial annual limitation if the ownership change limitations under Sections 382 and 383 of the Internal Revenue Code and similar state provisions are triggered by changes in the ownership of our capital stock. In general, an ownership change occurs if there is a cumulative change in our ownership by "5-percent shareholders" that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. Accordingly, purchases of our capital stock by others could limit our ability to utilize our NOLs and tax credit carryforwards in the future.

Furthermore, we may not be able to generate sufficient taxable income to utilize our NOLs and tax credit carryforwards before they expire. Due to uncertainty regarding the timing and extent of our future profitability, we continue to record a valuation allowance to offset our U.S. and certain of our foreign deferred tax assets because of uncertainty related to our ability to utilize our NOLs and tax credit carryforwards before they expire.

If any of these events occur, we may not derive some or all of the expected benefits from our NOLs and tax credit carryforwards.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

We own and lease various properties in the United States and in 23 other countries around the world. We use the properties for executive and administrative offices, data centers, product development offices, customer service offices, and manufacturing facilities. Our corporate headquarters of approximately 54,000 square feet is located in Milpitas, California. As of July 2, 2016, our leased and owned properties in total were approximately 1.2 million square feet, of which approximately 18,000 square feet is owned. Larger leased sites include properties located in China, France, Germany, and the United States. We believe our existing properties, including both owned and leased sites, are in good condition and suitable for the conduct of our business.

While we believe our existing facilities are adequate to meet our immediate needs, it may become necessary to lease, acquire, or sell additional or alternative space to accommodate future business needs.

## ITEM 3. LEGAL PROCEEDINGS

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

## ITEM 4. MINE SAFETY DISCLOSURES

None.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Select Market under the symbol "VIAV." Prior to the separation of the Lumentum business, our common stock was traded on the NASDAQ Global Select Market under the symbol "JDSU." As of July 29, 2016 we had 232,298,097 shares of common stock outstanding. The closing price on July 29, 2016 was $7.13.

On August 1, 2015, we completed the previously announced distribution of approximately 80.1% of the outstanding shares of Lumentum common stock to Viavi's stockholders (the "Distribution"). JDSU was renamed Viavi Solutions Inc. and, at the time of the Distribution, retained ownership of approximately 19.9% of Lumentum's outstanding shares. We agreed not to liquidate the retained shares during the first six months following the Distribution. However, in connection with a private letter ruling from the Internal Revenue Service, we have committed to liquidate these shares within three years from the Distribution. The Distribution was made to Viavi's stockholders of record as of the close of business on July 27, 2015 (the "Record Date"), who received one share of Lumentum common stock for every five shares of Viavi common stock held as of the close of business on the Record Date and not sold prior to August 4, 2015. Viavi stockholders received cash in lieu of any fractional shares of Lumentum common stock. Our trading commenced "regular-way" trading on August 4, 2015 on NASDAQ under the ticker symbol "VIAV."

The following table summarizes the high and low intraday sales prices for our common stock as reported on the NASDAQ Global Select Market during fiscal 2016 and 2015. The stock prices in the following table prior to August 4, 2015, the date of "regular-way" trading commenced following the Lumentum separation, have not been adjusted for the distribution.

| | High | Low |
|---|---|---|
| **Fiscal 2016** | | |
| Fourth Quarter | $ 7.20 | $ 5.93 |
| Third Quarter | 6.94 | 4.68 |
| Second Quarter | 6.56 | 5.45 |
| First Quarter subsequent to August 3, 2015 | 6.88 | 4.99 |
| First Quarter through August 3, 2015 | 12.00 | 10.68 |
| **Fiscal 2015** | | |
| Fourth Quarter | $13.65 | $11.85 |
| Third Quarter | 14.12 | 12.00 |
| Second Quarter | 14.25 | 11.35 |
| First Quarter | 13.88 | 10.26 |

As of July 29, 2016, we had 3,793 holders of record of our common stock. We have not paid cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future.

During the fourth quarter of the fiscal 2016 we made the following repurchases of our common stock *(in millions, except shares and per share amounts)*:

| Period | Total Number of Shares Purchased | Average Price Paid per share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| April 3, 2016 to April 30, 2016 . . . . . . . | — | $ — | — | $ — |
| May 1, 2016 to May 28, 2016(1) . . . . . . | 2,100 | 6.00 | 2,100 | 100.0 |
| May 29, 2016 to July 2, 2016(1) . . . . . . | 674,913 | 6.60 | 677,013 | 95.5 |
| | 677,013 | $6.60 | 677,013 | $ 95.5 |

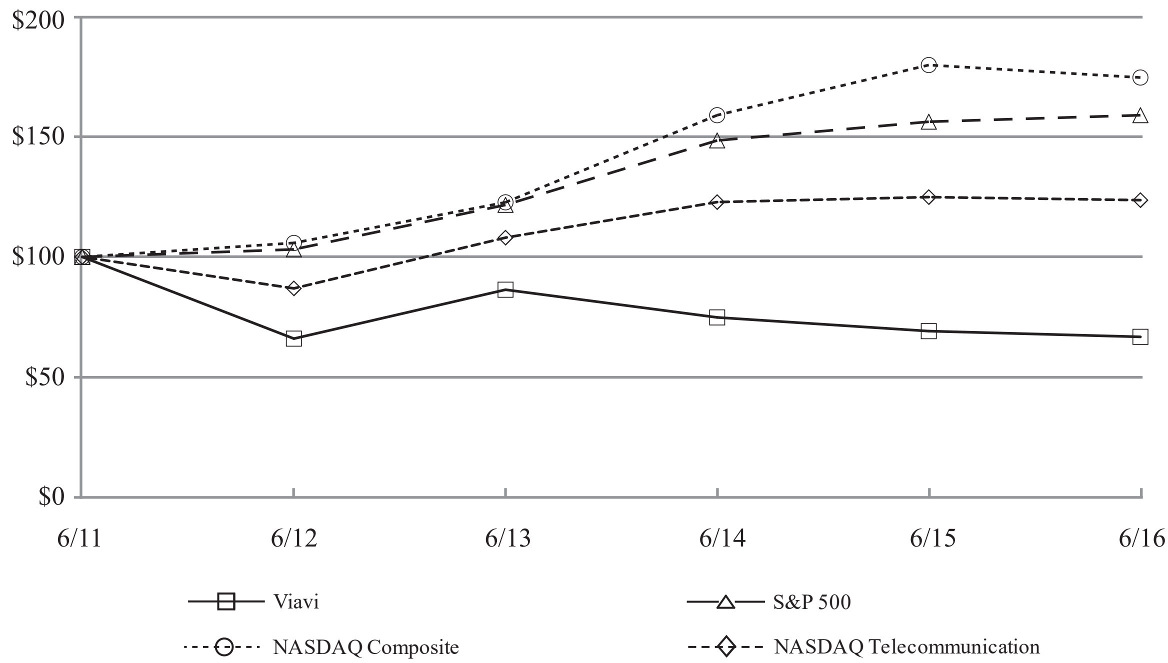
(1) Repurchases were made in open market transactions pursuant to the program announced in February 2016. In February 2016, the Company's Board of Directors authorized a stock repurchase program under which the Company may purchase shares of its common stock worth up to an aggregate purchase price of $100.0 million through open market or private transactions. The program expires on February 1, 2017.

## STOCK PERFORMANCE GRAPH

*The information contained in the following graph shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference in such filing.*

The following graph and table set forth the total cumulative return, assuming reinvestment of dividends, on an investment of $100 in June 2011 and ending June 2016 in: (i) our Common Stock, (ii) the S&P 500 Index, (iii) the NASDAQ Stock Market (U.S.) Index, and (iv) the NASDAQ Telecommunications Index. The table below presents our stock performance prior to the separation of the Lumentum business as traded on the NASDAQ Global Select Market under the symbol "JDSU." Historical stock price performance is not necessarily indicative of future stock price performance. For the purpose of this graph, the distribution of approximately 80.1% of the outstanding common stock of Lumentum to our stockholders, pursuant to which Lumentum became an independent company, is treated as a non-taxable cash dividend of $21.15 for every five shares of Viavi common stock held, an amount equal to the closing price of Lumentum common stock on August 4, 2015 which was deemed reinvested in Viavi common stock at the closing price on August 4, 2015.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

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* $100 invested on 6/30/11 in stock or index.

| | 6/11 | 6/12 | 6/13 | 6/14 | 6/15 | 6/16 |
|---|---|---|---|---|---|---|
| Viavi | $100.00 | $ 66.03 | $ 86.37 | $ 74.85 | $ 69.15 | $ 66.77 |
| S&P 500 | 100.00 | 103.14 | 121.63 | 148.43 | 156.22 | 158.93 |
| NASDAQ Composite | 100.00 | 105.82 | 122.71 | 158.94 | 179.80 | 174.60 |
| NASDAQ Telecommunications | 100.00 | 86.92 | 108.02 | 122.81 | 124.88 | 123.62 |

## ITEM 6. SELECTED FINANCIAL DATA

This table sets forth selected financial data of Viavi (*in millions*, except share and per share amounts) for the periods indicated. This data should be read in conjunction with and is qualified by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Annual Report on Form 10-K and our audited consolidated financial statements, including the notes thereto and the other financial information included in Item 8 of this Annual Report on Form 10-K. The selected financial data presented in this section is not intended to replace the consolidated financial statements included in this report.

| | Years Ended | | | | |
|---|---|---|---|---|---|
| | **July 2, 2016(8)(9)** | **June 27, 2015(7)(8)** | **June 28, 2014(5)(6)(8)** | **June 29,2013 (1)(2)(3)(4)(8)** | **June 30, 2012(1)(8)** |
| **Consolidated Statements of Operations Data:** | | | | | |
| Net revenue | $906.3 | $ 873.9 | $926.9 | $909.1 | $936.6 |
| (Loss) income from continuing operations, net of tax | (50.4) | (131.4) | (74.6) | 11.0 | (65.3) |
| (Loss) income from discontinued operations, net of tax | (48.8) | 43.3 | 56.8 | 46.0 | 9.7 |
| Net (loss) income | $ (99.2) | $ (88.1) | $ (17.8) | $ 57.0 | $ (55.6) |
| Net (loss) income per share from—basic and diluted: | | | | | |
| Continuing operations | $ (0.22) | $ (0.57) | $ (0.32) | $ 0.04 | $ (0.28) |
| Discontinued operations | (0.20) | 0.19 | 0.24 | 0.20 | 0.04 |
| Net (loss) income | $ (0.42) | $ (0.38) | $ (0.08) | $ 0.24 | $ (0.24) |

| | Years Ended | | | | |
|---|---|---|---|---|---|
| | **July 2, 2016(8)(9)** | **June 27, 2015(7)(8)** | **June 28, 2014(5)(6)** | **June 29, 2013(2)(3)(4)** | **June 30, 2012** |
| **Consolidated Balance Sheets Data:** | | | | | |
| Cash and cash equivalents, short-term investments, and restricted cash | $ 979.8 | $ 825.6 | $ 881.3 | $ 515.9 | $ 752.7 |
| Working capital | 985.3 | 1,004.6 | 1,001.1 | 682.6 | 948.9 |
| Total assets | 1,683.1 | 2,217.8 | 2,351.9 | 1,715.2 | 1,869.5 |
| Long-term obligations | 767.4 | 730.0 | 755.8 | 206.2 | 176.6 |
| Total stockholders' equity | 689.3 | 1,101.4 | 1,187.7 | 1,161.3 | 1,038.8 |

(1) During the first quarter of fiscal 2013, we entered into a definitive agreement to sell the hologram business ("Hologram Business") within our OSP segment, which subsequently closed on October 12, 2012. As a result, the operations of the Hologram Business have been presented as discontinued operations for all periods presented.

(2) During the third quarter of fiscal 2013, we acquired Arieso Ltd. ("Arieso") in a transaction accounted for in accordance with the authoritative guidance on business combinations. The Consolidated Statements of Operations for fiscal 2013 included the results of Arieso subsequent to March 7, 2013 and the Consolidated Balance Sheet as of June 29, 2013 included Arieso's financial position.

(3) During the third quarter of fiscal 2013, we approved a strategic plan to exit NSE's legacy low-speed wireline product line, which resulted in a $2.2 million charge for accelerated amortization of related intangibles, of which $1.8 million and $0.4 million are included in Amortization of acquired technologies and Amortization of other intangibles in the Consolidated Statement of Operations, respectively. In addition, we incurred $11.3 million of inventory-related charges included in Cost of sales in the Consolidated Statement of Operations, primarily related to the write-off of inventory no longer being sold due to the legacy low-speed wireline product line exit.

(4) During the fourth quarter of fiscal 2013, we determined that it is more likely than not that a portion of the deferred tax assets of a non-U.S. jurisdiction will be realized after considering all positive and negative evidence. Accordingly, a deferred tax valuation allowance release of $107.9 million was recorded as an income tax benefit during the quarter.

(5) During the third quarter of fiscal 2014, we recognized $21.7 million of uncertain tax benefits related to deferred tax assets due to the expiration of the statute of limitations in a non-U.S. jurisdiction.

(6) During the third quarter of fiscal 2014, we acquired Network Instruments in a transaction accounted for in accordance with the authoritative guidance on business combinations. The Consolidated Statement of Operations for fiscal 2014 included the results of operations from Network Instruments subsequent to January 6, 2014 and the Consolidated Balance Sheet as of June 28, 2014 included Network Instruments' financial position.

(7) In the third quarter of fiscal 2015, we recognized a $21.8 million tax benefit upon the settlement of an audit in a non-U.S. jurisdiction.

(8) During the first quarter of fiscal 2016, we completed the Separation. As a result, the operations of the Lumentum business have been presented as discontinued operations in all periods of the Company's Consolidated Statements of Operations and in the Consolidated Balance Sheet as of June 27, 2015.

(9) During the fourth quarter of fiscal 2016, the Company recorded a $91.4 million goodwill impairment charge related to the SE reporting unit in the Consolidated Statements of Operations. Refer to "Note 9. Goodwill" for more information.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OUR INDUSTRIES AND DEVELOPMENTS

Viavi, formerly JDSU, is a global provider of network test, monitoring and assurance solutions to communications service providers, enterprises and their ecosystems, supported by a worldwide channel community. Our solutions deliver end-to-end visibility across physical, virtual and hybrid networks, enabling customers to optimize connectivity, quality of experience and profitability. Viavi is also a leader in high performance thin film optical coatings, providing light management solutions to anti-counterfeiting, consumer and industrial, government and healthcare and other markets. On August 1, 2015, we completed the separation of our optical components and lasers business and created two publicly traded companies:

- an optical components and commercial lasers company named Lumentum, consisting of our CCOP segment and the WaveReady product line within our NE segment; and
- a network and service enablement and optical coatings company, renamed Viavi, consisting of our NE, SE and OSP segments.

In connection with the Separation we distributed approximately 80.1% of the outstanding shares of Lumentum common stock to our stockholders on August 1, 2015. The Company was renamed Viavi and, at the time of the distribution, retained ownership of approximately 19.9% of Lumentum's outstanding shares. Activities related to the Lumentum business have been presented as discontinued operations in all periods of the Company's consolidated financial statements in this Annual Report on Form 10-K and the accompanying disclosures, discussion and analysis herein pertains to the Company's continuing operations, unless noted otherwise.

As discussed in "Note 9. Goodwill" to our consolidated financial statements of this Annual Report on Form 10-K, we evaluate goodwill for impairment at least annually, or on an interim basis between annual tests when events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying value. In the fourth quarter of fiscal 2016 we recorded a goodwill impairment charge of $91.4 million, the full amount of SE's goodwill balance, in the accompanying Consolidated Statements of Operations. The impairment was determined as we completed our annual operating plan for fiscal 2017 in the fourth quarter which revealed a longer investment cycle will be needed for certain growth products within the SE segment, coupled with a decline in the segment's revenue and operating profitability in fiscal 2016. Refer to "Note 9. Goodwill" for more information.

To serve our markets, during fiscal 2016 we operated the following business segments:

- Network Enablement
- Service Enablement
- Optical Security and Performance Products

**Network Enablement**

NE provides an integrated portfolio of testing solutions that access the network to perform build-out and maintenance tasks. These solutions include instruments, software and services to design, build, activate, certify, troubleshoot and optimize networks. They also support more profitable, higher-performing networks and facilitate time-to-revenue.

Our solutions address lab and production environments, field deployment and service assurance for wireless and fixed communications networks, including storage networks. Our test instrument portfolio is one of the largest in the industry, with hundreds of thousands of units in active use by major NEMs, operators and services providers worldwide. Designed to be mobile, these products include instruments and software that access the network to perform installation and maintenance tasks. They help service provider technicians assess the performance of network elements and segments and verify the integrity of the information being transmitted across the network. These instruments are highly intelligent and have user interfaces that are designed to simplify operations and minimize the training required to operate them. Our NE solutions are also used by network-equipment manufacturers ("NEMs") in the design and production of next-generation network equipment.

Viavi also offers a range of product support and professional services designed to comprehensively address our customers' requirements. These services include repair, calibration, software support and technical assistance for our products. We offer product and technology training as well as consulting services. Our professional services, provided in conjunction with system integration projects, include project management, installation and implementation.

NE customers include CSPs, NEMs, government organizations and large corporate customers, such as major telecom, mobility and cable operators, chip and infrastructure vendors, storage-device manufacturers, storage-network and switch vendors, and deployed private enterprise customers. Our customers include Alcatel-Lucent International, América Móvil, S.A.B. de C.V., AT&T Inc., British Telecommunications, Plc., CenturyLink, Inc., Cisco Systems, Inc., Comcast Corporation, Lumentum Holdings Inc., Time Warner Inc., and Verizon Communications Inc.

**Service Enablement**

SE provides embedded systems and enterprise performance management solutions to global CSPs and enterprises. These systems and solutions provide visibility into network, service and application data. Our portfolio of SE solutions - which primarily consist of instruments, microprobes and software - address the same lab and production environments, field deployment and service assurance for wireless and fixed communications networks, including storage networks, as our NE portfolio. Our SE solutions allow carriers to remotely monitor performance and quality of network, service and applications performance throughout the entire network. Remote monitoring decreases operating expenses, while early detection helps provide increased uptime, preserves revenue, and allows operators to better monetize their networks.

Viavi's SE solutions are embedded network systems-including microprobes and software-that collect and analyze network data to reveal the actual customer experience and identify opportunities for new revenue streams. These solutions provide enhanced network management, control, optimization and differentiation for our customers. Using these solutions, our customers are able to access and analyze the growing amount of network data from a single console, simplifying the process of deploying, provisioning and managing network equipment and services. These capabilities allow network operators to initiate service to new customers faster, decrease the need for technicians to make on-site service calls, help to make necessary repairs faster and, as a result, lower costs while providing higher quality and more reliable services.

SE customers include similar CSPs, NEMs, government organizations, large corporate customers, and storage-segment customers that are served by our NE segment.

**Optical Security and Performance Products**

Our OSP segment leverages its core optical coating technologies and volume manufacturing capability to design, manufacture, and sell products targeting anti-counterfeiting, consumer and industrial, government, healthcare and other markets.

Our security offerings for the currency market include OVP®, OVMP® and banknote thread substrates. OVP® enables a color-shifting effect used by banknote issuers and security printers worldwide for anti-counterfeiting applications on banknotes and other high-value documents. Our technologies are deployed on the banknotes of more than 100 countries today. OSP also develops and delivers overt and covert anti-counterfeiting products that utilize its proprietary printing platform and are targeted primarily at the pharmaceutical and consumer-electronics markets.

Leveraging our expertise in spectral management and our unique high-precision coating capabilities, OSP provides a range of products and technologies for the consumer and industrial market, including, for example, 3D sensing optical filters.

OSP value-added solutions meet the stringent requirements of commercial and government customers. Our products are used in a variety of aerospace and defense applications, including optics for guidance systems, laser eye protection and night vision systems. These products, including coatings and optical filters, are optimized for each specific application.

OSP serves customers such as FLIR Systems, Kingston Digital, L-3 Communications, Lockheed Martin and SICPA.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Refer to "Note 2. Recently Issued Accounting Pronouncements" regarding the effect of certain recent accounting pronouncements on our consolidated financial statements.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, net revenue and expenses, and the related disclosures. We base our estimates on historical experience, our knowledge of economic and market factors and various other assumptions that we believe to be reasonable under the circumstances. Estimates and judgments used in the preparation of our financial statements are, by their nature, uncertain and unpredictable, and depend upon, among other things, many factors outside of our control, such as demand for our products and economic conditions. Accordingly, our estimates and judgments may prove to be incorrect and actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies are affected by significant estimates, assumptions and judgments used in the preparation of our consolidated financial statements:

### Revenue Recognition

We recognize revenue when it is realized or realizable and earned. We consider revenue realized or realizable and earned when there is persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided, risk of loss has transferred and in cases where formal acceptance is required, customer acceptance has been obtained or customer acceptance provisions have lapsed. In situations where a formal acceptance is required but the acceptance only relates to whether the product meets its published specifications, revenue is recognized upon delivery provided all other revenue recognition criteria are met. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

We reduce revenue for rebates and other similar allowances. Revenue is recognized only if these estimates can be reliably determined. Our estimates are based on historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

In addition to the aforementioned general policies, the following are the specific revenue recognition policies for multiple-element arrangements and for each major category of revenue.

***Multiple-Element Arrangements***

When a sales arrangement contains multiple deliverables, such as sales of products that include services, the multiple deliverables are evaluated to determine whether there are one or more units of accounting. Where there is more than one unit of accounting, then the entire fee from the arrangement is allocated to each unit of accounting based on the relative selling price. Under this approach, the selling price of a unit of accounting is determined by using a selling price hierarchy which requires the use of vendor-specific objective evidence ("VSOE") of fair value if available, third-party evidence ("TPE") if VSOE is not available, or management's best estimate of selling price ("BESP") if neither VSOE nor TPE is available. Revenue is recognized when the revenue recognition criteria for each unit of accounting are met.

We establish VSOE of selling price using the price charged for a deliverable when sold separately. TPE of selling price is established by evaluating similar and interchangeable competitor goods or services in sales to similarly situated customers. When VSOE or TPE are not available then we use BESP. Generally, we are not able to determine TPE because our product strategy differs from that of others in our markets, and the extent of customization varies among comparable products or services from our peers. We establish BESP using historical selling price trends and considering multiple factors including, but not limited to geographies, market conditions, competitive landscape, internal costs, gross margin objectives, and pricing practices. When determining BESP, we apply significant judgment in establishing pricing strategies and evaluating market conditions and product lifecycles.

The determination of BESP is made through consultation with and approval by the segment management. Segment management may modify or develop new pricing practices and strategies in the future. As these pricing strategies evolve, we may modify our pricing practices in the future, which may result in changes in BESP. The aforementioned factors may result in a different allocation of revenue to the deliverables in multiple element arrangements from the current fiscal year, which may change the pattern and timing of revenue recognition for these elements but will not change the total revenue recognized for the arrangement.

To the extent a deliverable(s) in a multiple-element arrangement is subject to specific guidance (for example, software that is subject to the authoritative guidance on software revenue recognition), we allocate the fair value of the units of accounting using relative selling price and that unit of accounting is accounted for in accordance with the specific guidance. Some of our product offerings include hardware that are integrated with or sold with software that delivers the functionality of the equipment. We believe this equipment is not considered software-related and would therefore be excluded from the scope of the authoritative guidance on software revenue recognition.

***Hardware***

Revenue from hardware sales is typically recognized when the product meet delivery criteria.

***Services***

Revenue from services and system maintenance is recognized on a straight-line basis over the term of the contract. Revenue from professional service engagements is recognized once its delivery obligation is fulfilled. Revenue related to extended warranty and product maintenance contracts is deferred and recognized on a straight-line basis over the delivery period. We also generate service revenue from hardware repairs and calibration which is recognized as revenue upon completion of the service.

***Software***

Our software arrangements generally consist of a perpetual license fee and Post-Contract Support ("PCS"). Where we have established VSOE of fair value for PCS contracts, it is based on the renewal rate or the bell curve methodology. Revenue from maintenance, unspecified upgrades and technical support is recognized over the period such items are delivered. In multiple-element revenue arrangements that include software, software-related and non-software-related elements are accounted for in accordance with the following policies.

- Non-software and software-related products are bifurcated based on a relative selling price
- Software-related products are separated into units of accounting if all of the following criteria are met:

- The functionality of the delivered element(s) is not dependent on the undelivered element(s).
- There is VSOE of fair value of the undelivered element(s).
- Delivery of the delivered element(s) represents the culmination of the earnings process for that element(s).

If these criteria are not met, the software revenue is deferred until the earlier of when such criteria are met or when the last undelivered element is delivered. If there is VSOE of the undelivered item(s) but no such evidence for the delivered item(s), the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered item(s) equals the total arrangement consideration less the aggregate VSOE of the undelivered elements. Generally VSOE has not been established for PCS, and in those cases we have recognized revenue ratably over the PCS period after all software elements have been delivered and the only undelivered item is PCS.

**Allowances for Doubtful Accounts**

We perform credit evaluations of our customers' financial condition. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We record our bad debt expenses as SG&A expense. When we become aware that a specific customer is unable to meet its financial obligations to us, for example, as a result of bankruptcy or deterioration in the customer's operating results or financial position, we record a specific allowance to reflect the level of credit risk in the customer's outstanding receivable balance. In addition, we record additional allowances based on certain percentages of our aged receivable balances. These percentages are determined by a variety of factors including, but not limited to, current economic trends, historical payment and bad debt write-off experience. We are not able to predict changes in the financial condition of our customers, and if circumstances related to our customers deteriorate, our estimates of the recoverability of our trade receivables could be materially affected and we may be required to record additional allowances. Alternatively, if we provide more allowances than we need, we may reverse a portion of such provisions in future periods based on our actual collection experience.

**Investments**

Our investments in debt securities and marketable equity securities are primarily classified as available-for-sale investments or trading securities and are recorded at fair value. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on available-for-sale investments, net of tax, are reported as a separate component within our Consolidated Statements of Stockholders' Equity. Unrealized gains or losses on trading securities resulting from changes in fair value are recognized in current earnings. Our short-term investments, which are classified as current assets, include certain securities with stated maturities of longer than twelve months as they are highly liquid and available to support current operations.

We periodically review our investments for impairment. If a debt security's market value is below amortized cost and we either intend to sell the security or it is more likely than not that we will be required to sell the security before its anticipated recovery, we record an other-than-temporary impairment charge to investment income (loss) for the entire amount of the impairment; if a debt security's market value is below amortized cost and we do not expect to recover the entire amortized cost of the security, we separate the other-than-temporary impairment into the portion of the loss related to credit factors, or the credit loss portion, and the portion of the loss that is not related to credit factors, or the non-credit loss portion. The credit loss portion is the difference between the amortized cost of the security and our best estimate of the present value of the cash flows expected to be collected from the debt security. The non-credit loss portion is the residual amount of the other-than-temporary impairment. The credit loss portion is recorded as a charge to income (loss), and the non-credit loss portion is recorded as a separate component of Other comprehensive income (loss).

**Inventory Valuation**

We assess the value of our inventory on a quarterly basis and write-down those inventories which are obsolete or in excess of our forecasted usage to their estimated realizable value. Our estimates of realizable value are based upon our analysis and assumptions including, but not limited to, forecasted sales levels by product, expected product lifecycle, product development plans and future demand requirements. Our product line management personnel play a key role in our excess review process by providing updated sales forecasts, managing product transitions and working with manufacturing to maximize recovery of excess inventory. If actual market conditions are less favorable than our forecasts or actual demand from our customers is lower than our estimates, we may be required to record additional inventory write-downs. If actual market conditions are more favorable than anticipated, inventory previously written down may be sold, resulting in lower cost of sales and higher income from operations than expected in that period.

**Goodwill Valuation**

We test goodwill for possible impairment on an annual basis in our fourth quarter and at any other time if events occur or circumstances indicate that the carrying amount of goodwill may not be recoverable. Circumstances that could trigger an impairment test include, but are not limited to: a significant adverse change in the business climate or legal factors, an adverse action or assessment by a regulator, changes in customers, target markets and strategy, unanticipated competition, loss of key personnel, or the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed.

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

Application of the goodwill impairment test requires judgments, including: identification of the reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, a qualitative assessment to determine whether there are any impairment indicators, and determining the fair value of each reporting unit. We generally estimate the fair value of a reporting unit using a combination of the income approach, which estimates the fair value based on the future discounted cash flows, and the market approach, which estimates the fair value based on comparable market prices. Our significant estimates in the income approach include: our weighted average cost of capital, long-term rate of growth and profitability of the reporting unit's business, and working capital effects. The market approach estimates the fair value of the business based on a comparison of the reporting unit to comparable publicly traded companies in similar lines of business. Significant estimates in the market approach include: identifying similar companies with comparable business factors such as size, growth, profitability, risk and return on investment, and assessing comparable revenue and operating income multiples in estimating the fair value of the reporting unit.

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

In the fourth quarter of fiscal 2016 we recorded a goodwill impairment charge of $91.4 million, the full amount of SE's goodwill balance, in the accompanying Consolidated Statements of Operations. The impairment was determined as we completed our annual operating plan for fiscal 2017 in the fourth quarter which revealed a longer investment cycle will be needed for certain growth products within the SE segment, coupled with a decline in the segment's revenue and operating profitability in fiscal 2016. Refer to "Note 9. Goodwill" for more information.

**Long-lived Asset Valuation (Property, Plant and Equipment and Intangible Assets)**

***Long-lived assets held and used***

We test long-lived assets for recoverability, at the asset group level, when events or changes in circumstances indicate that their carrying amounts may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and current expectation that the asset will more likely than not be sold or disposed of significantly before the end of its estimated useful life.

Recoverability is assessed based on the difference between the carrying amount of the asset and the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

**Income Taxes**

In accordance with the authoritative guidance on accounting for income taxes, we recognize income taxes using an asset and liability approach. This approach requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. The measurement of current and deferred taxes is based on provisions of the enacted tax law and the effects of future changes in tax laws or rates are not anticipated.

The authoritative guidance provides for recognition of deferred tax assets if the realization of such deferred tax assets is more likely than not to occur based on an evaluation of both positive and negative evidence and the relative weight of the evidence. With the exception of certain international jurisdictions, we have determined that at this time it is more likely than not that deferred tax assets attributable to the remaining jurisdictions will not be realized, primarily due to uncertainties related to our ability to utilize our net operating loss carryforwards before they expire. Accordingly, we have established a valuation allowance for such deferred tax assets. If there is a change in our ability to realize our deferred tax assets for which a valuation allowance has been established, then our tax provision may decrease in the period in which we determine that realization is more likely than not. Likewise, if we determine that it is not more likely than not that our deferred tax assets will be realized, then a valuation allowance may be established for such deferred tax assets and our tax provision may increase in the period in which we make the determination.

The authoritative guidance on accounting for uncertainty in income taxes prescribes the recognition threshold and measurement attributes for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, it provides guidance on recognition, classification, and disclosure of tax positions. We are subject to income tax audits by the respective tax authorities in all of the jurisdictions in which we operate. The determination of tax liabilities in each of these jurisdictions requires the interpretation and application of complex and sometimes uncertain tax laws and regulations. We recognize liabilities based on our estimate of whether, and the extent to which, additional tax liabilities are more likely than not. If we ultimately determine that the payment of such a liability is not necessary, then we reverse the liability and recognize a tax benefit during the period in which the determination is made that the liability is no longer necessary.

The recognition and measurement of current taxes payable or refundable and deferred tax assets and liabilities requires that we make certain estimates and judgments. Changes to these estimates or a change in judgment may have a material impact on our tax provision in a future period.

**Restructuring Accrual**

In accordance with authoritative guidance on accounting for costs associated with exit or disposal activities, generally costs associated with restructuring activities are recognized when they are incurred. However, in the case of leases, the expense is estimated and accrued when the property is vacated. Given the significance of, and the timing of the execution of such activities, this process is complex and involves periodic reassessments of estimates made from the time the property was vacated, including evaluating real estate market conditions for expected vacancy periods and sub-lease income. Additionally, a liability for post-employment benefits for workforce reductions related to restructuring activities is recorded when payment is probable and, the amount is reasonably estimable. We continually evaluate the adequacy of the remaining liabilities under our restructuring initiatives. Although we believe that these estimates accurately reflect the costs of our restructuring plans, actual results may differ, thereby requiring us to record additional provisions or reverse a portion of such provisions.

**Pension and Other Postretirement Benefits**

The funded status of our retirement-related benefit plans is recognized in the Consolidated Balance Sheets. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at fiscal year end, the measurement date. For defined benefit pension plans, the benefit obligation is the projected benefit obligation (“PBO”); and for the non-pension postretirement benefit plan, the benefit obligation is the accumulated postretirement benefit obligation (“APBO”). The PBO represents the actuarial present value of benefits expected to be paid upon retirement. The APBO represents the actuarial present value of postretirement benefits attributed to employee services already rendered. Unfunded or partially funded plans, with the benefit obligation exceeding the fair value of plan assets, are aggregated and recorded as a retirement and non-pension postretirement benefit obligation equal to this excess. The current portion of the retirement-related benefit obligation represents the actuarial present value of benefits payable in the next 12 months in excess of the fair value of plan assets, measured on a plan-by-plan basis. This liability is recorded in Other current liabilities in the Consolidated Balance Sheets.

