FORM 10−Q

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JDS UNIPHASE CORP /CA/ − jdsu

Filing Date: November 10, 2004

Filing Period: September 30, 2004

DESCRIPTION

Quarterly report which provides a continuing view of a company's financial position

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

FORM 10−Q

(Mark One)

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

For the quarterly period ended September 30, 2004*

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

JDS Uniphase Corporation

(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 No.)
1768 Automation Parkway, San Jose, CA	**95131**
(Address of principal executive offices)	(Zip Code)

(408) 546−5000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year if changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b−2 of the Exchange Act). Yes [X] No [ ]

Number of shares of common stock outstanding as of October 29, 2004 was 1,444,008,103 including 62,198,189 exchangeable shares of JDS Uniphase Canada Ltd. Each exchangeable share is exchangeable at any time into common stock on a one−for−one basis, entitles a holder to dividend and other rights economically equivalent to those of the common stock, and through a voting trust, votes at meetings of stockholders of the Registrant.

* Our quarter ended formally on October 2, 2004. For more information see Note 1 to Condensed Consolidated Financial Statements regarding Registrant's fiscal periods.

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements

JDS UNIPHASE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)
(unaudited)

	Three Months Ended	
	September 30, 2004	September 30, 2003
Net revenue	$ 194.5	$ 147.4
Cost of sales	151.6	115.6
Gross profit	42.9	31.8
Operating expenses:		
Research and development	24.5	24.7
Selling, general and administrative	37.2	41.0
Amortization of intangibles	4.7	3.9
Reduction of other long−lived assets	4.5	4.9
Restructuring charges	5.3	(3.6)
Total operating expenses	76.2	70.9
Loss from operations	(33.3)	(39.1)
Interest and other income, net	2.7	2.9
Gain on sale of investments	0.3	0.6
Reduction in fair value of investments	(2.3)	(1.3)
Loss on equity method investments	(2.9)	(1.2)
Loss before income taxes and cumulative effect of an accounting change	(35.5)	(38.1)
Income tax expense (benefit)	0.5	(12.9)
Loss before cumulative effect of an accounting change	(36.0)	(25.2)
Cumulative effect of an accounting change	—	(2.9)
Net loss	$ (36.0)	$ (28.1)
Loss per share before cumulative effect of an accounting change—basic and diluted	$ (0.02)	$ (0.02)
Net loss per share—basic and diluted	$ (0.02)	$ (0.02)
Shares used in per−share calculation—basic and diluted	1,442.4	1,433.4

See accompanying notes to condensed consolidated financial statements

JDS UNIPHASE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)

	September 30, 2004	June 30, 2004
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 394.4	$ 327.5
Short−term investments	1,068.9	1,221.2
Accounts receivable, less allowances of $12.5 at September 30, 2004 and $11.8 at June 30, 2004	128.8	112.7
Inventories, net	126.2	125.0
Refundable income taxes	5.8	5.8
Other current assets	54.4	59.5
Total current assets	1,778.5	1,851.7
Property, plant and equipment, net	190.7	195.6
Deferred income taxes	6.1	12.0
Goodwill	214.7	204.8
Other intangibles, net	83.3	81.4
Long−term investments	38.1	42.4
Other assets	3.9	4.3
Total assets	$ 2,315.3	$ 2,392.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 58.7	$ 74.1
Accrued payroll and related expenses	36.9	38.4
Income taxes payable	35.0	33.5
Deferred income taxes	6.1	12.0
Restructuring accrual	80.2	84.2
Warranty accrual	23.0	25.1
Other current liabilities	72.3	80.7
Total current liabilities	312.2	348.0
Long−term debt	465.2	464.7
Other non−current liabilities	8.3	8.4
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock and additional paid−in capital	68,585.3	68,578.5
Accumulated deficit	(67,048.0)	(67,012.0)
Accumulated other comprehensive income (loss)	(7.7)	4.6
Total stockholders' equity	1,529.6	1,571.1
Total liabilities and stockholders' equity	$ 2,315.3	$ 2,392.2

See accompanying notes to condensed consolidated financial statements

JDS UNIPHASE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Three Months Ended	
	September 30, 2004	September 30, 2003
OPERATING ACTIVITIES:		
Net loss	$ (36.0)	$ (28.1)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	10.4	10.6
Amortization expense	4.7	3.9
Amortization of deferred compensation and other stock−based compensation expense	0.1	1.2
Non−cash tax benefit associated with unrealized gain on marketable securities	—	(13.4)
Non−cash accretion on discount of long−term debt	0.5	—
Reduction of long−lived assets	4.5	4.9
Gain on sale of investments	(0.3)	(0.6)
Reduction in fair value of investments	2.3	1.3
Loss on equity method investments	2.9	1.2
(Gain)/ loss on disposal of property and equipment	(0.5)	0.9
Cumulative effect of change in accounting principle	—	2.9
Changes in operating assets and liabilities:		
Accounts receivable	(15.8)	(7.6)
Inventories	(1.0)	10.8
Other current assets	0.6	(1.7)
Accounts payable	(16.2)	(13.2)
Income taxes payable	0.7	(4.0)
Accrued payroll and related expenses	(1.7)	(7.0)
Other liabilities	(15.0)	(39.2)
Net cash used in operating activities	(59.8)	(77.1)
INVESTING ACTIVITIES:		
Net sales of available−for−sale investments	439.8	31.4
Purchases of other investments	(302.0)	(2.7)
Acquisitions of businesses, net of cash acquired	(11.9)	(1.6)
Purchases of property, plant and equipment	(8.1)	(48.9)
Proceeds from sale of property, plant and equipment	1.6	18.2
Net cash provided by (used in) investing activities	119.4	(3.6)
FINANCING ACTIVITIES:		
Repayment of debt	(0.5)	—
Proceeds from issuance of common stock other than in public offering	6.7	6.5
Net cash provided by financing activities	6.2	6.5
Effect of exchange rate changes on cash and cash equivalents	1.1	0.3
Increase / (decrease) in cash and cash equivalents	66.9	(73.9)
Cash and cash equivalents at beginning of period	327.5	241.9
Cash and cash equivalents at end of period	$ 394.4	$ 168.0

See accompanying notes to condensed consolidated financial statements

JDS UNIPHASE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The financial information as of September 30, 2004 and for the three months ended September 30, 2004 and 2003 is unaudited, but includes all adjustments (which include only normal, recurring adjustments) that JDS Uniphase Corporation (the "Company") considers necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and rules and regulations of the Securities and Exchange Commission. Accordingly, such information does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10−K for the year ended June 30, 2004.

The balance sheet at June 30, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The results for the three months ended September 30, 2004 may not be indicative of results for the year ending June 30, 2005 or any future periods.

Fiscal Years:

The Company utilizes a 52−53 week fiscal year ending on the Saturday closest to June 30. The first quarters of fiscal 2005 and 2004 ended on October 2, 2004 and September 27, 2003, respectively. For comparative presentation purposes, all accompanying financial statements and footnotes thereto have been shown as ending on the last day of the calendar month.

Cumulative Effect of an Accounting Change:

During the first quarter of fiscal 2004, the Company adopted FIN 46, "Consolidation of Variable Interest Entities" with respect to a synthetic lease agreement pertaining to two separate properties. The arrangement was a variable interest entity as defined under FIN 46 and the Company was the primary beneficiary.

As a result, the Company recognized a non−cash adjustment of $2.9 million, reflecting cumulative depreciation on the two properties from the inception of the lease until the assets were purchased by the Company on September 16, 2003, as a cumulative effect of an accounting change in the accompanying Condensed Consolidated Statements of Operations.

Reclassifications:

The Company has reclassified certain immaterial prior year balances to conform to the current year presentation.

Note 2. Recent Accounting Pronouncements

EITF No. 04−8

In July 2004, the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force ("EITF") reached the consensus in EITF Issue No. 04−8, "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share" that contingently convertible debt instruments should be included in the diluted earnings per share computation regardless of whether the contingency has been met. The consensus reached by the Task Force is effective for reporting periods ending after December 15, 2004.

Under the consensus reached by the EITF, the Company would include the 96.2 million contingently convertible shares in our calculation of diluted earnings per share if the Company had net income.

EITF No. 03−1

In March 2004, the Financial Accounting Standards Board (FASB) approved the consensus reached on the EITF Issue No. 03−1, "The Meaning of Other−Than−Temporary Impairment and Its Application to Certain Investments." The objective of this Issue is to provide guidance for identifying impaired investments. EITF 03−1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. In October 2004, the FASB delayed the recognition and measurement provisions of EITF 03−1 until implementation guidance is issued, which is expected to be early in December 2004. The disclosure requirements are effective for annual periods ending after June 15, 2004, and remain in effect. The Company has adopted EITF 03−1 and does not believe the impact is material to the company's overall results of operations or financial position.

Note 3. Pro Forma Stock Compensation Expense

In accordance with Statement of Financial Accounting Standard (“SFAS”) No. 123, “Accounting for Stock−Based Compensation,” as amended by SFAS No. 148, “Accounting for Stock−Based Compensation—Transition and Disclosure,” the Company elected to continue to account for its employee stock compensation under the intrinsic value based method of accounting prescribed by APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations, and disclose the pro forma effects of its employee stock compensation on net loss and net loss per share. Under APB Opinion No. 25, when the exercise price of the Company’s employee stock compensation equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. For purposes of pro forma disclosure, the estimated fair value of the options or shares is amortized over the vesting period on a straight−line basis or using the graded method. The following table presents the effect on the Company’s net loss and net loss per share as if the Company had applied the fair value based method of accounting under SFAS No. 123 (in millions, except per share data):

	Three Months Ended	
	September 30, 2004	September 30, 2003
Reported net loss	$(36.0)	$ (28.1)
Add: Stock−based compensation expense included in reported net loss, net of tax	0.1	1.2
Less: Pro forma stock−based compensation expense determined under the fair value based method, net of tax	(40.3)	(72.1)
Pro forma net loss	$(76.2)	$ (99.0)
Reported net loss per share—basic and diluted	$(0.02)	$ (0.02)
Pro forma net loss per share—basic and diluted	$(0.05)	$ (0.07)

The value of options granted was estimated at the date of grant using the following weighted average assumptions:

	Three Months Ended	
	September 30, 2004	September 30, 2003
Expected life (in years)	5.00	5.00
Volatility	0.70	0.80
Risk−free interest rate	3.59%	3.14%
Dividend yield	0.00%	0.00%

Note 4. Inventories

The components of inventories (net) consisted of the following (in millions):

	September 30, 2004	June 30, 2004
Finished goods	$ 31.1	$ 23.3
Work in process	45.6	41.6
Raw materials and purchased parts	49.5	60.1
Total inventories	$ 126.2	$125.0

The Company recorded write−downs of excess and obsolete inventories of $4.6 million and $2.9 million for the three months ended September 30, 2004 and 2003, respectively.

In addition, the Company consumed previously written−down inventories of $12.6 million and $10.6 million for the three months ended September 30, 2004 and 2003, respectively.

Note 5. Goodwill

During the first quarter of fiscal 2005, additional goodwill of $3.9 million was recorded as a result of the acquisition of E2O Communications Incorporated. The additional goodwill is included in the Communications Products segment. Goodwill of $6.0 million was recorded as a result of the acquisition of Advanced Digital Optics, Inc. (ADO) and is included in the Commercial and Consumer Products segment.

Goodwill by reportable segment is as follows (in millions):

	Communications Products Group	Commercial and Consumer Products Group	Total
September 30, 2004	$129.5	$ 85.2	$214.7
June 30, 2004	$125.5	$ 79.3	$204.8

During the three months ended September 30, 2004 and 2003, the Company recorded no impairment charges under SFAS No. 142, “Goodwill and Other Intangible Assets.”

Note 6. Other Intangibles

During the first quarter of fiscal 2005, identified intangible assets of $6.6 million were acquired due to the acquisition of ADO, and no identified intangible assets were impaired. The following tables present details of the Company’s other intangibles (in millions):

September 30, 2004:	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	$120.6	$(56.1)	$64.5
Other	41.3	(22.5)	18.8
Total intangibles	$161.9	$(78.6)	$83.3

June 30, 2004:	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	$114.0	$(52.9)	$61.1
Other	41.3	(21.0)	20.3
Total intangibles	$155.3	$(73.9)	$81.4

Amortization of intangibles was $4.7 million and $3.9 million for the three months ended September 30, 2004 and 2003, respectively.

Based on the carrying amount of the intangibles as of September 30, 2004, the estimated future amortization is as follows (in millions):

Years Ended June 30,	
2005 (October 1, 2004 to June 30, 2005)	$14.6

2006	17.8
2007	14.7
2008	8.0
2009	5.5
Thereafter	22.7
Total amortization	$83.3

Note 7. Investments

Available−For−Sale Investments:

The Company’s investments in debt securities and marketable equity securities were primarily classified as available−for−sale investments.

Of the total estimated fair value, $1,061.6 million was classified as short−term investments in the Company’s Condensed Consolidated Balance Sheet as of September 30, 2004.

An additional $7.3 million of short−term investments representing assets of a deferred compensation plan are classified as trading securities as of September 30, 2004.

Long−Term Investments:

The components of the Company’s long−term investments include non−marketable cost method investments and non−marketable equity method investments. The Company had total long−term investments of $38.1 million as of September 30, 2004.

Reduction of Fair Value of Investments:

The Company regularly evaluates the carrying value of its investments. When the carrying value of an investment exceeds the fair value and the decline in value is deemed to be other−than−temporary, the Company writes down the investment to its fair value. During the three months ended September 30, 2004 and 2003, the Company recorded other−than−temporary reductions in fair value of certain non−marketable equity investments of $2.3 million and $1.3 million, respectively.

Loss on Equity Method Investments:

During the three month periods ended September 30, 2004 and 2003, the Company recorded $2.9 million and $1.2 million, respectively, as its pro rata share of net losses in its equity method investments.

The Company has reviewed its cost and equity method investments and other variable interests with respect to revised Interpretation No. 46 (“FIN 46R”), “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51,” which was originally issued in January 2003 to determine whether those entities are variable interest entities and, if so, if the Company is the primary beneficiary of any of its investee companies. At September 30, 2004, the Company had 21 cost and equity method investments primarily in privately held companies and venture funds that have the potential to provide strategic technologies and relationships to the Company’s businesses. The Company has determined that its equity investments, which are not material to the Company’s financial position, do not require consolidation as they are either not variable interest entities or in the event that they are variable interest entities, the Company is not considered to be the primary beneficiary. The Company’s maximum exposure to loss for these investments at September 30, 2004 is limited to the carrying amount of its investment of $28.2 million in such entities and its minimum funding commitments of $15.7 million.

During the three month period ended September 30, 2003, the Company entered into an agreement with a former customer, which settled product cancellation claims made by the Company against this former customer. As a result of this settlement, the Company received approximately 2.7 million preferred shares representing an approximate 5% ownership of the former customer, on a fully diluted basis, a convertible note with a principal amount of $5.1 million that is convertible at the former customer’s option into preferred shares of their company, a promissory note in the amount of $4.2 million that is in settlement of trade receivables owed the Company and is due and payable in installments through fiscal 2006 and a supply agreement whereby the Company has the option to buy certain components from the former customer at the former customer’s cost. The Company has evaluated the financial condition of the former customer and has determined that the realization of the assets received as part of the settlement is not probable and therefore has not ascribed any value to these assets, nor recognized any gain associated with settlement.

Note 8. Commitments and Contingencies

Pending Litigation

The Securities Class Actions:

As discussed in our previous filings, litigation under the federal securities laws has been pending against the Company and certain former and current officers and directors since March 27, 2002. No activity has occurred in *In re JDS Uniphase Corporation Securities Litigation*, C−02−1486 (N.D. Cal.), since our last filing. No activity has occurred in *Zelman v. JDS Uniphase Corp.*, No. C−02−4656 (N.D. Cal.), a related securities case, since our last filing.

The Derivative Actions:

As discussed in our previous filings, derivative actions purporting to be brought on the Company's behalf have been filed in state and federal courts against several of our current and former officers and directors based on the same events alleged in the securities litigation. No activity has occurred in *Corwin v. Kaplan*, No. C−02−2020 (N.D. Cal.), since our last filing. A stay remains in place in the California state derivative action, *In re JDS Uniphase Corporation Derivative Litigation*, Master File No. CV806911 (Santa Clara Super. Ct.), and a status conference is scheduled for December 7, 2004. As noted in our previous filings, the plaintiff in that action has issued a shareholder inspection demand that has been disputed by the Company. The dispute remains unresolved. No activity has occurred in *Cromas v. Straus*, Civil Action No. 19580 (Del. Ch. Ct.), the Delaware derivative action, since our last filing.

The OCLI and SDL Shareholder Actions:

As discussed in our previous filings, plaintiffs purporting to represent the former shareholders of OCLI and SDL have filed suit against the former directors of those companies, asserting that they breached their fiduciary duties in connection with the events alleged in the securities litigation against the Company. No activity has occurred in either the OCLI action, *Pang v. Dwight*, No. 02−231989 (Sonoma Super. Ct.), or the SDL action, *Cook v. Scifres*, Master File No. CV814824 (Santa Clara Super. Ct.), since our last filing.

The ERISA Actions:

As discussed in our previous filings, a consolidated action entitled *In re JDS Uniphase Corporation ERISA Litigation*, Master File No. C−03−4743 CW, is pending in the District Court for the Northern District of California against the Company and certain of its former and current officers and directors on behalf of a purported class of participants in the Company's 401(k) Plan. Plaintiffs filed a consolidated complaint on September 2, 2004. Defendants' response to the consolidated complaint is due by December 15, 2004.

The Company believes that the factual allegations and circumstances underlying these securities class actions, derivative actions, the OCLI and SDL class actions, and the ERISA class actions are without merit. The expense of defending these lawsuits has been costly, will continue to be costly, and could be quite significant 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 prove to be time consuming and disruptive to normal business operations. An unfavorable outcome or settlement of this litigation could have a material adverse effect on the Company's financial position, liquidity or results of operations.

The Company is a party to other litigation matters and claims, which are normal in the course of its operations. While the results of such litigation matters and claims cannot be predicted with certainty, the Company believes that their final outcome will not have a material adverse impact on its financial position, liquidity, or results of operations.

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Note 9. Reduction of Other Long−Lived Assets

During the three months ended September 30, 2004 and 2003, the Company recorded $4.5 million and $4.9 million, respectively, of reductions in the carrying value of its long−lived assets in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long−Lived Assets.” The following table summarizes the components of the reductions of other long−lived assets (in millions):

	Three Months Ended	
	September 30, 2004	**September 30 2003**
Assets held and used:		
Property, plant and equipment	$ —	$ 5.0
Assets held for sale:		
Property and equipment	4.5	(0.1)
Total reductions of other long−lived assets	$ 4.5	$ 4.9

Three Months Ended September 30, 2004:

Assets Held and Used:

During the three months ended September 30, 2004, no assets classified as held and used were reduced in value.

Assets Held for Sale:

During fiscal 2004, the Company consolidated its corporate headquarters to San Jose, California. In light of the decision to consolidate the corporate headquarters, the Company determined that it did not need to continue to operate a corporate campus in Ottawa, Ontario, Canada. In the three months ended September 30, 2004, the Ottawa corporate campus continued to be classified as held for sale and the Company is still actively marketing the property. In accordance with SFAS 144, the Company adjusted the carrying value of the Ottawa campus and certain other assets held for sale to the fair value of such assets, which resulted in a charge to income of $4.5 million for the three months ended September 30, 2004.

Three Months Ended September 30, 2003:

Assets Held and Used:

During the first quarter of fiscal 2004, as a result of the adoption of FIN 46 with respect to two properties under a synthetic lease agreement, the Company recognized a $5 million deferred impairment charge related to the Melbourne, Florida properties, which was originally being amortized over the term of the lease. The Company noted no indicators of impairment during the first quarter of fiscal 2004 related to the Company’s remaining long−lived assets, including purchased intangibles.

Assets Held for Sale:

During the first quarter of fiscal 2004, the Company adjusted the carrying value of certain assets classified as held for sale. The Company recorded an impairment charge of $0.4 million related to its Columbus, Ohio site, representing the amount by which the carrying value of the property and equipment exceeded fair value less cost to sell. In addition, the Company increased the carrying value of the corporate airplane by $0.5 million to reflect its agreed upon sales price less cost to sell.

Note 10. Restructuring and Global Realignment

Overview:

During the second quarter of fiscal 2004, we announced the completion of the Global Realignment Program (GRP), which began in April 2001. That program focused on large−scale site and employee reductions. The Company will continue to take advantage of opportunities to further reduce costs through targeted, customer−driven, restructuring events, intended to reduce the Company’s footprint and rationalize the manufacture of our products based on core competencies and cost efficiencies. Restructure activities entered into through the second quarter of 2004 are described under the GRP, while activities beginning in the third quarter of fiscal 2004 are described under Restructuring Actions.

Restructuring Actions:

Beginning with the third quarter of fiscal 2004, the Company initiated restructuring activities to reduce costs and take advantage of manufacturing efficiencies. The Company implemented three restructuring activities and recorded total restructuring activity charges of $10.3 million. In addition, the Company incurred charges other than restructuring of $0.2 million related to these activities.

During the first quarter of fiscal 2005, the Company terminated or notified for termination approximately 225 employees and restructured a lease at one of its manufacturing operations. This will create production efficiencies designed to eliminate costs. These actions resulted in restructuring charges of $4.8 million primarily related to severance and benefits. As of September 30, 2004, 3 employees have been terminated. The remaining severance and benefit payments resulting from the first quarter fiscal 2005 restructuring activities are scheduled to be paid through the first quarter of fiscal 2006.

The restructuring activities during the Company’s third and fourth quarters of fiscal 2004 resulted in charges of $5.6 million primarily related to severance and benefits. Employee reductions during the third quarter restructuring were approximately 30 in North America and 30 in Asia−Pacific, of which 40 were engaged in manufacturing, 15 in research and development and 5 in selling, general and administration functions. Fourth quarter of fiscal 2004 employee reductions were all in North America and totaled approximately 75, of which 55 were in manufacturing and 20 in selling, general and administrative functions. As of September 30, 2004, 59 and 64 employees have been terminated relating the third quarter and fourth quarter restructures, respectively. The remaining severance and benefit payments resulting from these restructuring activities are scheduled to be paid through the first quarter of fiscal 2006.

Global Realignment Program:

In April 2001, the Company initiated the GRP, under which it began restructuring its business in response to the economic downturn. From April 2001, through the end of the second quarter of fiscal 2004, the Company implemented nine phases of restructuring activities under the GRP and recorded total restructuring charges of $652.0 million. In addition, the Company incurred charges other than restructuring of $484.2 million related to the GRP. Restructuring activities initiated prior to December 31, 2002 were recorded in accordance with EITF No. 94−3, and restructuring activities initiated after December 31, 2002 were recorded in accordance with SFAS No. 146 “Accounting for Costs Associated with Exit or Disposal Activities” and SFAS No. 112, “Employers’ Accounting for Post Employment Benefits.”

Under the GRP, the Company has consolidated and reduced its manufacturing, research and development, sales and administrative facilities in North America, Europe and Asia−Pacific. The total number of sites and buildings closed is 29, all of which are related to various phases of restructuring. Based on the decisions made through the end of the second quarter of fiscal 2004, the Company expects to have reduced its total workforce by approximately 19,900 employees upon the completion of the GRP. Of the total, 19,150 relate to restructuring activities and 750 relate to other decisions made under the GRP. As of September 30, 2004, 19,880 employees have been terminated.

Workforce Reduction:

The Company recorded initial restructure charges totalling $228.6 million primarily related to severance and benefits associated with the reduction of approximately 19,150 employees, which includes non−cash severance charges of $12.3 million, of which $11.1 million related to the modification of a former executive’s stock options and $1.2 million to disputed severance. The Company has recorded decreases of $13.4 million, to the accrual balance. The decreases are due to actual payments for such charges being lower than original estimated expenses.

Approximately 16,200 employees were engaged in manufacturing, 1,350 in research and development, and 1,600 in selling, general and administrative functions. Approximately 16,400 employees were located in North America, 1,700 in Europe, and 1,050 in Asia−Pacific. The Company has substantially completed its phase one through four and six through nine workforce reductions. The remaining accrual balance reflects severance and benefit payments scheduled to be paid, primarily under Phase five, through fiscal 2005, for employees that have been notified that they will be terminated, as well as future payments for employees that have already been terminated, as required under local laws.

Facilities and Equipment and Lease Costs:

In connection with the restructuring activities, management approved and committed the Company to plans to close 29 sites, vacate buildings at the closed sites as well as at other continuing operations, and reduce its workforce by approximately 19,150 employees. These sites were located in Arnhem, Netherlands; Asheville, North Carolina; Bracknell, United Kingdom; Columbus, Ohio; Eatontown, New Jersey; Eindhoven, Netherlands; Freehold, New Jersey; Gloucester, Massachusetts; Hillend, United Kingdom; Horsham, Pennsylvania; Manteca, California; two sites in Ottawa, Ontario; Oxford, United Kingdom; Piscataway, New Jersey; Plymouth, United Kingdom; Raleigh, North Carolina; Richardson, Texas; Rochester, New York; two sites in San Jose, California; Shunde, China; Sydney, Australia; Taipei, Taiwan; Toronto, Ontario; Torquay, United Kingdom; Victoria, British Columbia; Waghaeusel−Kirrlach, Germany; and Witham, United Kingdom. One of the San Jose, California sites is related to the E−TEK operations, which were relocated to the Company’s other sites located in West Trenton, New Jersey and Shenzhen, China.

Property and equipment that were disposed of or removed from operations resulted in initial charges totalling $274.4 million. The property and equipment write−downs consisted primarily of owned buildings, leasehold improvements, computer equipment and related software, production and engineering equipment, and office equipment, furniture and fixtures. From inception through the first quarter of fiscal 2005, the Company recorded total adjustments of $11.4 million, primarily due to additional declines in the fair market value of owned buildings held for disposal. In addition, the Company received $8.4 million of cash proceeds in excess of the estimated salvage value of certain restructured assets sold from inception through the first quarter of fiscal 2005.

The Company incurred initial charges totalling $156.0 million for exiting and terminating leases based on assumptions and related estimates that it deemed appropriate for the economic environment that existed at the time these estimates were made. Initial charges were accrued for phases one though five and seven through nine. The Company estimated the cost of exiting and terminating the facility leases based on the contractual terms of the agreements and real estate market conditions. However, due to the continued deterioration of the commercial real estate market, primarily in the U.S., and the final settlement of certain lease obligations, the Company made appropriate adjustments to the initial restructuring charges recorded for all the phases. The Company’s accrued lease liability for all plans of $71.8 million at September 30, 2004, was net of $21.4 million of estimated sublease income to be generated from sublease contracts not yet negotiated and estimated savings on settlement of future lease terminations.

The following table summarizes the various restructuring plans (in millions):

	Workforce Reduction	Lease Costs	Total
Accrual balance as of June 30, 2003	**$ 25.4**	**$108.7**	**$134.1**
Restructuring charges−GRP	2.5	2.3	4.8
Restructuring charges	5.6	—	5.6
Cash payments	(25.5)	(19.2)	(44.7)
Adjustments	(0.4)	(15.2)	(15.6)
Accrual balance as of June 30, 2004	**7.6**	**76.6**	**84.2**
Restructuring charges	4.7	0.1	4.8
Cash payments	(3.8)	(5.5)	(9.3)
Adjustments	(0.1)	0.6	0.5
Accrual balance as of September 30, 2004	**$ 8.4**	**$ 71.8**	**$ 80.2**

Charges Other Than Restructuring:

In addition to the charges recorded in connection with the restructuring activities, the Company has incurred total other charges of $484.2 million since inception. Details of these charges for the three months ended September 30, 2004 and 2003 were as follows (in millions):

	Three months Ended September 30,	
	2004	**2003**
Property and equipment	$ 0.2	$ 1.4
Purchase commitments and other obligations	—	0.3
Workforce−related charges	0.5	0.4
Lease costs	1.3	0.1
Moving and other costs	0.5	1.2
Total other charges	$ 2.5	$ 3.4

From inception through first quarter of fiscal 2005, the Company has incurred total charges related to property and equipment of $209.5 million. During the fiscal quarters ended September 30, 2004 and 2003, the Company recorded $0.0 million and $1.4 million, respectively, of additional depreciation from changes in the estimated useful life and the write−downs of certain property and equipment that were identified for disposal but remained in use until the date of disposal.

From inception through the first quarter of fiscal 2005, the Company has incurred total workforce−related charges of $29.5 million, which included retention bonuses, employee relocations costs and in fiscal 2002, payments for severance and benefits that were not associated with a formal plan of termination. Beginning in fiscal 2002, the Company recorded restructuring charges for approximately 750 employees. These employees consisted of approximately 600 in manufacturing, 50 in research and development, and 100 in selling, general and administrative functions. Approximately 150 employees were located in North America, 100 in Europe and 500 in Asia−Pacific. All 750 employees have been terminated and severance and benefit payments related to these employees have been paid in full.

From inception through the first quarter of fiscal 2005, the Company has incurred total lease costs of $12.4 million. During the first quarters of fiscal 2005 and 2004 the Company adjusted lease expenses by $1.3 million and $0.1 million respectively, primarily to reflect refinements of estimated net costs on building costs not required for ongoing operations. The Company estimated the cost of exiting and terminating the facility lease based on the contractual terms of the agreement and the real estate market conditions. The Company anticipates that it will take approximately 9 months to sublease the vacated property. Amounts related to the lease expense, net of anticipated sublease proceeds of $1.3 million, will be paid over the respective lease terms through fiscal 2011.

Through the first quarter of fiscal 2005, the Company has incurred total moving and other costs of $12.0 million. During the first quarters of fiscal 2005 and 2004, the Company incurred moving, purchase and other commitments and other costs of $0.5 million and $1.2 million, respectively, related to relocation of certain facilities and equipment from buildings of which the Company has disposed of or plans to dispose.

Charges other than restructuring were recorded in the Company’s Condensed Consolidated Statements of Operations as follows (in millions):

	Three Months Ended September 30,	
	2004	**2003**
Cost of sales	$ 1.3	$ 1.2
Research and development	—	0.6
Selling, general and administrative	1.2	1.6
Total other charges	$ 2.5	$ 3.4

As of September 30, 2004, the accrual balance related to these charges was $4.7 million, consisting primarily of purchase and lease commitments. The accrual balance is included in "Other current liabilities" in the Company's Condensed Consolidated Balance Sheet.

Recommissioning of Assets:

As the Company continued to execute its restructuring plans to realign its operations and consolidate the facilities, the Company recommissioned certain property and equipment during the fourth quarter of fiscal 2002 with a carrying value of $0 that had previously been removed from operations and fully depreciated or written down under the GRP. The total net book value of the recommissioned property and equipment at the time of the write−downs was $27.7 million, of which $15.9 million was related to the Communications Products Group, $10.7 million was related to the Commercial and Consumer Products Group and $1.1 million was related to the "All Other" category for segment reporting purposes (see "Note 14. Segment Information"). Based on the dates these assets were placed back into service and taking into consideration the potential impact of the impairment loss on these assets, the Company would have incurred additional depreciation expense of approximately $0.7 million and $0.9 million for first fiscal quarters ended 2005 and 2004, respectively.

Note 11. Income Taxes

The Company recorded an income tax expense of $0.5 million for the three months ended September 30, 2004 as compared to an income tax benefit of $12.9 million for the three months ended September 30, 2003.