Net periodic pension cost (income) is recorded in the Consolidated Statement of Operations and includes service cost, interest cost, expected return on plan assets, amortization of prior service cost and (gains) losses previously recognized as a component of accumulated other comprehensive income. Service cost represents the actuarial present value of participant benefits attributed to services rendered by employees in the current year. Interest cost represents the time value of money cost associated with the passage of time. (Gains) losses arise as a result of differences between actual experience and assumptions or as a result of changes in actuarial assumptions. Prior service cost (credit) represents the cost of benefit improvements attributable to prior service granted in plan amendments. (Gains) losses and prior service cost (credit) not recognized as a component of net periodic pension cost (income) in the Consolidated Statement of Operations as they arise are recognized as a component of accumulated other comprehensive income on the Consolidated Balances Sheets, net of tax. Those (gains) losses and prior service cost (credit) are subsequently recognized as a component of net periodic pension period cost (income) pursuant to the recognition and amortization provisions of the authoritative guidance.

The measurement of the benefit obligation and net periodic pension cost (income) is based on our estimates and actuarial valuations, provided by third-party actuaries, which are approved by our management. These valuations reflect the terms of the plans and use participant-specific information such as compensation, age and years of service, as well as certain assumptions, including estimates of discount rates, expected return on plan assets, rate of compensation increases, and mortality rates. We evaluate these assumptions annually at a minimum. In estimating the expected return on plan assets, we consider historical returns on plan assets, adjusted for forward-looking considerations, inflation assumptions and the impact of the active management of the plan’s invested assets.

**Loss Contingencies**

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

## RESULTS OF OPERATIONS

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

| | Years Ended | | |
|---|---|---|---|
| | June 27, 2015 | June 28, 2014 | June 29, 2013 |
| Segment net revenue: | | | |
| NE | 55.7% | 58.0% | 61.5% |
| SE | 16.9 | 19.9 | 16.8 |
| OSP | 27.4 | 22.1 | 21.7 |
| Net revenue | 100.0 | 100.0 | 100.0 |
| Cost of sales | 37.4 | 36.8 | 39.4 |
| Amortization of acquired technologies | 1.9 | 3.7 | 3.7 |
| Gross profit | 60.7 | 59.5 | 56.9 |
| Operating expenses: | | | |
| Research and development | 18.4 | 19.8 | 17.5 |
| Selling, general and administrative | 38.7 | 43.1 | 41.5 |
| Goodwill impairment | 10.1 | — | — |
| Amortization of other intangibles | 1.6 | 2.2 | 1.7 |
| Restructuring and related charges | 1.2 | 3.1 | 2.2 |
| Total operating expenses | 70.0 | 68.2 | 62.9 |
| Loss from operations | (9.3) | (8.7) | (6.0) |
| Interest and other income (expense), net | 0.3 | 0.5 | (0.1) |
| Gain on sale of investments | 7.8 | — | — |
| Interest expense | (3.9) | (3.8) | (3.2) |
| Loss from continuing operations before income taxes | (5.1) | (12.0) | (9.3) |
| (Benefit from) provisions for income taxes | 0.5 | 3.0 | (1.3) |
| (Loss) income from continuing operations, net of tax | (5.6) | (15.0) | (8.0) |
| Loss from discontinued operations, net of tax | (5.3) | 4.9 | 6.1 |
| Net (loss) income | (10.9)% | (10.1)% | (1.9)% |

**Financial Data for Fiscal 2016, 2015 and 2014**

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

| | 2016 | 2015 | Change | Percent Change | 2015 | 2014 | Change | Percent Change |
|---|---|---|---|---|---|---|---|---|
| Segment net revenue: | | | | | | | | |
| NE | $504.6 | $506.8 | $ (2.2) | (0.4)% | $506.8 | $ 570.1 | $(63.3) | (11.1)% |
| SE | 153.6 | 174.3 | (20.7) | (11.9) | 174.3 | 156.0 | 18.3 | 11.7 |
| OSP | 248.1 | 192.8 | 55.3 | 28.7 | 192.8 | 200.8 | (8.0) | (4.0) |
| Net revenue | $906.3 | $873.9 | $ 32.4 | 3.7% | $873.9 | $ 926.9 | $(53.0) | (5.7)% |
| Amortization of acquired technologies | $ 17.3 | $ 31.9 | $(14.6) | (45.8)% | $ 31.9 | $ 34.1 | $ (2.2) | (6.5)% |
| Percentage of net revenue | 1.9% | 3.7% | | | 3.7% | 3.7% | | |
| Gross profit | 549.7 | 520.1 | $ 29.6 | 5.7% | 520.1 | 527.8 | $ (7.7) | (1.5)% |
| Gross margin | 60.7% | 59.5% | | | 59.5% | 56.9% | | |
| Amortization of intangibles | 14.6 | 19.5 | (4.9) | (25.1)% | 19.5 | 15.5 | 4.0 | 25.8% |
| Percentage of net revenue | 1.6% | 2.2% | | | 2.2% | 1.7% | | |
| Research and development | 166.4 | 173.3 | (6.9) | (4.0)% | 173.3 | 161.8 | 11.5 | 7.1% |
| Percentage of net revenue | 18.4% | 19.8% | | | 19.8% | 17.5% | | |
| Selling, general and administrative | 351.1 | 376.3 | (25.2) | (6.7)% | 376.3 | 384.8 | (8.5) | (2.2)% |
| Percentage of net revenue | 38.7% | 43.1% | | | 43.1% | 41.5% | | |
| Impairment of goodwill | 91.4 | — | 91.4 | 100.0% | — | — | — | —% |
| Percentage of net revenue | 10.1% | —% | | | —% | —% | | |
| Restructuring and related charges | 10.5 | 26.8 | (16.3) | (60.8)% | 26.8 | 21.3 | 5.5 | 25.8% |
| Percentage of net revenue | 1.2% | 3.1% | | | 3.1% | 2.2% | | |
| Gain on sale of investments | 71.6 | 0.1 | 71.5 | 71,500.0% | 0.1 | 0.4 | (0.3) | (75.0)% |
| Percentage of net revenue | 7.8% | —% | | | —% | —% | | |
| Provision for (benefit from) income taxes | 4.5 | 26.1 | (21.6) | (82.8)% | 26.1 | (11.2) | 37.3 | (333.0)% |
| Percentage of net revenue | 0.5% | 3.0% | | | 3.0% | (1.3)% | | |
| Loss (income) from discontinued operations, net of tax | (48.8) | 43.3 | (92.1) | (212.7)% | 43.3 | 56.8 | (13.5) | (23.8)% |
| Percentage of net revenue | (5.4)% | 4.9% | | | 4.9% | 6.1% | | |

## FOREIGN CURRENCY IMPACT ON RESULTS OF OPERATIONS

While the majority of our net revenue and operating expenses are denominated in U.S. dollar, a portion of our international operations are denominated in currencies other than the U.S. dollar. Changes in foreign exchange rates may significantly affect revenue and expenses. While we use foreign currency hedging contracts to mitigate some foreign currency exchange risk, these activities are limited in the protection that they provide us and can themselves result in losses. We have presented below "constant dollar" comparisons of our net sales and operating expenses which exclude the impact of currency exchange rate fluctuations. Constant dollar net revenue and operating expenses are non-GAAP financial measures, which is information derived from consolidated financial information but not presented in our financial statements prepared in accordance with U.S. GAAP. Our management believes these non-GAAP measures, when considered in conjunction with the corresponding U.S. GAAP measures, may facilitate a better understanding of changes in net revenue and operating expenses.

### Fiscal 2016 and 2015

If currency exchange rates had been constant in fiscal 2016 and fiscal 2015, our consolidated net revenue in "constant dollars" would have increased by approximately $22 million, or 2.5% of net revenue, which primarily impacted our NE and SE segments. The impact of foreign currency fluctuations on net revenue was not indicative of the impact on net income due to the offsetting foreign currency impact on operating costs and expenses. If currency exchange rates had been constant in fiscal 2016 and fiscal 2015, our consolidated operating expenses in "constant dollars" would have increased by approximately $16 million, or 1.8% of net revenue.

### Fiscal 2015 and 2014

During the second half of fiscal 2015, the significant strengthening of the U.S. Dollar relative to certain other foreign currencies (namely the Euro, Japanese Yen and Canadian Dollar) had an unfavorable impact on our reported international net revenues but a favorable impact on our reported international operating expenses because these amounts were translated at lower rates in fiscal 2015 than in fiscal 2014. If currency exchange rates had been constant in fiscal 2015 and fiscal 2014, our consolidated net revenue in "constant dollars" would have increased by approximately $15 million, or 1.7% of net revenue, which primarily impacted our NE and SE segments. The impact of foreign currency fluctuations on net revenue was not indicative of the impact on net income due to the offsetting foreign currency impact on operating costs and expenses. If currency exchange rates had been constant in fiscal 2015 and fiscal 2014, our consolidated operating expenses in "constant dollars" would have increased by approximately $11 million, or 1.3% of net revenue.

The Results of Operations are presented in accordance with U.S. GAAP and not using constant dollars. Refer to Item 7A. Qualitative and Quantitative Disclosures about Market Risk of this Annual Report on Form 10-K for further details on foreign currency instruments and our related risk management strategies.

## NET REVENUE

Following the Separation, revenue from our service offerings exceeds 10% of our total consolidated net revenue and is presented separately in our Consolidated Statements of Operations. Service revenue primarily consists of maintenance and support, extended warranty, professional services and post-contract support in addition to other services such as rentals, loaners and repair services. When evaluating the performance of our segments, Management focuses on total net revenue, gross profit and operating income and not the product or service categories. Consequently, the following discussion of business segment performance focuses on total net revenue, gross profit, and operating income consistent with our approach for managing the business.

### Fiscal 2016 and 2015

Net revenue increased by $32.4 million, or 3.7%, during fiscal 2016 compared to fiscal 2015. This increase was primarily due to an increase in our OSP segment, partially offset by decreases in our SE and NE segments as discussed below.

Product revenues increased by $37.6 million, or 4.9%, during fiscal 2016 compared to fiscal 2015. This increase was driven by $62.4 million of product revenue increases from our OSP and NE segments, primarily due to higher demand for our Anti-Counterfeiting product line in our OSP segment as discussed below. This was partially offset by a $24.8 million product revenue decrease from our SE segment primarily due to a decline in our more mature Assurance solutions.

Service revenues decreased $5.2 million, or 5.1%, during fiscal 2016 compared to fiscal 2015. This decrease was driven by a $9.6 million decline in service revenue from our NE segment primarily related to the release of new product offerings impacting the timing of renewals for support and maintenance contracts, coupled with lower revenue from repair services. This was partially offset by $4.4 million of service revenue increases from our SE and OSP segments driven by maintenance and support contracts for our Enterprise offerings in our SE segment.

NE net revenue remained relatively flat, decreasing by $2.2 million, or 0.4%, during fiscal 2016 compared to fiscal 2015. This was driven by $21.7 million of net revenue decreases from our Wireline and Wireless offerings, partially offset by $19.5 million of net revenue increases from our Lab offerings. Wireline and Wireless net revenue decreased in the fiscal 2016 primarily as the prior period reflected Wireline net revenue from a significant ramp for a one-time project from a key customer, coupled with lower services revenue. This was partially offset by strength in our fiber lab and field test instruments driven by "FTTH" and "Fiber for Wireless Backhaul" deployments in North America and 100G deployments globally as well as higher demand for our optical transport products.

SE net revenue decreased by $20.7 million, or 11.9%, during fiscal 2016 compared to fiscal 2015. This decrease was driven by $23.5 million of net revenue decreases from our Assurance and Wireless Solutions offerings primarily due to a change in product mix as our more mature offerings declined at a steeper pace than the growth in our new offerings. This was partially offset by $2.8 million of net revenue increases from our Enterprise offerings.

OSP net revenue increased by $55.3 million, or 28.7%, during fiscal 2016 compared to fiscal 2015. This increase was driven by net revenue increases primarily from our Anti-Counterfeiting product line driven by cyclical demand for our currency products resulting from an increase in currency reprinting and bank-note redesigns over the normal run-rate in fiscal 2016, coupled with net revenue growth in our Consumer and Industrial and Government product lines.

**Fiscal 2015 and 2014**

Net revenue decreased by $53.0 million, or 5.7%, during fiscal 2015 compared to fiscal 2014. This decrease was primarily due to a decrease in our NE and OSP segments, partially offset by an increase in our SE segment as discussed below.

Product revenues decreased by $43.7 million, or 5.4%, during fiscal 2015 compared to fiscal 2014. This decrease was driven by $75.3 million of product revenue decreases from our NE and OSP segments primarily due to a reduction in CSP spending impacting demand for our instruments products in our NE segment. This was partially offset by a $31.6 million increase in product revenue from our SE segment driven by the acquisition of Network Instruments in the second half of fiscal 2014.

Service revenues decreased $9.3 million, or 8.3%, during fiscal 2015 compared to fiscal 2014. This decrease was driven by a $13.3 million decrease in service revenue from our SE segment primarily due to a decline in our more mature Assurance solutions. This was partially offset by $4.0 million of service revenue increase from our NE and OSP segments driven by NE repair services.

NE net revenue decreased by $63.3 million or 11.1%, during fiscal 2015 compared to fiscal 2014. This decrease was driven by $74.7 million of net revenue decreases from our Wireline and Lab offerings primarily due to a reduction in CSP spending driven by lower demand from key customers. This was partially offset by $11.4 million of net revenue increases for our Wireless offerings driven by demand from CSPs.

SE net revenue increased by $18.3 million, or 11.7%, during fiscal 2015 compared to fiscal 2014. This increase was driven by $30.7 million of net revenue increases from incremental net revenue from our Enterprise offerings which we acquired in the third quarter of fiscal 2014, coupled with revenue growth from our Wireless Solutions. This was partially offset by $12.4 million of net revenue decreases primarily driven by a decline in our more mature Assurance solutions.

OSP net revenue decreased by $8.0 million, or 4.0%, during fiscal 2015 compared to fiscal 2014. This decrease was driven by $35.1 million of net revenue decreases primarily from the planned exit of legacy products which was completed at the end of fiscal 2015 and lower demand from a key customer for 3-D sensing products in our Consumer and Industrial product line. This was partially offset by $27.1 million of net revenue increases primarily from our Anti-Counterfeiting product line driven by cyclical demand for our currency products.

Going forward, we expect to continue to encounter a number of industry and market risks and uncertainties that may limit our visibility, and consequently, our ability to predict future revenue, profitability and general financial performance, and that could create quarter over quarter variability in our financial measures. For example, while the majority of our net revenue and expenses are denominated in U.S. dollars, a portion of our international operations are denominated in foreign currencies. Recently, the strengthening of the U.S. dollar relative to certain foreign currencies, namely the Euro, Brazilian Real and Canadian Dollar, negatively impacted reported revenue and reduced our reported expenses. Additionally, we have seen recent demand for our NE and SE products affected by macroeconomic uncertainty. We cannot predict when or to what extent these uncertainties will be resolved. Our revenues, profitability, and general financial performance may also be affected by: (a) strong pricing pressures due to, among other things, a highly concentrated customer base, increasing competition, particularly from Asia-based competitors, and a general commoditization trend for certain products; (b) high product mix variability in our NE and SE markets, which affects revenue and gross margin; (c) fluctuations in customer buying patterns, which cause demand, revenue and profitability volatility; and (d) the current trend of communication industry consolidation, which is expected to continue, that directly affects our NE and SE customer bases and adds additional risk and uncertainty to our financial and business projections.

In fiscal 2017, we expect to continue to see a decline in net revenue from our more mature Assurance and Wireless Solutions within our SE segment. In our OSP segment, we expect Anti-Counterfeiting net revenue to decline in fiscal year 2017 from 2016 levels, as currency reprinting and banknote redesigns return to normal run rates; however, we expect growth drivers for the Anti-Counterfeiting business to remain intact in the long-term.

## REVENUE BY REGION

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

| | Years Ended | | | | | |
|---|---|---|---|---|---|---|
| | July 2, 2016 | | June 27, 2015 | | June 28, 2014 | |
| **Americas:** | | | | | | |
| United States | $ 396.6 | 43.8% | $ 424.3 | 48.5% | $ 448.6 | 48.4% |
| Other Americas | 66.0 | 7.3% | 62.5 | 7.2% | 58.8 | 6.3% |
| Total Americas | $ 462.6 | 51.1% | $ 486.8 | 55.7% | $ 507.4 | 54.7% |
| **Asia-Pacific** | $ 166.3 | 18.3% | $ 144.5 | 16.5% | $ 140.9 | 15.2% |
| **EMEA:** | | | | | | |
| Switzerland | $ 135.6 | 15.0% | $ 97.7 | 11.2% | $ 98.0 | 10.6% |
| Other EMEA | 141.8 | 15.6% | 144.9 | 16.6% | 180.6 | 19.5% |
| Total EMEA | $ 277.4 | 30.6% | $ 242.6 | 27.8% | $ 278.6 | 30.1% |
| Total net revenue | $ 906.3 | 100.0% | $ 873.9 | 100.0% | $ 926.9 | 100.0% |

Net revenue is assigned to geographic regions based on customer shipment locations. Net revenue from customers outside the Americas for the fiscal years ended 2016, 2015 and 2014 represented 48.9%, 44.3% and 45.3% of net revenue, respectively. We expect revenue from customers outside of North America to continue to be an important part of our overall net revenue and an increasing focus for net revenue growth opportunities.

## GROSS MARGIN

Gross margin in fiscal 2016 increased 1.2 percentage points to 60.7% from 59.5% in fiscal 2015. This increase was primarily due to a $14.6 million reduction in amortization of developed technology driven by certain intangible assets becoming fully amortized during fiscal 2015, coupled with an improvement in gross margin from our OSP segment primarily due to favorable product mix with higher anti-counterfeiting revenue in fiscal 2016. This was partially offset by lower gross margin in our SE segment and a change in overall segment mix as our OSP segment, whose products generally carry a lower gross margin than our NE and SE products, represented a higher percentage of our total net revenue in fiscal 2016.

Gross margin in fiscal 2015 increased 2.6 percentage points to 59.5% from 56.9% in fiscal 2014. This increase was primarily due to an improvement in gross margin within our SE and OSP segments driven by the addition of our higher-margin Enterprise product line acquired in the third quarter of fiscal 2014 in our SE segment, coupled with increased revenue from higher margin anti-counterfeiting products and the exit of lower margin legacy products in our OSP segment.

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

## RESEARCH AND DEVELOPMENT

R&D expense decreased by $6.9 million, or 4.0%, during fiscal 2016 compared to fiscal 2015. This decrease was primarily due to a $3.6 million in-process research and development (“IPR&D”) impairment charge in the prior year related to a fiscal 2014 acquisition, coupled with $4.0 million net cost savings realized from our strategic restructuring activities related to site consolidations, reorganizations, and the insourcing or outsourcing of R&D activities to align our investment strategy following the Separation. This was partially offset by various other incremental expenses incurred, including additional cost as fiscal 2016 was a 53-week fiscal year and contained one additional week compared to fiscal 2015. As a percentage of net revenue R&D decreased by 1.4 percentage points during fiscal 2016 compared to fiscal 2015 as the Company continues to execute targeted cost savings initiatives.

R&D expense increased by $11.5 million, or 7.1%, during fiscal 2015 compared to fiscal 2014. This increase was primarily driven by a $4.5 million increase in employee compensation expense primarily due to our ongoing investment in R&D and our strategic acquisitions in the second and third quarters of fiscal 2014. Also contributing to the increase was a $3.6 million IPR&D impairment charge in fiscal 2015 related to a fiscal 2014 acquisition. As a percentage of net revenue, R&D increased 2.3 percentage points in fiscal 2015 as we continued to invest in our portfolio to develop new technologies, products and services that offer our customers increased value and strengthen our position in our core markets, coupled with lower net revenue as discussed above.

We believe that continuing our investments in R&D is critical to attaining our strategic objectives. We plan to continue to invest in R&D and new products that will further differentiate us in the marketplace.

## SELLING, GENERAL AND ADMINISTRATIVE

SG&A expense decreased by $25.2 million, or 6.7%, in fiscal 2016 compared to fiscal 2015. This decrease was primarily due to a $30.5 million reduction in labor, benefits and facilities expenses driven by lower headcount and site consolidations associated with our strategic restructuring activities and ongoing cost reduction efforts coupled with incremental charge from modification of equity awards pursuant to Change of Control Benefits Plan covering spin-off in the prior year that were not there this year. This was partially offset by an $8.4 million charge in fiscal 2016 related to a litigation ruling impacting our pension obligation. As a percentage of net revenue, SG&A decreased by 4.4 percentage points in fiscal 2016 primarily driven by our strategic cost reduction efforts to optimize our expense structure.

SG&A expense decreased by $8.5 million, or 2.2%, in fiscal 2015 compared to fiscal 2014. This decrease was primarily due to $17.4 million of various reductions including lower labor and benefits expense primarily related to our continuing cost reduction efforts and strategic initiatives in preparation for the Separation. This was partially offset by $11.4 million of Viavi-specific incremental charges for professional fees and additional personnel costs to complete the Separation. As a percentage of net revenue, SG&A increased by 1.6 percentage points in fiscal 2015 primarily due to costs incurred related to the separation of the Lumentum business coupled with lower net revenue as discussed above.

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

### IMPAIRMENT OF GOODWILL

During the fourth quarter of fiscal 2016 the Company impaired the full balance of SE goodwill of $91.4 million which is presented as “Impairment of goodwill” in the accompanying Consolidated Statements of Operations. The impairment was determined in the fourth quarter of fiscal 2016 as the Company completed its annual operating plan for fiscal 2017 which revealed a longer investment cycle will be needed for certain growth SE products, coupled with the decline in SE net revenue and operating profitability in fiscal 2016. Refer to “Note 9. Goodwill” for more information on goodwill including our valuation approach and assumptions.

### AMORTIZATION OF INTANGIBLES

Amortization of intangibles for fiscal 2016 decreased $19.5 million, or 37.9%, to $31.9 million from $51.4 million in fiscal 2015. This decrease is driven by a $14.6 million reduction in amortization of developed technology primarily due to certain significant intangible assets becoming fully amortized in the fourth quarter of fiscal 2015.

Amortization of intangibles for fiscal 2015 increased $1.8 million, or 3.6%, to $51.4 million from $49.6 million in fiscal 2014. The increase is due incremental amortization of intangible assets from our fiscal 2015 acquisitions, offset by certain significant intangible assets becoming fully amortized.

### ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT (“IPR&D”)

In accordance with authoritative guidance, we recognize IPR&D at fair value as of the acquisition date, and subsequently account for it as an indefinite-lived intangible asset until completion or abandonment of the associated research and development efforts. We periodically review the stage of completion and likelihood of success of each IPR&D project. The nature of the efforts required to develop IPR&D projects into commercially viable products principally relates to the completion of all planning, designing, prototyping, verification and testing activities that are necessary to establish that the products can be produced to meet their design specifications, including functions, features and technical performance requirements.

During fiscal 2014, we acquired IPR&D through the acquisitions of Network Instruments and Trendium. The current status of our significant IPR&D projects from acquisitions is as follows:

#### Network Instruments Acquisition

Network Instruments was acquired in the third quarter of fiscal 2014 and was accounted for in accordance with the authoritative guidance on business combinations. At the time of acquisition, Network Instruments was in the process of developing next generation integrated network software solutions. During the first quarter of fiscal 2015, we completed our in-process research and development (“IPR&D”) project related to the acquisition of Network Instruments. Accordingly, $1.7 million was transferred from indefinite life intangible assets to acquired developed technology intangible assets and began amortizing over its useful life of fifty-two months.

**Trendium Acquisition**

Trendium was acquired in the second quarter of fiscal 2014 and was accounted for in accordance with the authoritative guidance on business combinations. At the time of acquisition, Trendium was in the process of developing network probe software and next generation service assurance solutions. During fiscal 2015, we recorded a $3.6 million IPR&D impairment charge related to the fiscal 2014 acquisition of Trendium in accordance with the authoritative accounting guidance. The charge was recorded to Research and development ("R&D") expense in the Consolidated Statements of Operations. During fiscal 2016, we completed our in-process research and development ("IPR&D") project related to the acquisition of Trendium. Accordingly, $1.8 million was transferred from indefinite life intangible assets to acquired developed technology intangible assets and began amortizing over its useful life of thirty-six months.

## RESTRUCTURING AND RELATED CHARGES

From time to time, we have initiated strategic restructuring events primarily intended to reduce costs, consolidate our operations, rationalize the manufacturing of our products and align our businesses in response to market conditions. We estimate annualized gross cost savings of approximately $20 million excluding any one-time charge as a result of the restructuring activities initiated in the past year. We have reinvested and plan to reinvest a portion of our cost savings into R&D and new products that we believe will further differentiate us in the marketplace. See "Note 12. Restructuring and Related Charges" for more information.

As of July 2, 2016, our total restructuring accrual was $18.0 million.

During fiscal 2016, we recorded $10.5 million in restructuring and related charges. The charges are a combination of new and previously announced restructuring plans and are primarily the result of the following:

i. During May and June of fiscal 2016, Management approved a plan within the NE and SE business segment and Shared Services function for organizational alignment and consolidation in as part of Viavi's continued commitment for a more cost effective organization. As a result, a restructuring charge of $8.8 million was recorded for severance and employee benefits for approximately 190 employees primarily in manufacturing, R&D, and SG&A functions located in North America, Latin America, Europe and Asia. Payments related to the remaining severance and benefits accrual are expected to be paid by the end of the fourth quarter of fiscal 2017.

ii. During the second quarter of fiscal 2016, Management approved a plan primarily impacting the NE and SE business segments as part of Viavi's ongoing commitment for an agile and more efficient operating structure. As a result, a restructuring charge of $2.4 million was recorded for severance and employee benefits for approximately 50 employees primarily in manufacturing, R&D, and SG&A functions located in North America, Latin America, Europe and Asia. Payments related to the remaining severance and benefits accrual are expected to be paid by the end of the third quarter of fiscal 2017.

iii. A restructuring benefit of $1.0 million primarily related to a reduction in the number of employees impacted by the Central Finance and IT Restructuring Plan.

During fiscal 2015, we recorded $26.8 million in restructuring and related charges. The charges are a combination of new and previously announced restructuring plans and are primarily the result of the following:

i. During the second, third and fourth quarters of fiscal 2015, Management approved a plan to eliminate certain positions in its shared services functions in connection with the Company's plan to split into two separate public companies. Further, Management consolidated its operations, sales and R&D organizations and eliminated positions within the NE and SE segments to align to the Company's product market strategy and lower manufacturing costs in connection with the Separation. As a result, a restructuring charge of $24.9 million was recorded for severance and employee benefits for approximately 330 employees in manufacturing, R&D and SG&A functions located in North America, Latin America, Europe and Asia were impacted. Payments related to the remaining severance and benefits accrual are expected to be paid by the end of the third quarter of fiscal 2018.

ii. A restructuring charge of $1.9 million for previously announced restructuring plans.

During fiscal 2014, we recorded $21.3 million in restructuring and related charges which were primarily the result of the following:

i. During the fourth quarter of fiscal 2014, Company management (“Management”) approved a plan in the NE segment to realign its operations and strategy to allow for greater investment in high-growth areas. As a result, a restructuring charge of $4.6 million was recorded for severance and employee benefits for 123 employees primarily in manufacturing, R&D and SG&A functions located in North America, Latin America, Asia and Europe. Payments related to the remaining severance and benefits accrual were paid by the end of the second quarter of fiscal 2016.

ii. During the fourth quarter of fiscal 2014, Management approved a plan to eliminate positions and re-define roles and responsibilities in our Shared Service function in order to reduce cost, standardize global processes and establish a more efficient organization. As a result, a restructuring charge of $1.8 million was recorded for severance and employee benefits for 48 employees primarily in general and administrative functions located in the United States, Latin America, Asia and Europe. Payments related to the remaining severance and benefits accrual were paid by the fourth quarter of fiscal 2016.

iii. During the third quarter of fiscal 2014, Management approved a plan in the NE segment to realign its services, support and product resources in response to market conditions in the mobile assurance market and to increase focus on software products and next generation solutions through acquisitions and R&D. As a result, a year to date restructuring charge of $7.2 million was recorded for severance and employee benefits for 63 employees primarily in SG&A and manufacturing functions located in North America, Latin America, Asia and Europe. Payments related to the remaining severance and benefits accrual are expected to be paid by the end of the first quarter of fiscal 2020.

iv. During the second quarter of fiscal 2014, Management approved a plan in the NE segment to exit the remaining space in Germantown, Maryland. As of June 28, 2014, the Company exited the workspace in Germantown under the plan. The fair value of the remaining contractual obligations, net of sublease income as of June 28, 2014 was $6.9 million. Payments related to the Germantown lease costs are expected to be paid by the end of the second quarter of fiscal 2019.

v. During the second quarter of fiscal 2014, Management approved a plan to eliminate positions and re-define roles and responsibilities in the Finance and IT organization to align with the future state of the organizations under new executive management and move positions to lower-cost locations where appropriate. As a result, a year-to-date restructuring charge of $3.1 million was recorded for severance and benefits for 22 employees primarily in SG&A functions located in North America, Asia and Europe. Payments related to the remaining severance and benefits accrual are expected to be paid by the end of the third quarter of fiscal 2022.

vi. A restructuring benefit of $0.6 million for previously announced restructuring plans.

Our restructuring and other lease exit cost obligations are net of sublease income or lease settlement estimates of approximately $1.1 million. Our ability to generate sublease income, as well as our ability to terminate lease obligations and recognize the anticipated related savings, is highly dependent upon the economic conditions, particularly commercial real estate market conditions in certain geographies, at the time we negotiate the lease termination and sublease arrangements with third parties as well as the performances by such third parties of their respective obligations. While the amount we have accrued represents the best estimate of the remaining obligations we expect to incur in connection with these plans, estimates are subject to change. Routine adjustments are required and may be required in the future as conditions and facts change through the implementation period. If adverse macroeconomic conditions continue, particularly as they pertain to the commercial real estate market, or if, for any reason, tenants under subleases fail to perform their obligations, we may be required to reduce estimated future sublease income and adjust the estimated amounts of future settlement agreements, and accordingly, increase estimated costs to exit certain facilities. Amounts related to the lease expense, net of anticipated sublease proceeds, will be paid over the respective lease terms through fiscal 2019.

## GAIN ON SALE OF INVESTMENTS

Gain on sale of investments of $71.6 million in fiscal 2016 primarily to the sale of approximately 4.5 million shares of the 11.7 million shares of Lumentum common stock which was retained as part of the Separation. We recognized gross realized gain of $71.5 million, which is reflected in “Gain on sale of investments” in the Company’s Consolidated Statements of Operations and within the operating activities section of the Statements of Cash Flows, while the cash proceeds received are reflected in “Sales of available-for-sale investments” within the investing activities section. Additionally, the sale gave rise to a $2.0 million tax effect related to the intraperiod tax allocation rules. As of July 2, 2016, the Company owns approximately 7.2 million shares of Lumentum’s common stock with an unrealized gain of $109.2 million. Refer to “Note 8. Investments and Fair Value Measurements” for more information.

## INTEREST EXPENSE

Interest expense increased by $2.4 million, or 7.2%, during fiscal 2016 compared to fiscal 2015. This was primarily due to the accretion of unamortized debt discount related to the 2033 Notes.

Interest expense increased by $3.9 million, or 13.3%, during fiscal 2015 compared to fiscal 2014. This was primarily due to an increase of $4.6 million and $0.6 million in accretion of unamortized debt discount and contractual interest expense related to the 2033 Notes, which were issued on August 21, 2013. This was partially offset by a $1.3 million write-off of unamortized issuance cost related to the termination of our $250.0 million revolving credit facility in the first quarter of fiscal 2014.

## PROVISION FOR (BENEFIT FROM) INCOME TAX

### Fiscal 2016 Tax Expense/Benefit

We recorded an income tax expense of $4.5 million for fiscal 2016. The expected tax benefit derived by applying the federal statutory rate to our loss before income taxes for fiscal 2016 differed from the income tax expense recorded primarily as a result of domestic and foreign losses that were not realized due to valuation allowances and a tax expense of $8.9 million related to a one-time increase in valuation allowance associated with deferred tax assets transferred to Lumentum in connection with the Separation. The tax expense was partially offset by a deferred tax benefit of $9.5 million related to the write off of tax deductible goodwill and a tax benefit of $20.7 million related to the income tax intraperiod tax allocation rules for discontinued operations and other comprehensive income.

Based on a jurisdiction by jurisdiction review of anticipated future income and due to the continued economic uncertainty in the industry, Management has determined that in many of our jurisdictions, it is more likely than not that our net deferred tax assets will not be realized in those jurisdictions. During fiscal 2016, the valuation allowance for deferred tax assets decreased by $160.2 million primarily due to the Lumentum transaction. We are routinely subject to various federal, state and foreign audits by taxing authorities. We believe that adequate amounts have been provided for any adjustments that may result from these examinations.