The income tax expense recorded for the three months ended September 30, 2004 relates primarily to foreign income taxes and differs from the expected tax benefit that would be calculated by applying the federal statutory rate to our loss before income taxes due to increases in our valuation allowance for deferred tax assets attributable to our domestic and foreign losses from continuing operations.

The income tax benefit recorded for the three months ended September 30, 2003 resulted primarily from appreciation in the carrying value of available−for−sale marketable securities that reduced the amount of valuation allowance for deferred tax assets that otherwise would have been recorded in connection with our domestic loss from continuing operations.

Fluctuations in the value of our available−for−sale marketable public securities may create volatility in the amount of income tax expense (benefit) we record in future periods.

Due to the continued economic uncertainty in the industry, management has determined that it is more likely than not that the Company's net deferred tax assets will not be realized and the Company has recorded deferred tax assets as of September 30, 2004 only to the extent of deferred tax liabilities.

The Company is currently 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.

Note 12. Net Loss Per Share

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

	Three Months Ended	
	September 30, 2004	**September 30, 2003**
Loss before cumulative effect of an accounting change	$ (36.0)	$ (25.2)
Cumulative effect of an accounting change	—	(2.9)
Net loss	$ (36.0)	$ (28.1)
Loss per share before cumulative effect of an accounting change—basic and diluted	$ (0.02)	$ (0.02)
Cumulative effect per share of an accounting change—basic and diluted	—	—
Net loss per share—basic and diluted	$ (0.02)	$ (0.02)
Weighted average number of common shares outstanding	1,442.4	1,433.4

During the three months ended September 30, 2004, approximately 3.2 million common shares were added to the number of common shares outstanding. Approximately 2.8 million shares were due to the issuance of common shares under the Company's Employee Stock Purchase Plan and the remainder was due to the exercise of stock options.

As the Company incurred net losses for the three months ended September 30, 2004 and September 30, 2003, the effect of dilutive securities (in−the−money stock options) totaling 4.7 million equivalent shares and 6.7 million equivalent shares, respectively, has been excluded from the calculation of diluted net loss per share because it was anti−dilutive.

Note 13. Comprehensive Income (Loss)

The Company's accumulated other comprehensive income (loss) consists of foreign currency translation adjustments, accumulated net unrealized gains on available−for−sale investments, less an adjustment for net gain on investments previously included in net income and the estimated tax (benefit). At September 30, 2004 and June 30, 2004, the Company had a balance of net unrealized gains of $7.4 million and $21.0 million, respectively, on available−for−sale investments.

The components of comprehensive loss were as follows (in millions):

	Three Months Ended	
	September 30, 2004	**September 30, 2003**
Net loss	$(36.0)	$(28.1)
Other comprehensive income		
Change in foreign currency translation	1.2	0.9
Unrealized (losses) gains on investments	(13.5)	31.9
Investment losses (gains) previously included in net income	—	(0.7)
Tax provision on marketable securities	—	(13.4)
Net change in other comprehensive income	(12.3)	18.8
Comprehensive loss	$(48.3)	$ (9.4)

	September 30, 2004	**June 30, 2004**
Net unrealized gains on available−for−sale securities	$ 7.4	$ 21.0
Cumulative translation adjustment	(15.1)	(16.4)
Accumulated other comprehensive income (loss)	$ (7.7)	$ 4.6

Note 14. Segment Information

The Company evaluates its reportable segments in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company has identified Kevin Kennedy, Chief Executive Officer, as its Chief Operating Decision Maker ("CODM") pursuant to SFAS No. 131. The CODM allocates resources to the segments based on their business prospects, competitive factors, net revenue and operating results.

The Company designs and manufactures products for fiberoptic communications, as well as for markets where its core optics technologies provide solutions for industrial, commercial and consumer applications. The two reportable segments are:

(i) Communications Products Group:

The Communications Products Group consists of the Company's communication businesses, which provide fiberoptic components and modules for system manufacturers in the telecommunications, data communications and cable television industries.

(ii) Commercial and Consumer Products Group:

The Commercial and Consumer Products Group consists of the Company's non−communications businesses and includes laser subsystems products and products for display, security, decorative, aerospace and defense applications.

The amounts shown as "All other" consist of certain unallocated corporate−level operating expenses. In addition, the Company does not allocate restructuring charges, income taxes, non−operating income and expenses or specifically identifiable assets to its segments

Information on reportable segments is as follows (in millions):

	Three Months Ended	
	September 30, 2004	September 30, 2003
Communications Products Group:		
Net revenue	$106.1	$ 74.3
Intersegment revenue	—	—
Net revenue from external customers	106.1	74.3
Operating loss	(10.3)	(10.8)
Commercial and Consumer Products Group:		
Net revenue	88.4	74.0
Intersegment revenue	—	(0.9)
Net revenue from external customers	88.4	73.1
Operating income	14.3	9.0
Net revenue by reportable segments	194.5	147.4
Operating revenue (loss) by reportable segments	4.0	(1.8)
All other operating loss	(20.3)	(27.5)
Unallocated amounts:		
Acquisition−related charges and amortization expense	(4.7)	(5.1)
Reduction of long−lived assets	(4.5)	(4.9)
Restructuring charges	(5.3)	3.6
Other realignment charges	(2.5)	(3.4)
Interest and other income, net	2.7	2.9
Gain on sale of investments	0.3	0.6
Reduction in fair value of investments	(2.3)	(1.3)
Loss on equity method investments	(2.9)	(1.2)
Loss before income taxes and cumulative effect of an accounting change	$ (35.5)	$ (38.1)

Intersegment revenue was recorded at fair market value less an agreed−upon discount.

Note 15. Mergers and Acquisitions

Advanced Digital Optics, Inc.

On July 30, 2004, the Company purchased Advanced Digital Optics, Inc. (“ADO”), a manufacturer of optical components and assemblies for communications and display markets for approximately $10.7 million in cash. The Company believes the acquisition will extend its capabilities in the design and manufacture of microdisplay light engines that deliver leading performance and image quality for the high definition television market. The acquired business has been included in our Commercial and Consumer Products Group operating segment.

Allocation of the purchase price was as follows (in millions):

Net tangible assets acquired	$ (1.8)
Existing technology	6.5
Goodwill	6.0
Total purchase price	$10.7

The acquired intangible assets are being amortized over their estimated useful lives of three years.

The acquisition was accounted for as a purchase in accordance with SFAS No. 141, and accordingly, the tangible assets acquired were recorded at their fair value at the date of acquisition. The results of operations of ADO have been included in the Company's 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.

The following table summarizes the components of the tangible assets (liabilities) acquired (in millions):

Inventories	$ 0.2
Property and equipment	0.1
Net acquired other assets and liabilities	(2.1)
	$(1.8)

Given the nature of the risks associated with the difficulties and uncertainties in completing each project and thereby achieving technological feasibility, anticipated market acceptance and penetration, market growth rates and risks related to the impact of potential changes in future target markets, discount rates of 19% and 22% were deemed appropriate for calculating the expected future cash flows from existing technology and in−process research and development, respectively to their present value.

Acquired existing technology, which included products that are already technologically feasible, is primarily comprised of specialty light engines and related products.

Developmental projects that have not reached technological feasibility and have no future alternative uses are classified as in−process research and development ("IPR&D"). Each in−process research and development technology was valued by discounting forecasted cash flow directly related to the subject research and development, net of estimated returns on contributory assets including working capital. Based on our analysis, the fair value of the IPR&D is zero.

Goodwill, which represents the excess of the purchase price over the fair value of tangible and identified intangible assets acquired, is not being amortized but will be reviewed annually for impairment, or more frequently if impairment indicators arise, in accordance with SFAS No. 142. Goodwill has been assigned to the Commercial and Consumer Products segment and is not expected to be deductible for tax purposes under Internal Revenue Code 197.

E2O Communications:

On May 17, 2004, the Company purchased E2O Communications Incorporated ("E2O"), a manufacturer of high−performance fiber optic components and modules for the computer storage, internetworking and communication markets. The Company believes the acquisition will extend its product portfolio and customer base in the optical transceiver market. The acquired business has been included in our Communications Product Group operating segment. Under the terms of the acquisition, the Company will pay the shareholders of E2O a total of $60.0 million in cash, and as of September 30, 2004 the Company had incurred $0.2 million of transaction related costs. Of the $60.0 million purchase price, $5.6 million remains to be paid to the shareholders and is accrued within other liabilities. The $5.6 million includes $4.1 million of retained consideration for any future liabilities the Company may incur resulting from any breach of general representations or warranties made by the former shareholders of E2O and $1.5 million awaiting exchange pending the receipt of shares from various shareholders.

Allocation of the purchase price was as follows (in millions):

Net tangible assets acquired	$12.5
Intangible assets acquired	
Existing technology	6.2
Customer relationships	2.3
Supply agreements	0.4
In−process research and development	2.6
Goodwill	36.2
Total purchase price	$60.2

The acquired intangible assets are being amortized over their estimated useful lives, which are presented in the table below:

Existing technology	5 years
Customer relationships	3 years
Supply agreements	3 years
On an aggregate basis	4 years

The acquisition was accounted for as a purchase in accordance with SFAS No. 141, and accordingly, the tangible assets acquired were recorded at their fair value at the date of acquisition. In the first quarter of fiscal 2005, an additional $3.9 million was added to goodwill due to adjustments to the purchase price that related to additional acquired liabilities not included in the original purchase valuation. The results of operations of E2O have been included in the Company's 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.

The following table summarizes the components of the tangible assets acquired (millions):

Inventories	$ 5.4
Property and equipment	8.9
Net acquired other assets and liabilities	(1.8)
	$12.5

The acquired existing technology, which is comprised of products that are already technologically feasible, includes small form factor transceivers, gigabit interface converters, and the positive−intrinsic−negative ("PIN") portion of optical receivers. The acquired existing technology represents the optical transceiver business' trade secrets and patents developed through years of experience in design, package and manufacture of optical transceiver products for the storage area networks and local area networks.

A portion of the purchase prices has been allocated to existing technology and in−process research and development ("IPR&D"). These were identified and valued through an analysis of data provided by E2O concerning developmental products, their stage of development, the time and resources needed to complete them, if applicable, target markets, their expected income generating ability and associated risks. The Income Approach, which is based on the premise that the value of an asset is the present value of its future earning capacity that is available for distribution to the subject investors in the asset.

Developmental projects that had not reached technological feasibility and had no future alternative uses were classified as IPR&D and expensed in the fourth quarter of fiscal 2004. The nature of the efforts required to develop the IPR&D 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.

The estimates used in valuing IPR&D were based upon assumptions believed to be reasonable but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and no assurance can be given that unanticipated events and circumstances will not occur. Accordingly, actual results may vary from the projected results.

The rates utilized to discount the net cash flows to their present value are based on E2O's estimated weighted average cost of capital. Given the nature of the risks associated with the difficulties and uncertainties in completing each project and thereby achieving technological feasibility, anticipated market acceptance and penetration, market growth rates and risks related to the impact of potential changes in future target markets, discount rates of 19% and 22% were deemed appropriate for the existing technology and IPR&D, respectively.

Goodwill, which represents the excess of the purchase price over the fair value of tangible and identified intangible assets acquired, is not being amortized but will be reviewed annually for impairment, or more frequently if impairment indicators arise, in accordance with SFAS No. 142. Goodwill has been assigned to the Communications Products Group segment and is not expected to be deductible for tax purposes under Internal Revenue Code 197.

Ditech Communications:

On July 16, 2003, the Company completed the acquisition of certain assets of the optical communications business of Ditech Communications ("Ditech"). The Company believes that the acquisition adds to its abilities to integrate optics, electronics and software in subsystems for optical equipment manufacturers. Under the terms of the agreement, the Company paid Ditech $1.4 million at closing.

The Company may make additional cash payments of up to $4.5 million, of which $0.5 million is based on the level of inventory purchased from Ditech that is sold by the Company and $4.0 million is contingent upon the revenue generated by the acquired business through June 30, 2005. At September 30, 2004, the Company has accrued $0.4 million for payments to be made as a result of revenue levels attained through that date. Additional payments related to inventory will be recorded to cost of sales at the time product is sold, while contingent payments based on revenue will be accounted for as goodwill. Direct transaction costs incurred in connection with the acquisition were immaterial.

The purchase price allocation was as follows (in millions):

Net tangible assets acquired	$1.5
Intangible assets acquired: Existing technology	0.1
Total purchase price	$1.6

Existing technology is being amortized over its estimated useful life of three years.

The acquisition was accounted for as a purchase transaction under SFAS No. 141, and accordingly, the tangibles assets acquired were recorded at their fair value at the date of the acquisition. The results of operations of Ditech have been included in the Company's 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.

The following table summarizes the components of the net tangible assets acquired (in millions):

Inventories	$1.0
Property, plant and equipment	0.5
Net tangible assets acquired	$1.5

Note 16. Related Party Transactions

BaySpec:

As of September 30, 2004, BaySpec, a privately held original equipment manufacturer (OEM) fiber−optics company in which the Company has a long−term investment, was a supplier of the Company. As of September 30, 2004 the Company's investment in Bayspec is $1.6 million. During the three months ended September 30, 2004, the Company purchased $1.1 million of product from BaySpec and the ending accounts payable balance was $0.1 million.

Note 17. Guarantees

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 its balance sheet as of September 30, 2004.

Product Warranties:

In general, the Company offers a one−year warranty for most of its products in the Communications Products Group, and a three−month to one−year warranty for most of its products in the Commercial and Consumer Products Group. The Company provides reserves for the estimated costs of product warranties during the period in which 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 the three months ended September 30, 2004 and 2003 (in millions):

Three Months Ended September 30, 2004:

Balance as of June 30, 2004	$25.1
Provision for warranty	1.8
Utilization of reserve	(0.6)
Adjustments related to pre−existing warranties (including changes in estimates)	(3.3)
Balance as of September 30, 2004	$23.0

Three Months Ended September 30, 2003:

Balance as of June 30, 2003	$52.4
Provision for warranty	0.3
Utilization of reserve	(5.2)
Adjustments related to pre−existing warranties (including changes in estimates)	(5.6)
Balance as of September 30, 2003	$41.9

Note 18. Convertible Debt and Letters of Credit

On October 31, 2003, the Company completed the sale of $475.0 million aggregate principal amount of Zero Coupon Senior Convertible Notes due in 2010. The Notes were issued for cash consideration in a private placement to the initial purchasers, Morgan Stanley & Co. Incorporated, Goldman Sachs & Co., and CIBC World Markets Corp. The initial purchasers resold the Notes to qualified institutional investors in accordance with Rule 144A under the Securities Act of 1933, as amended. Proceeds from the notes amounted to $462.3 million after issuance costs. The Notes do not bear interest and are convertible into the Company's common stock at a conversion price of $4.94 per share. Each $1,000 principal amount is initially convertible into 202.4291 shares of the Company's common stock upon the satisfaction of certain conditions. Therefore, the Notes are convertible in the aggregate into approximately 96.2 million shares of common stock. The Company has the right to redeem the Notes beginning November 15, 2008. Holders of the Notes may require the Company to repurchase the Notes on November 15, 2008. In addition, under certain circumstances holders may require the Company to convert the Notes into shares of the Company's common stock, if the closing sale price of our common stock exceeds 110% of the conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter. Conditions required to trigger this conversion right have not occurred.

The Company filed a registration statement with the SEC on November 14, 2003 and amended the registration statement on December 12, 2003, with respect to the resale of the Notes and the common stock issuable upon the conversion of the Notes. The registration statement was declared effective by the SEC on December 12, 2003. The costs incurred in connection with the Convertible Notes are being amortized to interest expense over 5 years.

As of September 30, 2004, the Company had six standby letter of credit facilities totalling $10.2 million.

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

Forward−Looking Statements

Statements contained in this Quarterly Report on Form 10−Q which are not historical facts are forward−looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. A forward−looking statement may contain words such as "anticipate that," "believes," "can impact," "continue to," "estimates," "expects to," "hopes," "intends," "plans," "to be," "will be," "will continue to be", "continuing", "ongoing" or similar words.