### Fiscal 2015 Tax Expense/Benefit

We recorded an income tax expense of $26.1 million for fiscal 2015. The expected tax benefit derived by applying the federal statutory rate to our loss before income taxes for fiscal 2015 differed from the income tax expense recorded primarily as a result of domestic and foreign losses that were not realized due to valuation allowances.

Based on a jurisdiction by jurisdiction review of anticipated future income and due to the continued economic uncertainty in the industry, Management has determined that in many of our jurisdictions, it is more likely than not that our net deferred tax assets will not be realized in those jurisdictions. During fiscal 2015, the valuation allowance for deferred tax assets increased by $12.7 million. The increase was primarily related to the increases in the deferred tax assets and intangible amortization. We are routinely subject to various federal, state and foreign audits by taxing authorities. We believe that adequate amounts have been provided for any adjustments that may result from these examinations.

### Fiscal 2014 Tax Expense/Benefit

We recorded an income tax benefit of $11.2 million for fiscal 2014. The expected tax benefit derived by applying the federal statutory rate to our loss before income taxes for fiscal 2014 differed from the income tax benefit recorded primarily as a result of domestic and foreign losses that were not realized due to valuation allowances and offset by the recognition of $21.7 million of uncertain tax benefits related to deferred tax assets due to the expiration of the statute of limitations in a non-US jurisdiction. In addition, we recorded a tax benefit of $6.4 million related to the income tax intraperiod tax allocation rules in relation to other comprehensive income.

Based on a jurisdiction by jurisdiction review of anticipated future income and due to the continued economic uncertainty in the industry, Management has determined that in many of our jurisdictions, it is more likely than not that our net deferred tax assets will not be realized in those jurisdictions. During fiscal 2014, the valuation allowance for deferred tax assets decreased by $12.1 million. The decrease was primarily related to an increase in acquisition and debt issuance related deferred tax liabilities. We are routinely subject to various federal, state and foreign audits by taxing authorities. We believe that adequate amounts have been provided for any adjustments that may result from these examinations.

## DISCONTINUED OPERATIONS

Our discontinued operations activities during fiscal 2016, 2015 and 2014 related to the Separation on August 1, 2015 and activities in fiscal 2016 related to the sale of the hologram business ("Hologram Business").

### Lumentum Separation

As a result of the Separation, the financial results of Lumentum are presented as discontinued operations during fiscal 2016, 2015 and 2014. Net revenue attributable to the Lumentum discontinued operations was $66.5 million, $835.2 million and $816.3 million during fiscal 2016, 2015 and 2014, respectively. Net (loss) income attributable to the Lumentum discontinued operations was $(49.0) million, $43.3 million $56.8 million during fiscal 2016, 2015 and 2014, respectively. Refer to "Note 3. Discontinued Operations" for more information.

### Hologram Business Disposition

During the fiscal 2016 we recorded $0.3 million of net income from discontinued operations related to the Hologram Business related to proceeds received following a favorable arbitration ruling to resolve a dispute regarding the amount we were owed under an earnout clause in connection with the sale in 2013.

**Operating Segment Information** *(in millions):*

| | 2016 | 2015 | Change | Percentage Change | 2015 | 2014 | Change | Percentage Change |
|---|---|---|---|---|---|---|---|---|
| **NE** | | | | | | | | |
| Net revenue | $504.6 | $506.8 | $ (2.2) | (0.4)% | $506.8 | $570.1 | $(63.3) | (11.1)% |
| Gross profit | 329.7 | 333.9 | (4.2) | (1.3)% | 333.9 | 371.0 | (37.1) | (10.0)% |
| Gross margin | 65.3% | 65.9% | | | 65.9% | 65.1% | | |
| **SE** | | | | | | | | |
| Net revenue | $153.6 | $174.3 | $(20.7) | (11.9)% | $174.3 | $156.0 | $ 18.3 | 11.7% |
| Gross profit | 99.4 | 119.2 | (19.8) | (16.6)% | 119.2 | 95.4 | 23.8 | 24.9% |
| Gross margin | 64.7% | 68.4% | | | 68.4% | 61.2% | | |
| **NSE** | | | | | | | | |
| Net revenue | $658.2 | $681.1 | $(22.9) | (3.4)% | $681.1 | $726.1 | $(45.0) | (6.2)% |
| Operating income (loss) | 12.7 | (0.1) | 12.8 | (12,800.0)% | (0.1) | (0.2) | 0.1 | (50.0)% |
| Operating margin | 1.9% | —% | | | —% | —% | | |
| **OSP** | | | | | | | | |
| Net revenue | $248.1 | $192.8 | $ 55.3 | 28.7% | $192.8 | $200.8 | $ (8.0) | (4.0)% |
| Operating income | 102.9 | 68.1 | 34.8 | 51.1% | 68.1 | 63.8 | 4.3 | 6.7% |
| Operating margin | 41.5% | 35.3% | | | 35.3% | 31.8% | | |

**Network Enablement**

NE gross margin decreased 0.6 percentage points during fiscal 2016 to 65.3% from 65.9% in fiscal 2015. This decrease was primarily due to unfavorable product mix, coupled with a decline in net revenue as discussed above.

NE gross margin increased 0.8 percentage points during fiscal 2015 to 65.9% from 65.1% in fiscal 2014. This increase was primarily due to favorable product mix, partially offset by a decline in net revenue as discussed above.

**Service Enablement**

SE gross margin decreased 3.7 percentage points during fiscal 2016 to 64.7% from 68.4% in fiscal 2015. This gross margin erosion was primarily driven by lower revenue levels and unfavorable product mix from the continued run-off of our more mature, but high margin, Assurance solutions. This was coupled with gross margin dilution driven by initial acceptances being received in the second half of fiscal 2016 for growth Assurance solutions resulting in recognition of revenue at lower margin from hardware components included in these solutions.

SE gross margin increased 7.2 percentage points during fiscal 2015 to 68.4% from 61.2% in fiscal 2014. This gross margin improvement was primarily driven by a more favorable product mix, which included higher software and maintenance revenue in fiscal 2015 including incremental revenue from our Enterprise offerings as discussed above.

**Network and Service Enablement ("NSE")**

NSE operating margin increased 1.9 percentage points during fiscal 2016 compared to a break-even operating margin in fiscal 2015. The increase in operating margin was primarily due to a decrease in operating expenses as a percentage of net revenue, largely from reductions in general and administrative spending, driven by lower headcount as a result of strategic restructuring plans initiated in current and prior years and our ongoing cost reduction initiatives. This was partially offset by a decline in NE and SE gross margin as discussed above.

NSE operating margin was break-even in both fiscal 2015 and fiscal 2014. In fiscal 2015, operating expenses as a percentage of net revenue increased driven by a decline in net revenue, as discussed above, coupled with an increase in headcount associated with our ongoing R&D investments. This was offset by improvements in gross margin primarily due to a more favorable product mix as discussed above.

**Optical Security and Performance Products**

OSP operating margin increased 6.2 percentage points during fiscal 2016 to 41.5% from 35.3% in fiscal 2015. The increase in operating margin was primarily due to an improvement in gross margin driven by an increase in revenue from our higher margin Anti-Counterfeiting product line, as discussed above, coupled with a reduction in operating expenses as a percentage of net revenue.

OSP operating margin increased 3.5 percentage points during fiscal 2015 to 35.3% from 31.8% in fiscal 2014. The increase in operating margin was primarily due to an improvement in gross margin driven by an increase in revenue from our higher margin Anti-Counterfeiting product line, coupled with the exit from lower margin legacy products in the fourth quarter of fiscal 2014. This was partially offset by an increase in operating expenses as a percentage of net revenue driven by lower revenue as discussed above.

## LIQUIDITY AND CAPITAL RESOURCES

Our cash investments are made in accordance with an investment policy approved by the Audit Committee of our Board of Directors. In general, our investment policy requires that securities purchased be rated A-1/P-1, A/A2 or better. Our policy allows an allocation to securities rated A-2/P-2, BBB/Baa2 or better, so long as such allocation below A-1/P-1, A/A2 but minimum A-2/P-2, BBB/Baa2 does not exceed 10% of any investment portfolio. Securities that are downgraded subsequent to purchase are evaluated and may be sold or held at management's discretion. No security may have an effective maturity that exceeds 37 months, and the average duration of our holdings may not exceed 18 months. At any time, no more than 5.0% or $5.0 million, whichever is greater, of each of our investment portfolios may be concentrated in a single issuer other than the U.S. or sovereign governments or agencies. Our investments in debt securities and marketable equity securities are primarily classified as available-for-sale investments or trading assets and are recorded at fair value. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on available-for-sale investments are recorded as other comprehensive (loss) income and are reported as a separate component of stockholders' equity. We did not hold any investments in auction rate securities, mortgage backed securities, collateralized debt obligations, or variable rate demand notes at July 2, 2016 and virtually all debt securities held were of investment grade (at least BBB-/Baa3). As of July 2, 2016, U.S. entities owned approximately 67.4% of our cash and cash equivalents, short-term investments and restricted cash.

As of July 2, 2016, the majority of our cash investments have maturities of 90 days or less and are of high credit quality. Although we intend to hold these investments to maturity, in the event that we are required to sell any of these securities under adverse market conditions, losses could be recognized on such sales. During the year ended July 2, 2016, we have not realized material investment losses but can provide no assurance that the value or the liquidity of our investments will not be impacted by adverse conditions in the financial markets. In addition, we maintain cash balances in operating accounts that are with third party financial institutions. These balances in the U.S. may exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. While we monitor the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail.

**Year Ended July 2, 2016**

As of July 2, 2016 our combined balance of cash and cash equivalents, short-term investments and restricted cash increased by $140.4 million to $979.8 million from $839.4 million as of June 27, 2015, including cash and cash equivalents and short-term investments of $13.8 million transferred to Lumentum. Additionally, the cash provided by and used in operating, investing and financing activities below contains activities related to Lumentum through the separation date.

Cash provided by operating activities was $52.9 million, primarily resulting from $69.0 million of net loss adjusted for both non-cash charges (e.g., goodwill impairment, depreciation, amortization of intangibles, stock-based compensation, amortization of debt issuance cost and discount, and a gain on sale of investments) and changes in deferred tax and other tax balances which are non-cash in nature, partially offset by changes in operating assets and liabilities that used $16.1 million. Our cash provided by operating activities was also impacted by our Separation related activities. Changes in our operating assets and liabilities related primarily to a decrease in accrued payroll and related expenses of $25.2 million due to timing of salary and bonus payments, a decrease in accounts payable of $2.1 million due to higher payment activity and a decrease in accrued expenses and other current and non-current liabilities of $10.8 million primarily due to separation related liabilities for both employee severance and third party payments paid after Separation. This was partially offset by cash inflows from a decrease in accounts receivable of $23.4 million primarily driven by timing of collections of Lumentum related accounts receivable prior to the Separation.

Cash provided by investing activities was $244.2 million, primarily resulting from $689.0 million of proceeds from the sales and maturities of available-for-sale investments and other assets, which included proceeds of $109.7 million from the sale of 4.5 million shares of Lumentum common stock in fiscal 2016, and a $14.0 million decrease in restricted cash, partially offset by $422.4 million of purchases of available-for-sale investments and $35.5 million of cash used for capital expenditures.

Cash used in financing activities was $147.7 million, primarily resulting from activities related to the Separation during first quarter of fiscal 2016 and $44.5 million used in share repurchase programs. In accordance with the Contribution Agreement, the Company made cash contributions of $137.6 million Lumentum, which was partially offset by $35.8 million from the sale of Lumentum Series A Preferred Stock to Amada Holdings Co., Ltd. ("Amada") pursuant to a binding commitment under the Securities Purchase Agreement. Cash used in financing activities also include payment of financing obligations of $5.9 million primarily related to holdback payment related to a 2013 acquisition, partially offset by $4.5 million in proceeds from the exercise of stock options and the issuance of common stock under our employee stock purchase plan.

**Year Ended June 27, 2015**

As of June 27, 2015 our combined balance of cash and cash equivalents, short-term investments and restricted cash decreased by $41.9 million to $839.4 million, which includes $13.8 million which was transferred to Lumentum as part of the Separation, from $881.3 million as of June 28, 2014. Additionally, the cash provided by and used in operating, investing and financing activities during fiscal 2015 below contains activities related to Lumentum.

Cash provided by operating activities was $82.3 million, primarily resulting from $155.4 million of net income adjusted for both non-cash charges (e.g., depreciation, amortization and stock-based compensation) and changes in our deferred tax and other tax liabilities balances which are non-cash in nature, partially offset by changes in operating assets and liabilities that used $73.1 million. Our cash provided by operating activities was also impacted by our Separation related activities including our restructuring events. Changes in our operating assets and liabilities related primarily to a decrease in accrued payroll and related expenses of $32.4 million due to timing of salary and bonus payments, an increase in accounts receivable of $12.5 million primarily due to collections timing, a decrease in accounts payable of $10.1 million due to higher payment activity and a decrease in accrued expenses and other current and non-current liabilities of $6.8 million.

Cash used in investing activities was $5.8 million, primarily resulting from $562.7 million of purchases of available-for-sale investments and $101.5 million of cash used for capital expenditures, partially offset by $652.4 million of proceeds from the sales and maturities of available-for-sale investments and other assets and a $6.0 million decrease in restricted cash.

Cash used in financing activities was $7.3 million, primarily resulting from holdback payments of $22.2 million related to our acquisitions in fiscal 2015 and $4.8 million of cash used to repurchase our common stock, partially offset by $20.8 million of proceeds from the exercise of stock options and the issuance of common stock under our employee stock purchase plan.

**Year Ended June 28, 2014**

As of June 28, 2014 our combined balance of cash and cash equivalents, short-term investments and restricted cash increased by $365.4 million, or 70.8%, to $881.3 million from $515.9 million as of June 29, 2013. The increase in the combined balance was primarily driven by $650.0 million of cash received from the issuance of the 2033 Notes and $176.6 million of cash provided by operations, partially offset by (i) $216.0 million of cash used for the acquisitions of Network Instruments, Time-Bandwidth and Trendium, (ii) $155.2 million of cash used to repurchase our common stock and (iii) $99.8 million of cash used for capital expenditures. Additionally, the cash provided by and used in operating, investing and financing activities during fiscal 2014 below contains activities related to Lumentum.

Cash provided by operating activities was $176.6 million, primarily resulting from $175.9 million of net income adjusted for both non-cash charges (e.g., depreciation, amortization and stock-based compensation) and changes in our deferred tax balances which are non-cash in nature, partially offset by changes in operating assets and liabilities of $0.7 million. Changes in our operating assets and liabilities related primarily to a $25.9 million increase in accounts payable due to timing and slightly slower payment activity in the fourth quarter of fiscal 2015 as compared to the same period in the prior year, partially offset by a $19.6 million decrease in accrued payroll and related expenses due to the lower commissions and variable incentive pay, and a $9.6 million increase in accounts receivable due to a year-over-year increase in revenue.

Cash used in investing activities was $651.8 million, primarily resulting from (i) $1,072.9 million of purchases of available-for-sale investments, (ii) $216.0 million of cash used for the acquisitions of Network Instruments, Time-Bandwidth and Trendium, (iii) and $99.8 million of cash used for capital expenditures, partially offset by $730.0 million of maturities and sales of available-for-sale investments, and $9.2 million of net proceeds from the sale of assets.

Cash provided by financing activities was $489.6 million, primarily resulting from $650.0 million of cash received from our issuance of the 2033 Notes, $22.5 million of cash received from the exercise of stock options and the issuance of common stock under our employee stock purchase plan, partially offset $155.2 million of cash used to repurchase our common stock, $14.2 million to pay financing obligations, and $13.5 million of cash used for the payment of issuance costs for the 2033 Notes.

## CONTRACTUAL OBLIGATIONS

The following summarizes our contractual obligations at July 2, 2016, and the effect such obligations are expected to have on our liquidity and cash flow over the next five years (*in millions*):

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years |
| **Contractual Obligations** | | | | | |
| Asset retirement obligations—expected cash payments. . . . . | $ 3.7 | $ 0.2 | $ 0.8 | $ 1.5 | $ 1.2 |
| Long-term debt: | | | | | |
| 2033 Notes . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 650.0 | — | 650.0 | — | — |
| Estimated interest payments . . . . . . . . . . . . . . . . . . . . . . . | 8.7 | 4.1 | 4.6 | — | — |
| Purchase obligations (1). . . . . . . . . . . . . . . . . . . . . . . . . . . . | 55.9 | 49.8 | 4.6 | 1.5 | — |
| Operating lease obligations (1) . . . . . . . . . . . . . . . . . . . . . . . | 73.9 | 18.7 | 32.8 | 17.6 | 4.8 |
| Pension and post-retirement benefit payments (2) . . . . . . . . . | 108.5 | 6.6 | 12.0 | 11.5 | 78.4 |
| **Total**. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | $900.7 | $79.4 | $704.8 | $32.1 | $84.4 |

(1) Refer to "Note 17. Commitments and Contingencies" for more information.

(2) Refer to "Note 16. Employee Pension and Other Benefit Plans" for more information.

As of July 2, 2016, we have accrued on our Consolidated Balance Sheet $5.7 million in connection with restructuring and related activities relating to our operating lease obligations disclosed above, of which $2.2 million was included in Other current liabilities and $3.5 million was included in Other non-current liabilities.

Purchase obligations represent legally-binding commitments to purchase inventory and other commitments made in the normal course of business to meet operational requirements. Of the $55.9 million of purchase obligations as of July 2, 2016, $12.8 million are related to inventory and the other $43.1 million are non-inventory items.

As of July 2, 2016, our other non-current liabilities primarily relate to asset retirement obligations, pension and financing obligations which are presented in various lines in the preceding table.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## LIQUIDITY AND CAPITAL RESOURCES REQUIREMENT

We believe that our existing cash balances and investments will be sufficient to meet our liquidity and capital spending requirements over the next twelve months. However, there are a number of factors that could positively or negatively impact our liquidity position, including:

- global economic conditions which affect demand for our products and services and impact the financial stability of our suppliers and customers;
- changes in accounts receivable, inventory or other operating assets and liabilities which affect our working capital;
- increase in capital expenditure to support the revenue growth opportunity of our business;
- changes in customer payment terms and patterns, which typically results in customers delaying payments or negotiating favorable payment terms to manage their own liquidity positions;
- timing of payments to our suppliers;

- factoring or sale of accounts receivable;
- volatility in fixed income and credit market which impact the liquidity and valuation of our investment portfolios;
- volatility in foreign exchange market which impacts our financial results;
- possible investments or acquisitions of complementary businesses, products or technologies;
- issuance or repurchase of debt or equity securities;
- potential funding of pension liabilities either voluntarily or as required by law or regulation; and
- compliance with covenants and other terms and conditions related to our financing arrangements.

## ACQUISITIONS

As part of our strategy, we are committed to the ongoing evaluation of strategic opportunities and, where appropriate, the acquisition of additional products, technologies or businesses that are complementary to, or strengthen, our existing products. We believe we have strengthened our business model by fortifying our core businesses through acquisition as well as through organic initiatives and will continue to seek strategic opportunities that support the ongoing development of an end-to-end platform to serve our NE and SE customers.

In January 2014, we completed the acquisition of Network Instruments, a privately-held U.S. company and leading developer of enterprise network and application-performance management solutions for global 2000 companies. The acquisition further strengthens our position as a key solutions provider to the enterprise, data center and cloud networking markets. Network Instruments helps enterprises simplify the management and optimization of their networks with high-performance solutions that provide actionable intelligence and deep network visibility. We acquired all outstanding shares of Network Instruments for a total purchase price of approximately $208.5 million in cash, net of working capital adjustments. This acquisition was integrated into our SE segment.

In December 2013, we acquired certain technology and other assets from Trendium, a privately-held provider of real-time intelligence software solutions for customer experience assurance (“CEA”), asset optimization and monetization of big data for 4G/LTE mobile network operators. The addition of Trendium employees and technology enables the Company to introduce a new paradigm of CEA in our Assurance solutions, enabling operators of 4G/LTE networks to achieve a real and relevant improvement in customer satisfaction while maximizing productivity and profitability for dynamic converged 4G/LTE networks and beyond. We acquired certain technology and other assets from Trendium for a total purchase price of approximately $26.1 million in cash. This acquisition was integrated into SE segment.

Please refer to “Note 6. Mergers and Acquisitions” of the Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K for further discussion of the acquisitions completed during fiscal 2016, 2015 and 2014.

## EMPLOYEE EQUITY INCENTIVE PLAN

Our stock option and Full Value Award program is a broad-based, long-term retention program that is intended to attract and retain employees and align stockholder and employee interests. As of July 2, 2016, we have available for issuance 19.4 million shares of common stock for grant primarily under our Amended and Restated 2003 Equity Incentive Plan (the “2003 Plan”) and 2005 Acquisition Equity Incentive Plan (the “2005 Plan”). The exercise price for the options is equal to the fair market value of the underlying stock at the date of grant. Options generally become exercisable over a three-year or four-year period and, if not exercised, expire from five to ten years post grant date. Full Value Awards refer to RSUs and performance-based RSUs that are granted with the exercise price equal to zero and are converted to shares immediately upon vesting. The performance-based RSUs, or MSUs, have vesting requirements tied to the performance of the Company’s stock as compared to the NASDAQ telecommunications index, and could vest at a higher or lower rate or not at all, based on this relative performance. Full Value Awards are expected to vest over one to four years. The fair value of the time-based Full Value Awards is based on the closing market price of our common stock on the grant date of the award. Refer to “Note 15. Stock-Based Compensation” for more information.

## PENSION AND OTHER POST-RETIREMENT BENEFITS

As a result of acquiring Acterna, Inc. ("Acterna") in August 2005 and the Network Solutions Division of Agilent Technologies Inc. ("NSD") in May 2010, we sponsor significant pension plans for certain past and present employees in the United Kingdom ("U.K.") and Germany. We are also responsible for the non-pension post-retirement benefit obligation assumed from a past acquisition. Most of these plans have been closed to new participants and no additional service costs are being accrued, except for certain plans in Germany assumed in connection with an acquisition during fiscal 2010. The U.K. plan is partially funded and the German plans, which were initially established as "pay-as-you-go" plans, are unfunded. As of July 2, 2016, our pension plans were under funded by $107.4 million since the PBO exceeded the fair value of plan assets. Similarly, we had a liability of $1.1 million related to our non-pension post-retirement benefit plan.

We anticipate future annual outlays related to the German plans will approximate estimated future benefit payments. These future benefit payments have been estimated based on the same actuarial assumptions used to measure our projected benefit obligation and currently are forecasted to range between $4.5 million and $5.5 million per annum. In addition, we expect to contribute approximately $0.6 million to the U.K. plan during fiscal 2017.

During fiscal 2016 we contributed GBP 0.5 million, or approximately $0.7 million, while in fiscal 2015, we contributed GBP 0.7 million or approximately $1.1 million to our U.K. pension plan. These contributions allowed the Company to comply with regulatory funding requirements.

A key actuarial assumption in calculating the net periodic cost and the PBO is the discount rate. Changes in the discount rate impact the interest cost component of the net periodic benefit cost calculation and PBO due to the fact that the PBO is calculated on a net present value basis. Decreases in the discount rate will generally increase pre-tax cost, recognized expense and the PBO. Increases in the discount rate tend to have the opposite effect. We estimate a 50 basis point ("BPS") decrease or increase in the discount rate would cause a corresponding increase or decrease, respectively, in the PBO of approximately $8.6 million based upon data as of July 2, 2016.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## FOREIGN EXCHANGE RISK

We utilize foreign exchange forward contracts and other instruments, including option contracts, to hedge foreign currency risk associated with foreign currency denominated monetary assets and liabilities, primarily certain short-term intercompany receivables and payables. Our foreign exchange forward contracts and other instruments are accounted for as derivatives whereby the fair value of the contracts are reflected as other current assets or other current liabilities and the associated gains and losses are reflected in Interest and other income (expense), net in the Consolidated Statements of Operations. Our hedging programs reduce, but do not eliminate, the impact of currency exchange rate movements. The gains and losses on those derivatives are expected to be offset by re-measurement gains and losses on the foreign currency denominated monetary assets and liabilities.

The following table provides information about our foreign currency forward contracts outstanding as of July 2, 2016. The forward contracts, most with a term of less than 120 days, were transacted near quarter end; therefore, the fair value of the contracts is not significant.

| (in millions) | Contract Amount (Local Currency) | | Contract Amount (USD) |
|---|---|---|---|
| Canadian Dollar (contracts to sell CAD / buy USD) | CAD | 8.5 | $ 6.5 |
| Chinese Renminbi (contracts to buy CNY / sell USD) | CNY | 123.9 | 18.5 |
| British Pound (contracts to buy GBP / sell USD) | GBP | 2.7 | 3.6 |
| Euro (contracts to buy EUR / sell USD) | EUR | 65.3 | 72.3 |
| Singapore Dollar (contracts to sell SGD / buy USD) | SGD | 37.2 | 27.4 |
| Mexican Peso (contracts to buy MXN / sell USD) | MXN | 132.2 | 7.0 |
| Australian Dollar (contracts to sell AUD / buy USD) | AUD | 5.8 | 4.2 |
| Brazilian Real (contracts to sell BRL / buy USD) | BRL | 19.9 | 5.7 |
| Japanese Yen (contracts to sell JPY / buy USD) | JPY | 746.6 | 7.3 |
| Indian Rupee (contracts to sell INR / buy USD) | INR | 269.3 | 3.9 |
| South Korean Won (contracts to buy KRW / sell USD) | KRW | 4,236.0 | 3.6 |
| Swiss Franc (contracts to buy CHF / sell USD) | CHF | 3.7 | 3.8 |
| Swedish Krona (contracts to buy SEK / sell USD) | SEK | 11.6 | 1.4 |
| Total USD notional amount of outstanding foreign exchange contracts | | | $165.2 |

The counterparties to these hedging transactions are creditworthy multinational banks. The risk of counterparty nonperformance associated with these contracts is not considered to be material. Notwithstanding our efforts to mitigate some foreign exchange risks, we do not hedge all of our foreign currency exposures, and there can be no assurances that our mitigating activities related to the exposures that we do hedge will adequately protect us against the risks associated with foreign currency fluctuations.

**INVESTMENTS**

We maintain an investment portfolio in a variety of financial instruments, including, but not limited to, U.S. government and agency securities, corporate obligations, money market funds, asset-backed securities, and other investment-grade securities. The majority of these investments pay a fixed rate of interest. The securities in the investment portfolio are subject to market price risk due to changes in interest rates, perceived issuer creditworthiness, marketability, and other factors. These investments are generally classified as available-for-sale and, consequently, are recorded on our Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a separate component of Other comprehensive (loss) income.

Investments in both fixed-rate and floating-rate interest earning instruments carry a degree of interest rate risk. The fair market values of our fixed-rate securities decline if interest rates rise, while floating-rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may be less than expectations because of changes in interest rates or we may suffer losses in principal if we sell securities that have experienced a decline in market value because of changes in interest rates. As of July 2, 2016, a hypothetical 100 basis point increase or decrease in interest rates would not result in a material change in the fair value of our available-for-sale debt instruments held that are sensitive to changes in interest rates, which includes U.S. treasuries, U.S. agencies, municipals, asset-backed securities and corporate securities. A sensitivity analysis was also performed on our investment in Lumentum to assess the potential impact of fluctuations in stock price. Hypothetical declines in stock price of five percent and ten percent were selected based on potential near-term changes in the stock price that could have an adverse effect on our investment. As of July 2, 2016 the fair value of our investment in Lumentum common stock was $171.3 million. As of July 2, 2016, a decline in Lumentum's stock price of five percent and ten percent would have resulted in a $8.6 million and $17.1 million decline, respectively, in the total fair value of our investment.

We seek to mitigate the credit risk of our portfolio of fixed-income securities by holding only high-quality, investment-grade obligations with effective maturities of 37 months or less. We also seek to mitigate marketability risk by holding only highly liquid securities with active secondary or resale markets. However, the investments may decline in value or marketability due to changes in perceived credit quality or changes in market conditions.

**DEBT**

The fair value of our 2033 Notes is subject to interest rate and market price risk due to the convertible feature of the notes and other factors. Generally, the fair value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The fair value of the notes may also increase as the market price of Viavi stock rises and decrease as the market price of our stock falls. Changes in interest rates and Viavi stock price affect the fair value of the notes but does not impact our financial position, cash flows or results of operations. Based on quoted market prices, as of July 2, 2016, the fair value of the 2033 Notes was approximately $633.0 million. Refer to "Note 11. Debts and Letters of Credit" for more information.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Viavi Solutions Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive (loss) income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Viavi Solutions Inc. and its subsidiaries at July 2, 2016 and June 27, 2015, and the results of their operations and their cash flows for each of the three years in the period ended July 2, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of July 2, 2016, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to the ineffective design of controls over the determination of the interim tax provision as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2016 consolidated financial statements and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 13 to the consolidated financial statements, the Company changed the manner in which it classifies deferred tax assets and liabilities on the consolidated balance sheet in 2016.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, 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.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California
August 30, 2016

## VIAVI SOLUTIONS INC.
## CONSOLIDATED STATEMENTS OF OPERATIONS

**(in millions, except per share data)**

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Revenues: | | | |
| Product revenue | $808.8 | $ 771.2 | $814.9 |
| Service revenue | 97.5 | 102.7 | 112.0 |
| Total net revenues | 906.3 | 873.9 | 926.9 |
| Cost of revenues: | | | |
| Product cost of revenues | 278.1 | 259.1 | 296.0 |
| Service cost of revenues | 61.2 | 62.8 | 69.0 |
| Amortization of acquired technologies | 17.3 | 31.9 | 34.1 |
| Total cost of revenues | 356.6 | 353.8 | 399.1 |
| Gross profit | 549.7 | 520.1 | 527.8 |
| Operating expenses: | | | |
| Research and development | 166.4 | 173.3 | 161.8 |
| Selling, general and administrative | 351.1 | 376.3 | 384.8 |
| Impairment of goodwill | 91.4 | — | — |
| Amortization of other intangibles | 14.6 | 19.5 | 15.5 |
| Restructuring and related charges | 10.5 | 26.8 | 21.3 |
| Total operating expenses | 634.0 | 595.9 | 583.4 |
| Loss from operations | (84.3) | (75.8) | (55.6) |
| Interest and other income (expense), net | 2.5 | 3.7 | (1.2) |
| Gain on sale of investments | 71.6 | 0.1 | 0.4 |
| Interest expense | (35.7) | (33.3) | (29.4) |
| Loss from continuing operations before income taxes | (45.9) | (105.3) | (85.8) |
| Provision for (benefit from) income taxes | 4.5 | 26.1 | (11.2) |
| Loss from continuing operations, net of tax | $ (50.4) | $(131.4) | $ (74.6) |
| (Loss) income from discontinued operations, net of tax | (48.8) | 43.3 | 56.8 |
| Net loss | $ (99.2) | $ (88.1) | $ (17.8) |
| Net loss per share from - basic and diluted: | | | |
| Continuing operations | $ (0.22) | $ (0.57) | $ (0.32) |
| Discontinued operations | (0.20) | 0.19 | 0.24 |
| Net income (loss) | $ (0.42) | $ (0.38) | $ (0.08) |
| Shares used in per-share calculation - basic and diluted | 234.0 | 232.7 | 234.2 |

See accompanying notes to consolidated financial statements.

## VIAVI SOLUTIONS INC.
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

**(in millions)**

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Net loss | $ (99.2) | $ (88.1) | $(17.8) |
| Other comprehensive (loss) income: | | | |
| Net change in cumulative translation adjustment, net of tax | (32.0) | (55.4) | 9.8 |
| Net change in available-for-sale investments, net of tax: | | | |
| Unrealized holding gains (losses) arising during period | 177.3 | (0.4) | 0.4 |
| Less: reclassification adjustments included in Net (loss) income | (69.6) | — | (0.1) |
| Net change in defined benefit obligation, net of tax: | | | |
| Unrealized actuarial losses arising during period | (10.6) | (3.7) | (7.7) |
| Amortization of actuarial losses | 0.7 | 0.4 | 0.1 |
| Net change in Accumulated other comprehensive income (loss) | 65.8 | (59.1) | 2.5 |
| Comprehensive loss | $ (33.4) | $(147.2) | $(15.3) |

See accompanying notes to consolidated financial statements.