These statements include: (i) statements or implications regarding the stabilization of our markets and current or future growth thereof; (ii) our expectations and beliefs regarding future average sales prices, costs and margins, as well as cost reduction programs and future restructuring costs and their impact on our financial results; (iii) statements regarding restructuring and other realignment programs and the expected level and timing of cost savings and other benefits to the Company from the same as well as the expected costs thereof; (iv) statements or implications regarding our execution and our ability to improve the same; and (v) any anticipation or guidance as to future industry or market conditions or as to our financial performance. Forward−looking statements also include, among others, all italicized portions of this Report.

Management cautions that forward−looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those projected in such forward−looking statements. These risks and uncertainties include, among other things, the risks (i) our ongoing integration and restructuring efforts, including, among other things, facility closings, product transfers and organizational changes, may not be successful in achieving their expected benefits, may be insufficient to align our operations with customer demand and the changes affecting our industry, or may be more costly, disruptive or extensive than currently anticipated or may cause manufacturing delays, product quality problems, product shortages and other disruptions to our supply chain and ability to timely deliver products to our customers as and when requested; (ii) increasing pricing pressure, as the result of the industry uncertainty, industry consolidation and competitive factors, may harm our revenue and profit margins; (iii) our research and development programs may be insufficient or too costly, or may not produce new products, with performance, quality, quantity and price levels satisfactory to our customers; (iv) our ongoing efforts to reduce product costs to our customers, through, among other things, relocation, automation, improved manufacturing processes and product rationalization may be unsuccessful; and (v) our ability to predict future performance continues to be difficult. Further, our future business, financial condition and results of operations could differ materially from those anticipated by such forward−looking statements and are subject to risks and uncertainties including the risks set forth above. Moreover, neither we assume nor any other person assumes responsibility for the accuracy and completeness of the 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 Quarterly Report on Form 10−Q to conform such statements to actual results or to changes in our expectations.

Results of Operations

Our Industries and Quarter Developments

We are a worldwide leader in optical technology. We design and manufacture products where our core optical technologies provide innovative solutions for communications, commercial and consumer applications. The Company offers products for data communications, telecommunications and cable television, display, security, medical/environmental instrumentation, decorative, aerospace and defense applications. We currently employ approximately 6,000 employees at 14 locations, principally located in North America, the People's Republic of China, Indonesia and France.

Our Communications Products Segment provide a broad range of components, modules and subsystems better enabling our customers to satisfy their requirements through "one stop" shopping at a single supplier. We also leverage our broad−based component portfolio to provide higher levels of integration in modules and subsystems to create value−added solutions for our customers. Our Communications markets consist generally of:

- Original equipment manufacturers of enterprise and storage equipment such as Cisco, Sun Microsystems and Hewlett−Packard.
- Original equipment manufacturers for telecommunications equipment such as Nortel, Lucent, Alcatel, Ciena, and Cisco who supply systems to service providers worldwide.
- Original equipment manufacturers for cable television such as Scientific Atlanta who supply cable television service providers worldwide.

Our Commercial and Consumer Products Segment includes our thin film coating, optical assembly, bulk optics and laser technologies and expertise. Optical coatings are microscopic layers of materials applied to the surface of a substrate, such as glass, plastic or metal, to alter its optical properties. Optical coatings work by controlling, enhancing or modifying the behavior of light to produce specific effects such as reflection, refraction, absorption, and anti−glare. The ability to control the behavior of light using thin film coatings plays a critical role in many industries and products.

Our Commercial and Consumer markets consist generally of:

- Original equipment manufacturers of displays who use our optical components, modules, and assemblies in televisions, such as Sony and Toshiba, as well as for a variety of other display applications.

- Original equipment manufacturers who use our high precision coated products, optical sensors, optical filters and assemblies for a variety of applications including medical/ environmental instrumentation, aerospace and defense.

- Suppliers of products and documents that require authentication in order to prevent counterfeiting. We provide products designed for the protection of currency and identification documents. We also provide solutions for the protection of high value brands for a variety of applications such as pharmaceutical and consumer electronic products.

- Designers and suppliers of decorative coatings who use our products to affect optical properties to achieve a differentiated, desirable appearance for a wide range of consumer products.

- Original equipment manufacturers such as Applied Biosystems, KLA−Tencor and Eastman Kodak who use our laser components and subsystems in biotechnology, graphic arts and imaging, semiconductor processing, material processing and other laser based applications and markets.

Overall, our communications markets are notable for, among other things, their high concentration of customers at each level of the industry, as well their extremely long design cycles. One consequence of a highly concentrated customer base is systemic pricing pressure at each level of the industry. Large capital investment requirements, long return on investment periods, uncertain business models and complex and shifting regulatory hurdles, among other things, currently combine to limit opportunities for new service providers to emerge. *Thus, we expect that high customer concentration and its attendant pricing pressure and other effects on our communications markets will remain for the foreseeable future*. Long design cycles mean that considerable resources must be spent to design and develop new products with limited visibility relative to the ultimate market opportunity for the products (pricing and volumes) or the timing thereof. As the supplier of components and modules to this industry, we feel the effects most acutely, as system designs must first be initiated at the carrier level, communicated to the systems provider and then communicated to us and our competitors. During system design periods, shifts in economic, industry, regulatory, customer or consumer conditions could and often do cause redesigns, delays or even cancellations to occur with their concomitant costs to those involved. Communications industry design cycles are often devastating for companies without the financial and infrastructural resources to sustain the long periods between project initiation and revenue realization. Our Commercial and Consumer Products Group, while more diverse, shares some of the customer concentration and design cycle attributes of our communications markets.

We are working aggressively to expand our distribution channels in these areas to, among other things, reduce our exposure to customer concentration and long design cycles across our company.

Major business developments during the first quarter of fiscal 2005 include:

- For the fourth consecutive quarter our revenues increased, in this case 11% quarter over quarter. Revenue from our Communications Products Group was approximately 55% of net revenue, while revenue from our Commercial and Consumer Products Group was approximately 45% of total net revenue.

- No customers represented 10% or more of our net revenues for first fiscal quarters of both 2005 and 2004.

- Our SG&A and R&D expenses declined, quarter over quarter, as a percentage of revenue, from 33% to 31%, reflecting both revenue improvements and the results of our operating cost cutting efforts.

- Gross margins continue to be challenged, with first quarter gross margins of 22% versus 24% for the fourth quarter of Fiscal 2004. We expect that our principal focus for the foreseeable future will be on the identification and implementation of customer−focused programs designed to improve gross margins.

- The Company consumed $59.8 million in cash for operations during the first quarter.

- Our headcount at September 30, 2004 was 6,027.

- We acquired the business and operations of ADO in the first quarter, for a total purchase price of $10.7 million. The products and technologies acquired supplement our display business.

- We completed the shutdown of our Eindhoven facility in the first quarter and we divested our polymer optics business. Both actions are consistent with our goal of simplifying our organization through the elimination of unnecessary facilities and assets.

Net Revenue:

	Three Months Ended			
	September 30, 2004	**September 30, 2003**	**Change***	**Percentage Change**
Net revenue	$194.5	$147.4	$47.1	32%

* **Primary reasons for change.** Net revenue increased primarily due to higher demand for our Communications products, primarily circuit pack and module products.

Notes:

- Net revenue from our Communications Product Group accounted for 55% of our net revenue during the first quarter of fiscal 2005 as compared to 50% during the first quarter of fiscal 2004.

- Net revenue from our Commercial and Consumer Products Group accounted for 45% of our net revenue during the first quarter of fiscal 2005 as compared to 50% during the first quarter of fiscal 2004.

- Net revenue from customers outside North America represented 35% and 34% of net revenue in the three−month periods ended September 30, 2004 and 2003, respectively. *We expect revenue from international customers to continue to be an important part of our overall revenue and an increasing focus for revenue growth.*

- Please refer to the “Operating Segment Information” section below for further discussions with respect to net revenue and operating results for each of our operating segments.

Comment and analysis:

During the first quarter of fiscal 2005, our net revenue of $194.5 million was approximately 11% higher than our net revenues for the fourth quarter of fiscal 2004, with strong first quarter revenue growth in our Communications Products Group and essentially flat revenue in our Commercial and Consumer Products Group. The increased revenue over the prior quarter is attributable primarily to growth in our circuit pack and modules businesses. *We believe the overall business climate continues with limited visibility, amid a telecom and communications market that is still recovering, and a commercial and consumer market that is growing tentatively. We believe that the mix of revenues in any quarter continues to be driven by variations in demand from a small number of customers with strong needs one quarter and lower demand in another quarter.* We continue to encounter multiple and systemic execution challenges principally related to factory and product transitions, new product introductions and quality concerns with our LCoS product. These challenges include new product delivery uncertainty, yield and quality problems, systems strain and related customer dissatisfaction. These execution challenges have impacted our revenue growth and was responsible for the flat revenue experienced by our Commercial and Consumer Products Group in the first quarter of fiscal 2005. Improving our overall execution will be a major priority for the foreseeable future. If we do not improve our execution and product quality, our operating results will suffer and we may experience customer defections.

Gross Profit:

	Three Months Ended		
	September 30, 2004	**September 30, 2003**	**Change***
Gross profit	$42.9	$ 31.8	$11.1
Percentage of net revenue	22%	22%	

***Primary reasons for change**: Gross profit dollars increased primarily due to increased volume of sales as well as: (i) an increase in consumption of previously reserved inventory of $2.0 million in the current quarter as compared to the prior−year period; (ii) reclassification to R&D of $1.6 million of expenses previously included in cost of goods sold to better reflect the work being performed; and (iii) a decline in personnel−related expenses of approximately $0.8 million as a result of workforce reductions, site closures, product transfers to both lower cost locations and contract manufacturers. These favorable impacts to gross profit were offset by the following: (i) $4.6 million of write−downs of excess and obsolete inventories in the current quarter, as compared to $1.7 million in the prior−year period; and (ii) continued decline in average selling prices of our products and unfavorable product mix. In addition, more of our revenue was derived from Communications Group products, which generally have lower gross margins.

Comment and analysis:

Gross profits for the first quarters of fiscal 2005 and 2004 were approximately 22% of net revenue. On a quarter over quarter basis, gross margins declined from 24% in the fourth quarter of fiscal 2004 to 22% in the first quarter of fiscal 2005. The decline is the result of several factors, including, among others, the following:

- Average selling price declines, while slowing in general, have continued to adversely impact gross profit.
- In the first fiscal quarter, we experienced an adverse shift in product mix, as we realized growth in our generally lower margin communications business, and not in our generally higher margin, commercial and consumer products business.
- We are transitioning products to lower cost manufacturing locations, and we are experiencing a period of redundant overhead costs. While we believe we will experience substantial benefits of moving to lower cost manufacturing centers, we expect that costs associated with the implementation of these measures will adversely impact our gross margins for the next several quarters.
- As we emerge from past restructuring activities, we are gradually losing the benefit of certain items associated with the economic downturn and our (and the industry's) subsequent restructuring, such as favorable excess inventory benefits, cancellation revenues and warranty reversals. At a minimum, these factors create margin variation in any quarter.

Additionally, we have recently introduced a number of new products and programs which due to the untested nature of the products and the potential for complexity have incurred and are expected to continue to incur relatively higher startup costs and increased yield and product quality risk. These issues have negatively impacted and could continue to negatively impact our gross profit. *We expect gross profit pressures to remain for the foreseeable future and cannot predict the timing or extent of any gross margin improvement.* Looking ahead, actions designed to improve our gross margins (through product mix improvements, cost reductions associated with product transfers and product pruning, and yield and quality improvements, among other things) will be a principal focus for us. In addition, we expect to seek out acquisition choices intended to improve our gross margin and profitability.

Research and Development (R&D):

	Three Months Ended		
	September 30, 2004	September 30, 2003	Change*
Research and development	$24.5	$ 24.7	$(0.2)
Percentage of net revenue	13%	17%	

***Primary reasons for change:** The expense remained essentially flat, however changes within research and development expenses were attributable to (i) a decline in personnel related expenses of $2.3 million; and (ii) a decrease in non−recurring realignment charges of $0.6 million; offset by (i) reclassification to R&D of $1.6 million of expenses previously included in cost of goods sold to better reflect the activities being performed; (ii) an increase of approximately $0.6 million for facilities and occupancy related expenses; and (iii) a increase in R&D materials and supplies of approximately $0.3 million.

Comment and analysis:

We believe that investment in R&D is critical to attaining our strategic objectives. Historically we have devoted significant engineering resources to assist with production, quality and delivery challenges which has had some negative impact on our new product development activities. Despite our continued efforts to reduce expenses, there can be no assurance that our R&D expenses will continue to decline in future quarters. In addition, there can be no assurance that such expenditures will be successful or that improved processes or commercial products, at acceptable volumes and pricing, will result from our investment in R&D.

Selling, General and Administrative Expense (SG&A):

	Three Months Ended		
	September 30, 2004	September 30, 2003	Change*
Selling, general and administrative	$37.2	$ 41.0	$(3.8)
Percentage of net revenue	19%	28%	

***Primary reasons for change:** The decrease was primarily due to: (i) a decline in personnel−related expenses of approximately $4.8 million resulting from workforce reductions and site closures; (ii) a reduction in facility and occupancy related costs of approximately $1.5 million due to site consolidations and the removal and disposal of property, plant and equipment; and (iii) a decline in acquisition related stock compensation charges of $1.1 million. These expense reductions were offset in part by increases in annual shareholder costs associated with our annual Proxy.

Comment and analysis:

Through our continuing efforts to reduce expenses, as well as our increasing net revenue, core SG&A expenses appear to be stabilizing, as evidenced by our fourth quarter fiscal 2004 (19.2% of net revenue), and first quarter fiscal 2005 (19.1% of net revenue), SG&A levels. Accordingly, we currently believe that these expenses are in line with our immediate goals, although we will continue to take actions to reduce these expenses as and when opportunities arise. *We caution, however, that we have in the past experienced, and expect to continue to experience in the future, certain non−recurring expenses, such as litigation and dispute related settlements and accruals, which could increase our SG&A expenses, and impair our profitability expectations, in any particular quarter. None of these non−recurring expenses, however, is expected to have a material adverse impact on our financial condition. Also, we expect to incur additional SG&A expenses as we fully implement the requirements of the Sarbanes−Oxley Act of 2002, in particular, Section 404 thereof, and continue to invest in personnel strategic to our business.* There can be no assurance that our SG&A expense will continue to decline in the future or that, more importantly, we will develop a cost structure (including our SG&A expense), which will lead to profitability under current and expected revenue levels.

Amortization of Purchased Intangibles:

	Three Months Ended		
	September 30, 2004	**September 30, 2003**	**Change**
Amortization of intangibles	$4.7	$ 3.9	$0.8

***Primary reasons for change:** The increase for the three−month period was primarily due to the increase in our intangible assets subject to amortization as a result of recent acquisition activity.

Reduction of Other Long−Lived Assets:

	Three Months Ended		
	September 30, 2004	**September 30 2003**	**Change**
Assets held and used:			
Property, plant, equipment and other	$ —	$ 5.0	$(5.0)
Assets held for sale:			
Property, plant and equipment	4.5	(0.1)	4.6
Total reductions of other long−lived assets	$4.5	$ 4.9	$(0.4)

Comment and analysis:

During the three month periods ended September 30, 2004 and 2003, the Company recorded $4.5 million and $4.9 million, respectively, of reductions in the carrying value of its long−lived assets and assets held for sale.

Three Months ended September 30, 2004:

Assets Held for Sale:

During the three months ended September 30, 2004, the Company reduced the carrying value of the Ottawa campus by $4.5 million as a result of changes in estimated market conditions.