**VIAVI SOLUTIONS INC.**
**CONSOLIDATED BALANCE SHEETS**

**(in millions, except share and par value data)**

| | July 2, 2016 | June 27, 2015 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 482.9 | $ 334.5 |
| Short-term investments | 484.7 | 464.9 |
| Restricted cash | 12.2 | 26.2 |
| Accounts receivable, net | 148.4 | 152.3 |
| Inventories, net | 51.4 | 53.8 |
| Prepayments and other current assets | 32.1 | 38.2 |
| Current assets of discontinued operations | — | 310.2 |
| Total current assets | 1,211.7 | 1,380.1 |
| Property, plant and equipment, net | 133.0 | 149.2 |
| Goodwill | 152.1 | 255.5 |
| Intangibles, net | 59.9 | 90.6 |
| Deferred income taxes | 108.8 | 117.3 |
| Other non-current assets | 17.6 | 20.9 |
| Non-current assets of discontinued operations | — | 204.2 |
| Total assets | $ 1,683.1 | $ 2,217.8 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 47.0 | $ 42.0 |
| Accrued payroll and related expenses | 44.9 | 52.6 |
| Deferred revenue | 78.6 | 80.6 |
| Accrued expenses | 24.9 | 23.7 |
| Other current liabilities | 31.0 | 46.6 |
| Current liabilities of discontinued operations | — | 130.0 |
| Total current liabilities | 226.4 | 375.5 |
| Long-term debt | 588.3 | 561.6 |
| Other non-current liabilities | 179.1 | 168.4 |
| Non-current liabilities of discontinued operations | — | 10.9 |
| Commitments and contingencies (Note 17) | | |
| Stockholders' equity: | | |
| Preferred Stock, $0.001 par value; 1 million shares authorized; 1 share at July 2, 2016 and June 27, 2015, issued and outstanding | — | — |
| Common Stock, $0.001 par value; 1 billion shares authorized; 232 million shares at July 2, 2016 and 235 million shares at June 27, 2015, issued and outstanding | 0.2 | 0.2 |
| Additional paid-in capital | 70,059.8 | 70,022.7 |
| Accumulated deficit | (69,380.7) | (68,873.5) |
| Accumulated other comprehensive income (loss) | 10.0 | (48.0) |
| Total stockholders' equity | 689.3 | 1,101.4 |
| Total liabilities and stockholders' equity | $ 1,683.1 | $ 2,217.8 |

See accompanying notes to consolidated financial statements.

# VIAVI SOLUTIONS INC.
# CONSOLIDATED STATEMENTS OF CASH FLOWS
## (in millions)

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| **OPERATING ACTIVITIES:** | | | |
| Net loss | $ (99.2) | $ (88.1) | $ (17.8) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation expense | 38.1 | 80.8 | 72.5 |
| Amortization of acquired technologies and other intangibles | 32.5 | 59.2 | 59.0 |
| Stock-based compensation | 44.0 | 66.9 | 64.1 |
| Amortization of debt issuance costs and accretion of debt discount | 28.8 | 27.3 | 22.9 |
| Amortization of discount and premium on investments, net | 0.8 | 3.2 | 4.2 |
| Impairment of goodwill | 91.4 | — | — |
| Gain on sale of investments | (71.6) | (0.1) | (0.3) |
| Other | 3.6 | 8.2 | 4.4 |
| Changes in operating assets and liabilities, net of impact of Lumentum distribution and acquisitions of businesses: | | | |
| Accounts receivable | 23.4 | (12.5) | (9.6) |
| Inventories | (2.6) | (6.0) | (3.2) |
| Other current and non-currents assets | 5.1 | (9.0) | 5.4 |
| Accounts payable | (2.1) | (10.1) | 25.9 |
| Income taxes payable | (1.5) | (21.3) | 1.3 |
| Deferred revenue, current and non-current | (2.4) | 3.2 | 2.7 |
| Deferred taxes, net | 0.6 | 19.8 | (33.1) |
| Accrued payroll and related expenses | (25.2) | (32.4) | (19.6) |
| Accrued expenses and other current and non-current liabilities | (10.8) | (6.8) | (2.2) |
| Net cash provided by operating activities | 52.9 | 82.3 | 176.6 |
| **INVESTING ACTIVITIES:** | | | |
| Purchases of available-for-sale investments | (422.4) | (562.7) | (1,072.9) |
| Maturities of available-for-sale investments | 395.7 | 574.8 | 480.9 |
| Sales of available-for-sale investments | 287.3 | 71.4 | 249.1 |
| Changes in restricted cash | 14.0 | 6.0 | (2.3) |
| Acquisition of businesses, net of cash acquired | (0.9) | — | (216.0) |
| Capital expenditures | (35.5) | (101.5) | (99.8) |
| Proceeds from the sale of assets | 6.0 | 6.2 | 9.2 |
| Net cash provided by (used in) investing activities | 244.2 | (5.8) | (651.8) |
| **FINANCING ACTIVITIES:** | | | |
| Proceeds from sale of Lumentum Holdings Inc. Series A Preferred Stock | 35.8 | — | — |
| Cash contribution to Lumentum Holdings Inc. | (137.6) | — | |
| Proceeds from issuance of senior convertible debt | — | — | 650.0 |
| Payment of debt issuance costs | — | — | (13.5) |
| Repurchase and retirement of common stock | (44.5) | (4.8) | (155.2) |
| Payment of financing obligations | (5.9) | (23.3) | (14.2) |
| Proceeds from exercise of employee stock options and employee stock purchase plan | 4.5 | 20.8 | 22.5 |
| Net cash (used in) provided by financing activities | (147.7) | (7.3) | 489.6 |
| Effect of exchange rates on cash and cash equivalents | (14.4) | (18.5) | 1.8 |
| Net increase in cash and cash equivalents | 135.0 | 50.7 | 16.2 |
| Cash and cash equivalents at beginning of period | 347.9* | 297.2 | 281.0 |
| Cash and cash equivalents at end of period | $ 482.9 | $ 347.9* | $ 297.2 |
| Supplemental disclosure of cash flow information | | | |
| Cash paid for interest | $ 6.6 | $ 6.5 | $ 4.6 |
| Cash paid for taxes | $ 31.8 | $ 23.8 | $ 18.7 |

* Cash and cash equivalents at June 27, 2015 included $13.4 million in current assets of the discontinued operations of Lumentum Holdings Inc.

See accompanying notes to consolidated financial statements.

**VIAVI SOLUTIONS INC.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

**(in millions)**

| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance at June 29, 2013 | 237.4 | $0.2 | $69,760.1 | $(68,607.6) | $ 8.6 | $1,161.3 |
| Net loss | — | — | — | (17.8) | — | (17.8) |
| Comprehensive income | — | — | — | — | 2.5 | 2.5 |
| Shares issued under employee stock plans, net of tax effects | 5.3 | — | 1.4 | — | — | 1.4 |
| Stock-based compensation | — | — | 64.0 | — | — | 64.0 |
| Repurchases of common stock | (12.3) | — | — | (155.2) | — | (155.2) |
| Equity component related to issuance of senior convertible notes, net of equity component issuance costs | — | — | 131.5 | — | — | 131.5 |
| Balance at June 28, 2014 | 230.4 | $0.2 | $69,957.0 | $(68,780.6) | $ 11.1 | $1,187.7 |
| Net loss | — | — | — | (88.1) | — | (88.1) |
| Comprehensive loss | — | — | — | — | (59.1) | (59.1) |
| Shares issued under employee stock plans, net of tax effects | 5.3 | — | (1.2) | — | — | (1.2) |
| Stock-based compensation | — | — | 66.9 | — | — | 66.9 |
| Repurchases of common stock | (0.4) | — | — | (4.8) | — | (4.8) |
| Balance at June 27, 2015 | 235.3 | $0.2 | $70,022.7 | $(68,873.5) | $(48.0) | $1,101.4 |
| Net loss | | | | (99.2) | | (99.2) |
| Distribution of Lumentum Holdings Inc. | | | | (363.5) | (7.8) | (371.3) |
| Comprehensive income | | | | | 65.8 | 65.8 |
| Shares issued under employee stock plans, net of tax effects | 4.5 | | (6.9) | | | (6.9) |
| Stock-based compensation | | | 44.0 | | | 44.0 |
| Repurchases of common stock | (7.3) | — | — | (44.5) | | (44.5) |
| Balance at July 2, 2016 | 232.5 | $0.2 | $70,059.8 | $(69,380.7) | $ 10.0 | $ 689.3 |

See accompanying notes to consolidated financial statements.

## VIAVI SOLUTIONS INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Description of Business

Viavi Solutions Inc. ("Viavi," also referred to as "the Company," "we," "our," and "us"), formerly JDS Uniphase Corporation ("JDSU"), is a global provider of network test, monitoring and assurance solutions to communications service providers, enterprises and their ecosystems, supported by a worldwide channel community. Our solutions deliver end-to-end visibility across physical, virtual and hybrid networks, enabling customers to optimize connectivity, quality of experience and profitability. Viavi is also a leader in high performance thin film optical coatings, providing light management solutions to anti-counterfeiting, consumer and industrial, government and healthcare and other markets.

#### Lumentum Separation

On August 1, 2015 (the "Separation Date"), Viavi completed the distribution of approximately 80.1% of the outstanding shares of Lumentum Holdings Inc. ("Lumentum") common stock (the "Distribution"). Concurrent with the Distribution, JDSU was renamed Viavi Solutions Inc. and, at the time of the Distribution, retained ownership of approximately 19.9% of Lumentum's outstanding shares. Lumentum was formed to hold Viavi's communications and commercial optical products business segment ("CCOP") and the WaveReady product line and, as a result of the Distribution, is now an independent public company trading under the symbol "LITE" on The Nasdaq Stock Market ("NASDAQ"). The Distribution was made to Viavi's stockholders of record as of the close of business on July 27, 2015 (the "Record Date"), who received one share of Lumentum common stock for every five shares of Viavi common stock held as of the close of business on the Record Date and not sold prior to August 4, 2015, the ex-dividend date. The historical results of operations and the financial position have been recasted to present the Lumentum business as discontinued operations as described in "Note 3. Discontinued Operations." Unless noted otherwise, discussion in the Notes to Consolidated Financial Statements pertain to continuing operations.

#### Fiscal Years

The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to June 30th. The Company's fiscal 2016 was a 53-week year ending on July 2, 2016. The Company's fiscal 2015 and 2014 were 52-week fiscal years ending on June 27, 2015, and June 28, 2014.

#### Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated.

#### Use of Estimates

The preparation of the Company's consolidated financial statements in conformity with U.S. GAAP requires Company management ("Management") to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the reported amount of net revenue and expenses and the disclosure of commitments and contingencies during the reporting periods. The Company bases estimates on historical experience and on various assumptions about the future believed to be reasonable based on available information. The Company's reported financial position or results of operations may be materially different under changed conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies. If estimates or assumptions differ from actual results, subsequent periods are adjusted to reflect more current information.

## NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and Cash Equivalents

The Company considers highly-liquid instruments such as treasury bills, commercial paper and other money market instruments with original maturities of 90 days or less at the time of purchase to be cash equivalents.

### Restricted Cash

At July 2, 2016 and June 27, 2015, the Company's short-term restricted cash balances were $12.2 million and $26.2 million, respectively, and the Company's long-term restricted cash balances were $6.0 million and $6.1 million, respectively. These balances primarily include interest-bearing investments in bank certificates of deposit and money market funds which act as collateral supporting the issuance of letters of credit and performance bonds for the benefit of third parties. Refer to the Company's "Note 11. Debts and Letters of Credit" for more information.

### Investments

The Company's investments in debt securities and marketable equity securities, including the Company's ownership of Lumentum's common stock, are primarily classified as available-for-sale investments or trading securities and are recorded at fair value. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on available-for-sale investments, net of tax, are reported within accumulated other comprehensive income (loss), a separate component of stockholders' equity. Unrealized gains or losses on trading securities resulting from changes in fair value are recognized in current earnings. The Company's short-term investments, which are classified as current assets, include certain securities with stated maturities of longer than twelve months as they are highly liquid and available to support current operations.

The Company periodically reviews these investments for impairment. If a debt security's fair value is below amortized cost and the Company either intends to sell the security or it is more likely than not that the Company will be required to sell the security before its anticipated recovery, the Company records an other-than-temporary impairment charge to investment income (loss) for the entire amount of the impairment; if a debt security's fair value is below amortized cost and the Company does not expect to recover the entire amortized cost of the security, the Company separates the other-than-temporary impairment into the portion of the loss related to credit factors, or the credit loss portion, and the portion of the loss that is not related to credit factors, or the non-credit loss portion. The credit loss portion is the difference between the amortized cost of the security and the Company's best estimate of the present value of the cash flows expected to be collected from the debt security. The non-credit loss portion is the residual amount of the other-than-temporary impairment. The credit loss portion is recorded as a charge to income (loss), and the non-credit loss portion is recorded as a separate component of Other comprehensive income (loss).

### Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments, including cash equivalents, accounts receivable, accounts payable, and deferred compensation liability, approximate fair value because of their short maturities. Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. There is an established hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the assumptions about the factors that market participants would use in valuing the asset or liability.

Estimates of fair value of fixed-income securities are based on third party, market-based pricing sources which the Company believes to be reliable. These estimates represent the third parties' good faith opinion as to what a buyer in the marketplace would pay for a security in a current sale. For instruments that are not actively traded, estimates

## NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

may be based on current treasury yields adjusted by an estimated market credit spread for the specific instrument. The fair market value of the Company's 0.625% Senior Convertible Notes due 2033 (the "2033 Notes") fluctuates with interest rates and with the market price of the stock, but does not affect the carrying value of the debt on the balance sheet. Refer to the Company's "Note 11. Debts and Letters of Credit" for more information.

### Inventories

Inventory is valued at standard cost, which approximates actual cost computed on a first-in, first-out basis, not in excess of net realizable market value. The Company assesses the valuation on a quarterly basis and writes down the value for estimated excess and obsolete inventory based upon estimates of future demand, including warranty requirements. Our inventories include material, labor, and manufacturing overhead costs.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives of the assets: 10 to 50 years for building and improvements, 2 to 20 years for machinery and equipment, and 2 to 5 years for furniture, fixtures, software and office equipment. Leasehold improvements are amortized by the straight-line method over the shorter of the estimated useful lives of the assets or the term of the lease. Demonstration units, which are Company products used for demonstration purposes for customers and/or potential customers and generally not intended to be sold, have an estimated useful life of 5 years and are amortized by the straight-line method.

Costs related to software acquired, developed or modified solely to meet the Company's internal requirements and for which there are no substantive plans to market are capitalized in accordance with the authoritative guidance on accounting for the costs of computer software developed or obtained for internal use. Only costs incurred after the preliminary planning stage of the project and after management has authorized and committed funds to the project are eligible for capitalization. Costs capitalized for computer software developed or obtained for internal use are included in Property, plant and equipment, net on the Consolidated Balance Sheets.

### Goodwill

Goodwill represents the excess of the purchase price of an acquired enterprise or assets over the fair value of the identifiable assets acquired and liabilities assumed. The Company tests for impairment of goodwill on an annual basis in the fourth quarter and at any other time when events occur or circumstances indicate that the carrying amount of goodwill may not be recoverable. Refer to "Note 9. Goodwill" for more information.

Circumstances that could trigger an impairment test include, but are not limited to: a significant adverse change in the business climate or legal factors, an adverse action or assessment by a regulator, change in customer, target market and strategy, unanticipated competition, loss of key personnel, or the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed.

An assessment of qualitative factors may be performed to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If the result of the qualitative assessment is that it is more likely than not (i.e., greater than 50% likelihood) that the fair value of a reporting unit, is less than its carrying amount, then the quantitative test is required. Otherwise, no further testing is required.

Under the quantitative test, if the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recorded in the Consolidated Statements of Operations as "Impairment of goodwill." Measurement of the fair value of a reporting unit is based on one or more of the following fair value measures: amounts at which the unit as a whole could be bought or sold in a current transaction between willing parties, using present value techniques of estimated future cash flows, or using valuation techniques based on multiples of earnings or revenue, or a similar performance measure.

**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Intangible Assets**

Intangible assets consist primarily of purchased intangible assets through acquisitions. Purchased intangible assets primarily include acquired developed technologies (developed and core technology), customer relationships, proprietary know-how, trade secrets, and trademarks and trade names. Intangible assets are amortized using the straight-line method over the estimated economic useful lives of the assets, which is the period during which expected cash flows support the fair value of such intangible assets. Refer to "Note 10. Acquired Developed Technology and Other Intangibles" for more information.

**Long-lived Asset Valuation (Property, Plant and Equipment and Intangible Assets Subject to Amortization)**

***Long-lived assets held and used***

The Company tests long-lived assets for recoverability, at the asset group level, when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset, significant adverse changes in the business climate or legal factors, accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset, current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset, or current expectation that the asset will more likely than not be sold or disposed significantly before the end of its estimated useful life.

Recoverability is assessed based on the difference between the carrying amount of the asset and the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

**Pension and Other Postretirement Benefits**

The funded status of the Company's retirement-related benefit plans is recognized on the Consolidated Balance Sheets. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at fiscal year end, the measurement date. For defined benefit pension plans, the benefit obligation is the projected benefit obligation ("PBO") and for the non-pension postretirement benefit plan the benefit obligation is the accumulated postretirement benefit obligation ("APBO"). The PBO represents the actuarial present value of benefits expected to be paid upon retirement. The APBO represents the actuarial present value of postretirement benefits attributed to employee services already rendered. Unfunded or partially funded plans, with the benefit obligation exceeding the fair value of plan assets, are aggregated and recorded as a retirement and non-pension postretirement benefit obligation equal to this excess. The current portion of the retirement-related benefit obligation represents the actuarial present value of benefits payable in the next 12 months in excess of the fair value of plan assets, measured on a plan-by-plan basis. This liability is recorded in Other current liabilities in the Consolidated Balance Sheets. Refer to "Note 3. Discontinued Operations" for the impact on the pension plan obligations related to the Lumentum Separation.

Net periodic pension cost (income) is recorded in the Consolidated Statements of Operations and includes service cost, interest cost, expected return on plan assets, amortization of prior service cost and (gains) losses previously recognized as a component of accumulated other comprehensive income. Service cost represents the actuarial present value of participant benefits attributed to services rendered by employees in the current year. Interest cost represents the time value of money cost associated with the passage of time. (Gains) losses arise as a result of differences between actual experience and assumptions or as a result of changes in actuarial assumptions. Prior service cost (credit) represents the cost of benefit improvements attributable to prior service granted in plan amendments. (Gains) losses and prior service cost (credit) not recognized as a component of net periodic pension cost (income) in the Consolidated Statements of Operations as they arise are recognized as a component of Accumulated

**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

other comprehensive income on the Consolidated Balance Sheets, net of tax. Those (gains) losses and prior service cost (credit) are subsequently recognized as a component of net periodic pension cost (income) pursuant to the recognition and amortization provisions of the authoritative guidance.

The measurement of the benefit obligation and net periodic pension cost (income) is based on the Company's estimates and actuarial valuations provided, by third-party actuaries, which are approved by Management. These valuations reflect the terms of the plans and use participant-specific information such as compensation, age and years of service, as well as certain assumptions, including estimates of discount rates, expected return on plan assets, rate of compensation increases, and mortality rates. The Company evaluates these assumptions annually at a minimum. In estimating the expected return on plan assets, the Company considers historical returns on plan assets, adjusted for forward-looking considerations, inflation assumptions and the impact of the active management of the plan's invested assets.

**Concentration of Credit and Other Risks**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, trade receivables and foreign currency forward contracts. The Company's cash and cash equivalents and short-term investments are held in safekeeping by large, creditworthy financial institutions. The Company invests its excess cash primarily in U.S. government and agency bonds securities, corporate securities, money market funds, asset-backed securities, and other investment-grade securities. The Company has established guidelines relative to credit ratings, diversification and maturities that seek to maintain safety and liquidity of these investments. The Company's foreign exchange derivative instruments expose the Company to credit risk to the extent that the counterparties may be unable to meet the terms of the agreements. The Company seeks to mitigate such risk by limiting its counterparties to major financial institutions and by spreading such risk across several major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from such risk is monitored by the Company on an ongoing basis.

The Company performs credit evaluations of its customers' financial condition and generally does not require collateral from its customers. These evaluations require significant judgment and are based on a variety of factors including, but not limited to, current economic trends, historical payment, bad debt write-off experience, and financial review of the customer.

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. When the Company becomes aware that a specific customer is unable to meet its financial obligations, the Company records a specific allowance to reflect the level of credit risk in the customer's outstanding receivable balance. In addition, the Company records additional allowances based on certain percentages of aged receivable balances. These percentages take into account a variety of factors including, but not limited to, current economic trends, historical payment and bad debt write-off experience. The Company classifies bad debt expenses as selling, general and administrative ("SG&A") expense.

The Company is not able to predict changes in the financial stability of its customers. Any material change in the financial status of any one or a group of customers could have a material adverse effect on the Company's results of operations and financial condition. Although such losses have been within management's expectations to date, there can be no assurance that such allowances will continue to be adequate. The Company has significant trade receivables concentrated in the telecommunications industry. While the Company's allowance for doubtful accounts balance is based on historical loss experience along with anticipated economic trends, unanticipated financial instability in the telecommunications industry could lead to higher than anticipated losses.

As of July 2, 2016, one customer represented greater than 10% of our total accounts receivable, net. As of June 27, 2015, no customers represented greater than 10% of our total accounts receivable, net.

**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

During fiscal 2016, 2015 and 2014 certain customers generated more than 10% of total net revenue. Refer to "Note 18. Operating Segments and Geographic Information" for more information.

The Company relies on a limited number of suppliers for a number of key components contained in our products. The Company also relies on a limited number of significant independent contract manufacturers for the production of certain key components and subassemblies contained in our products.

The Company generally uses a rolling twelve month forecast based on anticipated product orders, customer forecasts, product order history and backlog to determine its materials requirements. Lead times for the parts and components that the Company orders vary significantly and depend on factors such as the specific supplier, contract terms and demand for a component at a given time. If the forecast does not meet actual demand, the Company may have excess or shortfalls of some materials and components, as well as excess inventory purchase commitments. The Company could experience reduced or delayed product shipments or incur additional inventory write-downs and cancellation charges or penalties, which would increase costs and could have a material adverse impact on the Company's results of operations.

### Foreign Currency Forward Contracts

The Company conducts its business and sells its products to customers primarily in North America, Europe and Asia. In the normal course of business, the Company's financial position is routinely subject to market risks associated with foreign currency rate fluctuations due to balance sheet positions in foreign currencies. The Company evaluates foreign exchange risks and utilizes foreign currency forward contracts to reduce such risks, hedging the gains or losses generated by the re-measurement of significant foreign currency denominated monetary assets and liabilities. The fair value of these contracts is reflected as other current assets or other current liabilities and the change in fair value of these foreign currency forward contracts is recorded as income or loss in the Company's Consolidated Statements of Operations as a component of Interest and other income (expense), net to largely offset the change in fair value of the foreign currency denominated monetary assets and liabilities which is also recorded as a component of Interest and other income (expense), net.

### Foreign Currency Translation

Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment, where that local currency is the functional currency, are translated into U.S. dollars at exchange rates in effect at the balance sheet date, with the resulting translation adjustments directly recorded as a component of Accumulated other comprehensive income (loss), on the Consolidated Balance Sheets. Income and expense accounts are translated at the prior month balance sheet exchange rates, which are deemed to approximate average monthly rate. Gains and losses from re-measurement of monetary assets and liabilities denominated in currencies other than the respective functional currencies are included in the Consolidated Statements of Operations as a component of Interest and other income (expense), net.

### Revenue Recognition

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Delivery does not occur until products have been shipped or services have been provided, risk of loss has transferred and in cases where formal acceptance is required, customer acceptance has been obtained or customer acceptance provisions have lapsed. In situations where a formal acceptance is required but the acceptance only relates to whether the product meets its published specifications, revenue is recognized upon delivery provided all other revenue recognition criteria are met. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

**NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company reduces revenue for rebates and other similar allowances. Revenue is recognized only if these estimates can be reliably determined. The Company's estimates are based on its historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

In addition to the aforementioned general policies, the following are the specific revenue recognition policies for multiple-element arrangements and for each major category of revenue.

***Multiple-Element Arrangements***

When a sales arrangement contains multiple deliverables, such as sales of products that include services, the multiple deliverables are evaluated to determine whether there are one or more units of accounting. Where there is more than one unit of accounting, then the entire fee from the arrangement is allocated to each unit of accounting based on the relative selling price. Under this approach, the selling price of a unit of accounting is determined by using a selling price hierarchy which requires the use of vendor-specific objective evidence ("VSOE") of fair value if available, third-party evidence ("TPE") if VSOE is not available, or best estimate of selling price ("BESP") if neither VSOE nor TPE is available. Revenue is recognized when the revenue recognition criteria for each unit of accounting are met.

The Company establishes VSOE of selling price using the price charged for a deliverable when sold separately and, in remote circumstances, using the price established by management having the relevant authority. TPE of selling price is established by evaluating similar and interchangeable competitor goods or services in sales to similarly situated customers. When VSOE or TPE are not available the Company then uses BESP. Generally, the Company is not able to determine TPE because its product strategy differs from that of others in our markets, and the extent of customization varies among comparable products or services from its peers. The Company establishes BESP using historical selling price trends and considering multiple factors including, but not limited to geographies, market conditions, competitive landscape, internal costs, gross margin objectives, and pricing practices. When determining BESP, the Company applies significant judgment in establishing pricing strategies and evaluating market conditions and product lifecycles.

To the extent a deliverable(s) in a multiple-element arrangement is subject to specific guidance (for example, software that is subject to the authoritative guidance on software revenue recognition), the Company allocates the fair value of the units of accounting using relative selling price and that unit of accounting is accounted for in accordance with the specific guidance. Some product offerings include hardware that are integrated with or sold with software that delivers the functionality of the equipment. The Company believes this equipment is not considered software-related and would therefore be excluded from the scope of the authoritative guidance on software revenue recognition.

***Hardware***

Revenue from hardware sales is recognized when the product is shipped to the customer and when there are no unfulfilled obligations from the Company that affect the customer's final acceptance of the arrangement. Any cost of warranties and remaining obligations that are inconsequential or perfunctory are accrued when the corresponding revenue is recognized.

***Services***

Revenue from services and system maintenance is recognized on a straight-line basis over the term of the contract. Revenue from professional service engagements is recognized once its delivery obligation is fulfilled. Revenue related to extended warranty and product maintenance contracts is deferred and recognized on a straight-line basis over the delivery period. The Company also generates service revenue from hardware repairs and calibration which is recognized as revenue upon completion of the service.

## NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Software***

The Company's software arrangements generally consist of a perpetual license fee and Post-Contract Support ("PCS"). Where the Company has established VSOE of fair value for PCS contracts, this has generally been based on the renewal rate or the bell curve methodology. Revenue from maintenance, unspecified upgrades and technical support is recognized over the period such items are delivered. In multiple-element revenue arrangements that include software, software-related and non-software-related elements are accounted for in accordance with the following policies:

- Non-software and software-related products are bifurcated based on a relative selling price
- Software-related products are separated into units of accounting if all of the following criteria are met:
  - The functionality of the delivered element(s) is not dependent on the undelivered element(s).
  - There is VSOE of fair value of the undelivered element(s).
  - Delivery of the delivered element(s) represents the culmination of the earnings process for that element(s).

If these criteria are not met, the software revenue is deferred until the earlier of when such criteria are met or when the last undelivered element is delivered. If there is VSOE of the undelivered item(s) but no such evidence for the delivered item(s), the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered item(s) equals the total arrangement consideration less the aggregate VSOE of the undelivered elements. In cases where VSOE is not established for PCS, revenue is recognized ratably over the PCS period after all software elements have been delivered and the only undelivered item is PCS.

### Warranty

The Company provides reserves for the estimated costs of product warranties at the time revenue is recognized. It estimates the costs of its warranty obligations based on its historical experience of known product failure rates, use of materials to repair or replace defective products and service delivery costs incurred in correcting product failures. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise.

### Shipping and Handling Costs

The Company records costs related to shipping and handling of revenue in cost of sales for all periods presented.

### Advertising Expense

The Company expenses advertising costs as incurred. Advertising costs totaled $2.6 million, $1.7 million and $2.2 million in fiscal 2016, 2015 and 2014, respectively.

### Research and Development ("R&D") Expense

Costs related to R&D, which primarily consists of labor and benefits, supplies, facilities, consulting and outside service fees, are charged to expense as incurred. The authoritative guidance allows for capitalization of software development costs incurred after a product's technological feasibility has been established until the product is available for general release to the public. To date, the period between achieving technological feasibility, which the Company has defined as the establishment of a working model and typically occurs when beta testing commences, and the general availability of such software has been very short. Accordingly, software development costs have been expensed as incurred.

## NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Stock-Based Compensation

Stock-based compensation is measured at grant date, and recognized in expense over the requisite service period based on the fair value of the equity award. The fair value of the time-based Full Value Awards is based on the closing market price of the Company's common stock on the grant date of the award. The Company uses the Monte Carlo simulation to estimate the fair value of Full Value Awards with market conditions ("MSUs"). The Company estimates the fair value of stock options and employee stock purchase plan awards ("ESPP") using the Black-Scholes Merton ("BSM") option-pricing model. This option-pricing model requires the input of assumptions, including the award's expected life and the price volatility of the underlying stock.

The Company estimates the expected forfeiture rate pursuant to the authoritative guidance, and only recognizes expense for those shares expected to vest. When estimating forfeitures, the Company considers voluntary termination behavior as well as future workforce reduction programs. Estimated forfeiture is trued up to actual forfeiture as the equity awards vest. The total fair value of the equity awards, net of forfeiture, is recorded on a straight-line basis over the requisite service period of the awards for each separately vesting period of the award, except for MSUs which are amortized based upon graded vesting method.

### Income Taxes

In accordance with the authoritative guidance on accounting for income taxes, the Company recognizes income taxes using an asset and liability approach. This approach requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in its consolidated financial statements or tax returns. The measurement of current and deferred taxes is based on provisions of the enacted tax law and the effects of future changes in tax laws or rates are not anticipated.

The authoritative guidance provides for recognition of deferred tax assets if the realization of such deferred tax assets is more likely than not to occur based on an evaluation of both positive and negative evidence and the relative weight of the evidence. With the exception of certain international jurisdictions, the Company has determined that at this time it is more likely than not that deferred tax assets attributable to the remaining jurisdictions will not be realized, primarily due to uncertainties related to its ability to utilize its net operating loss carryforwards before they expire. Accordingly, the Company has established a valuation allowance for such deferred tax assets. If there is a change in the Company's ability to realize its deferred tax assets for which a valuation allowance has been established, then its tax provision may decrease in the period in which it determines that realization is more likely than not. Likewise, if the Company determines that it is not more likely than not that our deferred tax assets will be realized, then a valuation allowance may be established for such deferred tax assets and the Company's tax provision may increase in the period in which we make the determination.

The authoritative guidance on accounting for uncertainty in income taxes prescribes the recognition threshold and measurement attributes for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, it provides guidance on recognition, classification, and disclosure of tax positions. The Company is subject to income tax audits by the respective tax authorities in all of the jurisdictions in which it operates. The determination of tax liabilities in each of these jurisdictions requires the interpretation and application of complex and sometimes uncertain tax laws and regulations. The Company recognizes liabilities based on its estimate of whether, and the extent to which, additional tax liabilities are more likely than not. If the Company ultimately determines that the payment of such a liability is not necessary, then it reverses the liability and recognizes a tax benefit during the period in which the determination is made that the liability is no longer necessary.

The recognition and measurement of current taxes payable or refundable and deferred tax assets and liabilities requires that the Company make certain estimates and judgments. Changes to these estimates or a change in judgment may have a material impact on the Company's tax provision in a future period.

## NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Restructuring Accrual

In accordance with authoritative guidance on accounting for costs associated with exit or disposal activities, generally costs associated with restructuring activities are recognized when they are incurred. However, in the case of leases, the expense is estimated and accrued when the property is vacated. Given the significance of, and the timing of the execution of such activities, this process is complex and involves periodic reassessments of estimates made from the time the property was vacated, including evaluating real estate market conditions for expected vacancy periods and sub-lease income.

Additionally, a liability for post-employment benefits for workforce reductions related to restructuring activities is recorded when payment is probable, and the amount is reasonably estimable. The Company continually evaluates the adequacy of the remaining liabilities under its restructuring initiatives. Although the Company believes that these estimates accurately reflect the costs of its restructuring plans, actual results may differ, thereby requiring the Company to record additional provisions or reverse a portion of such provisions.

### Loss Contingencies

The Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Company considers the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Company regularly evaluates current information available to determine whether such accruals should be adjusted and whether new accruals are required.