Three Months Ended September 30, 2003:

Assets Held and Used:

During the first quarter of fiscal 2004, as a result of the adoption of FIN 46 with respect to two properties under a synthetic lease agreement, we recognized a $5 million deferred impairment charge related to the Melbourne, Florida properties, which was originally being amortized over the term of the lease. We noted no indicators of impairment during the first quarter of fiscal 2004 related to our remaining long−lived assets, including purchased intangibles.

Assets Held for Sale:

During the first quarter of fiscal 2004, we adjusted the carrying value of certain assets classified as held for sale. We recorded an impairment charge of $0.4 million related to our Columbus, Ohio site, representing the amount by which the carrying value of the property and equipment exceeded fair value less cost to sell. In addition, we increased the carrying value of the corporate airplane by $0.5 million to reflect its agreed upon sales price less cost to sell.

Restructuring and Other Related Charges:

	Three Months Ended		
	September 30, 2004	**September 30, 2003**	**Change**
Restructuring charges	$5.3	$(3.6)	$8.9

Comment and analysis:

During the first quarter of fiscal 2005, the Company re−initiated plans to consolidate a portion of its North American manufacturing operations to China or transfer the production to third party manufacturers. These actions created restructuring charges of approximately $4.8 million primarily related to severance and benefits associated with employee terminations or notification of termination of approximately 225 employees in North America. The Company also recorded adjustments to Global Realignment Program lease charges of approximately $0.5 million due to reductions in estimated sublease income expected on restructured properties.

During the first quarter of fiscal 2004, the Company recorded adjustments to its Global Realignment Program of $(4.2) million offset by $0.6 million for the initiation of the eighth phase of the program. The adjustments primarily related to lower than expected costs on terminated lease restructure facilities. Phase 8 primarily related to the reduction of 20 employees in North America aligning the number of employees to the Company’s needs.

In April 2001, we initiated the Global Realignment Program, under which we began restructuring our business in response to the economic downturn. Through December 31, 2003, we implemented 9 phases of restructuring activities and recorded total restructuring charges of $652.0 million. In addition, we incurred charges other than restructuring of $484.0 million related to the Global Realignment Program (of which $2.3 million and $3.4 million were recorded during the first quarters ended September 30, 2004 and 2003, respectively). The Company has initiated 3 restructuring actions since December 31, 2003, resulting in restructuring charges of $10.3 million through September 30, 2004. Additional charges associated with these actions have amounted to $0.2 million. Please refer to “Note 10. Restructuring” of the Notes to Condensed Consolidated Financial Statements for a detailed discussion of these charges associated with our restructuring actions.

The Company’s ability to generate sublease income, as well as its ability to terminate lease obligations at the amounts estimated, 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 the Company has accrued represents the best estimate of the remaining obligations it expects 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. The Company’s restructuring obligations are net of sublease income or lease settlement estimates of approximately $23.0 million. 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, the Company may be required to reduce estimated future sublease income and adjust the estimated amounts of future settlement agreements, and accordingly, increase estimated cost 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 2011.

The actions under the Global Realignment Program and other restructuring actions may not be successful in achieving the expected cost reductions or other benefits may be insufficient to align our operations with customer demand and the changes affecting our industry, or may be more costly or extensive than currently anticipated. Even if the restructuring activities are successful and meets our current cost reduction goals, our revenue must continue to increase substantially in the future for us to be profitable.

Interest and Other Income, Net:

	Three Months Ended		
	September 30, 2004	September 30, 2003	Change*
Interest and other income, net	$2.7	$ 2.9	$(0.2)

***Primary reasons for change:** The decrease in the first quarter of fiscal 2005 over the prior−year period was due to a combination of higher interest income earned on invested cash balances and reduced gains on the disposal of certain assets, offset by increased foreign exchange expense.

Gain on Sale of Investments:

	Three Months Ended		
	September 30, 2004	September 30, 2003	Change*
Gain on sale of investment	$0.3	$ 0.6	$(0.3)

***Primary reasons for change:** Gains on sales of investments are primarily the result of the sale of marketable public securities. The fair value of our marketable securities at September 30, 2004 is approximately $54.2 million.

Reduction in Fair Value of Investments:

	Three Months Ended		
	September 30, 2004	September 30, 2003	Change*
Reduction in fair value of investments	$(2.3)	$(1.3)	$(1.0)

***Primary reasons for change** We periodically review our investments for impairment. In the event the carrying value of an investment exceeds its fair value and the decline in fair value is determined to be other−than−temporary, we write down the value of the investment to its fair value. The Company recorded $2.3 million and $1.3 million of reductions in fair value of certain non−marketable investments in the first quarters of fiscal 2005 and 2004, respectively.

Comment and analysis:

Should the fair value of our investments continue to decline in the future, we may be required to record additional charges if the decline is determined to be other−than−temporary. The carrying amount of the Company's investments is $28.2 million and its minimum funding commitments is $15.7 million.

Loss on Equity Method Investments:

	Three Months Ended		
	September 30, 2004	September 30, 2003	Change
Loss on equity method investments	$(2.9)	$(1.2)	$(1.7)

Comment and analysis:

We recorded losses on our equity method investments representing our pro−rata share of net losses. Our equity investments include four venture capital funds and three direct investments.

Income Tax Expense (Benefit):

	Three Months Ended		
	September 30, 2004	September 30, 2003	Change*
Income tax expense (benefit)	$0.5	$(12.9)	$13.4

Comment and analysis:

The Company recorded an income tax expense of $0.5 million for the three months ended September 30, 2004 as compared to an income tax benefit of $12.9 million for the three months ended September 30, 2003.

The income tax expense recorded for the three months ended September 30, 2004 relates primarily to foreign income taxes and differs from the expected tax benefit that would be calculated by applying the federal statutory rate to our loss before income taxes due to increases in our valuation allowance for deferred tax assets attributable to our domestic and foreign losses from continuing operations.

The income tax benefit recorded for the three months ended September 30, 2003 resulted primarily from appreciation in the carrying value of available−for−sale marketable securities that reduced the amount of valuation allowance for deferred tax assets that otherwise would have been recorded in connection with our domestic loss from continuing operations.

Fluctuations in the value of our available−for−sale marketable public securities may create volatility in the amount of income tax expense (benefit) we record in future periods.

Due to the continued economic uncertainty in the industry, management has determined that it is more likely than not that the Company’s net deferred tax assets will not be realized and the Company has recorded deferred tax assets as of September 30, 2004 only to the extent of deferred tax liabilities.

The Company is currently 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.

Operating Segment Information:

Communications Product Group:

	Three Months Ended			
	September 30, 2004	September 30, 2003	Change*	Percentage Change
Net revenue	$106.1	$ 74.3	$31.8	43%
Operating income (loss)	$ (10.3)	$(10.8)	$ 0.5	5%

***Primary reasons for change** The increase in Communication Products Group net revenue for the three−month period reflects improving market conditions and an increase in customer demand during the first quarter of fiscal 2005. The slight improvement in the Communication Product Group Operating loss reflects increased demand for circuit pack and module products, offset by continued erosion in ASPs and incurred material costs.

Commercial and Consumer Products Group:

	Three Months Ended			
	September 30, 2004	**September 30, 2003**	**Change***	**Percentage Change**
Net revenue	$88.4	$73.1	$15.3	21%
Operating income	$14.3	$ 9.0	$ 5.3	59%

***Primary reasons for change:** The increase in net revenue and operating income for Commercial and Consumer Products Group for the three months ended September 30, 2004 was primarily attributable to increased sales of optical and display products.

Liquidity and Capital Resources

As of September 30, 2004, we had a combined balance of cash, cash equivalents and short−term investments of $1,463.3 million, a decrease of $85.4 million from June 30, 2004 primarily due to cash consumed in operations and a reduction in the value of marketable investments of $13.5 million. Our total debt outstanding, including capital lease obligations, was $469.9 million at September 30, 2004.

Operating activities used $59.8 million, primarily due to our net loss of $36.0 million adjusted for non−cash items including depreciation and amortization. Accounts receivable increased by $15.8 million during the three months ended September 30, 2004 as shipments continued to be greater during the third month of the quarter. Days sales outstanding in accounts receivable was 60 days at September 30, 2004, as compared to 59 days at June 30, 2004. Accounts payable decreased by $16.2 million and other liabilities decreased by $15.0 million.

Cash provided by investing activities was approximately $119.4 million during the three months ended September 30, 2004, primarily due to net maturities of available for sale investments of $137.8 million, reduced by cash used for acquisitions and purchases of property, plant and equipment of $8.1 million.

Our investments of surplus cash are made in accordance with an investment policy approved by our Board of Directors. In general, our investment policy requires that securities purchased and held be rated SP−1/MIG−1, A/A2 or better. No securities may have an effective maturity that exceeds 36 months, and the average duration of our investment portfolio may not exceed 18 months. At any time, no more than 10% of the investment portfolio may be concentrated in a single issuer other than the U.S. or Canadian government.

Our financing activities for the three months ended September 30, 2004 provided cash of $6.2 million, resulting primarily from issuance of Company stock under the Employee Stock Purchase Plan.

We expect to use approximately $120.0 to $140.0 million in cash and short− term investments in fiscal 2005, exclusive of amounts required relating to our acquisition and investment activities during the fiscal year. We believe that our existing cash balances and investments will be sufficient to meet our liquidity and capital spending requirements at least through the next 12 months. However, possible investments in or acquisitions of complementary businesses, products or technologies may require the use of additional cash or financing prior to such time. *We have in recent periods consumed, and we expect to continue to consume, portions of our cash reserves to fund our operations. The amounts consumed to date, together with the amounts currently anticipated to be spent, are not expected to materially impair our financial condition.* However, we may need to expend additional, currently unanticipated, cash reserves to fund our operations. Our liquidity could be negatively affected by a decline in demand for our products, which are subject to rapid technological changes, or a reduction of capital expenditures by telecommunications carriers.

Off−Balance Sheet Arrangements:

We do not have any off−balance sheet arrangements, as such term is defined in rules promulgated by the Securities and Exchange Commission, 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.

Employee Stock Options

Stock Option Program Description:

Our stock option program is a broad−based, long−term retention program that is intended to attract and retain employees and align stockholder and employee interests.

Pursuant to Section 3(a) of the Company's 2003 Equity Incentive Plan (the "2003 Plan), and in accordance with the registration requirements of the Securities Act of 1933, as amended, the Company registered 140 million shares which are reserved for issuance under the 2003 Plan. Further, as a result of receiving stockholder approval of the 2003 Plan, (i) the Company's right to issue options under the Company's 1993 Amended and Restated Flexible Stock Incentive Plan (the "1993 Plan") immediately ceased effective November 6, 2003, and (ii) all shares of the Company's common stock associated with such options ceased to be available for issuance effective as of such date. The stockholders' action did not affect any of the options currently outstanding under the 1993 Plan, all of which remain outstanding in accordance with their terms.

As of September 30, 2004, we have available for issuance 113.5 million shares of common stock underlying options for grant only under the JDS Uniphase Corporation 2003 Equity Incentive Plan. The exercise price is generally equal to the fair value of the underlying stock at the date of grant. Options generally become exercisable over a four−year period and, if not exercised, expire from five to ten years. Substantially all of our employees participate in our stock option program.

Status of Acquired In−Process Research and Development Projects

We periodically review the stage of completion and likelihood of success of each of the IPR&D projects. The nature of the efforts required to develop the 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. The current status of the IPR&D projects for our significant acquisitions is as follows:

E20:

E2O was in the process of developing a vertical−cavity surface emitting laser (VSCEL) shortwave laser as of the date of acquisition. *We have incurred post−acquisition costs of $1.3 million to date and estimate that an additional investment of approximately $0.9 million in research and development during fiscal 2005 will be required to complete the IPR&D project. The differences between the actual outcome noted above and the assumptions used in the original valuation of the technology are not expected to have a significant impact on our results of operations and financial position.*

Scion:

The products under development at the time of acquisition were comprised of advanced integrated waveguide devices. *We have incurred post−acquisition costs of $3.9 million to date and estimate that an additional investment of approximately $0.7 million in research and development over the next 6 months will be required to complete the IPR&D projects. The differences between the actual outcome noted above and the assumptions used in the original valuation of the technology are not expected to have a significant impact on our results of operations and financial position.*

Risk Factors

We have continuing concerns regarding the manufacture, quality and distribution of our products. These concerns are heightened as our markets stabilize and our volumes and new product offerings increase.

Our success depends upon our ability to deliver high quality products on time to our customers at acceptable cost. As a technology company, we constantly encounter quality, volume and cost concerns. Currently, a confluence of factors is exacerbating our concerns:

- Our continuing cost reduction programs, which include site consolidations, product transfers (internally and to contract manufacturers) and employee reductions, require the re−establishment and re−qualification of complex manufacturing lines, as well as modifications to systems, planning and operational infrastructure. During this process, we have experienced, and continue to experience, additional costs, and delays in re−establishing volume production levels, supply chain interruptions, planning difficulties and systems integration problems.

- Recent increases in demand for our products, in the midst of our cost reduction programs, have strained our execution abilities as well as those of our suppliers, as we are experiencing capacity, workforce and materials constraints, enhanced by concerns associated with product and operational transfers.

- Recently, we have commenced a series of new product programs and introductions, particularly in our circuit pack, communications and display components, light engine and commercial laser businesses, which due to the untested and untried nature of the relevant products and their manufacture and their increased complexity, exposes us to product quality risk, internally and with our materials suppliers.

These factors have caused considerable strain on our execution capabilities and our customer relations. Currently, we are (a) having difficulty responding to customer delivery expectations for some of our products, (b) experiencing yield and quality problems, particularly with some of our new products and high−volume products, and (c) expending additional funds and other resources to respond to these execution challenges. We are currently losing revenue opportunities due to these concerns. We are also, in the short−term, diverting resources from research and development 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 their purchases of our products and purchase additional products from our competitors.

If our customers do not qualify our manufacturing lines for volume shipments, our operating results could suffer

Customers will not purchase certain of our products, other than limited numbers of evaluation units, prior to qualification of the manufacturing lines for the products. This concern is particularly relevant to us as we continue to take advantage of opportunities to further reduce costs through targeted, customer−driven, restructuring events, which will involve the relocation of certain of our manufacturing internally and to external manufacturers. Each new (including relocated) manufacturing line must undergo rigorous qualification testing with our customers. The qualification process can be lengthy and is expensive, with no guarantee that any particular product qualification process will lead to profitable product sales. The qualification process determines whether the manufacturing line achieves the customers' quality, performance and reliability standards. Our expectations as to the time periods required to qualify a product line and ship products in volumes to customers may be erroneous. Delays in qualification can cause a long−term supply program to be cancelled. These delays will also impair the expected timing, and may impair the expected amount, of sales of the affected products. Nevertheless, we may, in fact, experience delays in obtaining qualification of our manufacturing lines and, as a consequence, our operating results and customer relationships would be harmed.

We could incur significant costs to correct defective products

Our products are rigorously tested for quality both by our customers and us. Nevertheless, our products do, and may continue to, fail to meet customer expectations from time−to−time. Also, not all defects are immediately detectible.

Customers' testing procedures are limited to evaluating our products under likely and foreseeable failure scenarios. For various reasons (including, among others, the occurrence of performance problems that are unforeseeable in testing or that are detected only when products are fully deployed and operated under peak stress conditions), our products may fail to perform as expected long after customer acceptance. Failures could result from faulty design or problems in manufacturing. In either case, we could incur significant costs to repair and/or replace defective products under warranty, particularly when such failures occur in installed systems. We have experienced such failures in the past and remain exposed to such failures, as our products are widely deployed throughout the world in multiple demanding environments and applications. In some cases, product redesigns or additional capital equipment may be required to correct a defect. We have in the past increased our warranty reserves and have incurred significant expenses relating to certain communications products. Any significant product failure could result in lost future sales of the affected product and other products, as well as severe customer relations' problems, litigation and damage to our reputation.

If our contract manufacturers fail to deliver quality products at reasonable prices and on a timely basis, our results of operations and financial conditions could be harmed.