### Asset Retirement Obligations ("ARO")

ARO are legal obligations associated with the retirement of long-lived assets pertaining to leasehold improvements. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the Company records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The Company derecognizes ARO liabilities when the related obligations are settled. As of July 2, 2016 and June 27, 2015, the Consolidated Balance Sheets included ARO of $0.2 million and $1.7 million, respectively, in Other current liabilities and $3.5 million and $2.7 million, respectively, in Other non-current liabilities. The activities and balances for ARO are as follows (*in millions*):

| | Balance at Beginning of Period | Liabilities Incurred | Liabilities Settled | Accretion Expense | Revisions to Estimates | Balance at End of Period |
|---|---|---|---|---|---|---|
| Year ended July 2, 2016 | $4.4 | 0.4 | (0.9) | 0.2 | (0.4) | $3.7 |
| Year ended June 27, 2015 | $4.9 | 0.1 | (0.6) | 0.3 | (0.3) | $4.4 |

## NOTE 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board ("FASB") issued guidance that changes the accounting for recognizing impairments of financial assets. Under the new guidance, credit losses for certain types of financial instruments will be estimated based on expected losses. The new guidance also modifies the impairment models for available for-sale debt securities and for purchased financial assets with credit deterioration since their origination. The guidance is effective for the Company in the first quarter of fiscal 2021 and earlier adoption is permitted. The Company is evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

## NOTE 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)

In March 2016, the FASB issued guidance which simplifies several aspects of accounting for share-based payment award transactions including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The guidance is effective for the Company in the first quarter of fiscal 2018 and earlier adoption is permitted. The Company is evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

In March 2016, the FASB issued guidance that clarifies the steps required when assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to the economic characteristics and risks of their debt instrument. The guidance is effective for the Company in the first quarter of fiscal 2018. The Company is evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

In February 2016, the FASB issued guidance related to how an entity should recognize lease assets and lease liabilities. The guidance specifies that an entity who is a lessee under lease agreements should recognize lease assets and lease liabilities for those leases classified as operating leases under previous FASB guidance. Accounting for leases by lessors is largely unchanged under the new guidance. The guidance requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The guidance is effective for the Company in the first quarter of fiscal 2020. The Company is evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

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

In May 2015, the FASB issued guidance to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share practical expedient. The guidance is effective for the Company in the first quarter of fiscal 2017 and will apply to certain pension assets. The guidance will be applied retrospectively. The adoption is expected to result in change in disclosure only and will not have any material impact on the consolidated financial statements.

In April 2015, the FASB issued new authoritative guidance to simplify the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding liability, consistent with debt discounts or premiums. This guidance is effective for the Company in the first quarter of fiscal 2017 for its convertible debt, and will be applied retrospectively. Debt issuance costs as stated in Note 11. Debts and Letters of Credit will be netted against the long-term debt effective in the first quarter of fiscal 2017. The consolidated balance sheet of each individual period presented will be retrospectively adjusted to reflect the period-specific effects of applying this new guidance.

In May 2014, the FASB issued new authoritative guidance related to revenue recognition. This guidance will replace current U.S. GAAP guidance on this topic and eliminate industry-specific guidance. The new revenue recognition guidance provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance allows for either full retrospective adoption or modified retrospective adoption. The FASB deferred the effective date for this guidance by one year to December 15, 2017 for annual reporting periods beginning after such date. Earlier application of this guidance is permitted but not before the original date of December 15, 2016. In March, April and May 2016, the FASB clarified the implementation guidance on principal versus agent, identifying performance obligations, licensing, collectibility, noncash consideration, presentation of sales tax, provided clarifying guidance in certain narrow areas and added some practical expedients as well as other

**NOTE 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)**

transition matters. The new guidance is effective for the Company in the first quarter of fiscal 2019. The Company is evaluating the impact that this new accounting guidance will have on its consolidated financial statements and related disclosures.

## NOTE 3. DISCONTINUED OPERATIONS

On August 1, 2015, the Company completed the separation of the Lumentum business (the "Separation") and made a tax-free distribution of approximately 80.1% of the outstanding shares of Lumentum common stock to Viavi shareholders who received one share of Lumentum common stock for every five shares of Viavi common stock held as of the close of business on July 27, 2015 (the "Record Date") and not sold prior to August 4, 2015 (the "ex-dividend date"). In connection with the Separation Viavi agreed to contribute $137.6 million all of which was contributed during fiscal 2016. As of the Distribution, the Company retained ownership of approximately 19.9%, or 11.7 million shares, of Lumentum's outstanding common stock. Lumentum was formed to hold Viavi's CCOP business and the WaveReady product line. As a result of the Distribution, Lumentum is now an independent public company trading under the symbol "LITE" on The Nasdaq Stock Market ("NASDAQ"). The Company agreed not to liquidate the retained shares during the first six months following the Distribution. However, in connection with a private letter ruling from the Internal Revenue Service, the Company committed to liquidate these shares within three years from the Distribution. As of July 2, 2016, the Company owns approximately 7.2 million shares, of Lumentum's common stock. Refer to "Note 8. Investments and Fair Value Measurements" for more information.

In connection with the Separation, the Company entered into a Contribution Agreement, Separation and Distribution Agreement, a Tax Matters Agreement, Employee Matters Agreement, Securities Purchase Agreement, a Supply Agreement, and an Intellectual Property Matters Agreement with Lumentum and others.

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

The Separation and Distribution Agreement governs the separation of the CCOP and WaveReady business, the transfer of assets and other matters related to Viavi's relationship with Lumentum.

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

The Employee Matters Agreement governs the compensation and employee benefit obligations with respect to the current and former employees and non-employee directors of Lumentum and Viavi, and generally allocates liabilities and responsibilities relating to employee compensation, benefit plans and programs. The Employee Matters Agreement provides that employees of Lumentum will no longer participate in benefit plans sponsored or maintained by Viavi.

The Securities Purchase Agreement with the Company, Lumentum and Amada Holdings Co., Ltd. ("Amada") set forth terms whereby the Company received 40,000 shares of Lumentum's Series A Preferred Stock ("Series A Preferred Stock") pursuant to a binding commitment to sell the Series A Preferred Stock to Amada following the Separation. Upon Separation, in connection with the agreement, during the first quarter of fiscal 2016 the Company sold 35,805 shares of the Series A Preferred Stock to Amada for $35.8 million and the remaining 4,195 shares of the Series A Preferred Stock were canceled. The $35.8 million is included as a part of financing activities in the Statement of Cash Flows.

The Supply Agreement outlines that Viavi will supply test equipment to Lumentum and Lumentum will supply components related to the Company's metro, fiber and optical product lines and development services related to smart transceivers. The most significant component of the Supply Agreement is $15.0 million related to the sale of certain optical test equipment to Lumentum from the date of the agreement through July 2, 2016, of which the company recorded $14.1 million of net revenue during the fiscal year ended July 2, 2016.

**NOTE 3. DISCONTINUED OPERATIONS (Continued)**

The Intellectual Property Matters Agreement outlines the intellectual property rights and technology transferred to Lumentum upon the Separation, as well as the intellectual property and technology both companies can license from each other. In addition it outlines non-compete restrictions between Viavi and Lumentum.

As the separation of the Lumentum business represents a strategic shift that has and will have a major effect on the Company's operations and financial results, the results of operations and net assets of the Lumentum business are presented separately as discontinued operations for the fiscal years ended July 2, 2016 and June 27, 2015 and as of July 2, 2016, in accordance with the authoritative guidance.

As of the Separation Date, Lumentum is a stand-alone publicly traded company that separately reports it financial results. Due to the difference between the basis of presentation for discontinued operations and the basis of presentation as a stand-alone company, the financial results of Lumentum included within discontinued operations for the Company may not be indicative of actual financial results of Lumentum as a stand-alone company.

The following table presents the carrying amounts of the major classes of the assets and liabilities of the Lumentum business which are presented as discontinued operation on the Consolidated Balance Sheets *(in millions)*.

| | June 27, 2015 |
|---|---|
| **Assets:** | |
| Cash and cash equivalents | $ 13.4 |
| Accounts receivable, net | 150.2 |
| Inventories, net | 100.0 |
| Prepayments and other current assets | 46.6 |
| Current assets of discontinued operations | 310.2 |
| Property, plant and equipment, net | 145.4 |
| Goodwill | 5.6 |
| Intangibles, net | 21.8 |
| Other non-current assets | 31.4 |
| Non-current assets of discontinued operations | 204.2 |
| **Total assets of discontinued operations** | $514.4 |
| **Liabilities:** | |
| Accounts payable | $ 79.1 |
| Accrued payroll and related expenses | 18.3 |
| Income taxes payable | 3.7 |
| Accrued expenses | 17.5 |
| Other current liabilities | 11.4 |
| Current liabilities of discontinued operations | 130.0 |
| Non-current liabilities of discontinued operations | 10.9 |
| **Total liabilities of discontinued operations** | $140.9 |

In connection with the Separation, $7.8 million of accumulated other comprehensive loss, net of income taxes, related to foreign currency translation adjustments and the pension plan obligation was transferred to Lumentum on the Separation Date. Refer to "Note 5. Accumulated Other Comprehensive Income (Loss)" for more information.

The Company also transferred deferred tax assets of $29.5 million, deferred tax liabilities of $1.0 million, current income tax payables of $3.3 million, an income tax receivable of $1.3 million and other long-term liabilities related to uncertain tax positions totaling $0.1 million on the Separation date. The Company utilized approximately $1.0 billion of federal net operating losses to offset income recognized as a result of the Separation and the license of Lumentum's intellectual property to a foreign subsidiary.

## NOTE 3. DISCONTINUED OPERATIONS (Continued)

The removal of Lumentum's net assets and equity related adjustments upon the Separation are presented as an increase of Viavi's accumulated deficit in the Consolidated Statements of Stockholders' Equity and represents a non-cash financing activity, excluding the cash transferred. Refer to "Note 15. Stock-Based Compensation" for information on modifications to stock-based compensation awards as a result of the Distribution.

The following table summarizes results from discontinued operations of the Lumentum business included in the Consolidated Statement of Operations *(in millions)*:

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Net revenues | $ 66.5 | $835.2 | $816.3 |
| Cost of revenues | 49.8 | 569.1 | 550.7 |
| Amortization of acquired technologies | 0.6 | 7.5 | 9.1 |
| Gross profit | 16.1 | 258.6 | 256.5 |
| Operating expenses: | | | |
| Research and development | 12.5 | 139.9 | 134.2 |
| Selling, general and administrative | 24.7 | 87.5 | 65.9 |
| Restructuring charges | 0.1 | 7.7 | 2.5 |
| Total operating expenses | 37.3 | 235.1 | 202.6 |
| Income (loss) from operations | (21.2) | 23.5 | 53.9 |
| Interest and other income (expense), net | — | (1.1) | 1.0 |
| Income (loss) before income taxes | (21.2) | 22.4 | 54.9 |
| (Benefit from) provision for income taxes | 27.8 | (20.9) | (1.9) |
| Net income (loss) from discontinued operations(1) | $(49.0) | $ 43.3 | $ 56.8 |

(1) No income or expense relating to the Lumentum business was recorded after the Separation Date.

During the fiscal year ended July 2, 2016, the income tax provision for discontinued operations of $27.8 million included approximately $6.2 million cash taxes that are due to federal and state authorities as a result of the Separation. In addition, approximately $19.0 million of the income tax provision for discontinued operations related to the income tax intraperiod tax allocation rules in relation to continuing operations and other comprehensive income.

Net (loss) income from discontinued operations also included costs incurred by the Company to separate Lumentum, such as transaction charges, advisory and consulting fees, of $16.5 million, $21.4 million and zero for the fiscal years ended July 2, 2016, June 27, 2015 and June 28, 2014, respectively.

The following table presents supplemental cash flow information: depreciation expense, amortization expense, stock-based compensation expense and capital expenditures of the Lumentum business *(in millions)*:

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| **Operating activities:** | | | |
| Depreciation expense | $ 3.7 | $ 43.4 | $ 36.3 |
| Amortization expense | 0.6 | 7.9 | 9.3 |
| Stock-based compensation expense | 1.6 | 19.4 | 19.4 |
| **Investing activities:** | | | |
| Capital expenditures | $ 5.8 | $ 55.9 | $ 64.0 |

## NOTE 4. EARNINGS PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding ESPP, Full Value Awards, and options is reflected in diluted net income (loss) per share by application of the treasury stock method. The calculation of diluted net income (loss) per share excludes all anti-dilutive common shares.

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

| | Years Ended | | |
|---|---|---|---|
| | **July 2, 2016** | **June 27, 2015** | **June 28, 2014** |
| Numerator: | | | |
| Income (loss) from continuing operations, net of tax | $ (50.4) | $ (131.4) | $ (74.6) |
| Loss from discontinued operations, net of tax | (48.8) | 43.3 | 56.8 |
| Net income (loss) | $ (99.2) | $ (88.1) | $ (17.8) |
| Denominator: | | | |
| Weighted-average number of common shares outstanding | | | |
| Basic | 234.0 | 232.7 | 234.2 |
| Effect of dilutive securities from stock-based benefit plans | — | — | — |
| Diluted | 234.0 | 232.7 | 234.2 |
| **Net loss per share from - basic and diluted:** | | | |
| Continuing operations | $ (0.22) | $ (0.57) | $ (0.32) |
| Discontinued operations | (0.20) | 0.19 | 0.24 |
| Net income (loss) | $ (0.42) | $ (0.38) | $ (0.08) |

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

| | Years Ended | | |
|---|---|---|---|
| | **July 2, 2016(1)(2)** | **June 27, 2015(1)(2)** | **June 28, 2014(1)(2)** |
| Stock options and ESPP | 3.4 | 3.6 | 4.9 |
| Full Value Awards | 10.9 | 10.3 | 10.1 |
| Total potentially dilutive securities | 14.3 | 13.9 | 15.0 |

(1) As the Company incurred a net loss from continuing operations in the period, potential dilutive securities from employee stock options, employee stock purchase plan (“ESPP”) and Restricted Stock Units (“RSUs”) have been excluded from the diluted net loss per share computations as their effects were deemed anti-dilutive.

(2) The Company’s 0.625% Senior Convertible 2033 Notes are not included in the table above. The par amount of convertible notes is payable in cash equal to the principal amount of the notes plus any accrued and unpaid interest and then the “in-the-money” conversion benefit feature at the conversion price above $11.28 per share is payable in cash, shares of the Company’s common stock or a combination of both. Refer to “Note 11. Debts and Letters of Credit” for more details.

## NOTE 5. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The Company's accumulated other comprehensive income (loss) consists of the accumulated net unrealized gains and losses on available-for-sale investments, foreign currency translation adjustments and defined benefit obligations.

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

| | Unrealized (losses) on available-for-sale investments(2) | Foreign currency translation adjustments | Defined benefit obligation, net of tax(3) | Total |
|---|---|---|---|---|
| Beginning balance as of June 27, 2015 | $ (3.2) | $ (29.2) | $ (15.6) | $ (48.0) |
| Transferred to Lumentum(1) | — | (8.9) | 1.1 | (7.8) |
| Other comprehensive (loss) income before reclassification | 177.3 | (32.0) | (10.6) | 134.7 |
| Amounts reclassified from Accumulated other comprehensive (loss) income | (69.6) | — | 0.7 | (68.9) |
| Net current-period other comprehensive (loss) income | 107.7 | (32.0) | (9.9) | 65.8 |
| Ending balance as of July 2, 2016 | $104.5 | $ (70.1) | $ (24.4) | $ 10.0 |

(1) Amount represents the transfer of accumulated other comprehensive balances to Lumentum as of the Separation Date. Refer to "Note 3. Discontinued Operations" for more information.

(2) Activity before reclassifications to the Consolidated Statements of Operations during the year ended July 2, 2016 primarily relates to a $180.7 million unrealized gain on the marketable equity securities of Lumentum held by Viavi, net of a $3.7 million income tax effect related to the intraperiod tax allocation rules. The amount reclassified out of accumulated other comprehensive income (loss) is primarily composed of a $71.5 million gross realized gain during the year ended July 2, 2016 from the sale of 4.5 million shares of the 11.7 million shares of the marketable equity securities of Lumentum held by Viavi upon the Separation. The sale gave rise to a $2.0 million income tax effect related to the intraperiod tax allocation rules. The gain and the income tax effect are included in "Gain on sale of investments" and "Provision for (benefit from) income taxes," respectively, in the Consolidated Statement of Operations for the year ended July 2, 2016.

(3) Activity before reclassifications to the Consolidated Statements of Operations during the year ended July 2, 2016 relates to the unrealized net actuarial loss of $14.2 million, net of income tax benefits of $3.6 million. The amount reclassified out of accumulated other comprehensive income (loss) represents the amortization of actuarial losses included as a component of Selling, general and administrative expense ("SG&A") in the Consolidated Statement of Operations for the year ended July 2, 2016. Refer to "Note 16. Employee Pension and Other Benefit Plans" for more details on the computation of net periodic cost for pension plans.

## NOTE 6. MERGERS AND ACQUISITIONS

### Fiscal 2014 Acquisitions

#### *Network Instruments, LLC ("Network Instruments")*

On January 6, 2014 ("Network Instruments Closing Date"), the Company completed the acquisition of Network Instruments, a privately-held U.S. company. Network Instruments is a leading developer of enterprise network and application-performance management solutions for global 2000 companies. The Company acquired all outstanding shares of Network Instruments for $208.5 million in cash, subject to final cash and working capital adjustments including holdback payments of approximately $20.0 million which are reserved for potential breaches

**NOTE 6. MERGERS AND ACQUISITIONS (Continued)**

of representations and warranties. During 2015 the Company made holdback payments totaling $19.7 million, net of working capital adjustments, which were classified as a financing activity within the Consolidated Statements of Cash Flows.

The acquisition of Network Instruments further strengthens the Company's portfolio of solutions for the enterprise, data center and cloud networking markets. In order to improve application performance, reduce costs and address increasing network complexity, enterprise network administrators are rapidly transforming their IT networks while embracing today's most critical technology initiatives such as unified communications, cloud, and data center consolidation. Network Instruments helps enterprises simplify the management and optimization of their networks with high-performance solutions that provide actionable intelligence and deep network visibility. Network Instruments was integrated into the Company's SE operating segment.

The Company accounted for the transaction in accordance with the authoritative guidance on business combinations; therefore, the tangible and intangible assets acquired and liabilities assumed were recorded at fair value on the acquisition date.

The Company finalized the purchase price allocation related to this acquisition during fiscal 2014. The purchase price was allocated as follows (*in millions*):

| | |
|---|---|
| Net tangible assets acquired | $ 20.8 |
| Intangible assets acquired: | |
| Developed technology | 21.7 |
| Customer relationships | 38.3 |
| In-process research and development | 1.7 |
| Other | 0.3 |
| Goodwill | 125.6 |
| Total purchase price | $208.4 |

The following table summarizes the components of the tangible assets acquired at fair value (*in millions*):

| | |
|---|---|
| Cash | $ 9.0 |
| Accounts receivable | 13.8 |
| Inventory | 6.0 |
| Property and equipment | 1.0 |
| Accounts payable | (1.5) |
| Deferred tax liabilities, net | (0.6) |
| Other liabilities, net of other assets | (4.4) |
| Deferred revenue | (2.5) |
| Net tangible assets acquired | $20.8 |

Acquired intangible assets are classified as Level 3 assets for which fair value is derived from valuation based on inputs that are unobservable and significant to the overall fair value measurement. The fair value of acquired developed technology, customer relationships, acquired in-process research and development ("IPR&D") and other intangible assets was determined based on an income approach using the discounted cash flow method. The intangible assets, except IPR&D, are being amortized over their estimated useful lives of five years for the majority of acquired developed technology and customer relationships and one year for trade name. Order backlog was fully amortized in fiscal 2014.

In accordance with authoritative guidance, the Company recognizes IPR&D at fair value as of the Network Instruments Closing Date. The IPR&D is accounted for as an indefinite-lived intangible asset until completion or abandonment of the associated research and development efforts. IPR&D is tested for impairment during the period it is considered an indefinite lived asset.

**NOTE 6. MERGERS AND ACQUISITIONS (Continued)**

The goodwill arising from this acquisition is primarily attributed to sales of future products and services and the assembled workforce of Network Instruments. Goodwill has been assigned to the NE and SE segment and is not deductible for tax purposes. Goodwill is not being amortized but is reviewed annually for impairment or more frequently if impairment indicators arise, in accordance with authoritative guidance.

The estimated amount of Network Instruments' net revenue and net loss, included in the Company's Consolidated Statement of Operations for the year ended June 28, 2014 was $12.6 million and $9.6 million, respectively. Network Instruments' net revenue and net loss disclosed above reflect Management's best estimate, based on information available at the reporting date.

The following table presents certain unaudited pro forma information, for illustrative purposes only, for fiscal 2014 and fiscal 2013 as if Network Instruments had been acquired on July 1, 2012. The unaudited estimated pro forma information combines the historical results of Network Instruments with the Company's consolidated historical results and includes certain adjustments reflecting the estimated impact of fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition taken place on July 1, 2012. Additionally, the pro forma financial information does not include the impact of possible business model changes and does not reflect pro forma adjustments to conform accounting policies between Network Instruments and the Company. Actual results will differ from the unaudited pro forma information presented below (*unaudited, in millions*):

| | Years Ended June 28, 2014 |
|---|---|
| Pro forma net revenue | $ 1,770.0 |
| Pro forma net (loss) income | (14.5) |

***Trendium Inc. ("Trendium")***

On December 10, 2013 ("Trendium Closing Date"), the Company acquired certain technology and other assets from Trendium, a privately-held U.S. company, for a purchase price of $26.1 million in cash including a holdback payment of approximately $2.5 million which is reserved for potential breaches of representations and warranties. During fiscal 2015, the Company made the $2.5 million holdback payment following the one-year anniversary of the Trendium Closing Date. The payment is classified as a financing activity within the Consolidated Statements of Cash Flows.

Trendium provides real-time intelligence software solutions for customer experience assurance ("CEA"), asset optimization and monetization of big data for 4G/Long Term Evolution ("LTE") mobile network operators. The addition of Trendium employees and technology enables the Company to introduce a new paradigm of CEA, enabling operators of 4G/LTE networks to achieve a real and relevant improvement in customer satisfaction while maximizing productivity and profitability for dynamic converged 4G/LTE networks and beyond. The purchased assets are included in the Company's SE segment.

The Company accounted for the transaction in accordance with the authoritative guidance on business combinations; therefore, the tangible and intangible assets acquired were recorded at fair value on the acquisition date. The Company finalized the purchase price allocation related to this acquisition, including measurement period adjustments with the corresponding offset to goodwill, during fiscal 2014. The purchase price was allocated as follows (*in millions*):

| | |
|---|---|
| Tangible assets acquired: | |
| Property, plant and equipment | $ 0.2 |
| Intangible assets acquired: | |
| Developed technology | 6.1 |
| In-process research and development | 5.4 |
| Goodwill | 14.4 |
| Total purchase price | $26.1 |

## NOTE 6. MERGERS AND ACQUISITIONS (Continued)

Acquired intangible assets are classified as Level 3 assets for which fair value is derived from valuation based on inputs that are unobservable and significant to the overall fair value measurement. The fair value of acquired developed technology was determined based on an income approach using the discounted cash flow method and are being amortized over their estimated useful lives of seven years.

In accordance with authoritative guidance, the Company recognized IPR&D at fair value as of the Trendium Closing Date. The IPR&D is accounted for as an indefinite-lived intangible asset until completion or abandonment of the associated research and development efforts. IPR&D is tested for impairment during the period it is considered an indefinite lived asset.

The goodwill arising from this acquisition is primarily attributed to product synergies and the assembled workforce of Trendium. Goodwill was assigned to the NE and SE segment and is deductible for tax purposes. Goodwill is not amortized but is reviewed annually for impairment or more frequently if impairment indicators arise, in accordance with authoritative guidance.

Trendium's results of operations have been included in the Company's consolidated financial statements subsequent to the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to prior period financial statements.

## NOTE 7. BALANCE SHEET AND OTHER DETAILS

### Accounts receivable reserves and allowances

The components of accounts receivable reserves and allowances were as follows (*in millions*):

| | July 2, 2016 | June 27, 2015 |
|---|---|---|
| Allowance for doubtful accounts | $2.2 | $2.4 |
| Allowance for sales returns | 2.5 | 0.7 |
| Total accounts receivable reserves and allowances | $4.7 | $3.1 |

The activities and balances for allowance for doubtful accounts are as follows (*in millions*):

| | Balance at Beginning of Period | Charged to Costs and Expenses | Deduction(1) | Balance at End of Period |
|---|---|---|---|---|
| Year Ended July 2, 2016 | $2.4 | $0.3 | $(0.5) | $2.2 |
| Year Ended June 27, 2015 | 2.9 | 0.3 | (0.8) | 2.4 |
| Year Ended June 28, 2014 | 2.3 | 1.2 | (0.6) | 2.9 |

(1) Represents the effect of currency translation adjustments and write-offs of uncollectible accounts, net of recoveries.

### Inventories, net

The components of Inventories, net were as follows (*in millions*):

| | July 2, 2016 | June 27, 2015 |
|---|---|---|
| Finished goods | $29.1 | $31.5 |
| Work in process | 7.5 | 6.8 |
| Raw materials | 14.8 | 15.5 |
| Inventories, net | $51.4 | $53.8 |

## NOTE 7. BALANCE SHEET AND OTHER DETAILS (Continued)

### Prepayments and other current assets

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

| | July 2, 2016 | June 27, 2015 |
|---|---|---|
| Prepayments | $10.4 | $15.7 |
| Other current assets | 21.7 | 22.5 |
| Prepayments and other current assets | $32.1 | $38.2 |

### Property, plant and equipment, net

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

| | July 2, 2016 | June 27, 2015 |
|---|---|---|
| Land | $ 14.6 | $ 14.7 |
| Buildings and improvements | 32.4 | 32.7 |
| Machinery and equipment | 218.7 | 200.4 |
| Furniture, fixtures, software and office equipment | 120.5 | 124.5 |
| Leasehold improvements | 54.3 | 55.6 |
| Construction in progress | 10.3 | 27.8 |
| Property, plant and equipment, gross | 450.8 | 455.7 |
| Less: Accumulated depreciation | (317.8) | (306.5) |
| Property, plant and equipment, net | $ 133.0 | $ 149.2 |

### Other current liabilities

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

| | July 2, 2016 | June 27, 2015 |
|---|---|---|
| Restructuring accrual | $13.3 | $19.1 |
| Income tax payable | 3.3 | 3.1 |
| Warranty accrual | 2.6 | 2.3 |
| Deferred compensation plan | 2.4 | 3.0 |
| Deferred income taxes | — | 7.1 |
| Other | 9.4 | 12.0 |
| Other current liabilities | $31.0 | $46.6 |

### Other non-current liabilities

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

| | July 2, 2016 | June 27, 2015 |
|---|---|---|
| Pension and post-employment benefits | $103.0 | $ 87.2 |
| Financing obligation | 28.7 | 29.1 |
| Long-term deferred revenue | 22.7 | 23.6 |
| Other | 24.7 | 28.5 |
| Other non-current liabilities | $179.1 | $168.4 |

## NOTE 7. BALANCE SHEET AND OTHER DETAILS (Continued)

### Interest and other income (expense), net

The components of Interest and other income (expense), net were as follows (*in millions*):

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Interest income | $ 5.9 | 4.6 | $ 3.6 |
| Foreign exchange gains (losses), net | (2.6) | (3.8) | (4.2) |
| Proceeds from Nortel(1) | — | 2.2 | — |
| Other income (expense), net | (0.8) | 0.7 | (0.6) |
| Interest and other income (expense), net | $ 2.5 | $ 3.7 | $(1.2) |

(1) In fiscal 2015, the Company received proceeds of $2.2 million from the Fair Fund established to provide compensation for losses incurred in connection with investments in Nortel Networks Corporation (“Nortel”) securities from the SEC’s claims against Nortel.

## NOTE 8. INVESTMENTS AND FAIR VALUE MEASUREMENTS

### Available-For-Sale Investments

The Company’s investments in marketable debt and equity securities were primarily classified as available-for-sale investments. As of July 2, 2016, the Company’s available-for-sale securities were as follows (*in millions*):

| | Amortized Cost/Carrying Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Debt securities: | | | | |
| U.S. treasuries | $ 46.1 | $ — | $ — | $ 46.1 |
| U.S. agencies | 24.9 | — | — | 24.9 |
| Municipal bonds and sovereign debt instruments | 2.0 | — | — | 2.0 |
| Asset-backed securities | 50.4 | 0.1 | (0.3) | 50.2 |
| Corporate securities | 224.5 | 0.2 | (0.1) | 224.6 |
| Total debt securities | 347.9 | 0.3 | (0.4) | 347.8 |
| Marketable equity securities | 62.1 | 109.2 | — | 171.3 |
| Total available-for-sale investments | $410.0 | $109.5 | $(0.4) | $519.1 |

The Company generally classifies debt securities as cash equivalents, short-term investments or other non-current assets based on the stated maturities; however, certain securities with stated maturities of longer than twelve months which are highly liquid and available to support current operations are also classified as short-term investments. As of July 2, 2016, of the total estimated fair value, $36.1 million was classified as cash equivalents, $311.1 million was classified as short-term investments and $0.6 million was classified as other non-current assets.

Marketable equity securities consist of the Company’s ownership of Lumentum common stock remaining in connection with the Separation. Refer to “Note 3. Discontinued Operations” for more information. These securities are stated at fair value, with unrealized gains and losses reported in other comprehensive income, net of tax and are classified as short-term investments on the Consolidated Balance Sheets as of July 2, 2016 at $171.3 million. The Company sold 4.5 million Lumentum common shares during the third and fourth quarters of fiscal 2016 and recognized gross realized gain of $71.5 million, reflected in “Gain on sale of investments” in the Company’s

## NOTE 8. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Consolidated Statements of Operations. The sale resulted in $2.0 million tax effect related to the intraperiod tax allocation rules. The realized gain is also reflected within the operating activities section of the Statements of Cash Flows, while the cash proceeds received are reflected in "Sales of available-for-sale investments" within the investing activities section.

In addition to the amounts presented above, as of July 2, 2016, the Company's short-term investments classified as trading securities related to the Deferred Compensation Plan were $2.4 million, of which $0.3 million was invested in debt securities, $0.8 million was invested in money market instruments and funds and $1.3 million was invested in equity securities. Trading securities are reported at fair value, with the unrealized gains or losses resulting from changes in fair value recognized in the Company's Consolidated Statements of Operations as a component of Interest and other income (expense), net.

During the fiscal years ended July 2, 2016, June 27, 2015 and June 28, 2014, the Company recorded no other-than-temporary impairment in each respective period.

As of July 2, 2016, the Company's total gross unrealized losses on available-for-sale securities, aggregated by type of investment instrument, were as follows (*in millions*):

| | Less than 12 Months | Greater than 12 Months | Total |
|---|---|---|---|
| Asset-backed securities | $ — | $(0.3) | $(0.3) |
| Corporate securities | (0.1) | — | (0.1) |
| Total gross unrealized losses | $(0.1) | $(0.3) | $(0.4) |

As of July 2, 2016, contractual maturities of the Company's debt securities classified as available-for-sale securities were as follows (*in millions*):

| | Amortized Cost/Carrying Cost | Estimated Fair Value |
|---|---|---|
| Amounts maturing in less than 1 year | $252.6 | $252.7 |
| Amounts maturing in 1 - 5 years | 94.3 | 94.5 |
| Amounts maturing in more than 5 years | 1.0 | 0.6 |
| Total debt available-for-sale securities | $347.9 | $347.8 |

As of June 27, 2015, the Company's available-for-sale securities were as follows (*in millions*):

| | Amortized Cost/Carrying Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Debt securities: | | | | |
| U.S. treasuries | $ 51.9 | $ — | $ — | $ 51.9 |
| U.S. agencies | 96.0 | — | — | 96.0 |
| Municipal bonds and sovereign debt instruments | 4.0 | — | — | 4.0 |
| Asset-backed securities | 70.6 | — | (0.2) | 70.4 |
| Corporate securities | 274.1 | 0.1 | (0.1) | 274.1 |
| Total available-for-sale securities | $496.6 | $0.1 | $ (0.3) | $496.4 |

**NOTE 8. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

As of June 27, 2015, of the total estimated fair value, $33.7 million was classified as cash equivalents, $461.9 million was classified as short-term investments and $0.8 million was classified as other non-current assets.

In addition to the amounts presented above, as of June 27, 2015, the Company's short-term investments classified as trading securities, related to the deferred compensation plan, were $3.0 million, of which $0.4 million was invested in debt securities, $0.7 million was invested in money market instruments and funds and $1.9 million was invested in equity securities. Trading securities are reported at fair value, with the unrealized gains or losses resulting from changes in fair value recognized in the Company's Consolidated Statements of Operations as a component of Interest and other income (expense), net.

As of June 27, 2015, the Company's total gross unrealized losses on available-for-sale securities, aggregated by type of investment instrument, were as follows (*in millions*):

| | Less than 12 Months | Greater than 12 Months | Total |
|---|---|---|---|
| Asset-backed securities | $ — | $(0.2) | $(0.2) |
| Corporate securities | (0.1) | — | (0.1) |
| Total gross unrealized losses | $(0.1) | $(0.2) | $(0.3) |

**Fair Value Measurements**

Assets measured at fair value as of July 2, 2016 are summarized below (*in millions*):

| | Fair Value Measurement as of July 2, 2016 | | |
|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| Assets: | | | |
| Available-for-sale securities: | | | |
| U.S. treasuries | $ 46.1 | $ 46.1 | $ — |
| U.S. agencies | 24.9 | — | 24.9 |
| Municipal bonds and sovereign debt instruments | 2.0 | — | 2.0 |
| Asset-backed securities | 50.2 | | 50.2 |
| Corporate securities | 224.6 | — | 224.6 |
| Total debt available-for-sale securities | 347.8 | 46.1 | 301.7 |
| Marketable equity securities | 171.3 | 171.3 | — |
| Money market funds | 274.4 | 274.4 | — |
| Trading securities | 2.4 | 2.4 | — |
| Total assets(1) | 795.9 | 494.2 | 301.7 |

(1) $295.4 million in cash and cash equivalents, $484.7 million in short-term investments, $11.3 million in restricted cash, and $4.5 million in other non-current assets on the Company's Consolidated Balance Sheets.

## NOTE 8. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Assets measured at fair value as of June 27, 2015 are summarized below (*in millions*):

| | Fair value measurement as of June 27, 2015 | | |
|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| Assets: | | | |
| Debt available-for-sale securities: | | | |
| U.S. treasuries | $ 51.9 | $ 51.9 | $ — |
| U.S. agencies | 96.0 | — | 96.0 |
| Municipal bonds and sovereign debt instruments | 4.0 | — | 4.0 |
| Asset-backed securities | 70.4 | — | 70.4 |
| Corporate securities | 274.1 | — | 274.1 |
| Total debt available-for-sale securities | 496.4 | 51.9 | 444.5 |
| Money market funds | 220.6 | 220.6 | — |
| Trading securities | 3.0 | 3.0 | — |
| Total assets(1) | $720.0 | $275.5 | $444.5 |

(1) $225.4 million in cash and cash equivalents, $464.9 million in short-term investments, $25.1 million in restricted cash, and $4.6 million in other non-current assets on the Company's Consolidated Balance Sheets.

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. There is an established hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the assumptions about the factors that market participants would use in valuing the asset or liability.

The Company's cash and investment instruments are classified within Level 1 or Level 2 of the fair value hierarchy based on quoted prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

- Level 1 includes financial instruments for which quoted market prices for identical instruments are available in active markets. Level 1 assets of the Company include money market funds, U.S. Treasury securities, and marketable equity securities as they are traded with sufficient volume and frequency of transactions.
- Level 2 includes financial instruments for which the valuations are based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities. Level 2 instruments of the Company generally include certain U.S. and foreign government and agency securities, commercial paper, corporate and municipal bonds and notes, asset-backed securities, and foreign currency forward contracts. To estimate their fair value, the Company utilizes pricing models based on market data. The significant inputs for the valuation model usually include benchmark yields, reported trades, broker and dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data, and industry and economic events.
- Level 3 includes financial instruments for which fair value is derived from valuation based on inputs that are unobservable and significant to the overall fair value measurement. As of July 2, 2016 and June 27, 2015, the Company did not hold any Level 3 investment securities.

**NOTE 8. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

**Foreign Currency Forward Contracts**

The Company has foreign subsidiaries that operate and sell the Company's products in various markets around the world. As a result, the Company is exposed to foreign exchange risks. The Company utilizes foreign exchange forward contracts and other instruments to manage foreign currency risk associated with foreign currency denominated monetary assets and liabilities, primarily certain short-term intercompany receivables and payables, and to reduce the volatility of earnings and cash flows related to foreign-currency transactions.

The forward contracts, most with a term of less than 120 days, were transacted near fiscal year end; therefore, the fair value of the contracts as of both July 2, 2016 and June 27, 2015 is not material. The change in the fair value of these foreign currency forward contracts is recorded as gain or loss in the Company's Consolidated Statements of Operations as a component of Interest and other income (expense), net.

**NOTE 9. GOODWILL**

The following table presents the changes in goodwill allocated to the Company's reportable segments *(in millions)*:

| | Network Enablement | Service Enablement | Optical Security and Performance Products | Total |
|---|---|---|---|---|
| Balance as of June 28, 2014(1) | $158.0 | $ 94.8 | $8.3 | $261.1 |
| Currency translation and other adjustments | (3.5) | (2.1) | — | (5.6) |
| Balance as of June 27, 2015(2) | $154.5 | $ 92.7 | $8.3 | $255.5 |
| Goodwill allocation - WaveReady(3) | (6.0) | — | — | (6.0) |
| Currency translation and other adjustments | (4.7) | (1.3) | — | (6.0) |
| Goodwill impairment charge | — | (91.4) | — | (91.4) |
| Balance as of July 2, 2016(4) | $143.8 | $ — | $8.3 | $152.1 |

(1) Gross goodwill balances for NE, SE and OSP were $459.9 million, $276.0 million and $92.8 million, respectively as of June 28, 2014. Accumulated impairment for NE, SE and OSP was $301.9 million, $181.2 million and $84.5 million, respectively as of June 28, 2014.

(2) Gross goodwill balances for NE, SE and OSP were $456.4 million, $273.9 million and $92.8 million, respectively as of June 27, 2015. Accumulated impairment for NE, SE and OSP was $301.9 million, $181.2 million and $84.5 million, respectively as of June 27, 2015.

(3) Amount represents a release of the relative fair value of goodwill in our NE reporting unit related to the WaveReady products line, which is now a part of Lumentum as of the Separation Date. Refer to "Note 3. Discontinued Operations" for more information.

(4) Gross goodwill balances for NE, SE and OSP were $445.7 million, $272.6 million and $92.8 million, respectively as of July 2, 2016. Accumulated impairment for NE, SE and OSP was $301.9 million, $272.6 million and $84.5 million, respectively as of July 2, 2016.

The following table presents gross goodwill and aggregate impairment balances for the fiscal years ended July 2, 2016, and June 27, 2015 (*in millions*):

| | Years Ended | |
|---|---|---|
| | July 2, 2016 | June 27, 2015 |
| Gross goodwill balance | $ 811.1 | $ 823.1 |
| Accumulated impairment losses | (659.0) | (567.6) |
| Net goodwill balance | $ 152.1 | $ 255.5 |

**NOTE 9. GOODWILL (Continued)**

**Impairment of Goodwill**

The Company reviews goodwill for impairment annually during the fourth quarter of the fiscal year or more frequently if events or circumstances indicate that an impairment loss may have occurred. The Company determined that, based on its organizational structure and the financial information that is provided to and reviewed by Management for the year ended fiscal 2016 and 2015, its reporting units were NE, SE and OSP. For the year ended Fiscal 2014, the Company's reporting unit were NSE and OSP.

***Fiscal 2016***

*Interim Review*

During the first quarter of fiscal 2016, the Company released the relative fair value of goodwill in our NE reporting unit related to the WaveReady products line which is now part of Lumentum as of the Separation date. In connection with this change in the NE reporting unit, the Company performed a goodwill impairment test for its NE reporting unit under the qualitative assessment of the authoritative guidance for impairment testing. The Company concluded that it was more likely than not that the fair value of the NE reporting unit exceeded its carrying amount. There were no events or changes in circumstances which triggered an impairment review for the remaining reporting units.

*Annual Review*

During the fourth quarter the Company performed the goodwill impairment test for all its reporting units under the two-step quantitative goodwill impairment test in accordance with the authoritative guidance. Other than noted above there were no other triggering events during the interim periods of fiscal 2016 and thus, the Company reviewed goodwill for impairment during the fourth quarter, in line with its completion of its annual operating plan for fiscal 2017.

Under the first step of the authoritative guidance for impairment testing, the fair value of the NE and OSP reporting units was determined based on a combination of the income approach, which estimates the fair value based on the future discounted cash flows, and the market approach, which estimates the fair value based on comparable market prices. The market approach estimates the fair value of the business based on a comparison of the reporting unit to comparable publicly traded companies in similar lines of business. Due to lack of comparability with its peer companies the fair value of the SE reporting unit was determined only utilizing the income approach. The Company assumed a cash flow period of 10 years, long-term annual growth rates of 3.0% to 7.0%, discount rates of 14.0% to 17.0% and terminal value growth rates of 3.0% to 5.0%. The Company believes that the assumptions and rates used in the impairment test are reasonable, but they are judgmental, and variations in any of the assumptions or rates could result in materially different calculations of impairment amounts. The determination of the estimated fair value of goodwill required the use of significant unobservable inputs which are considered Level 3 fair value measurements. The sum of the fair values of the reporting units was reconciled to the Company's current market capitalization plus an estimated control premium. Based on the first step of the authoritative guidance for impairment testing, the Company concluded that the fair value of all reporting units, except SE, were in excess of their carrying value. The fair value of the SE reporting unit was lower than the carry value based on the completion of its annual operating plan for fiscal 2017 in the fourth quarter which revealed a longer investment cycle being needed for certain growth products within the SE, coupled with a decline in the reporting unit's revenue and operating profitability in fiscal 2016 compared to fiscal 2015 when goodwill was last tested for impairment.

**NOTE 9. GOODWILL (Continued)**

The second step of the goodwill impairment test involved performing a hypothetical purchase price allocation to determine the implied fair value of the SE reporting unit's goodwill. This process is complex and required judgment in the development of assumptions that affected the determination of the fair value of the SE reporting unit's individual assets and liabilities, including previously unrecognized intangible assets. Based on the step two analysis, the Company determined that all of the SE goodwill balance of $91.4 million was impaired and therefore recorded as an impairment charge in the fourth quarter of fiscal 2016 in the accompanying Consolidated Statements of Operations. Prior to completing the goodwill impairment test, the Company tested the recoverability of the SE long-lived assets (other than goodwill) and concluded that such assets were not impaired.

***Fiscal 2015***

*Interim Review*

As the Company reorganized its NSE segment into two reportable segments, NE and SE, during the first quarter of fiscal 2015, goodwill allocated to the new NE and SE reporting units was reviewed under the two-step quantitative goodwill impairment test in accordance with the authoritative guidance.

The fair value of the new reporting units was determined based on a combination of the income approach, which estimates the fair value based on the future discounted cash flows, and the market approach, which estimates the fair value based on comparable market prices. Based on the first step of the analysis, the Company determined that the fair value of each reporting unit is significantly above its carrying amount. As such, the Company was not required to perform step two of the analysis. The Company recorded no impairment charge as a result of the interim period impairment test performed during the three months ended September 27, 2014. There were no events or changes in circumstances which triggered an impairment review for the remaining reporting units.

*Annual Review*

During the fourth quarter the Company reviewed the goodwill of all its reporting units under the qualitative assessment of the authoritative guidance for impairment testing. The Company concluded that it was more likely than not that the fair value of the reporting units that currently have goodwill recorded exceeded its carrying amount. In assessing the qualitative factors, the Company considered the impact of key factors, including: change in industry and competitive environment, budgeted-to-actual operating performance from prior year, and consolidated company stock price and performance. As such, it was not necessary to perform the two-step goodwill impairment test at this time and hence the Company recorded no impairment charge in accordance with its annual impairment test.

***Fiscal 2014***

During fiscal 2014, the Company reviewed goodwill for impairment during the fourth quarter as no triggering events were noted. The Company reviewed goodwill under the two-step quantitative goodwill impairment test in accordance with the authoritative guidance. Under the first step of the authoritative guidance for impairment testing, the fair value of the reporting units was determined based on a combination of the income approach, which estimates the fair value based on the future discounted cash flows, and the market approach, which estimates the fair value based on comparable market prices. Based on the first step of the analysis, the Company determined that the fair value of each reporting unit is significantly above its carrying amount. As such, the Company was not required to perform step two of the analysis on any reporting unit to determine the amount of the impairment loss. The Company recorded no impairment charge in accordance with its annual impairment test.

## NOTE 10. ACQUIRED DEVELOPED TECHNOLOGY AND OTHER INTANGIBLES

The following tables present details of the Company's acquired developed technology, customer relationships and other intangibles (*in millions*):

| As of July 2, 2016 | Gross Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|
| Acquired developed technology | $369.3 | $(337.3) | $ 32.0 |
| Customer relationships | 95.6 | (68.0) | 27.6 |
| Other(1) | 10.8 | (10.5) | 0.3 |
| Total intangibles | $475.7 | $(415.8) | $ 59.9 |

| As of June 27, 2015 | Gross Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|
| Acquired developed technology | $418.9 | $(373.6) | $ 45.3 |
| Customer relationships | 178.7 | (135.8) | 42.9 |
| Other(1) | 19.5 | (18.9) | 0.6 |
| Total intangibles subject to amortization | 617.1 | (528.3) | 88.8 |
| In-process research and development | 1.8 | — | 1.8 |
| Total intangibles | $618.9 | $(528.3) | $ 90.6 |

(1) Other intangibles consist of customer backlog, non-competition agreements, patents, proprietary know-how and trade secrets, trademarks and trade names.

***Fiscal 2016***

During the first quarter of fiscal 2016, the Company completed its in-process research and development ("IPR&D") project related to the fiscal 2014 acquisition of Trendium. Accordingly, $1.8 million was transferred from indefinite life intangible assets to acquired developed technology intangible assets with a useful life of thirty-six months.

Prior to conducting step one of the goodwill impairment tests for the SE reporting unit, the Company first evaluated the recoverability of the long-lived assets, including purchased intangible assets. In accordance with authoritative guidance, when indicators of impairment are present, the Company tests long-lived assets (other than goodwill) for recoverability by comparing the carrying value of an asset group, which is the same as the reporting unit, to its net undiscounted cash flows expected to be generated from its use and their eventual disposition over the remaining useful live of the primary asset. The result of the analysis indicated that the estimated undiscounted cash flows exceed the carrying amount of the long-lived asset group, the long-lived asset group is recoverable; therefore, an impairment was not identified.

***Fiscal 2015***

During fiscal 2015, the Company completed its in-process research and development ("IPR&D) project related to the fiscal 2014 acquisition of Network Instruments. Accordingly, $1.7 million was transferred from indefinite life intangible assets to acquired developed technology intangible assets and the Company began amortizing over its useful life of fifty-two months. Also during fiscal 2015, the Company recorded a $3.6 million IPR&D impairment charge for an ongoing project related to the fiscal 2014 acquisition of Trendium in accordance with the authoritative accounting guidance. The charge was recorded to Research and development ("R&D") expense in the Consolidated Statements of Operations.

## NOTE 10. ACQUIRED DEVELOPED TECHNOLOGY AND OTHER INTANGIBLES (Continued)

During fiscal 2016, 2015 and 2014, the Company recorded $31.9 million, $51.4 million and $49.6 million, respectively, of amortization related to acquired developed technology and other intangibles. The following table presents details of the Company's amortization (*in millions*):

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Cost of sales | $17.3 | $31.9 | $34.1 |
| Operating expense | 14.6 | 19.5 | 15.5 |
| Total | $31.9 | $51.4 | $49.6 |

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

| Fiscal Years | |
|---|---|
| 2017 | $28.5 |
| 2018 | 20.4 |
| 2019 | 9.3 |
| 2020 | 1.4 |
| Thereafter | 0.3 |
| Total amortization | $59.9 |

## NOTE 11. DEBTS AND LETTERS OF CREDIT

As of July 2, 2016 and June 27, 2015, the Company's long-term debt on the Consolidated Balance Sheets represented the carrying amount of the liability component of the 0.625% Senior Convertible Notes as discussed below. The following table presents the carrying amounts of the liability and equity components (*in millions*):

| | July 2, 2016 | June 27, 2015 |
|---|---|---|
| Principal amount of 0.625% Senior Convertible Notes | $650.0 | $650.0 |
| Unamortized discount of liability component | (61.7) | (88.4) |
| Carrying amount of liability component | $588.3 | $561.6 |
| Carrying amount of equity component(1) | $134.4 | $134.4 |

(1) Included in Accumulated paid-in-capital on the Consolidated Balance Sheets.

The Company was in compliance with all debt covenants and held no short term debt as of July 2, 2016 and June 27, 2015.

### 0.625% Senior Convertible Notes

On August 21, 2013, the Company issued $650.0 million aggregate principal amount of 0.625% Senior Convertible Notes due 2033 ("2033 Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The proceeds from the 2033 Notes amounted to $636.3 million after issuance costs. The 2033 Notes are an unsecured obligation of the Company and bear interest at an annual rate of 0.625% payable in cash semi-annually in arrears on February 15 and August 15 of each calendar year. The 2033 Notes mature on August 15, 2033 unless earlier converted, redeemed or repurchased.

**NOTE 11. DEBTS AND LETTERS OF CREDIT (Continued)**

Under certain circumstances and during certain periods, the 2033 Notes may be converted at the option of the holders into cash up to the principal amount, with the remaining amount converted into cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock at the Company's election. The initial conversion price is $18.83 per share, representing a 40.0% premium to the closing sale price of the Company's common stock on the pricing date, August 15, 2013, which will be subject to customary anti-dilution adjustments. Holders may convert the 2033 Notes at any time on or prior to the close of business on the business day immediately preceding February 15, 2033, and other than during the period from, and including, February 15, 2018 until the close of business on the business day immediately preceding August 20, 2018, in multiples of $1,000 principal amount, under the following circumstances:

- on any date during any calendar quarter beginning after December 31, 2013 (and only during such calendar quarter) if the closing price of the Company's common stock was more than 130% of the then current conversion price for at least 20 trading days during the 30 consecutive trading-day period ending the last trading day of the previous calendar quarter;
- if the 2033 Notes are called for redemption;
- upon the occurrence of specified corporate events;
- if the Company is party to a specified transaction, a fundamental change or a make-whole fundamental change (each as defined in the indenture of the 2033 Notes); or
- during the five consecutive business-day period immediately following any 10 consecutive trading-day period in which the trading price per $1,000 principal amount of the 2033 Notes for each day of such 10 consecutive trading-day period was less than 98% of the product of the closing sale price of the Company's common stock and the applicable conversion rate on such date.

During the periods from, and including, February 15, 2018 until the close of business on the business day immediately preceding August 20, 2018 and from, and including, February 15, 2033 until the close of business on the business day immediately preceding the maturity date, holders may convert the 2033 Notes at any time, regardless of the foregoing circumstances.

In the fourth quarter of fiscal 2015, holders of the 2033 Notes were given notice of the planned separation of the Lumentum business and the right to convert any debentures they own from the date of notice through the end of the business day preceding the ex-dividend date. No holders of the 2033 Notes exercised the conversion right before it expired.

Following the separation of the Lumentum business on August 1, 2015, the conversion price per share was adjusted pursuant to the terms of the 2033 Notes relating to the occurrence of a spin-off event. Effective as of the end of the business day on August 17, 2015, the initial conversion price per share was adjusted to $11.28 per share of the Company's common stock traded on NASDAQ under the ticker symbol "VIAV."

Holders of the 2033 Notes may require the Company to purchase all or a portion of the 2033 Notes on each of August 15, 2018, August 15, 2023 and August 15, 2028, or upon the occurrence of a fundamental change, in each case, at a price equal to 100% of the principal amount of the 2033 Notes to be purchased, plus accrued and unpaid interest to, but excluding the purchase date. The Company may redeem all or a portion of the 2033 Notes for cash at any time on or after August 20, 2018, at a redemption price equal to 100% of the principal amount of the 2033 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

In accordance with the authoritative accounting guidance, the Company separated the 2033 Notes into liability and equity components. The carrying value of the liability component at issuance was calculated as the present value of its cash flows using a discount rate of 5.4% based on the 5-year swap rate plus credit spread as of the issuance date. The credit spread for the Company is based on the historical average "yield to worst" rate for BB rated issuers. The difference between the 2033 Notes principal and the carrying value of the liability component, representing the value

## NOTE 11. DEBTS AND LETTERS OF CREDIT (Continued)

of conversion premium assigned to the equity component, was recorded as a debt discount on the issuance date and is being accreted using the effective interest rate of 5.4% over the period from the issuance date through August 15, 2018 as a non-cash charge to interest expense. The carrying value of the liability component was determined to be $515.6 million, and the equity component, or debt discount, of the 2033 Notes was determined to be $134.4 million. As of July 2, 2016, the expected remaining term of the 2033 Notes is 2.1 years.

In connection with the issuance of the 2033 Notes, the Company incurred $13.7 million of issuance costs, which were bifurcated into the debt issuance costs, attributable to the liability component of $10.9 million and the equity issuance costs, attributable to the equity component of $2.8 million based on their relative values. The debt issuance costs were capitalized and are being amortized to interest expense using the effective interest rate method from issuance date through August 15, 2018. The equity issuance costs were netted against the equity component in additional paid-in capital at the issuance date. As of July 2, 2016, the unamortized portion of the debt issuance costs related to the 2033 Notes was $5.0 million, which was included in Other non-current assets on the Consolidated Balance Sheets.

Based on quoted market prices as of July 2, 2016 and June 27, 2015, the fair value of the 2033 Notes was approximately $633.0 million and $644.0 million. The 2033 Notes are classified within Level 2 as they are not actively traded in markets.

The following table presents the effective interest rate and the interest expense for the contractual interest and the accretion of debt discount (*in millions, except for the effective interest rate*):

| | Years Ended | |
|---|---|---|
| | **July 2, 2016** | **June 27, 2015** |
| Effective interest rate | 5.4% | 5.4% |
| Interest expense-contractual interest | $ 4.1 | $ 4.1 |
| Accretion of debt discount | 26.7 | 25.3 |

### Revolving Credit Facility

On August 21, 2013, in addition to the close of the 2033 Notes offering, the Company terminated its existing $250.0 million revolving credit facility, which had no amounts outstanding upon termination. The $1.3 million of unamortized debt issuance costs was fully amortized to interest expense upon termination in the first quarter of fiscal 2014.

### Outstanding Letters of Credit

As of July 2, 2016, the Company had 12 standby letters of credit totaling $15.1 million.

## NOTE 12. RESTRUCTURING AND RELATED CHARGES

The Company has initiated various strategic restructuring events primarily intended to reduce its costs, consolidate its operations, rationalize the manufacturing of its products and align its businesses in response to market conditions. As of July 2, 2016 and June 27, 2015, the Company's total restructuring accrual was $18.0 million and $27.2 million. During fiscal 2016, 2015 and 2014 the Company recorded restructuring and related charges of $10.5 million, $26.8 million and $21.3 million, respectively. The Company's restructuring charges can include severance and benefit costs to eliminate a specified number of positions, facilities and equipment costs to vacate facilities and consolidate operations, and lease termination costs. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over multiple periods.

**NOTE 12. RESTRUCTURING AND RELATED CHARGES (Continued)**

**Summary of Restructuring Plans**

The adjustments to the accrued restructuring expenses related to all of the Company's restructuring plans described below for the year ended July 2, 2016 were as follows (*in millions*):

| | Balance as of June 27, 2015 | Fiscal Year 2016 Charges (Releases) | Cash Settlements | Non-cash Settlements and Other Adjustments | Balance as of July 2, 2016 |
|---|---|---|---|---|---|
| **Fiscal 2016 Plan** | | | | | |
| *NE, SE and Shared Service Agile Restructuring Plan(1)(2)* | $ — | $ 9.1 | $ (0.4) | $(0.1) | $ 8.6 |
| *NE and SE Agile Restructuring Plan(1)* | $ — | $ 2.4 | $ (1.5) | $(0.1) | $ 0.8 |
| **Fiscal 2015 Plan** | | | | | |
| *NE, SE and Shared Service Separation Restructuring Plan(1)(2)* | 14.9 | (0.2) | (13.1) | (0.2) | 1.4 |
| **Fiscal 2014 Plans** | | | | | |
| *NE Realignment Plan(1)* | 0.6 | (0.1) | (0.5) | — | — |
| *Shared Services Restructuring Plan(1)* | 0.7 | — | (0.7) | — | — |
| *NE Product Strategy Restructuring Plan(1)* | 2.3 | (0.1) | (0.7) | — | 1.5 |
| *NE Lease Restructuring Plan (first floor)(2)* | 5.2 | 0.2 | (1.4) | — | 4.0 |
| *Central Finance and IT Restructuring Plan(1)* | 1.1 | (0.7) | (0.1) | — | 0.3 |
| **Plans Prior to Fiscal 2014** | 2.4 | (0.1) | (0.9) | — | 1.4 |
| Total | $27.2 | $10.5 | $(19.3) | $(0.4) | $18.0 |

(1) Plan type includes workforce reduction cost.

(2) Plan type includes lease exit cost.

As of July 2, 2016 and June 27, 2015, $4.7 million and $8.1 million, respectively, of our restructuring liability was long-term in nature and included as a component of Other non-current liabilities, with the remaining short-term portion included as a component of Other current liabilities on the Consolidated Balance Sheets.

**Fiscal 2016 Plan**

***NE, SE and Shared Service Agile Restructuring Plan***

During the fourth quarter of fiscal 2016, Management approved a plan within the NE and SE business segment and Shared Services function for organizational alignment and consolidation as part of Viavi's continued commitment for a more cost effective organization. As a result, a restructuring charge of $8.8 million was recorded for severance and employee benefits for approximately 190 employees primarily in manufacturing, R&D and SG&A functions located in North America, Latin America, Europe and Asia. Payments related to the remaining severance and benefits accrual are expected to be paid by the end of the fourth quarter of fiscal 2017.

***NE and SE Agile Restructuring Plan***

During the second quarter of fiscal 2016, Management approved a plan primarily impacting the NE and SE business segments as part of Viavi's ongoing commitment for an agile and more efficient operating structure. As a result, a restructuring charge of $2.4 million was recorded for severance and employee benefits for approximately 50 employees primarily in manufacturing, R&D and SG&A functions located in North America, Latin America, Europe and Asia. Payments related to the remaining severance and benefits accrual are expected to be paid by the end of the third quarter of fiscal 2017.

## NOTE 12. RESTRUCTURING AND RELATED CHARGES (Continued)

### Fiscal 2015 Plans

***NE, SE and Shared Service Separation Restructuring Plan***

During the second, third and fourth quarters of fiscal 2015, Management approved a plan to eliminate certain positions in its shared services functions in connection with the Company's plan to split into two separate public companies. Further, Management consolidated its operations, sales and R&D organizations and eliminated positions within the NE and SE segments to align to the Company's product market strategy and lower manufacturing costs in connection with the separation. As a result, approximately 330 employees in manufacturing, R&D and SG&A functions located in North America, Latin America, Europe and Asia were impacted. Payments related to the remaining severance and benefits accrual are expected to be paid by the end of the third quarter of fiscal 2018. During the fourth quarter of fiscal 2015, Management also approved a plan in the NE and SE segment to exit the space in Roanoke, Virginia. As of July 2, 2016, the Company exited the workspace in Roanoke under the plan. The fair value of the remaining contractual obligations as of July 2, 2016 was $0.3 million. Payments related to the Roanoke lease costs are expected to be paid by the end of the fourth quarter of fiscal 2017.

### Fiscal 2014 Plans

***NE Realignment Plan***

During the fourth quarter of fiscal 2014, Management approved a NE plan to realign its operations and strategy to allow for greater investment in high-growth areas. As a result, approximately 100 employees in manufacturing, R&D and SG&A functions located in North America, Asia and Europe were impacted. Payments related to the remaining severance and benefits accrual were paid by the end of the second quarter of fiscal 2016.

***Shared Services Restructuring Plan***

During the fourth quarter of fiscal 2014, Management approved a plan to eliminate positions and re-define roles and responsibilities in its shared services functions in order to reduce cost, standardize global processes and establish a more efficient organization. As a result, approximately 40 employees primarily in the general and administrative functions located in the United States, Asia and Europe were impacted. Payments related to the remaining severance and benefits accrual were paid by the end of the fourth quarter of fiscal 2016.

***NE Product Strategy Restructuring Plan***

During the third quarter of fiscal 2014, Management approved a NE plan to realign its services, support and product resources in response to market conditions in the mobile assurance market and to increase focus on software products and next generation solutions through acquisitions and R&D. As a result, approximately 60 employees primarily in SG&A and manufacturing functions located in North America, Latin America, Asia and Europe were impacted. Payments related to the remaining severance and benefits accrual are expected to be paid by the end of the first quarter of fiscal 2020.

***NE Lease Restructuring Plan***

During the second quarter of fiscal 2014, Management approved a NE plan to exit the remaining space in Germantown, Maryland. As of June 28, 2014, the Company exited the space in Germantown under the plan. The fair value of the remaining contractual obligations, net of sublease income, as of July 2, 2016 was $4.0 million. Payments related to the Germantown lease costs are expected to be paid by the end of the second quarter of fiscal 2019.

## NOTE 12. RESTRUCTURING AND RELATED CHARGES (Continued)

### *Central Finance and Information Technology ("IT") Restructuring Plan*

During the second quarter of fiscal 2014, Management approved a plan to eliminate positions and re-define roles and responsibilities in the Finance and IT organization to align with the future state of the organizations under new executive management and move positions to lower-cost locations where appropriate. As a result, approximately 20 employees primarily in SG&A functions located in North America, Asia and Europe were impacted. Payments related to the remaining severance and benefits accrual are expected to be paid by the end of the fourth quarter of fiscal 2019.

### Plans Prior to Fiscal 2014

As of July 2, 2016, the restructuring accrual for plans that commenced prior to fiscal year 2014 was $1.4 million, which consists of immaterial accruals from various restructuring plans.

## NOTE 13. INCOME TAXES

The Company's income (loss) before income taxes consisted of the following (*in millions)*:

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Domestic | $(110.9) | $(173.1) | $(136.4) |
| Foreign | 65.0 | 67.8 | 50.6 |
| (Loss) income before income taxes | $ (45.9) | $(105.3) | $ (85.8) |

The Company's income tax expense (benefit) consisted of the following (*in millions*):

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Federal: | | | |
| Current | $ — | $ 0.1 | $ (0.2) |
| Deferred | (26.2) | 2.3 | (4.5) |
| | (26.2) | 2.4 | (4.7) |
| State: | | | |
| Current | — | (0.1) | — |
| Deferred | (1.5) | 0.1 | (0.3) |
| | (1.5) | — | (0.3) |
| Foreign: | | | |
| Current | 21.3 | 17.9 | 16.7 |
| Deferred | 10.9 | 5.8 | (22.9) |
| | 32.2 | 23.7 | (6.2) |
| Total income tax (benefit) expense | $ 4.5 | $ 26.1 | $(11.2) |

The federal and state deferred tax benefit primarily relates to the intraperiod allocation rules for other comprehensive income and discontinued operations and the release of deferred tax liabilities on tax deductible goodwill that is impaired for financial statement purposes. The foreign current expense primarily relates to the Company's profitable operations in certain foreign jurisdictions. The foreign deferred tax expense primarily relates to a one-time increase in valuation allowance associated with deferred tax assets transferred to Lumentum in connection with the Separation.

There was no material tax benefit associated with exercise of stock options for the fiscal years ended July 2, 2016, June 27, 2015 and June 28, 2014.

**NOTE 13. INCOME TAXES (Continued)**

A reconciliation of the Company's income tax expense (benefit) at the federal statutory rate to the income tax expense (benefit) at the effective tax rate is as follows (*in millions*):

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Income tax (benefit) expense computed at federal statutory rate | $(16.1) | $(36.8) | $(30.0) |
| Goodwill impairment | 19.4 | — | — |
| Intraperiod allocation | (20.7) | — | (6.4) |
| Foreign rate differential | (2.0) | (2.3) | (0.5) |
| Valuation allowance | 18.2 | 56.7 | 43.6 |
| Research and experimentation benefits and other tax credits | (1.1) | (0.9) | (0.1) |
| Statute expiration | — | — | (21.7) |
| Reversal of previously accrued taxes | — | (0.8) | (0.7) |
| Permanent items | 6.7 | 8.0 | 3.8 |
| Other | 0.1 | 2.2 | 0.8 |
| Income tax (benefit) expense | $ 4.5 | $ 26.1 | $(11.2) |

The components of the Company's net deferred taxes consisted of the following (*in millions*):

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Gross deferred tax assets: | | | |
| Tax credit carryforwards | $ 141.0 | $ 131.4 | $ 124.8 |
| Net operating loss carryforwards | 1,846.3 | 2,226.1 | 2,261.4 |
| Capital loss carryforwards | 145.9 | 4.1 | 4.9 |
| Inventories | 6.1 | 6.7 | 6.4 |
| Accruals and reserves | 27.4 | 30.2 | 43.9 |
| Investments | 34.4 | 0.7 | 0.8 |
| Other | 60.3 | 55.5 | 54.3 |
| Acquisition-related items | 65.2 | 59.9 | 54.3 |
| Gross deferred tax assets | 2,326.6 | 2,514.6 | 2,550.8 |
| Valuation allowance | (2,174.3) | (2,334.5) | (2,321.8) |
| Deferred tax assets | 152.3 | 180.1 | 229.0 |
| Gross deferred tax liabilities: | | | |
| Acquisition-related items | (13.2) | (20.9) | (31.0) |
| Undistributed foreign earnings | — | (4.7) | (4.2) |
| Other | (31.1) | (44.5) | (49.3) |
| Deferred tax liabilities | (44.3) | (70.1) | (84.5) |
| Total net deferred tax assets (liabilities) | $ 108.0 | $ 110.0 | $ 144.5 |

At the beginning of the second quarter of fiscal 2016, the Company prospectively adopted the authoritative guidance on balance sheet classification of deferred taxes, which requires deferred tax assets and liabilities, and any related valuation allowance, to be classified as non-current on the Consolidated Balance Sheets. This classification eliminates the need to separately identify the net current and net non-current deferred tax asset or liability in each jurisdiction. As of June 27, 2015, deferred tax assets and deferred tax liabilities of $2.0 million and $7.1 million, respectively, were not reclassified from current to non-current as the Company elected to adopt the authoritative guidance prospectively.