We are increasing our use of contract manufacturers as an alternative to internal manufacturing. If these contract manufacturers do not fulfill their obligations to us, or if we do not properly manage these relationships and the transition of production to these contract manufacturers, our existing customer relationships will suffer. In addition, by undertaking these activities, we run the risk that the reputation and competitiveness of our products and services may deteriorate as a result of the reduction of our control over quality and delivery schedules. We also may experience supply interruptions, cost escalations and competitive disadvantages if our contract manufacturers fail to develop, implement or maintain manufacturing methods appropriate for our products and customers. In this regard, we have experienced, and continue to experience, difficulties (such as delays, interruptions and quality problems) associated with products we have transferred to contract manufacturers. These may continue, resulting in, among other things, lost revenue opportunities, customer dissatisfaction and additional costs.

We must improve our cost structure to achieve long−term profitability

Although we have made progress in reducing the magnitude of our losses in recent quarters, we are not yet profitable. High overhead and materials costs, product transfer and reorganization expenses and new product (start−up) costs have contributed to our high expense structure, while competitive forces (increasingly from Asia−based competitors) and a highly concentrated customer base for many of our products continue to pressure pricing. In addition, our telecommunications business, which has historically featured discrete, highly customized products (with concomitant higher profit margins), is moving to increased standardization and commoditization (with correspondingly lower profit margins). Taken together, these factors are limiting our profitability. *Among other things, we believe that customer base concentration, product standardization and commoditization and international competition (particularly from Asia) represent fundamental changes to our industries and that these factors, among others, will create continuing pricing and margin pressure.*

In response to these concerns we are working vigorously to reduce our cost structure and have seen significant progress. Nevertheless, major actions remain, including elimination of duplicative operations or infrastructure, transferring manufacturing and product lines to more optimal internal locations or, in many cases, to independent contract manufacturers, disposing of unnecessary assets, centralizing functions, improving our governance and systems, and, as necessary, streamlining our employee base. These measures (including, among other things, the measures taken under our restructuring programs) may be disruptive, more costly or extensive than expected, may be insufficient to align our operations with customer demand and the changes affecting our industry, and, ultimately, unsuccessful in creating profit margins sufficient to sustain our business and growth strategy.

If our new product offerings fail in the market, our business will suffer

We are a technology company. Our success or failure depends, in large part, upon our ability to continuously and successfully introduce and market new products and technologies meeting or exceeding our customer’s expectations. Accordingly, we intend to continue to develop new product lines and improve the business for existing ones. However, we have considerably reduced our research and development spending from historic levels and some of our competitors now spend considerably higher percentages of their revenues on research and development than do we. If we fail to develop and sustain a robust, commercially viable product pipeline our business will suffer.

In recent periods, we have increased our focus on new products, particularly in our circuit pack and display businesses. Our current growth strategy emphasizes both of these businesses. Nevertheless, several of the key relevant products are untried and untested and have not yet demonstrated long−term commercial viability. Current challenges include establishing sustainable pricing and cost models, predictable and acceptable quality and yields, and adequate and reliable supply chains, as well as demonstrating our (and our suppliers’) ability to scale and provide adequate facilities, personnel and other resources. Nonetheless, if we fail to successfully develop and commercialize some or all of these new products, our business could suffer.

Stability concerns affecting many of our key suppliers could impair the quality, cost or availability of many of our important products, harming our revenue, profitability and customer relations

We have numerous materials suppliers for our products and, frequently, many of our important products rely on single−source suppliers for critical materials. These products include several of our advanced components, modules and subsystem products across our businesses. Many of our important suppliers are small companies facing financial stability, quality, yield, scale or delivery concerns. Some of these companies may be acquired, undergo material reorganizations or become insolvent. Others are larger companies with limited dependency upon our business, resulting in unfavorable pricing, quantity or delivery terms. The recent signs of market stability in our business have exacerbated these concerns as we increase our purchasing to meet our customers’ demands. We are currently undertaking programs to ensure the long−term strength of our supply chain. *Nevertheless, we are experiencing, and expect for the foreseeable future to continue to experience, strain on our supply chain and periodic supplier problems.* We have incurred, *and expect for the foreseeable future to continue to incur,* costs to address these problems. In addition, these problems have impacted, and *we expect for the foreseeable future will continue to impact*, our ability to meet customer expectations. If we do not identify and implement long−term solutions to our supply chain concerns, our customer relationships and business will materially suffer.

Recent signs of market stability are not necessarily indicative of long−term growth

The recent economic downturn has had and will likely continue to have long−term implications for our markets.

Among other things, while our direct telecommunications customer base has remained largely intact, their customer base, the service providers, has been significantly reduced due to significant industry consolidations and the elimination of most of the competitive local exchange carriers. Notwithstanding recent signs of market stability and generally increasing demand for our products, average selling prices continue to decline and revenue and profitability targets and projections are subject to uncertainty and variability. While we are encouraged by recent developments, our visibility remains limited and we remain cautious and cannot predict the long−term prospects for our industries, or our business, operations or financial condition, at this time.

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

The telecommunications industry is a capital−intensive industry similar, in many respects, to any other infrastructure development industry. Large volumes of equipment and support structures are installed over vast areas, with considerable expenditures of funds and other resources, with long investment return period expectations. Moreover, reliability requirements are intense. Consequently, there is significant resistance to network redesigns and upgrades. Consequently, redesigns and upgrades of installed systems are undertaken only as required in response to user demand and competitive pressures and generally only after the applicable carrier has received sufficient return on its considerable investment. At the component supplier level this reality creates considerable, typically multi−year, gaps between the commencement of new product development and volume purchases. Accordingly, we and our competitors often incur significant research and development and sales and marketing costs for products that, at a minimum, will be purchased by our customers long after much of the cost is incurred (very long “time to cash”) and, at a maximum, may never be purchased due to changes in industry or customer requirements in the interim.

Our success depends on sustained recovery and long−term growth in our markets

If the Internet does not continue to grow as expected, our communications business will suffer.

Our future success as a manufacturer of optical components, modules and subsystems ultimately depends on the continued growth of the communications industry and, in particular, the growth of the Internet as a global communications system. As part of that growth, we are relying on increasing demand for high−content voice, video, text and other data delivered over high−speed connections (i.e., high bandwidth communications). As Internet usage and bandwidth demand increase, so does the need for advanced optical networks to provide the required bandwidth. Without Internet and bandwidth growth, the need for our advanced communications products, and hence our future growth as a manufacturer of these products, is jeopardized. Currently, while increasing demand for Internet access and for broadband access, in particular, is apparent, growth is limited by several factors, including, among others, an uncertain regulatory environment, reluctance from content providers to supply video and audio content over the communications infrastructure, and uncertainty regarding sustainable business models as multiple industries (cable, traditional telecommunications, wireless, satellite, etc.) offer non−complimentary and competing content delivery solutions. Ultimately, should long−term expectations for Internet growth and bandwidth demand not be realized or support a sustainable business model, our business would be significantly harmed.

We are increasingly depending on stability and growth in non−communications markets.

Our Communications and Commercial and Consumer products segments each currently represent approximately half of our total revenue. Our strategy emphasizes the growth opportunities in both segments, as we seek to expand our markets and customer base, increase the level of integration of our products, and improve time to revenue. In furtherance of this strategy, we are engaged in or exploring several new product opportunities in our Commercial and Consumer segment, particularly in our display business, as well as expanding the opportunities for our current products in this segment. Consequently, we are increasingly dependent upon growth markets outside of communications for our overall growth and success. Failures in these markets or our execution of programs related to the same will significantly harm our business.

Our business and financial condition could be harmed by our long−term growth strategy

Notwithstanding the recent decline, our businesses have historically grown, at times rapidly, and we have grown accordingly. *We have made, and expect in the future to make, significant investments to enable our future growth through, among other things, internal expansion programs, product development, acquisitions and other strategic relationships.* We may grow our business through business combinations or other acquisitions of businesses, products or technologies. We continually evaluate and explore strategic opportunities as they arise, including business combinations, strategic partnerships, capital investments and the purchase, licensing or sale of assets. Acquisitions may require significant capital infusions, typically entail many risks and could result in difficulties in assimilating and integrating the operations, personnel, technologies, products and information systems of acquired companies. If we fail to manage or anticipate our future growth effectively, particularly during periods of industry uncertainty, our business will suffer. Through our cost reductions measures we are balancing the need to consolidate our operations with the need to preserve our ability to grow and scale our operations as our markets stabilize and recover. If we fail to achieve this balance, our business will suffer to the extent our resources and operations are insufficient to respond to a return to growth.

Our financial results could be affected by potential changes in the accounting rules governing the recognition of stock−based compensation expense

We measure compensation expense for our employee stock compensation plans under the intrinsic value method of accounting prescribed by APB Opinion No. 25, “Accounting for Stock Issued to Employees.” Under this method, we recognized compensation charges related to stock compensation plans of $0.1 million, $2.0 million, $50.9 million, and $124.9 million in the first quarter of fiscal 2005 and in fiscal year 2004, 2003 and 2002, respectively. In accordance with SFAS No. 123, “Accounting for Stock−Based Compensation,” we provide disclosures of our operating results as if we had applied the fair value method of accounting (pro−forma basis). Beginning in the third quarter of fiscal 2003, we provide such disclosures in our Quarterly Reports on Form 10−Q in accordance with SFAS No. 148, “Accounting for Stock−Based Compensation—Transition and Disclosure.” Had we accounted for our compensation expense under the fair value method of accounting prescribed by SFAS No. 123, the charges would have been significantly higher than the intrinsic value method used by us, totaling $40.3 million, $300.0 million, $685.2 million, and $688.9 million in the first quarter of fiscal 2005 and in fiscal 2004, 2003 and 2002, respectively. The Financial Accounting Standards Board (“FASB”) has announced changes to accounting rules concerning the recognition of stock option compensation expense. Beginning in fiscal 2006 when these changes are implemented, we and other companies will be required to measure compensation expense using the fair value method, which would adversely affect our results of operations by increasing our losses by the additional amount of such stock option charges.

Our sales are dependent upon a few key customers

A few large customers account for most of our net revenue. During the first quarter of fiscal 2005 and fiscal 2004, no customer accounted for 10% or more of our net revenue. *We expect that, for the foreseeable future, sales to a limited number of customers will continue to account, alone or in the aggregate, for a high percentage of our net revenues.* 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.

One of our products is dependent upon a single customer for a majority of sales.

We have a strategic alliance with SICPA, our principal customer for our light interference pigments which 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 to this market 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, for any reason, our business and operating results (including, among other things, our revenue and gross margin) will be harmed, at least in the short−term. In the long−term, we may be unable to find a substitute marketing and sales partner or develop these capabilities ourselves.

Any failure to remain competitive would harm our operating results

The markets in which we sell our products are highly competitive and characterized by rapidly changing and converging technologies. We face intense competition from established domestic and international competitors and the threat of future competition from new and emerging companies in all aspects of our business. Much of our current competition comes from large, diversified Asian corporations, and emerging, largely Chinese optical companies. These competitors have considerable optical expertise, and often very low cost structures. *We expect Asian, and particularly Chinese, competition to increase.* To remain competitive in both the current and future business climates, we believe we must maintain a substantial commitment to research and development, and significantly improve our cost structure. Our efforts to remain competitive may be unsuccessful.

If we fail to attract and retain key personnel, our business could suffer.

Our future depends, in part, on our ability to attract and retain key personnel. We may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure. Our future also depends on the continued contributions of our executive management team and other key management and technical personnel, each of whom would be difficult to replace. The loss of services of these or other executive officers or key personnel or the inability to continue to attract qualified personnel could have a material adverse effect on our business.

Similar to other technology companies, particularly those located in Silicon Valley, we rely upon our ability to use stock options and other forms of equity−based compensation as key components of our executive and employee compensation structure. 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) in order to retain our key employees, particularly as and when an industry recovery returns. Recent proposals to modify accounting rules relating to the expensing of equity compensation may cause us to substantially reduce, or even eliminate, all or portions of our equity compensation programs.

Certain of our non−telecommunications 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 Commercial and Consumer product segment may be delayed or made more costly due to required government and industry approval processes. Development of applications for our light interference pigment products may require significant testing that could delay our sales. For example, certain uses in cosmetics may be regulated by the Food and Drug Administration, which has extensive and lengthy approval processes. Durability testing by the automobile industry of our pigments 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 offshore operations, including manufacturing, sales and customer support operations. Our operations outside North America include facilities primarily in Asia−Pacific.

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

- our ability to comply with the customs, import/export and other trade compliance regulations of the countries in which we do business, together with any unexpected changes in such regulations;
- 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 research 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;
- greater difficulty in accounts receivable collection;

- currency fluctuations; and
- potential adverse tax consequences.

Net revenue from customers outside North America accounted for 35% of our net revenue in the first fiscal quarter of 2005, and for 36%, 30% and 26% of our total net revenue in fiscal 2004, 2003 and 2002, respectively. *We expect that 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, sales of many of our customers depend on international sales and consequently further expose us to the risks associated with such international sales.

The international dimensions of our operations and sales subject us to a myriad of domestic and foreign trade regulatory requirements. As part of our ongoing integration program, we are evaluating our current trade compliance practices and implementing improvements, where necessary. Among other things, we are auditing our product export classification and customs procedures and are installing trade information and compliance systems using our global enterprise software platforms. *We do not currently expect the costs of such evaluation or the implementation of any resulting improvements to have a material adverse effect on our operating results or business.* However, our evaluation and related implementation are not yet complete and, accordingly, the costs could be greater than expected and such costs and the legal consequences of any failure to comply with applicable regulations could affect our business and operating results.

We are increasing manufacturing operations in China, which expose us to risks inherent in doing business in China

As a result of our efforts to reduce costs, we have increased our manufacturing operations in China and those operations are subject to greater political, legal and economic risks than those faced by our other operations. In particular, the political, legal and economic climate in China (both at national and regional levels) is extremely fluid and unpredictable. Among other things, the legal system in China (both at the national and regional levels) remains highly underdeveloped and subject to change, with little or no prior notice, for political or other reasons. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations, such as those relating to taxation, import and export tariffs, environmental regulations, land use rights, intellectual property and other matters. Moreover, the enforceability of applicable existing Chinese laws and regulations is uncertain. These concerns are exacerbated for foreign businesses, such as ours, operating in China. Our business could be materially harmed by any changes to the political, legal or economic climate in China or the inability to enforce applicable Chinese laws and regulations.

Currently, we operate manufacturing facilities located in Shenzhen, Fuzhou and Beijing, China. As part of our efforts to reduce costs, we continue to increase the scope and extent of our manufacturing operations in our Shenzhen facilities. *Accordingly, we expect that our ability to operate successfully in China will become increasingly important to our overall success.* As we continue to consolidate our manufacturing operations, we will incur additional costs to transfer product lines to the facilities located in China, which could have a material adverse impact on our operating results and financial condition.

We intend to export the majority of the products manufactured at our facilities in China. Accordingly, upon application to and approval by the relevant governmental authorities, we will not be subject to certain Chinese taxes and are exempt from customs duty assessment on imported components or materials when the finished products are exported from China. We are however required to pay income taxes in China, subject to certain tax relief. As the Chinese trade regulations are in a state of flux, we may become subject to other forms of taxation and duty assessments in China or may be required to pay for export license fees in the future. In the event that we become subject to any new Chinese forms of taxation, our results of operations could be materially and adversely affected.

We may incur unanticipated costs and liabilities, including costs under environmental laws and regulations.

Our operations use certain substances and generate certain wastes that are regulated or may be deemed hazardous under environmental laws. Some of these laws impose liability for cleanup costs and damages relating to releases of hazardous substances into the environment. Such laws may become more stringent in the future. In the past, costs and liabilities arising under such laws have not been material; however, we cannot assure you that such matters will not be material to us in the future.