**NOTE 13. INCOME TAXES (Continued)**

As of July 2, 2016, the Company had federal, state and foreign tax net operating loss carryforwards of $5,008.3 million, $886.0 million and $609.2 million, respectively, and federal, state and foreign research and other tax credit carryforwards of $100.7 million, $39.6 million and $0.7 million, respectively. As a result of the Lumentum transaction we utilized federal and state net operating losses of approximately $1,026 million and $226 million, respectively, and generated capital losses of approximately $393 million. Of the remaining net operation losses, approximately $106.4 million when realized will be credited to additional paid-in capital. The Company's policy is to account for the utilization of tax attributes under a with-and-without approach. The tax net operating loss, tax credit and capital loss carryforwards will start to expire in calendar 2017 and at various other dates through 2035 if not utilized. Utilization of the tax net operating losses may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state and foreign provisions. Loss carryforward limitations may result in the expiration or reduced utilization of a portion of the Company's net operating losses.

U.S. income and foreign withholding taxes associated with the repatriation of earnings of foreign subsidiaries have not been provided on $319.6 million of undistributed earnings for certain foreign subsidiaries. The Company intends to reinvest these earnings indefinitely outside of the United States. The Company estimates that an additional $17.0 million of U.S. income or foreign withholding taxes would have to be provided if these earnings were repatriated back to the U.S.

The valuation allowance decreased by $160.2 million in fiscal 2016, increased by $12.6 million in fiscal 2015, and decreased by $12.1 million in fiscal 2014. The decrease during fiscal 2016 was primarily due to the Lumentum transaction. The increase during fiscal 2015 was primarily related to the increases in the deferred tax assets and intangible amortization. The decrease during fiscal 2014 was primarily related to an increase in acquisition and debt issuance related deferred tax liabilities. The following table provides information about the activity of our deferred tax valuation allowance *(in millions)*:

| Deferred Tax Valuation Allowance | Balance at Beginning of Period | Additions Charged to Expenses or Other Accounts(1) | Deductions Credited to Expenses or Other Accounts(2) | Balance at End of Period |
|---|---|---|---|---|
| Year Ended July 2, 2016 | $2,334.5 | $227.5 | $(387.7) | $2,174.3 |
| Year Ended June 27, 2015 | $2,321.8 | $ 39.5 | $ (26.8) | $2,334.5 |
| Year Ended June 28, 2014 | $2,333.9 | $ 32.2 | $ (44.3) | $2,321.8 |

(1) Additions include current year additions charged to expenses and current year build due to increases in net deferred tax assets, return to provision true-ups, other adjustments and OCI impact to deferred taxes.

(2) Deductions include current year releases credited to expenses and current year reductions due to decreases in net deferred tax assets, return to provision true-ups, other adjustments and OCI impact to deferred taxes.

Approximately $514.7 million of the valuation allowance as of July 2, 2016 was attributable to pre-fiscal 2006 windfall stock option deductions, the benefit of which will be credited to paid-in-capital if and when realized through a reduction in income tax payable. Beginning with fiscal 2006, the Company began to track the windfall stock option deductions off-balance sheet. If and when realized, the tax benefit associated with those deductions will be credited to additional paid-in-capital.

During fiscal 2014, the Company recognized $21.7 million of uncertain tax benefits related to deferred tax assets due to the expiration of the statute of limitations in a non-US jurisdiction. In addition, the Company recorded a tax benefit of $6.4 million related to the income tax intraperiod tax allocation rules in relation to other comprehensive income.

## NOTE 13. INCOME TAXES (Continued)

A reconciliation of unrecognized tax benefits between June 29, 2013 and July 2, 2016 is as follows (*in millions*):

| | |
|---|---|
| Balance at June 29, 2013 | $ 58.2 |
| Additions based on tax positions related to current year | 3.2 |
| Additions due to foreign currency rate fluctuation | 1.1 |
| Reductions for lapse of statute of limitations | (21.7) |
| Reductions based on state credit expiration | (1.7) |
| Reductions based on the tax positions related to the prior year | (0.8) |
| Balance at June 28, 2014 | 38.3 |
| Additions based on tax positions related to current year | 1.9 |
| Reductions for lapse of statute of limitations | (3.3) |
| Reductions due to foreign currency rate fluctuations | (0.1) |
| Balance at June 27, 2015 | 36.8 |
| Additions based on tax positions related to current year | 5.1 |
| Reductions for lapse of statute of limitations | (0.2) |
| Balance at July 2, 2016 | $ 41.7 |

The unrecognized tax benefits relate primarily to the allocations of revenue and costs among the Company's global operations and the validity of some U.S. tax credits. Included in the balance of unrecognized tax benefits at July 2, 2016 are $3.0 million of tax benefits that, if recognized, would impact the effective tax rate. Also included in the balance of unrecognized tax benefits at July 2, 2016 are $38.7 million of tax benefits that, if recognized, would result in adjustments to the valuation allowance and are included in deferred taxes and other non-current tax liabilities, net in the Consolidated Balance Sheets.

The Company's policy is to recognize accrued interest and penalties related to unrecognized tax benefits within the income tax provision. The amount of interest and penalties accrued as of July 2, 2016 and June 27, 2015 was approximately $1.7 million and $1.6 million, respectively. During fiscal 2016, the Company's accrued interest and penalties decreased by $0.1 million primarily relating to the lapse of statute in a non-US jurisdiction. The unrecognized tax benefits that may be recognized during the next twelve months is approximately $1.0 million.

The Company is routinely subject to various federal, state and foreign audits by taxing authorities. The Company believes that adequate amounts have been provided for any adjustments that may result from these examinations.

The following table summarizes the Company's major tax jurisdictions and the tax years that remain subject to examination by such jurisdictions as of July 2, 2016:

| Tax Jurisdictions | Tax Years |
|---|---|
| United States | 2013 and onward |
| Canada | 2010 and onward |
| China | 2011 and onward |
| France | 2013 and onward |
| Germany | 2014 and onward |
| Korea | 2011 and onward |
| United Kingdom | 2015 and onward |

## NOTE 14. STOCKHOLDERS' EQUITY

### Repurchase of Common Stock

#### *Fiscal 2014*

During fiscal 2014, the Company repurchased 7.4 million shares of its outstanding common stock at $13.45 per share in privately negotiated transactions concurrently with the issuance of its 2033 Notes. The repurchases were not made pursuant to any plan or program. The total purchase price of $100.0 million was reflected as a decrease to common stock based on the stated par value per share with the remainder charged to accumulated deficit.

On May 21, 2014, the Company's Board of Directors authorized a stock repurchase program under which the Company may purchase shares of its common stock worth up to an aggregate purchase price of $100.0 million through open market or private transactions between May 27, 2014 and June 27, 2015. During the fourth quarter of fiscal 2014, the Company repurchased approximately 4.9 million shares of common stock in open market purchases at an average price of $11.37 per share.

#### *Fiscal 2015*

During the first quarter of fiscal 2015, the Company repurchased approximately 0.4 million shares of common stock in open market purchases at an average price of $11.93 per share under the stock repurchase program authorized on May 21, 2014. The total purchase price of these repurchases under the stock repurchase program of $60.0 million was reflected as a decrease to common stock based on the stated par value per share with the remainder charged to accumulated deficit.

#### *Fiscal 2016*

In November 2015, the Company entered into a $40.0 million accelerated share repurchase agreement (the "ASR") with a financial institution that was completed during the third quarter of fiscal 2016. Upon making the upfront payment of $40.0 million, the Company received an initial delivery of 5.3 million shares from the financial institution during the second quarter of fiscal 2016, which were retired and recorded as a $32.0 million reduction to stockholder's equity on the Consolidated Balance Sheet. During the third quarter of fiscal 2016 the ASR was completed and an additional 1.3 million shares were delivered from the financial institution, based on the final settlement price of $6.05 per share, which were retired and recorded as an $8.0 million reduction to stockholder's equity on the Consolidated Balance Sheet. The Company reflects the repurchase of common stock under the ASR in the period the shares are delivered for the purposes of calculating earnings per share.

On February 1, 2016, the Company's Board of Directors authorized a stock repurchase program under which the Company may purchase shares of its common stock worth up to an aggregate purchase price of $100.0 million through open market or private transactions between February 1, 2016 and February 1, 2017. During the fourth quarter of fiscal 2016, the Company repurchased approximately 0.7 million shares of common stock in open market purchases at an average price of $6.60 per share under the stock repurchase program authorized on February 1, 2016. The total purchase price of these repurchases under the stock repurchase program of $4.5 million was reflected as a decrease to common stock based on the stated par value per share with the remainder charged to accumulated deficit.

All common shares repurchased during fiscal 2016, 2015 and 2014 under this program have been canceled and retired.

### Preferred Stock

The Company's Board of Directors has authority to issue up to 1,000,000 shares of undesignated preferred stock and to determine the powers, preferences and rights and the qualifications, limitations or restrictions granted to or imposed upon any wholly unissued shares of undesignated preferred stock and to fix the number of shares constituting any series and the designation of such series, without the consent of the Company's stockholders. The

**NOTE 14. STOCKHOLDERS' EQUITY (Continued)**

preferred stock could be issued with voting, liquidation, dividend and other rights superior to those of the holders of common stock. The issuance of any preferred stock subsequently issued by the Company's Board of Directors, under some circumstances, could have the effect of delaying, deferring or preventing a change in control.

**Exchangeable Shares of JDS Uniphase Canada Ltd.**

On March 31, 2014 ("the Redemption Date"), the Company exercised its right to redeem approximately 3.2 million outstanding exchangeable shares of JDS Uniphase Canada Ltd ("Exchangeable Shares"). On the Redemption Date, holders of Exchangeable Shares were entitled to receive one share of the Company's common stock in exchange for each Exchangeable Share held. There were no Exchangeable Shares issued and outstanding as of July 2, 2016 and June 27, 2015, respectively.

## NOTE 15. STOCK-BASED COMPENSATION

### Stock-Based Benefit Plans

#### *Stock Option Plans*

As of July 2, 2016, the Company had 12.5 million shares of stock options and Full Value Awards issued and outstanding to employees and directors under the Restated 2005 Acquisition Equity Incentive Plan ("the 2005 Plan"), Restated 2003 Equity Incentive Plan ("the 2003 Plan"), inducement grants in connection with the appointment of our new CEO in fiscal 2016 and various other plans the Company assumed through acquisitions. The exercise price for stock options is equal to the fair value of the underlying stock at the date of grant. The Company issues new shares of common stock upon exercise of stock options. Options generally become exercisable over a three-year or four-year period and, if not exercised, expire from five to ten years after the date of grant.

On November 14, 2012, the Company's shareholders approved two amendments to the 2003 Plan. The first amendment increased the number of shares that may be issued under this plan by 10,000,000 shares. The second amendment extended the 2003 Plan's terms for an additional ten year period after the date of approval of the amendment. On December 5, 2014, the Company's shareholders approved another amendment to the 2003 Plan to increase the number of shares that may be issued under the plan by 9,000,000 shares. On August 1, 2015, following the Separation, the number of shares available for grant and all outstanding awards were automatically adjusted pursuant to the terms of the 2003 Plan and 2005 Plan.

As of July 2, 2016, 19.4 million shares of common stock, primarily under the 2003 Plan and the 2005 Plan, were available for grant.

#### *Employee Stock Purchase Plans*

In June 1998, the Company adopted the 1998 Employee Stock Purchase Plan, as amended (the "1998 Purchase Plan"). The 1998 Purchase Plan, which became effective August 1, 1998, provides eligible employees with the opportunity to acquire an ownership interest in the Company through periodic payroll deductions and provides a discounted purchase price as well as a look-back period. The 1998 Purchase Plan is structured as a qualified employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986. However, the 1998 Purchase Plan is not intended to be a qualified pension, profit sharing or stock bonus plan under Section 401(a) of the Internal Revenue Code of 1986 and is not subject to the provisions of the Employee Retirement Income Security Act of 1974. The 1998 Purchase Plan will terminate upon the earlier of August 1, 2018 or the date on which all shares available for issuance have been sold. On August 1, 2015, following the Separation, the number of shares available for issuance was automatically adjusted pursuant to the terms of the 1998 Purchase Plan. As of July 2, 2016, 5.5 million shares remained available for issuance. The 1998 Purchase Plan provides a 5% discount and a six month look-back period.

**NOTE 15. STOCK-BASED COMPENSATION (Continued)**

***Full Value Awards***

Full Value Awards refer to RSUs (time-based, Non-Performance Shares) and MSUs (Market-based, Performance Shares) that are granted with the exercise price equal to zero and are converted to shares immediately upon vesting. These Full Value Awards are performance-based with market conditions, time-based or a combination of both and expected to vest over one to four years. The fair value of the time-based Full Value Awards is based on the closing market price of the Company's common stock on the date of award.

**Stock-Based Compensation**

The impact on the Company's results of operations of recording stock-based compensation expense by function for fiscal 2016, 2015 and 2014 was as follows (*in millions*):

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Cost of sales | $ 4.8 | $ 4.2 | $ 4.3 |
| Research and development | 8.4 | 8.1 | 8.4 |
| Selling, general and administrative | 29.2 | 35.2 | 32.0 |
| Total stock-based compensation expense | $42.4 | $47.5 | $44.7 |

Approximately $0.8 million of stock-based compensation expense was capitalized to inventory at July 2, 2016.

**Impact on Stock-based Compensation Due to Separation**

In connection with the separation of the Lumentum business on August 1, 2015 and in accordance with the Employee Matters Agreement, the Company made certain adjustments to the exercise price and number of shares underlying stock-based compensation awards with the intention of preserving the economic value of the awards for Viavi employees. These adjustments resulted in a modification of equity awards with total incremental stock-based compensation of $13.6 million, to be amortized over the remaining service periods of the underlying awards.

Unless otherwise noted, share amounts and grant-date fair values for periods prior to the Separation Date represent the Company's historical information and have not been adjusted to remove grants made to employees who transferred to Lumentum as part of the Separation. Refer to "Note 3. Discontinued Operations" for more information on the Separation.

**Impact on Stock-based Compensation Due to Amendments in the Change of Control Benefits Plan**

During the year ended June 27, 2015, the Company amended its Change of Control Benefits Plan (the "Plan") to add a spin-off of certain Company assets to the circumstances that could trigger benefits under the Plan, as well as other revisions. The Chief Executive Officer of the Company and the Chairman of the Compensation Committee approved the separation of certain executives in the current fiscal year. Pursuant to the Plan, upon termination, all unvested equity awards that have been granted or issued to certain terminated executives become immediately vested and stock options shall become fully exercisable with an extended exercise period of two years from the termination date.

The amendments resulted in a modification of equity awards for six executives and total incremental stock-based compensation of $6.3 million, which was amortized over the period between the modification date and the termination dates of the executives.

## NOTE 15. STOCK-BASED COMPENSATION (Continued)

### Stock Option Activity

The following is a summary of stock option activities (*amount in millions except per share amounts*):

| | Number of Shares | Weighted-Average Exercise Price(1) |
|---|---|---|
| Balance as of June 29, 2013 | 5.6 | $10.56 |
| Exercised | (1.6) | 7.91 |
| Canceled | (0.5) | 22.24 |
| Balance as of June 28, 2014 | 3.5 | 10.13 |
| Exercised | (0.9) | 7.58 |
| Canceled | (0.1) | 14.54 |
| Balance as of June 27, 2015 | 2.5 | 10.84 |
| Granted | 1.2 | 5.95 |
| Exercised | (0.7) | 4.74 |
| Canceled | (0.4) | 10.52 |
| Net adjustment due to the separation | 0.5 | |
| Balance as of July 2, 2016 | 3.1 | $ 5.91 |
| Expected to vest | 2.8 | $ 5.91 |

(1) Weighted average exercise price is calculated using exercise prices prior to the Separation and after the Separation.

The total intrinsic value of options exercised during the year ended July 2, 2016 was $1.3 million. In connection with these exercises, the tax benefit realized by the Company was immaterial due to the fact that the Company has no material benefit in foreign jurisdictions and a full valuation allowance on its domestic deferred tax assets. As of July 2, 2016, $2.0 million of unrecognized stock-based compensation expense related to stock options remains to be amortized. That cost is expected to be recognized over an estimated amortization period of 3.6 years.

The following table summarizes significant ranges of outstanding and exercisable options as of July 2, 2016, adjusted to reflect the impact of the Lumentum separation.

| | Options Outstanding | | | | Options Exercisable | | | |
|---|---|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number of Shares | Weighted Average Remaining Contractual Term (in years) | Weighted Average Exercise Price | Aggregate Intrinsic Value (in millions) | Number of Shares | Weighted Average Remaining Contractual Term (in years) | Weighted Average Exercise Price | Aggregate Intrinsic Value (in millions) |
| $1.99 - $3.28 | 564,672 | 0.99 | $ 2.96 | | 564,672 | | $ 2.96 | |
| $5.74 - $5.74 | 812,359 | 1.52 | 5.74 | | 812,359 | | 5.74 | |
| $5.95 - $5.95 | 1,180,257 | 7.62 | 5.95 | | — | | — | |
| $6.52 - $9.93 | 394,487 | 1.25 | 8.75 | | 394,487 | | 8.75 | |
| $11.82 - $11.82 | 107,412 | 2.87 | 11.82 | | 107,412 | | 11.82 | |
| | 3,059,187 | 3.79 | $ 5.91 | $3.6 | 1,878,930 | 1.4 | $ 5.88 | $2.8 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value, based on the Company's closing stock price of $6.61 as of July 2, 2016, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of July 2, 2016 was 1.5 million.

**NOTE 15. STOCK-BASED COMPENSATION (Continued)**

**Employee Stock Purchase Plan Activity**

The expense related to the plan is recorded on a straight-line basis over the relevant subscription period.

The following summarizes the shares issued and the fair market value at purchase date, pursuant to the Company's ESPP during the year ended July 2, 2016:

| Purchase date | January 29, 2016 |
|---|---|
| Shares issued | 253,885 |
| Fair market value at purchase date | $ 4.75 |

As of July 2, 2016, there was $0.1 million of unrecognized stock-based compensation cost related to ESPP remains to be amortized. The cost will be recognized in the first quarter of fiscal 2017.

**Full Value Awards Activity**

A summary of the status of the Company's non-vested Full Value Awards as of July 2, 2016 and changes during the same period is presented below (*amount in millions, except per share amounts*):

| | Full Value Awards | | | |
|---|---|---|---|---|
| | Performance Shares(1) | Non-Performance Shares | Total Number of Shares | Weighted-average grant-dated fair value |
| Non-vested at June 29, 2013 | 1.0 | 8.0 | 9.0 | $12.61 |
| Awards granted | 0.6 | 5.4 | 6.0 | 13.42 |
| Awards vested | (0.4) | (4.1) | (4.5) | 12.26 |
| Awards forfeited | (0.1) | (1.0) | (1.1) | 12.94 |
| Non-vested at June 28, 2014 | 1.1 | 8.3 | 9.4 | 13.19 |
| Awards granted | 0.7 | 5.3 | 6.0 | 11.78 |
| Awards vested | (0.8) | (4.4) | (5.2) | 12.96 |
| Awards forfeited | — | (1.4) | (1.4) | 13.10 |
| Non-vested at June 27, 2015 | 1.0 | 7.8 | 8.8 | 12.36 |
| Awards granted | 0.7 | 6.1 | 6.8 | 5.75 |
| Awards vested | (0.7) | (4.8) | (5.5) | 6.01 |
| Awards forfeited | (0.4) | (1.8) | (2.2) | 7.89 |
| Net adjustment due to the separation | 0.4 | 1.1 | 1.5 | |
| Non-vested at July 2, 2016 | 1.0 | 8.4 | 9.4 | $ 6.55 |

(1) Performance Shares refer to the Company's MSU awards, where the actual number of shares awarded upon vesting may be higher or lower than the target amount depending on the achievement of the relevant market conditions. The majority of MSUs vest in equal annual installments over three to four years based on the attainment of certain total shareholder return performance measures and the employee's continued service through the vest date. The aggregate grant-date fair value of MSUs granted during fiscal 2016, 2015 and 2014 was estimated to be $3.7 million, $9.4 million and $9.2 million respectively, and was calculated using a Monte Carlo simulation.

As of July 2, 2016, $39.1 million of unrecognized stock-based compensation cost related to Full Value Awards remains to be amortized. That cost is expected to be recognized over an estimated amortization period of 2.0 years.

Full Value Awards are converted into shares upon vesting. Shares equivalent in value to the minimum withholding taxes liability on the vested shares are withheld by the Company for the payment of such taxes. During fiscal 2016, 2015 and 2014, the Company paid $11.4 million, $22.1 million and $21.4 million, respectively, and classified the payments as operating cash outflows in the Consolidated Statements of Cash Flows.

## NOTE 15. STOCK-BASED COMPENSATION (Continued)

### Valuation Assumptions

The Company estimates the fair value of the MSUs on the date of grant using a Monte Carlo simulation with the following assumptions:

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Volatility of common stock | 33.8% | 40.8% | 53.9% |
| Average volatility of peer companies | 52.9% | 53.4% | 58.6% |
| Average correlation coefficient of peer companies | 0.1103 | 0.2156 | 0.2920 |
| Risk-free interest rate | 0.8% | 0.6% | 0.8% |

The Company estimates the fair value of Stock Options and ESPP using a BSM valuation model. The fair value is estimated on the date of grant using the BSM option valuation model with the following weighted-average assumptions:

| | Stock Options | Employee Stock Purchase Plans | | |
|---|---|---|---|---|
| | July 2, 2016 | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Expected term (in years) | 5.2 | 0.5 | 0.5 | 0.5 |
| Expected volatility | 42.3% | 45.7% | 37.9% | 39.5% |
| Risk-free interest rate | 1.2% | 0.4% | 0.1% | 0.1% |

*Expected Term:* The Company's expected term for stock options was calculated utilizing the simplified method in accordance with the authoritative guidance. The Company used the simplified method as the Company does not have sufficient historical share option exercise data due to the limited number of shares granted as well as changes in the Company's business following the Separation, rendering existing historical experience less reliable in formulating expectations for current grants. The Company's expected term for ESPP is in line with the six month look-back period of its ESPP.

*Expected Volatility:* The Company has limited trading history following the Separation; therefore, the expected volatility for stock options was based on the historical volatility of the Company's common stock and its peers. For grants prior to the Separation and for ESPP grants, the Company determined that a combination of the implied volatility of its traded options and historical volatility of its stock price based on the expected term of the equity instrument most appropriately reflects market expectation of future volatility. Implied volatility is based on traded options of the Company's common stock with a remaining maturity of four and a half months or greater.

*Risk-Free Interest Rate:* The Company bases the risk-free interest rate used in the BSM valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

*Expected Dividend:* The BSM valuation model calls for a single expected dividend yield as an input. The Company has not paid and does not anticipate paying any dividends in the near future.

## NOTE 16. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

### Employee 401(k) Plans

The Company sponsors the Viavi Solutions 401(k) Plan (the "401(k) Plan"), a Defined Contribution Plan under ERISA, which provides retirement benefits for its eligible employees through tax deferred salary deductions. The 401(k) Plan allows employees to contribute up to 50% of their annual compensation, with contributions limited to $18,000 in calendar year 2016 as set by the Internal Revenue Service.

**NOTE 16. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (Continued)**

For all eligible participants who have completed 180 days of service with Viavi, the 401(k) Plan provided for a 100% match of employees' contributions up to the first 3% of annual compensation and 50% match on the next 2% of compensation. All matching contributions are made in cash and vest immediately. The Company's matching contributions to the 401(k) Plan were $4.7 million, $4.8 million, and $4.8 million in fiscal 2016, 2015 and 2014, respectively.

### Deferred Compensation Plan

The Company also provides for the benefit of certain eligible employees in the U.S. a non-qualified retirement plan. This plan is designed to permit employee deferral of a portion of salaries in excess of certain tax limits and deferral of bonuses. This plan's assets are designated as trading securities on the Company's Consolidated Balance Sheets. Refer to "Note 8. Investments and Fair Value Measurements" for more information. Effective January 1, 2011, the Company suspended all employee contributions into the plan.

### Employee Defined Benefit Plans

The Company sponsors significant qualified and non-qualified pension plans for certain past and present employees in the U.K. and Germany. The Company also is responsible for the non-pension post-retirement benefit obligation assumed from a past acquisition. In connection with the Separation, the Company transferred the liabilities and assets of the Switzerland defined benefit pension plans to Lumentum in the amount of $6.7 million and $4.6 million, respectively.

Most of the plans have been closed to new participants and no additional service costs are being accrued, except for certain plans in Germany assumed in connection with an acquisition during fiscal 2010. Benefits are generally based upon years of service and compensation or stated amounts for each year of service. As of July 2, 2016, the U.K. plan was partially funded while the other plans were unfunded. The Company's policy for funded plans is to make contributions equal to or greater than the requirements prescribed by law or regulation. For unfunded plans, the Company pays the post-retirement benefits when due. Future estimated benefit payments are summarized below. No other required contributions to defined benefit plans are expected in fiscal 2016, but the Company, at its discretion, can make contributions to one or more of the defined benefit plans.

The Company accounts for its obligations under these pension plans in accordance with the authoritative guidance which requires the Company to record its obligation to the participants, as well as the corresponding net periodic cost. The Company determines its obligation to the participants and its net periodic cost principally using actuarial valuations provided by third-party actuaries. The obligation the Company records on its Consolidated Balance Sheets is reflective of the total PBO and the fair value of plan assets.

In the fourth quarter of fiscal 2016 the Company has elected to early adopt the authoritative guidance issued by the FASB that provides a practical expedient permitting an entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. The Company has elected to early adopt the month-end date of June 30, which is the closest month-end to the Company's fiscal year as the measurement date for all of the Company's qualified and the non-qualified pension plans in certain countries beginning in fiscal 2016. Measurement dates for prior periods are not impacted.

The following table presents the components of the net periodic cost for the pension and benefits plans (*in millions*):

| | Years Ended | | |
|---|---|---|---|
| **Pension Benefits** | **2016** | **2015** | **2014** |
| Service cost | $ 0.2 | $ 0.2 | $ 0.4 |
| Interest cost | 3.0 | 3.7 | 4.5 |
| Expected return on plan assets | (1.5) | (1.6) | (1.4) |
| Recognized net actuarial losses | 0.7 | 0.4 | 0.1 |
| Provision for legal proceeding | 8.4 | — | — |
| Net periodic benefit cost | $10.8 | $ 2.7 | $ 3.6 |

## NOTE 16. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (Continued)

The Company's accumulated other comprehensive income includes unrealized net actuarial (gains)/losses. The amount expected to be recognized in net periodic benefit cost during fiscal 2017 is $2.0 million. Refer to "Note 17. Commitments and Contingencies" for further information on the provision for legal proceeding.

The changes in the benefit obligations and plan assets of the pension and benefits plans were (*in millions*):

| | Pension Benefit Plans | |
|---|---|---|
| | 2016 | 2015 |
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | $ 121.2 | $139.3 |
| Service cost | 0.2 | 0.2 |
| Interest cost | 3.0 | 3.7 |
| Actuarial losses | 14.5 | 3.9 |
| Benefits paid | (4.7) | (4.7) |
| Provision for legal proceeding | 8.4 | — |
| Foreign exchange impact | (8.0) | (21.2) |
| Benefit obligation at end of year | $ 134.6 | $121.2 |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | 30.2 | 30.5 |
| Actual return on plan assets | 1.8 | 1.7 |
| Employer contributions | 4.6 | 5.0 |
| Benefits paid | (4.7) | (4.7) |
| Foreign exchange impact | (4.7) | (2.3) |
| Fair value of plan assets at end of year | $ 27.2 | $ 30.2 |
| Funded status | $(107.4) | $(91.0) |
| Accumulated benefit obligation | $ 133.9 | $120.6 |

| | Pension Benefit Plans | |
|---|---|---|
| | 2016 | 2015 |
| **Amount recognized in the Consolidated Balance Sheets at end of year:** | | |
| Current liabilities | $ 5.5 | $ 4.8 |
| Non-current liabilities | 101.9 | 86.2 |
| Net amount recognized at end of year | $107.4 | $ 91.0 |
| **Amount recognized in Accumulated other comprehensive income at end of year:** | | |
| Actuarial losses, net of tax | $ (24.4) | $ (14.5) |
| Net amount recognized at end of year | $ (24.4) | $ (14.5) |
| **Other changes in plan assets and benefit obligations recognized in Other comprehensive loss:** | | |
| Net actuarial losses | $ (10.6) | $ (2.8) |
| Amortization of accumulated net actuarial losses | 0.7 | 0.4 |
| Total recognized in other comprehensive loss | $ (9.9) | $ (2.4) |

**NOTE 16. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (Continued)**

As of July 2, 2016 and June 27, 2015, the liability related to the post retirement benefit plan was $1.1 million and $1.0 million respectively. The balances were included in Other non-current liabilities on the Consolidated Balance Sheets.

During fiscal 2016, the Company contributed GBP 0.5 million or approximately $0.7 million, while in fiscal 2015, the Company contributed GBP 0.7 million or approximately $1.1 million to its U.K. pension plan. These contributions allowed the Company to comply with regulatory funding requirements.

***Assumptions***

Underlying both the calculation of the PBO and net periodic cost are actuarial valuations. These valuations use participant-specific information such as salary, age, years of service, and assumptions about interest rates, compensation increases and other factors. At a minimum, the Company evaluates these assumptions annually and makes changes as necessary.

The discount rate reflects the estimated rate at which the pension benefits could be effectively settled. In developing the discount rate, the Company considered the yield available on an appropriate AA corporate bond index, adjusted to reflect the term of the scheme's liabilities as well as a yield curve model developed by the Company's actuaries.

The expected return on assets was estimated by using the weighted average of the real expected long term return (net of inflation) on the relevant classes of assets based on the target asset mix and adding the chosen inflation assumption.

The following table summarizes the weighted average assumptions used to determine net periodic cost and benefit obligation for the Company's U.K. and German pension plans:

| | Pension Benefit Plans | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **Weighted-average assumptions used to determine net period cost:** | | | |
| Discount rate | 2.1% | 3.0% | 3.7% |
| Expected long-term return on plan assets | 5.3 | 5.8 | 5.4 |
| Rate of pension increase | 2.3 | 2.3 | 2.2 |
| **Weighted-average assumptions used to determine benefit obligation at end of year:** | | | |
| Discount rate | 1.7% | 2.6% | 3.0% |
| Rate of pension increase | 2.1 | 2.2 | 2.2 |

**Investment Policies and Strategies**

The Company's investment objectives for its funded pension plan are to ensure that there are sufficient assets available to pay out members' benefits as and when they arise and that should the plan be discontinued at any point in time there would be sufficient assets to meet the discontinuance liabilities.

To achieve the objectives, the trustees of the U.K. pension plan are responsible for regularly monitoring the funding position and managing the risk by investing in assets expected to outperform the increase in value of the liabilities in the long term and by investing in a diversified portfolio of assets in order to minimize volatility in the funding position. The trustees invest in a range of frequently traded funds ("pooled funds") rather than direct holdings in individual securities to maintain liquidity, achieve diversification and reduce the potential for risk concentration. The funded plan assets are managed by professional third-party investment managers.

## NOTE 16. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (Continued)

### Fair Value Measurement of Plan Assets

The following table sets forth the U.K. plan assets at fair value and the percentage of assets allocations as of July 2, 2016 (*in millions, except percentage data*):

| | | | | Fair value measurement as of July 2, 2016 | |
|---|---|---|---|---|---|
| | Target Allocation | Total | Percentage of Plan Assets | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| Assets: | | | | | |
| Global equity | 40% | $10.5 | 38.6% | $ — | $10.5 |
| Fixed income | 40% | 10.7 | 39.3% | — | 10.7 |
| Other | 20% | 5.4 | 19.9% | — | 5.4 |
| Cash | | 0.6 | 2.2% | 0.6 | — |
| Total assets | | $27.2 | 100.0% | $0.6 | $26.6 |

The following table sets forth the plan's assets at fair value and the percentage of assets allocations as of June 27, 2015 (*in millions, except percentage data*).

| | | | | Fair value measurement as of June 27, 2015 | |
|---|---|---|---|---|---|
| | Target Allocation | Total | Percentage of Plan Assets | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| Assets: | | | | | |
| Global equity | 40% | $12.3 | 40.7% | $ — | $12.3 |
| Fixed income | 40% | 11.7 | 38.7% | — | 11.7 |
| Other | 20% | 5.9 | 19.5% | — | 5.9 |
| Cash | | 0.3 | 1.0% | 0.3 | — |
| Total assets | | $30.2 | 100.0% | $0.3 | $29.9 |

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

Global equity consists of several index funds that invest primarily in U.K. equities and other overseas equities.

Fixed income consists of several funds that invest primarily in index-linked Gilts (over 5 year), sterling-denominated investment grade corporate bonds, and overseas government bonds.

Other consists of several funds that primarily invest in global equities, bonds, private equity, global real estate and infrastructure funds.

## NOTE 16. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (Continued)

### Future Benefit Payments

The following table reflects the total expected benefit payments to defined benefit pension plan participants. These payments have been estimated based on the same assumptions used to measure the Company's PBO at year end and include benefits attributable to estimated future compensation increases.

| (in millions) | Pension Benefit Plans |
|---|---|
| 2017 | $ 6.6 |
| 2018 | 5.9 |
| 2019 | 6.0 |
| 2020 | 5.6 |
| 2021 | 5.8 |
| 2022 - 2026 | 31.6 |
| Thereafter | 45.9 |
| Total | $107.4 |

Timing of the payment relating to the legal proceeding, which is included in the above table under "Thereafter," is not yet determined. Refer to "Note 17. Commitments and Contingencies" for further information.

## NOTE 17. COMMITMENTS AND CONTINGENCIES

### Operating Leases

The Company leases certain real and personal property from unrelated third parties under non-cancelable operating leases that expire at various dates through fiscal 2023. Certain leases require the Company to pay property taxes, insurance and routine maintenance, and include escalation clauses. As of July 2, 2016, future minimum annual lease payments under non-cancelable operating leases were as follows (*in millions*):

| | |
|---|---|
| 2017 | $18.7 |
| 2018 | 18.6 |
| 2019 | 14.2 |
| 2020 | 9.9 |
| 2021 | 7.7 |
| Thereafter | 4.8 |
| Total minimum operating lease payments | $73.9 |

Included in the future minimum lease payments table above is $5.7 million related to lease commitments in connection with the Company's restructuring and related activities. Refer to "Note 12. Restructuring and Related Charges" for more information.

The aggregate future minimum rentals to be received under non-cancelable subleases totaled $4.7 million as of July 2, 2016. Rental expense relating to building and equipment was $13.8 million, $14.3 million and $17.7 million in fiscal 2016, 2015 and 2014, respectively.

## NOTE 17. COMMITMENT AND CONTINGENCIES (Continued)

### Purchase Obligations

Purchase obligations of $55.9 million as of July 2, 2016, represent legally-binding commitments to purchase inventory and other commitments made in the normal course of business to meet operational requirements. Although open purchase orders are considered enforceable and legally binding, the terms generally allow the option to cancel, reschedule and adjust the requirements based on the Company's business needs prior to the delivery of goods or performance of services. Obligations to purchase inventory and other commitments are generally expected to be fulfilled within one year.

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

### Financing Obligations—Eningen and Santa Rosa

#### *Eningen*

On December 16, 2011, the Company executed and closed the sale and leaseback transaction of certain buildings and land in Eningen, Germany (the "Eningen Transactions"). The Company sold approximately 394,217 square feet of land, nine buildings with approximately 386,132 rentable square feet, and parking areas. The Company leased back approximately 158,154 rentable square feet comprised of two buildings and a portion of a basement of another building (the "Leased Premises"). The lease term is 10 years with the right to cancel a certain portion of the lease after 5 years.

Concurrent with the sale and lease back, the Company has provided collateral in case of a default by the Company relative to future lease payments for the Leased Premises. Due to this continuing involvement, the related portion of the cash proceeds and transaction costs, associated with the Leased Premises and other buildings which the Company continues to occupy, was recorded under the financing method in accordance with the authoritative guidance on leases and sales of real estate. Accordingly, the carrying value of these buildings and associated land will remain on the Company's books and the buildings will continue to be depreciated over their remaining useful lives. The portion of the proceeds received have been recorded as a financing obligation, a portion of the lease payments are recorded as a decrease to the financing obligation and a portion is recognized as interest expense. Imputed rental income from the buildings sold but not leased back and currently being occupied is recorded as a reduction in the financing obligation.

As of July 2, 2016, of the total financing obligation related to the Eningen Transactions, $0.1 million was included in Other current liabilities, and $4.0 million was included in Other non-current liabilities. As of June 27, 2015, of the total financing obligation related to the Eningen Transactions, $0.1 million was included in Other current liabilities, and $4.1 million was included in Other non-current liabilities.

## NOTE 17. COMMITMENT AND CONTINGENCIES (Continued)

***Santa Rosa***

On August 21, 2007, the Company entered into a sale and lease back of certain buildings and land in Santa Rosa, California (the "Santa Rosa Transactions"). The Company sold approximately 45 acres of land, 13 buildings with approximately 492,000 rentable square feet, a building pad, and parking areas. The Company leased back 7 buildings with approximately 286,000 rentable square feet. The net cash proceeds received from the transaction were $32.2 million. The lease terms range from a one-year lease with multiple renewal options to a ten-year lease with two five-year renewal options.

The Company has an ongoing obligation to remediate environmental matters, impacting the entire site, as required by the North Coast Regional Water Quality Control Board which existed at the time of sale. Concurrent with the sale and lease back, the Company has issued an irrevocable letter of credit for $3.8 million as security for the remediation of the environmental matter that remains in effect until the issuance of a notice of no further action letter from the North Coast Regional Water Quality Control Board. In addition, the lease agreement for one building included an option to purchase at fair market value, at the end of the lease term. Due to these various forms of continuing involvement the transaction was recorded under the financing method in accordance with the authoritative guidance on leases and sales of real estate.

Accordingly, the value of the buildings and land will remain on the Company's books and the buildings will continue to be depreciated over their remaining useful lives. The proceeds received have been recorded as a financing obligation, a portion of the lease payments are recorded as a decrease to the financing obligation and a portion is recognized as interest expense. Imputed rental income from the buildings sold but not leased back is recorded as a reduction in the financing obligation.

As of July 2, 2016, $0.8 million was included in Other current liabilities, and $24.7 million was included in Other non-current liabilities. As of June 27, 2015, $1.4 million was included in Other current liabilities, and $24.8 million was included in Other non-current liabilities.

The lease payments due under the agreement reset to fair market rental rates upon the Company's execution of the renewal options.

### Guarantees

In accordance with authoritative guidance which requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. In addition, disclosures about the guarantees that an entity has issued, including a tabular reconciliation of the changes of the entity's product warranty liabilities, are required.

The Company from time to time enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims. These contracts primarily relate to: (i) divestiture agreements, under which the Company may provide customary indemnifications to purchasers of the Company's businesses or assets; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; and (iii) certain agreements with the Company's officers, directors and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their employment relationship.

The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of agreements often are not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations on the Consolidated Balance Sheets as of July 2, 2016 and June 27, 2015.

**NOTE 17. COMMITMENTS AND CONTINGENCIES (Continued)**

**Product Warranties**

In general, the Company offers a three-year warranty for most of its products. The Company provides reserves for the estimated costs of product warranties at the time revenue is recognized. The Company estimates the costs of its warranty obligations based on its historical experience of known product failure rates, use of materials to repair or replace defective products and service delivery costs incurred in correcting product failures. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise with specific products. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

The following table presents the changes in the Company's warranty reserve during fiscal years 2016 and 2015 (*in millions*):

| | Year Ended | |
|---|---|---|
| | July 2, 2016 | June 27, 2015 |
| Balance as of beginning of period | $ 3.7 | $ 3.6 |
| Provision for warranty | 3.9 | 3.8 |
| Utilization of reserve | (3.3) | (3.8) |
| Adjustments related to pre-existing warranties (including changes in estimates) | 0.6 | 0.1 |
| Balance as of end of period | $ 4.9 | $ 3.7 |

**Legal Proceedings**

In June 2016, the Company received a court decision regarding the validity of an amendment to a pension deed of trust related to one of its foreign subsidiaries which the Company contends contained an error requiring the Company to increase the pension plan's benefit. The Company had subsequently further amended the deed to rectify the error. The court ruled that the amendment increasing the pension plan benefit was valid until the subsequent amendment. Prior to this decision, the Company, in consultation with outside legal counsel, believed that the pension deed of trust document was invalid or, alternatively, that the subsequent rectification should be applied retroactively. Under both scenarios, the Company believed that the likelihood of an increase in plan benefits was remote. While the Company is pursuing other legal arguments in this matter, such as appealing the court decision and pursuing a claim against the U.K. law firm responsible for the error, the Company determined that the likelihood of loss to be probable as of July 2, 2016 and estimated the increase in liability to range from GBP 5.7 million to GBP 8.4 million. The Company accrued GBP 5.7 million, or $8.4 million, in accordance with authoritative guidance on contingencies. The accrual is included as a component of selling, general and administrative expense and included in pension and post-employment benefits, which is a component of other non-current liabilities, in the Company's Consolidated Statement of Operations and Consolidated Balance Sheets, respectively.

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

**NOTE 18. OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION**

The Company evaluates its reportable segments in accordance with the authoritative guidance on segment reporting. The Company's Chief Executive Officer, Oleg Khaykin, the Company's Chief Operating Decision Maker ("CODM") pursuant to the guidance. The CODM allocates resources to the segments based on their business prospects, competitive factors, net revenue and operating results.

**NOTE 18. OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION (Continued)**

The Company is a global provider of network test, monitoring and assurance solutions to communications service providers, enterprises and their ecosystems. Our solutions deliver end-to-end visibility across physical, virtual and hybrid networks, enabling customers to optimize connectivity, quality of experience and profitability. Viavi is also a leader in high performance thin film optical coatings, providing light management solutions to anti-counterfeiting, consumer and industrial, government and healthcare and other markets.

The Company's reportable segments are:

(i) Network Enablement ("NE"):

NE provides testing solutions that access the network to perform build-out and maintenance tasks. These solutions include instruments, software and services to design, build, activate, certify, troubleshoot and optimize networks. The company also offers a range of product support and professional services such as repair, calibration, software support and technical assistance for our products.

(ii) Service Enablement ("SE"):

SE solutions are embedded systems that yield network, service and application performance data. These solutions—including microprobes and software—monitor, collect and analyze network data to reveal the actual customer experience and to identify opportunities for new revenue streams and network optimization.

(iii) Optical Security and Performance Products ("OSP"):

OSP provides innovative optical security solutions, with a strategic focus on serving the anti-counterfeiting market through advanced security pigments, thread substrates and printed features for the currency, pharmaceutical and consumer electronic segments. OSP also provides thin-film coating solutions for 3D sensing applications.

**Changes to Segment Reporting**

Following the Separation in the first quarter of fiscal 2016, the Company made changes to its segment measures to reflect how the CODM manages the business post-separation as described below.

The CODM manages the Company in two broad business categories: Network and Service Enablement ("NSE") and OSP. NSE operates in two segments, NE and SE, whereas OSP operates as a single segment. The CODM evaluates segment performance of the NSE business based on NE and SE segment gross margin and NSE operating margin as a whole. Operating expenses associated with the NSE business are not allocated to the NE and SE segments within NSE, as they are managed centrally at the business unit level. The CODM evaluates segment performance of the OSP business based on OSP segment operating margin. In addition, prior to the first quarter of fiscal 2016 the Company did not allocate certain corporate-level operating expenses associated with its shared-service function to its segment results. Beginning in the first quarter of fiscal 2016, the Company has allocated these corporate-level operating expenses to its segment results, with the exception of certain non-core operating and non-operating activities as discussed below.

The Company does not allocate stock-based compensation, acquisition-related charges, amortization of intangibles, restructuring and related charges, impairment of goodwill, non-operating income and expenses, or other non-core operating and non-recurring charges to its segments because Management does not include this information in its measurement of the performance of the operating segments. These items are presented as "Reconciling Items" in the table below. Additionally, the Company does not specifically identify and allocate all assets by operating segment.

As a result of the Separation, the Company excluded the results of the Lumentum business which historically consisted of the CCOP segment and the WaveReady product line within the NE segment for all periods presented. Refer to "Note 3. Discontinued Operations" for more information on the Separation. Additionally, the Company's Video Assurance product line was moved out of its NE segment and into its SE segment during the first quarter of fiscal 2016.

## NOTE 18. OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION (Continued)

The segment information for all periods presented has been revised to be comparable with the changes in the Company's segment reporting measures.

Information on reportable segments is as follows (*in millions*):

| | Year Ended July 2, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Network and Service Enablement | | | | | | |
| | Network Enablement | Service Enablement | Network and Service Enablement | Optical Security and Performance Products | Total Segment Measures | Reconciling Items | Consolidated GAAP Measures |
| Net revenue | $504.6 | $153.6 | $658.2 | $248.1 | $906.3 | $ — | $906.3 |
| Gross profit | 329.7 | 99.4 | 429.1 | 143.1 | 572.2 | (22.5) | 549.7 |
| Gross margin | 65.3% | 64.7% | 65.2% | 57.7% | 63.1% | | 60.7% |
| Operating (loss) income | | | 12.7 | 102.9 | 115.6 | (199.9) | (84.3) |
| Operating margin | | | 1.9% | 41.5% | 12.8% | | (9.3)% |

| | Year Ended June 27, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Network and Service Enablement | | | | | | |
| | Network Enablement | Service Enablement | Network and Service Enablement | Optical Security and Performance Products | Total Segment Measures | Reconciling Items | Consolidated GAAP Measures |
| Net revenue | $506.8 | $174.3 | $681.1 | $192.8 | $873.9 | $ — | $873.9 |
| Gross profit | 333.9 | 119.2 | 453.1 | 104.3 | 557.4 | (37.3) | 520.1 |
| Gross margin | 65.9% | 68.4% | 66.5% | 54.1% | 63.8% | | 59.5% |
| Operating income (loss) | | | (0.1) | 68.1 | 68.0 | (143.8) | (75.8) |
| Operating margin | | | —% | 35.3% | 7.8% | | (8.7)% |

| | Year Ended June 28, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Network and Service Enablement | | | | | | |
| | Network Enablement | Service Enablement | Network and Service Enablement | Optical Security and Performance Products | Total Segment Measures | Reconciling Items | Consolidated GAAP Measures |
| Net revenue | $570.1 | $156.0 | $726.1 | $200.8 | $926.9 | $ — | $926.9 |
| Gross profit | 371.0 | 95.4 | 466.4 | 100.7 | 567.1 | (39.3) | 527.8 |
| Gross margin | 65.1% | 61.2% | 64.2% | 50.1% | 61.2% | | 56.9% |
| Operating income (loss) | | | (0.2) | 63.8 | 63.6 | (119.2) | (55.6) |
| Operating margin | | | —% | 31.8% | 6.9% | | (6.0)% |

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| **Corporate reconciling items impacting gross profit:** | | | |
| Total segment gross profit | $572.2 | $557.4 | $567.1 |
| Stock-based compensation | (4.8) | (4.2) | (4.3) |
| Amortization of intangibles | (17.3) | (31.9) | (34.1) |
| Other charges unrelated to core operating performance | (0.4) | (1.2) | (0.9) |
| GAAP gross profit | $549.7 | $520.1 | $527.8 |

## NOTE 18. OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION (Continued)

**Corporate reconciling items impacting operating income (loss):**

| | | | |
|---|---|---|---|
| Total segment operating income | $115.6 | $ 68.0 | $ 63.6 |
| Stock-based compensation | (42.4) | (47.5) | (44.7) |
| Amortization of intangibles | (31.9) | (51.4) | (49.6) |
| Impairment of goodwill | (91.4) | — | — |
| Other charges unrelated to core operating performance(1)(2) | (23.7) | (18.1) | (3.6) |
| Restructuring and related charges | (10.5) | (26.8) | (21.3) |
| GAAP operating income (loss) from continuing operations | $ (84.3) | $ (75.8) | $ (55.6) |

(1) During the year ended July 2, 2016 other charges unrelated to core operating performance primarily consisted of (a) an $8.4 million charge related to a litigation ruling impacting our U.K. pension obligation, (b) $5.0 million of Viavi-specific charges related to the Separation and (c) $3.5 million of non-recurring incremental severance and related costs upon the exit of a key executive.

(2) During the year ended June 27, 2015, other charges unrelated to core operating performance primarily consisted of $9.8 million of Viavi-specific charges related to the Separation and $3.6 million IPR&D impairment charge for an ongoing project related to the fiscal 2014 acquisition of Trendium as discussed in "Note 10. Acquired Developed Technology and Other Intangibles."

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

| | Years Ended | | | | | |
|---|---|---|---|---|---|---|
| | July 2, 2016 | | June 27, 2015 | | June 28, 2014 | |
| **Americas:** | | | | | | |
| United States | $396.6 | 43.8% | $424.3 | 48.5% | $448.6 | 48.4% |
| Other Americas | 66.0 | 7.3% | $ 62.5 | 7.2% | $ 58.8 | 6.3% |
| Total Americas | $462.6 | 51.1% | $486.8 | 55.7% | $507.4 | 54.7% |
| **Asia-Pacific** | $166.3 | 18.3% | $144.5 | 16.5% | $140.9 | 15.2% |
| **EMEA:** | | | | | | |
| Switzerland | $135.6 | 15.0% | $ 97.7 | 11.2% | $ 98.0 | 10.6% |
| Other EMEA | 141.8 | 15.6% | 144.9 | 16.6% | 180.6 | 19.5% |
| Total EMEA | $277.4 | 30.6% | $242.6 | 27.8% | $278.6 | 30.1% |
| **Total net revenue** | $906.3 | 100.0% | $873.9 | 100.0% | $926.9 | 100.0% |

Following the separation from Lumentum, one customer served by our OSP segment and one customer served by our NE and SE segments generated more than 10% of Viavi net revenue from continuing operations during fiscal 2016, 2015 and 2014 as summarized below (*in millions*):

| | Years Ended | | |
|---|---|---|---|
| | July 2, 2016 | June 27, 2015 | June 28, 2014 |
| Customer A - OSP Customer | $190.1 | $143.0 | $118.2 |
| Customer B - NE and SE Customer | * | * | 106.6 |

* Customer represented less than 10% of consolidated net revenue in the specified fiscal year.

**NOTE 18. OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION (Continued)**

Property, plant and equipment, net were identified based on the operations in the corresponding geographic areas (*in millions*):

| | Years Ended | |
|---|---|---|
| | July 2, 2016 | June 27, 2015 |
| United States | $ 85.6 | $ 91.8 |
| Other Americas | 4.3 | 5.8 |
| China | 27.3 | 32.1 |
| Other Asia-Pacific | 4.8 | 6.9 |
| Germany | 7.9 | 8.5 |
| Other EMEA | 3.1 | 4.1 |
| Total property, plant and equipment, net | $133.0 | $149.2 |

**NOTE 19. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

The following table presents the Company's selected quarterly financial information from the Consolidated Statements of Operations for fiscal 2016 and 2015 (*in millions, except per share data*):

| | July 2, 2016(1) | April 2, 2016 | January 2, 2016 | October 3, 2015(2) | June 27, 2015(2) | March 28, 2015(2)(3) | December 27, 2014(2) | September 27, 2014(2) |
|---|---|---|---|---|---|---|---|---|
| Net revenue | $224.1 | $220.4 | $232.1 | $229.7 | $219.8 | $212.4 | $226.4 | $215.3 |
| Gross profit | 136.1 | 131.3 | 141.8 | 140.5 | 131.1 | 127.0 | 133.1 | 128.9 |
| Net (loss) income from continuing operations, net of tax | (64.5) | 28.8 | 1.0 | (15.7) | (32.1) | (35.8) | (37.7) | (25.8) |
| Net income (loss) from discontinued operations, net of tax | (3.4) | 5.0 | 3.0 | (53.4) | (8.0) | 22.6 | 12.6 | 16.1 |
| Net income (loss) | $ (67.9) | $ 33.8 | $ 4.0 | $ (69.1) | $ (40.1) | $ (13.2) | $ (25.1) | $ (9.7) |
| Net (loss) income per share from - basic: | | | | | | | | |
| Continuing operations(4) | $ (0.28) | $ 0.13 | $ 0.01 | $ (0.07) | $ (0.14) | $ (0.16) | $ (0.16) | $ (0.11) |
| Discontinued operations(4) | (0.01) | 0.02 | 0.01 | (0.22) | (0.03) | 0.10 | 0.05 | 0.07 |
| Net (loss) income(4) | $ (0.29) | $ 0.15 | $ 0.02 | $ (0.29) | $ (0.17) | $ (0.06) | $ (0.11) | $ (0.04) |
| Net (loss) income per share from - diluted: | | | | | | | | |
| Continuing operations(4) | $ (0.28) | $ 0.12 | $ 0.01 | $ (0.07) | $ (0.14) | $ (0.16) | $ (0.16) | $ (0.11) |
| Discontinued operations(4) | (0.01) | 0.02 | 0.01 | (0.22) | (0.03) | 0.10 | 0.05 | 0.07 |
| Net (loss) income(4) | $ (0.29) | $ 0.14 | $ 0.02 | $ (0.29) | $ (0.17) | $ (0.06) | $ (0.11) | $ (0.04) |
| Shares used in per-share calculation (basic) | 232.7 | 232.0 | 234.9 | 236.0 | 234.6 | 233.2 | 232.1 | 230.8 |
| Shares used in per-share calculation (diluted) | 232.7 | 234.6 | 237.1 | 236.0 | 234.6 | 233.2 | 232.1 | 230.8 |

(1) During the fourth quarter of fiscal 2016, the Company recorded a $91.4 million goodwill impairment charge related to the SE reporting unit.

**NOTE 19. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED) (Continued)**

(2) During the first quarter of fiscal 2016, we completed the Separation. As a result, the operations of the Lumentum business have been presented as discontinued operations in all periods of the Company's Consolidated Statement of Operations.

(3) During the third quarter of fiscal 2015, the Company recognized $21.8 million tax benefit recognized upon the settlement of an audit in a non-U.S. jurisdiction.

(4) Net (loss) income per share is computed independently for each of the fiscal quarters presented. Therefore, the sum of the quarterly basic and diluted net (loss) income per share amounts may not equal the annual basic and diluted net (loss) income per share amount for the full fiscal years.

## NOTE 20. SUBSEQUENT EVENTS

### Sale of Lumentum Common Stock

Subsequent to our fiscal year ended July 2, 2016, the Company sold 2.7 million of Lumentum common shares generating gross proceeds of $71.6 million and a gross realized gain of $48.9 million, respectively.

### Repurchase of Common Stock

Subsequent to our fiscal year ended July 2, 2016, the Company repurchased approximately 1.4 million shares of common stock purchases at an average price of $7.50 per share under the stock repurchase program authorized on February 1, 2016. All common shares repurchased have been canceled and retired.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### (a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management is responsible for establishing and maintaining "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Exchange Act) for our Company to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosures. Based on the evaluation of our disclosure controls and procedures as of July 2, 2016, our CEO and CFO have concluded that due to the existence of a material weakness as discussed below, our disclosure controls and procedures were not effective. Notwithstanding the identified material weakness, our management believes the consolidated financial statements included in this Annual Report on Form 10-K fairly represent in all material respects our Consolidated Statements of Operations, Consolidated Statements of Comprehensive Income (Loss), Consolidated Balance Sheets, Consolidated Statements of Cash Flows, and Consolidated Statements of Stockholders' Equity at and for the periods presented in accordance with U.S. GAAP.

### (b) MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management, including our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in the

*Internal Control-Integrated Framework* (2013), our management concluded that we did not maintain effective internal control over financial reporting as of July 2, 2016 because of a previously reported material weakness in our internal control over financial reporting as reported in Item 4 on Form 10-Q/A for each of the interim periods ended October 3, 2015, January 2, 2016, and April 2, 2016 and as described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. During the preparation of the Company's fiscal 2016 Annual Report on Form 10-K, the Company's management identified a material weakness in our internal controls over financial reporting. Specifically, the internal controls with respect to the determination of the interim income tax provision were not designed at a precision level to identify the use of an inaccurate tax rate. This control deficiency could result in a misstatement of the related account balances or disclosures that would result in a material misstatement to the interim consolidated financial statements that would not be prevented or detected. For the quarters ended October 3, 2015, January 2, 2016 and April 2, 2016, this control deficiency did result in misstatements of our income tax expense and income taxes payable.

The Company's internal control over financial reporting as of July 2, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in this Annual Report on Form 10-K under Item 8.

### (c) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### (d) PLAN FOR REMEDIATION OF MATERIAL WEAKNESS IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company will implement an enhanced process and design a control to ensure a more precise review of the interim income tax provision beginning in the first quarter of fiscal 2017. In accordance with the Company's internal control over financial reporting compliance program, the material weakness designation cannot be remediated in full until the enhanced processes have been operational for a period of time and successfully tested. Such remediation is anticipated to be completed later in fiscal 2017.

## ITEM 9B. OTHER INFORMATION

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding the Company's executive officers and directors required by this Item is incorporated by reference to the section entitled "Proposal One—Elections of Directors" in the Company's Definitive Proxy Statement in connection with the 2016 Annual Meeting of Stockholders (the "Proxy Statement"), which will be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended July 2, 2016. Information required by Item 405 of Regulation S-K is incorporated by reference to the section entitled "Beneficial Ownership Reporting Compliance" in the Proxy Statement.

The Company has adopted the "Viavi Code of Business Conduct" as its code of ethics, which is applicable to all employees, officers and directors of the Company. The full text of the Viavi Code of Business Conduct is available under Corporate Governance Information which can be found under the Investors tab on the Company's website at www.viavisolutions.com.

### ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is incorporated by reference to the sections entitled "Executive Compensation," "Director Compensation," "Compensation Program Risk Assessment," "Corporate Governance—Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report" in the Proxy Statement.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management is incorporated by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

Information regarding the Company's stockholder approved and non-approved equity compensation plans is incorporated by reference to the section entitled "Equity Compensation Plans" in the Proxy Statement.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this Item is incorporated by reference to the sections entitled "Certain Relationships and Related Person Transactions," and "Code of Ethics," "Director Independence," and "Board Committees and Meetings" under the "Corporate Governance" heading in the Proxy Statement.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item is incorporated by reference to the section entitled "Audit and Non-Audit Fees" in the Proxy Statement.

## PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following items are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements:



(2) Financial Statement Schedules:

All financial statement schedules have been omitted because the required information is not present in amounts sufficient to require submission of the schedule, not applicable, or because the required information is included in the Consolidated Financial Statements or Notes thereto.

(3) Exhibits:

See Item 15(b)

(b) Exhibits:

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

| | | Incorporated by Reference | | | Filed |
|---|---|---|---|---|---|
| Exhibit No. | Exhibit Description | Form | Exhibit | Filing Date | Herewith |
| 2.1 | Agreement and Plan of Merger, dated December 6, 2013, by and among NI Holdings I, Inc., a Delaware corporation, the Company, Jade Acquisition I, Inc., a Delaware corporation and wholly owned subsidiary of the Company, Thoma Bravo, LLC, a Delaware limited liability company, solely in its capacity as Representative for NI Holdings' stockholders, Thoma Bravo Fund X, L.P., a Delaware limited partnership, and Thoma Bravo Fund X-A., L.P., a Delaware limited partnership. | 8-K | 2.1 | 12/11/2013 | |
| 2.2 | Contribution Agreement by and between JDS Uniphase Corporation and Lumentum Operations LLC | 8-K | 2.1 | 8/5/2015 | |
| 2.3 | Membership Interest Transfer Agreement by and between JDS Uniphase Corporation and Lumentum Inc. | 8-K | 2.2 | 8/5/2015 | |
| 2.4 | Separation and Distribution Agreement by and between JDS Uniphase Corporation, Lumentum Holdings Inc. and Lumentum Operations LLC | 8-K | 2.3 | 8/5/2015 | |
| 3.1 | Restated Certificate of Incorporation | 8-K | 3.1 | 11/18/2013 | |
| 3.2 | Certificate of Amendment to Restated Certificate of Incorporation | 8-K | 3.1 | 8/5/2015 | |

| Exhibit No. | Exhibit Description | Incorporated by Reference | | | Filed Herewith |
|---|---|---|---|---|---|
| | | Form | Exhibit | Filing Date | |
| 3.5 | Amended and Restated Bylaws of Viavi Solutions Inc. | 8-K | 3.1 | 6/1/2016 | |
| 4.1 | Indenture, dated as of August 21, 2013, between JDS Uniphase Corporation and Wells Fargo Bank, National Association, as Trustee | 8-K | 4.1 | 8/21/2013 | |
| 4.2 | Form of 0.625% Senior Convertible Debentures due 2033 | 8-K | 4.2 | 8/21/2013 | |
| 4.3 | Stockholder's and Registration Rights Agreement by and between JDS Uniphase Corporation and Lumentum Holdings Inc. | 8-K | 4.1 | 8/5/2015 | |
| 10.2 | Amended and Restated 1993 Flexible Stock Incentive Plan (Amended and Restated as of November 9, 2001) | 10-Q | 10.1 | 2/11/2002 | |
| 10.3 | Restated 1998 Employee Stock Purchase Plan | 10-K | 10.3 | 8/25/2015 | |
| 10.4 | Amended and Restated 1999 Canadian Employee Stock Purchase Plan (Amended and Restated as of July 31, 2002) | 10-K | 10.4 | 9/17/2002 | |
| 10.5 | Restated 2005 Acquisition Equity Incentive Plan | 10-K | 10.5 | 8/25/2015 | |
| 10.6 | 2005 Acquisition Equity Incentive Plan Form of Stock Option Award Agreement | 10-K | 10.6 | 9/30/2005 | |
| 10.7 | 2005 Acquisition Equity Incentive Plan Form of Restricted Stock Unit Award Agreement | 10-K | 10.7 | 9/30/2005 | |
| 10.9 | Form of Indemnification Agreement | 8-K | 10.9 | 4/20/2015 | |
| 10.10 | Restated 2003 Equity Incentive Plan | 10-K | 10.10 | 8/25/2015 | |
| 10.11 | Separation Agreement between JDS Uniphase Corporation and Rex Jackson dated February 24, 2015 | 8-K | 10.1 | 2/26/2015 | |
| 10.12 | Separation Agreement between the JDS Uniphase Corporation and David Heard, dated October 23, 2014 | 8-K | 10.1 | 10/23/2014 | |
| 10.13 | Separation Agreement and General Release between Viavi Solutions Inc. and Thomas Waechter dated August 13, 2015 | 8-K | 10.1 | 8/19/2015 | |
| 10.14 | Employment Agreement between Viavi Solutions Inc. and Richard Belluzzo dated August 19, 2015 | 8-K | 10.2 | 8/19/2015 | |
| 10.15 | Tax Matters Agreement by and between JDS Uniphase Corporation and Lumentum Holdings Inc. | 8-K | 10.1 | 8/5/2015 | |
| 10.16 | Employee Matters Agreement by and between JDS Uniphase Corporation, Lumentum Holdings Inc. and Lumentum Operations LLC | 8-K | 10.2 | 8/5/2015 | |
| 10.17 | Intellectual Property Matters Agreement by and between JDS Uniphase Corporation and Lumentum Operations LLC | 8-K | 10.3 | 8/5/2015 | |
| 10.18 | Viavi Solutions Inc. 2015 Change of Control Benefits Plan, effective December 14 | 8-K | 10.1 | 12/17/2015 | |
| 10.20 | 2003 Equity Incentive Plan Form of Stock Option Award Agreement (for the U.S) | 10-K | 10.20 | 8/31/2010 | |
| 10.24 | 2003 Equity Incentive Plan Form of Restricted Stock Unit Award Agreement (for the U.S) | 10-K | 10.24 | 8/31/2010 | |
| 21.1 | Subsidiaries of Viavi Solutions Inc. | | | | X |

| Exhibit No. | Exhibit Description | Incorporated by Reference Form | Exhibit | Filing Date | Filed Herewith |
|---|---|---|---|---|---|
| 23.1 | Consent of Independent Registered Public Accounting Firm (PricewaterhouseCoopers LLP) | | | | X |
| 31.1 | Certification of the Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 31.2 | Certification of the Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 101.INS | XBRL Instance | | | | X |
| 101.SCH | XBRL Taxonomy Extension Schema | | | | X |
| 101.CAL | XBRL Taxonomy Extension Calculation | | | | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | | | | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | | | | X |
| 101.PRE | XBRL Taxonomy Extension Presentation | | | | X |

## ITEM 16. 10-K SUMMARY

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 30, 2016

VIAVI SOLUTIONS INC.

| | |
|---|---|
| By: | /s/ AMAR MALETIRA |
| Name: | Amar Maletira |
| Title: | *Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)* |

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ OLEG KHAYKIN<br>Oleg Khaykin | President and Chief Executive Officer (Principal Executive Officer) | August 30, 2016 |
| /s/ AMAR MALETIRA<br>Amar Maletira | Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | August 30, 2016 |
| /s/ RICHARD BELLUZZO<br>Richard Belluzzo | Chairman | August 30, 2016 |
| /s/ KEITH BARNES<br>Keith Barnes | Director | August 30, 2016 |
| /s/ TOR BRAHAM<br>Tor Braham | Director | August 30, 2016 |
| /s/ TIMOTHY E. CAMPOS<br>Timothy E. Campos | Director | August 30, 2016 |
| /s/ DONALD COLVIN<br>Donald Colvin | Director | August 30, 2016 |
| /s/ MASOOD JABBAR<br>Masood Jabbar | Director | August 30, 2016 |
| /s/ PAMELA STRAYER<br>Pamela Strayer | Director | August 30, 2016 |