Our business and operations would suffer in the event of a failure of our information technology infrastructure

We rely upon the capacity, reliability and security of our information technology hardware and software infrastructure and our ability to expand and update this infrastructure in response to our changing needs. We are constantly updating our information technology infrastructure. Among other things, we have entered into an agreement with Oracle to provide and maintain our global ERP infrastructure on an outsourced basis. Any failure to manage, expand and update our information technology infrastructure or any failure in the operation of this infrastructure could 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 inappropriate disclosure of confidential information, it could harm our business. In addition, we may be required to spend additional costs and other resources to protect us against damages caused by these disruptions or security breaches in the future.

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

We may not obtain the intellectual property rights we require.

Others, including academic institutions, our competitors and other large technology−based companies, hold numerous patents in the industries in which we operate. Some of these patents may purport to cover our products. In response, we may seek to acquire license rights to these or other patents or other intellectual property to the extent necessary to ensure we possess sufficient intellectual property rights for the conduct of our business. 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, or substantially increase the cost to provide these products to our customers. While 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. Generally, a license, if granted, includes payments by us of up−front fees, ongoing royalties or a combination of both. Such royalty or other terms could have a significant adverse impact on our operating results. We are a licensee of a number of third−party technologies and intellectual property rights and are required to pay royalties to these third−party licensors on some of our telecommunications products and laser subsystems.

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

The industry in which we operate experiences periodic claims of patent infringement or other intellectual property rights. We have received in the past and, from time to time, may in the future receive notices from third parties claiming that our products infringe upon third−party proprietary rights. One consequence of the recent economic downturn is that many companies have turned to their intellectual property portfolios as an alternative revenue source. This is particularly true of companies which no longer compete with us. Many of these companies have larger, more established intellectual property portfolios than ours. Typical for a growth−oriented technology company, at any one time we generally have various pending claims from third parties that one or more of our products or operations infringe or misappropriate their intellectual property rights or that one or more of our patents is invalid. For example, we have pending litigation with Litton Systems, Inc., University of Illinois and the Board of Trustees of the Leland Stanford, Jr. University involving claims for damages in connection with the alleged past infringement by our optical amplifiers of a now expired U.S. patent. We will continue to respond to other claims in the course of our business operations. In the past the settlement and disposition 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.

Our intellectual property rights may not be adequately protected.

Our future depends in part upon our intellectual property, including trade secrets, know−how and continuing technological innovation. We currently hold numerous U.S. patents on products or processes and corresponding foreign patents and have applications for some patents currently pending. 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 application pending or filed by us and, if patents do issue, the claims allowed may not be sufficiently broad to deter or prohibit others from marketing similar products. Any patents issued to us may be challenged, invalidated or circumvented. Further, the rights under our patents may not provide a competitive advantage to us. 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.

We face certain litigation risks that could harm our business

We have had numerous lawsuits filed against us asserting various claims, including securities and ERISA class actions and stockholder derivative actions. 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 position, 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 can be costly, time−consuming and disruptive to normal business operations. The costs of defending these lawsuits, particularly the securities class actions and stockholder derivative actions, 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.

Recently enacted and proposed regulatory changes will cause us to incur increased costs

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes−Oxley Act of 2002, will increase our expenses as we evaluate the implications of new rules and devote resources to respond to the new requirements. *In particular, we expect to incur additional SG&A expense as we implement Section 404 of the Sarbanes−Oxley Act, which requires management to report on, and our Independent Registered Public Accounting Firm to attest to, our internal controls.* The compliance of these new rules could also result in continued diversion of management's time and attention, which could prove to be disruptive to normal business operations. Further, the impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers, which could harm our business.

We are currently performing the system and process evaluation required to ensure compliance as of June 30, 2005 with the management certification and auditor attestation requirements of Section 404 of the Sarbanes Oxley Act. While we currently anticipate that we will timely complete all such actions, we cannot at this time provide absolute assurance that all such actions will timely be completed, although possible consequences of failure include, sanction or investigation by regulatory authorities, such as the Securities Exchange Commission or the Nasdaq National Market, and inability to timely file our Annual Report on Form 10−K for fiscal 2005. Any such action could harm our stock price.

If we fail to manage our exposure to worldwide financial and securities markets successfully, our operating results could suffer

We are exposed to financial market risks, including changes in interest rates, foreign currency exchange rates and marketable equity security prices. We often utilize derivative financial instruments to mitigate these risks. We do not use derivative financial instruments for speculative or trading purposes. The primary objective of most of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, a majority of our marketable investments are floating rate and municipal bonds, auction instruments and money market instruments denominated in U.S. dollars. When we acquire assets denominated in foreign currencies, we usually mitigate currency risks associated with these exposures with forward currency contracts. A substantial portion of our sales, expense and capital purchasing activities are transacted in U.S. dollars. However, some of these activities are conducted in other currencies, primarily Canadian and European currencies. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, we may enter into foreign currency forward contracts. The contracts reduce, but do not always entirely eliminate, the impact of foreign currency exchange rate movements. Actual results on our financial position may differ materially.

We also hold investments in other public and private companies, including, among others, Nortel Networks, Adept and ADVA, and have limited funds invested in private venture funds. All three companies have experienced severe stock price declines during the recent economic downturn, which have greatly reduced the value of our investments, and we have written down the value of these investments as the decline in fair value was deemed to be other−than−temporary. *In addition to our investments in public companies, we have in the past and expect to continue to make investments in privately held companies as well as venture capital investments for strategic and commercial purposes.* For example, we had a commitment to provide additional funding of up to $15.7 million to certain venture capital investment partnerships as of September 30, 2004. In recent months some of the private companies in which we held investments have ceased doing business and have either liquidated or are in bankruptcy proceedings. If the carrying value of our investments exceeds the fair value and the decline in fair value is deemed to be other−than−temporary, we will be required to write down the value of the investments, which could materially harm our results of operations or financial condition.

We sold $475.0 million of senior convertible notes, which significantly increased our leverage, and may cause our reported earnings per share to be more volatile because of the conversion contingency features of these notes.

On October 31, 2003 we issued $475.0 million of indebtedness in the form of senior convertible notes. The issuance of these notes substantially increased our principal payment obligations and we may not have enough cash to repay the notes when due. By incurring new indebtedness, the related risks that we now face could intensify. 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 those notes are entitled to convert those notes into shares of our common stock under certain circumstances. Unless a conversion contingency is met, the shares of our common stock underlying the notes are not currently included in the calculation of our basic or diluted earnings per share. When this contingency is met, diluted earnings per share may, depending on the relationship between the interest on the notes and the earnings per share of our common stock, be expected to decrease as a result of the inclusion of the underlying shares in the diluted earnings per share calculation.

The FASB's Emerging Issues Task Force ("EITF") reached consensus in EITF Issue No. 04−8, "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share" that contingently convertible debt instruments should be included in diluted earnings per share computation regardless of whether the contingency has been met. The consensus reached by the Task Force is effective for reporting periods ending after December 15, 2004.

Under the consensus reached by the EITF, we would include the 96.2 million contingently convertible shares in our calculation of diluted earnings per share, which would be reported at such time as the Company reports a profit.

Our rights plan and our ability to issue additional preferred stock could harm the rights of our common stockholders

In February 2003, we amended and restated our Stockholder Rights Agreement and currently each share of our outstanding common stock is associated with one right. Each right entitles stockholders to purchase 1/100,000 share of our Series B Preferred Stock at an exercise price of $21.0.

The rights only become exercisable in certain limited circumstances following the tenth day after a person or group announces acquisition of or tender offers for 15% or more of our common stock. For a limited period of time following the announcement of any such acquisition or offer, the rights are redeemable by us at a price of $0.01 per right. If the rights are not redeemed, each right will then entitle the holder to purchase common stock having the value of twice the then−current exercise price. For a limited period of time after the exercisability of the rights, each right, at the discretion of our Board of Directors, may be exchanged for either 1/100,000 share of Series B Preferred Stock or one share of common stock per right. The rights expire on June 22, 2013.

Our Board of Directors has the authority to issue up to 499,999 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 our stockholders. The preferred stock could be issued with voting, liquidation, dividend and other rights superior to those of the holders of common stock.

The issuance of Series B Preferred Stock or any preferred stock subsequently issued by our Board of Directors, under some circumstances, could have the effect of delaying, deferring or preventing a change in control.

Some provisions contained in the rights plan, and in the equivalent rights plan that our subsidiary, JDS Uniphase Canada Ltd., has adopted with respect to our exchangeable shares, may have the effect of discouraging a third party from making an acquisition proposal for us and may thereby inhibit a change in control. For example, such provisions may deter tender offers for shares of common stock or exchangeable shares, which offers may be attractive to stockholders, or deter purchases of large blocks of common stock or exchangeable shares, thereby limiting the opportunity for stockholders to receive a premium for their shares of common stock or exchangeable shares over the then−prevailing market prices.

Some anti−takeover provisions contained 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 relating to the limitations of liability and indemnification of our directors and officers, dividing our board of directors into three classes of directors serving three−year terms and providing that our stockholders can take action only at a duly called annual or special meeting of stockholders. These provisions also may have the effect of deterring hostile takeovers or delaying changes in control or management of us.

Item 3. Quantitative and Qualitative Disclosure About Market Risks

Foreign Exchange Forward Contracts:

Our international business is subject to normal international business risks including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, our future results could be materially adversely affected by changes in these or other factors.

We generate a portion of our net revenue from sales to customers located outside the United States and from sales by our foreign subsidiaries to U.S. customers. International sales are typically denominated in either U.S dollars or the local currency of each country. Our foreign subsidiaries incur most of their expenses in the local currency, and therefore, they use the local currency as their functional currency.

We enter into foreign exchange forward contracts on behalf of our Canadian, European and Asian subsidiaries. These forward contracts offset the impact of U.S. dollar currency fluctuations on certain monetary assets and liabilities.

The foreign exchange forward contracts we enter into generally have original maturities less than 40 days. We do not enter into foreign exchange forward contracts for trading purposes. We do not expect gains or losses on these contracts to have a material impact on our financial results.

Investments:

We maintain an investment portfolio in a variety of financial instruments, including fixed− and floating−rate bonds, municipal bonds, auction instruments, money market instruments, corporate bonds and Treasury and Agency securities. Part of our investment portfolio also includes minority equity investments in several publicly traded companies, the values of which are subject to market price volatility. These investments are generally classified as available−for−sale and, consequently, are recorded on our balance sheets at fair value with unrealized gains or losses reported as a separate component of stockholders' equity.

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 forced to sell securities that have experienced a decline in market value because of changes in interest rates.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures. While our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions regardless of how remote. However, based on the evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in timely alerting them to material information required to be included in our periodic SEC filings at the reasonable assurance level.

(b) Changes in internal control over financial reporting. There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Pending Litigation

The Securities Class Actions:

As discussed in our previous filings, litigation under the federal securities laws has been pending against the Company and certain former and current officers and directors since March 27, 2002. No activity has occurred in *In re JDS Uniphase Corporation Securities Litigation*, C−02−1486 (N.D. Cal.), since our last filing. No activity has occurred in *Zelman v. JDS Uniphase Corp.*, No. C−02−4656 (N.D. Cal.), a related securities case, since our last filing.

The Derivative Actions:

As discussed in our previous filings, derivative actions purporting to be brought on the Company's behalf have been filed in state and federal courts against several of our current and former officers and directors based on the same events alleged in the securities litigation. No activity has occurred in *Corwin v. Kaplan*, No. C−02−2020 (N.D. Cal.), since our last filing. A stay remains in place in the California state derivative action, *In re JDS Uniphase Corporation Derivative Litigation*, Master File No. CV806911 (Santa Clara Super. Ct.), and a status conference is scheduled for December 7, 2004. As noted in our previous filings, the plaintiff in that action has issued a shareholder inspection demand that has been disputed by the Company. The dispute remains unresolved. No activity has occurred in *Cromas v. Straus*, Civil Action No. 19580 (Del. Ch. Ct.), the Delaware derivative action, since our last filing.

The OCLI and SDL Shareholder Actions:

As discussed in our previous filings, plaintiffs purporting to represent the former shareholders of OCLI and SDL have filed suit against the former directors of those companies, asserting that they breached their fiduciary duties in connection with the events alleged in the securities litigation against the Company. No activity has occurred in either the OCLI action, *Pang v. Dwight*, No. 02−231989 (Sonoma Super. Ct.), or the SDL action, *Cook v. Scifres*, Master File No. CV814824 (Santa Clara Super. Ct.), since our last filing.

The ERISA Actions:

As discussed in our previous filings, a consolidated action entitled *In re JDS Uniphase Corporation ERISA Litigation*, Master File No. C−03−4743 CW, is pending in the District Court for the Northern District of California against the Company and certain of its former and current officers and directors on behalf of a purported class of participants in the Company's 401(k) Plan. Plaintiffs filed a consolidated complaint on September 2, 2004. Defendants' response to the consolidated complaint is due by December 15, 2004.

The Company believes that the factual allegations and circumstances underlying these securities class actions, derivative actions, the OCLI and SDL class actions, and the ERISA class actions are without merit. The expense of defending these lawsuits has been costly, will continue to be costly, and could be quite significant 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 prove to be time consuming and disruptive to normal business operations. An unfavorable outcome or settlement of this litigation could have a material adverse effect on the Company's financial position, liquidity or results of operations.

The Company is a party to other litigation matters and claims, which are normal in the course of its operations. While the results of such litigation matters and claims cannot be predicted with certainty, the Company believes that their final outcome will not have a material adverse impact on its financial position, liquidity, or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

As of September 30, 2004, the following executive officers and members of the Company's Board of Directors maintained "plans" under Rule 10b5−1 of the Securities Exchange Act of 1934, as amended, for trading in shares of the Company's common stock and/or exchangeable shares:

Christopher S. Dewees
Robert E. Enos
Ronald C. Foster
Martin A. Kaplan
Stan Lumish
Casimir Skrzypczak
Mark S. Sobey
Thomas Znotins

Item 6. Exhibits

(a) Exhibits:

Exhibit No.	Exhibit Description
10.27	2003 Equity Incentive Plan Stock Option Award Agreement (Form)
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes−Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes−Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes−Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes−Oxley Act of 2002.

SIGNATURES

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

	JDS Uniphase Corporation
	(Registrant)
Date: November 9, 2004	/s/ Ronald C. Foster
	By: Ronald C. Foster Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

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32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes−Oxley Act of 2002.

Exhibit 10.27

JDS UNIPHASE CORPORATION 2003 EQUITY INCENTIVE PLAN

NOTICE OF STOCK OPTION GRANT

Grantee's Name and Address:		Grant Number:	____________________
________________________		Date of Grant:	____________________
________________________		Type of Option:	Non−Qualified Stock Option
________________________		Expiration Date:	____________________

You (the "Grantee") have been granted an option to purchase shares of Stock, subject to the terms and conditions of this Notice of Stock Option Award (the "Notice"), the JDS Uniphase Corporation 2003 Equity Incentive Plan, as amended from time to time (the "Plan") and the Stock Option Grant Agreement (the "Option Agreement") as follows. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Notice.

Total Number of Shares subject to the Option:	__________	Exercise Price per Share:	$ ______________
Vesting Commencement Date:	__________	Total Exercise Price:	$ ______________

Vesting Schedule:

Subject to Grantee's Continuous Active Service and other limitations set forth in this Notice, the Plan and the Option Agreement, the Option may be exercised, in whole or in part, in accordance with the following schedule:

25% of the Shares subject to the Option shall vest twelve months after the Vesting Commencement Date, and 1/12 of the remaining Shares subject to the Option shall vest on each three month anniversary of the Vesting Commencement Date thereafter.

IN WITNESS WHEREOF, the Company and the Grantee have executed this Notice and agree that the Option is to be governed by the terms and conditions of this Notice, the Plan, and the Option Agreement.

JDS Uniphase Corporation,
a Delaware corporation

By: ______________________

Title: ______________________

The Grantee acknowledges receipt of a copy of the Plan and the Option Agreement, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts the Option subject to all of the terms and provisions hereof and thereof. The Grantee has reviewed this Notice, the Plan, and the Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Notice, and fully understands all provisions of this Notice, the Plan and the Option Agreement. **The Grantee hereby agrees that all disputes arising out of or relating to this Notice, the Plan and the Option Agreement shall be resolved in accordance with Section 12 of the Option Agreement.** The Grantee further agrees to notify the Company upon any change in the residence address indicated in this Notice.

Dated: ______________________ Signed: ______________________

Grantee

JDS UNIPHASE CORPORATION 2003 EQUITY INCENTIVE PLAN

STOCK OPTION GRANT AGREEMENT

1. Grant of Option. JDS Uniphase Corporation, a Delaware corporation (the “Company”), hereby grants to the Grantee named in the Notice of Stock Option Grant (the “Notice”), an option (the “Option”) to purchase the Total Number of Shares of Stock subject to the Option (the “Shares”) set forth in the Notice, at the Exercise Price per Share set forth in the Notice (the “Exercise Price”) subject to the terms and provisions of the Notice, this Stock Option Award Agreement (the “Option Agreement”) and the Company’s 2003 Equity Incentive Plan, as amended from time to time (the “Plan”), which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

2. Exercise of Option.

(a) Right to Exercise. The Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice and with the applicable provisions of the Plan and this Option Agreement. The Option shall be subject to the provisions of Section 14 of the Plan relating to the exercisability or termination of the Option in the event of a Corporate Transaction. In no event shall the Company issue fractional Shares.

(b) Leave of Absence. During any authorized leave of absence, the vesting of the Option as provided in the Vesting Schedule shall cease after the leave of absence exceeds a period of thirty−one (31) days, unless otherwise determined by the Administrator in advance of the commencement of such leave of absence. Vesting of the Option shall resume upon the Grantee’s termination of the leave of absence and return to service to the Company or an Affiliate.

(c) Change in Status. In the event the Grantee ceases to be a bona fide Employee, vesting of the Option shall continue if and only to the extent determined by the Administrator as of such change in status.

(d) Post Termination Exercise Period. The Post−Termination Exercise Period shall be ninety (90) days from the Termination Date as defined in Section 5, below.

(e) Method of Exercise. The Option shall be exercisable only by delivery of an Exercise Notice in the form determined by the Administrator from time to time which shall state the election to exercise the Option, the whole number of Shares in respect of which the Option is being exercised, such other representations and agreements as to the holder’s investment intent with respect to such Shares and such other provisions as may be required by the Administrator. The Exercise Notice shall be signed by the Grantee and shall be delivered in person, by certified mail, or by such other method as determined from time to time by the Administrator to the Company accompanied by payment of the Exercise Price. The Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the Exercise Price, which, to the extent selected, shall be deemed to be satisfied by use of the broker−dealer sale and remittance procedure to pay the Exercise Price provided in Section 3(d), below.

(f) Taxes.

(i) No Shares will be delivered to the Grantee or other person pursuant to the exercise of the Option until the Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of applicable income tax, employment tax, and social security tax withholding obligations. Upon exercise of the Option, the Company or the Grantee's employer may offset or withhold (from any amount owed by the Company or the Grantee's employer to the Grantee) or collect from the Grantee or other person an amount sufficient to satisfy such tax obligations and/or the employer's withholding obligations.

(ii) The Grantee acknowledges that the exercise of the Option, the holding of Shares subsequent to exercise and the disposition of any such Shares have significant tax consequences. The Grantee further acknowledges that satisfaction of all tax obligations applicable to the Grantee's participation in the Plan is the sole responsibility of the Grantee. The Company cannot provide any advice to the Grantee with respect his or her personal income tax obligations. The Grantee should consult with his or her own tax advisor before the exercise of the Option and before the disposition of any Shares acquired upon exercise of the Option.

3. Method of Payment. Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of the Grantee; provided, however, that such exercise method does not then violate any Applicable Law and, provided further, that the portion of the Exercise Price equal to the par value of the Shares must be paid in cash or other legal consideration permitted by the Delaware General Corporation Law:

(a) cash;

(b) check;

(c) surrender of Shares or delivery of a properly executed form of attestation of ownership of Shares as the Administrator may require (including withholding of Shares otherwise deliverable upon exercise of the Option) which have a fair market value on the date of surrender or attestation equal to the aggregate Exercise Price of the Shares as to which the Option is being exercised (but only to the extent that such exercise of the Option would not result in an accounting compensation charge with respect to the Shares used to pay the exercise price); or

(d) payment through a broker−dealer sale and remittance procedure pursuant to which the Grantee (i) shall provide instructions to a Company designated brokerage firm to effect the immediate sale of some or all of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased Shares and (ii) shall provide directives to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction.

4. Restrictions on Exercise. The Option may not be exercised if the issuance of the Shares subject to the Option upon such exercise would constitute a violation of any Applicable Laws.

5. Termination of Continuous Active Service. In the event the Grantee’s Continuous Active Service terminates, the Grantee may, to the extent otherwise so entitled at the date of such termination (the “Termination Date”), exercise the Option as to the vested Shares during the Post−Termination Exercise Period. In no event shall the Option be exercised later than the Expiration Date set forth in the Notice. Except as provided in Sections 6 and 7 below, to the extent that the Grantee is not entitled to exercise the Option on the Termination Date (i.e., the unvested Shares), or if the Grantee does not exercise the Option within the Post−Termination Exercise Period, the Option shall terminate.

6. Disability of Grantee. In the event the Grantee’s Continuous Active Service terminates as a result of his or her Disability, the Grantee may, but only within twelve (12) months from the Termination Date (and in no event later than the Expiration Date), exercise the Option to the extent he or she was otherwise entitled to exercise it on the Termination Date. To the extent that the Grantee is not entitled to exercise the Option on the Termination Date, or if the Grantee does not exercise the Option to the extent so entitled within the time specified herein, the Option shall terminate.

7. Death of Grantee. In the event of the termination of the Grantee’s Continuous Active Service as a result of his or her death, or in the event of the Grantee’s death during the Post−Termination Exercise Period or during the twelve (12) month period following the Grantee’s termination of Continuous Active Service as a result of his or her Disability, the Grantee’s estate, or a person who acquired the right to exercise the Option by bequest or inheritance, may exercise the Option, but only to the extent the Grantee could exercise the Option at the date of termination, within twelve (12) months from the date of death (but in no event later than the Expiration Date). To the extent that the Grantee is not entitled to exercise the Option on the date of death, or if the Option is not exercised to the extent so entitled within the time specified herein, the Option shall terminate.

8. Non−Transferability of Option. The Option may not be transferred in any manner other than by will and by the laws of descent and distribution and may be exercised during the lifetime of the Grantee only by the Grantee (or in the case of the Grantee’s legal incapacity, by the Grantee’s legal representative or by the person acting as attorney−in−fact for the Grantee under a durable general power of attorney); provided, however, that the Grantee may designate a beneficiary of the Option in the event of Grantee’s death on a beneficiary designation form provided by the Administrator. The terms of the Option shall be binding upon the executors, administrators, heirs, successors and transferees of the Grantee.

9. Term of Option. The Option may be exercised no later than the Expiration Date set forth in the Notice or such earlier date as otherwise provided herein.

10. Entire Agreement: Governing Law. The Notice, the Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Grantee with respect to the subject matter hereof, and may not be modified adversely to the Grantee's interest except by means of a writing signed by the Company and the Grantee. Nothing in the Notice, the Plan and this Option Agreement (except as expressly provided therein) is intended to confer any rights or remedies on any persons other than the parties. The Notice, the Plan and this Option Agreement are to be construed in accordance with and governed by the internal laws of the State of California (as permitted by Section 1646.5 of the California Civil Code, or any similar successor provision) without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of California to the rights and duties of the parties. Should any provision of the Notice, the Plan or this Option Agreement be determined by a court of law to be illegal or unenforceable, such provision shall be enforced to the fullest extent allowed by law and the other provisions shall nevertheless remain effective and shall remain enforceable.

11. Headings. The captions used in the Notice and this Option Agreement are inserted for convenience and shall not be deemed a part of the Option for construction or interpretation.

12. Dispute Resolution The provisions of this Section 12 shall be the exclusive means of resolving disputes arising out of or relating to the Notice, the Plan and this Option Agreement. The Company, the Grantee, and the Grantee's successors (the "parties") shall attempt in good faith to resolve any disputes arising out of or relating to the Notice, the Plan and this Option Agreement by negotiation between individuals who have authority to settle the controversy. Negotiations shall be commenced by either party by notice of a written statement of the party's position and the name and title of the individual who will represent the party. Within thirty (30) days of the written notification, the parties shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary, to resolve the dispute. If the dispute has not been resolved by negotiation, the parties agree that any suit, action, or proceeding arising out of or relating to the Notice, the Plan or this Option Agreement shall be brought in the United States District Court for the Northern District of California (or should such court lack jurisdiction to hear such action, suit or proceeding, in a California state court in the County of Santa Clara) and that the parties shall submit to the jurisdiction of such court. The parties irrevocably waive, to the fullest extent permitted by law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such court. THE PARTIES ALSO EXPRESSLY WAIVE ANY RIGHT THEY HAVE OR MAY HAVE TO A JURY TRIAL OF ANY SUCH SUIT, ACTION OR PROCEEDING. If any one or more provisions of this Section 12 shall for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

13. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States mail by certified mail (if the parties are within the United States) or upon deposit for delivery by an internationally recognized express mail courier service (for international delivery of notice), with postage and fees prepaid, addressed to the other party at its address as shown beneath its signature in the Notice, or to such other address as such party may designate in writing from time to time to the other party.

14. No Effect on Terms of Employment. The shares subject to the option shall vest, if at all, only during the period of the Grantee's Continuous Active Service (not through the act of being hired, being granted the option or acquiring shares hereunder) and the Option has been granted as an inducement for the Grantee to remain in such Continuous Active Service and as an incentive for increased efforts on behalf of the Company and its Affiliates by the Grantee during the period of his or her Continuous Active Service. Nothing in the Notice, the Option Agreement, or the Plan shall confer upon the Grantee any right with respect to future option grants or continuation of Grantee's Continuous Active Service, nor shall it interfere in any way with the Grantee's right or the right of the Grantee's employer to terminate Grantee's Continuous Active Service, with or without cause, and with or without notice. Unless the Grantee has a written employment agreement with the Company to the contrary, the Grantee's employment status is at will. **This Option shall not, under any circumstances, be considered or taken into account for purposes of calculation of severance payments in those jurisdictions requiring such payments upon termination of employment. The Grantee shall not have and waives any and all rights to compensation or damages as a result of the termination of the Grantee's employment with the Company or the Grantee's employer for any reason whatsoever, insofar as those rights result or may result from (i) the loss or diminution in value of such rights or entitlements or claimed rights or entitlements under the Plan, or (ii) the Grantee's ceasing to be entitled to any purchase rights or shares or any other rights under the Plan.**

15. Personal Data. The Grantee understands that the Company and its subsidiaries hold certain personal information about the Grantee for the purpose of managing and administering the Plan, including: name, home address and telephone number, date of birth, social fiscal number, compensation, nationality, job title, any shares of stock held in the Company, details of all option grants or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in the Grantee's favor (collectively, "Data"). The Grantee understands that the Company and/or its subsidiaries will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of the Grantee's participation in the Plan, and that the Company and/or any of its subsidiaries may each further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. These recipients may be located in the European Economic Area, the United States and/or Canada. The Grantee consents to the collection, use and transfer of Data and authorizes these recipients to receive, possess, use, retain and transfer Data, in electronic or other form, as may be required for: (i) the administration of the Plan; and (ii) the implementation, administration and management of the Grantee's participation in the Plan, including any requisite transfer to a broker or any other third party with whom the Grantee may

elect to deposit any shares of stock acquired upon exercise of the Option or any portion thereof and/or the subsequent holding of shares of stock on the Grantee's behalf.

16. Definitions.

(a) "Administrator" means the Board or the Committees (or delegates of the Board or such Committees) appointed to administer the Plan.

(b) "Affiliate" shall have the meaning ascribed to such term in Rule 12b−2 promulgated under the Exchange Act.

(c) "Applicable Laws" means the legal requirements relating to the administration of stock incentive plans, if any, under applicable provisions of federal securities laws, state corporate and securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules or laws of any foreign jurisdiction applicable to stock options granted to residents therein.

(d) "Consultant" means any person (other than an Employee or a Director, solely with respect to rendering services in such person's capacity as a Director) who is engaged by the Company or any Affiliate to render consulting or advisory services to the Company or such Affiliate.

(e) "Continuous Active Service" means actively performing duties or exercising responsibilities in providing services to the Company or an Affiliate in any capacity of Employee, Director or Consultant, without interruption or termination. In jurisdictions requiring notice in advance of an effective termination as an Employee, Director or Consultant, Continuous Active Service shall be deemed terminated upon the actual cessation of the active performance of duties or responsibilities in providing services to the Company or an Affiliate notwithstanding any required notice period that must be fulfilled before a termination as an Employee, Director or Consultant can be effective under Applicable Laws. Continuous Active Service shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Affiliate, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual continues to actively perform duties or responsibilities in providing services to the Company or an Affiliate in any capacity of Employee, Director or Consultant. An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave.

(f) "Director" means a member of the Board or the board of directors of any Affiliate.

(g) "Disability" means a Grantee would qualify for benefit payments under the long−term disability policy of the Company or the Affiliate to which the Grantee provides services regardless of whether the Grantee is covered by such policy. If the Company or the Affiliate to which the Grantee provides service does not have a long−term disability plan in place, "Disability" means that a Grantee is permanently unable to carry out the responsibilities and functions of the position held by the Grantee by reason of any medically determinable physical or mental impairment. A Grantee will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Administrator in its discretion.

(h) “Employee” means any person, including an Officer or Director, who is an employee of the Company or any Affiliate. The payment of a director’s fee by the Company or an Affiliate shall not be sufficient to constitute “employment” by the Company.

(i) “Non−Qualified Stock Option” means an option not intended to qualify as an as an incentive stock option within the meaning of Section 422 of the Code.

Exhibit 31.1

JDS UNIPHASE CORPORATION
CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES−OXLEY ACT OF 2002

I, Kevin J. Kennedy, Ph.D., Chief Executive Officer (Principal Executive Officer), certify that:

1. I have reviewed this Quarterly Report on Form 10−Q of JDS Uniphase Corporation;

2. Based on my knowledge, this Quarterly Report on Form 10−Q does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report on Form 10−Q;

3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report on Form 10−Q, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report on Form 10−Q;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 9, 2004

/s/ Kevin J. Kennedy

Kevin J. Kennedy, Ph.D.
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

JDS UNIPHASE CORPORATION
CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES−OXLEY ACT OF 2002

I, Ronald C. Foster, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer), certify that:

1. I have reviewed this Quarterly Report on Form 10−Q of JDS Uniphase Corporation;

2. Based on my knowledge, this Quarterly Report on Form 10−Q does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report on Form 10−Q;

3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report on Form 10−Q, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report on Form 10−Q.

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 9, 2004

/s/ Ronald C. Foster

Ronald C. Foster
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

JDS UNIPHASE CORPORATION
CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES−OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10−Q of JDS Uniphase Corporation (the "Company") for the quarterly period ended September 30, 2004 as filed with the Securities and Exchange Commission (the "Report"), I, Kevin J. Kennedy, Ph.D., Chief Executive Officer (Principal Executive Officer) of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: November 9, 2004

/s/ Kevin J. Kennedy

Kevin J. Kennedy, Ph.D.
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

JDS UNIPHASE CORPORATION
CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES−OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10−Q of JDS Uniphase Corporation (the "Company") for the quarterly period ended September 30, 2004 as filed with the Securities and Exchange Commission (the "Report"), I, Ronald C. Foster, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: November 9, 2004

/s/ Ronald C. Foster

Ronald C. Foster
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)