

Optical Communication Products, Inc.

2003 Annual Report

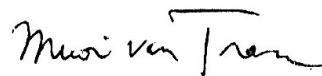
To Our Stockholders,

Similar to fiscal 2002, fiscal 2003 continued to be a challenging year for our fiber optic communication industry in general and for Optical Communication Products, Inc. (OCP) in particular. Despite the difficult market environment, our revenue for fiscal 2003 was \$38.9 million, an increase of 4.5% from \$37.2 million for fiscal 2002. The net loss for fiscal 2003 was \$10.2 million, compared to a net income of \$839,000 for fiscal 2002. The loss per diluted share for fiscal 2003 was \$0.09 per share compared with net income per diluted share of \$0.01 for fiscal 2002.

Overall, we are encouraged by the progress that we have achieved during this fiscal year. We ended our 2003 fiscal year with a slight increase in our annual revenue and with an annual net loss for the first time in our corporate history. During fiscal 2003 we continued to invest in enhancing our capabilities and operations mainly by investing in Research and Development and Sales and Marketing activities. Additionally, we are pleased that we ended our fiscal year 2003 with strong fourth quarter results. We believe that with the investment we have made as well as our strong cash balance, OCP is well positioned to be a key player in our industry segment.

Our accomplishments over the past year would not have been possible without the support and dedication of all our employees, directors, advisors, partners, customers and shareholders. On behalf of the OCP Board of Directors, we would like to thank you for your continued confidence and for your support.

Sincerely,

A handwritten signature in black ink that reads "Muoi van Tran". The signature is written in a cursive style with a horizontal line above the "Tran" part.

MUOI VAN TRAN
Chairman and CEO

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

Form 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended September 30, 2003

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 000-31861

Optical Communication Products, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of incorporation or organization)

95-4344224

(I.R.S. Employer Identification No.)

6101 Variel Avenue

Woodland Hills, California 91367

(Address of principal executive offices, including zip code)

Registrant's Telephone Number, Including Area Code:

(818) 251-7100

Securities registered pursuant to Section 12(b) of the Act: None

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

Title of Each Class

Name of Each Exchange on Which Registered

Class A Common Stock, \$0.001 par value

The Nasdaq National Market

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

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

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

As of March 31, 2003, the last business day of the registrant's most recently completed second fiscal quarter, the approximate aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant was \$17,997,800 (based upon the last closing price for shares of the registrant's common stock as reported by The National Market System of the National Association of Securities Dealers Automated Quotation System as of that date). Shares of common stock held by each officer, director, and holder of 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The registrant has two classes of common stock authorized, Class A Common Stock and Class B Common Stock. The rights, preferences and privileges of each class of common stock are substantially identical except for voting rights. The holders of Class A Common Stock are entitled to one vote per share while holders of Class B Common Stock are entitled to ten votes per share on matters to be voted on by stockholders. As of December 23, 2003, there were approximately 47,725,460 shares of Class A Common Stock outstanding and 66,000,000 shares of Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required in Part III hereto is incorporated by reference to the Proxy Statement for the Registrant's 2004 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K.

OPTICAL COMMUNICATION PRODUCTS, INC.

**ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended September 30, 2003**

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This Annual Report on Form 10-K, including information incorporated herein by reference, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to expectations concerning matters that are not historical facts. Words such as “projects,” “believes,” “anticipates,” “will,” “estimate,” “plans,” “expects,” “intends,” and similar words and expressions are intended to identify forward-looking statements. Although we believe that such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to be correct. Important language regarding factors which could cause actual results to differ materially from such expectations are disclosed in this Report, including without limitation under the caption “Risk Factors” beginning on page 15 of this Report, and the other documents we file with the Securities and Exchange Commission (“SEC”), including our most recent reports on Form 8-K and Form 10-Q, and amendments thereto. All forward-looking statements attributable to Optical Communication Products are expressly qualified in their entirety by such language. We do not undertake any obligation to update any forward-looking statements.

PART I

Item 1. Business

We design, manufacture and sell a comprehensive line of high performance, highly reliable fiber optic subsystems and modules for the metropolitan area, local area and storage area markets. Subsystems and modules are preassembled components that are used to build network equipment. Our subsystems and modules are integrated into systems that address the bandwidth limitations in metropolitan area networks, or MANs, local area networks, or LANs and storage area networks, or SANs. Our products include optical transmitters, receivers, transceivers and transponders that convert electronic signals into optical signals and back to electronic signals, enabling high-speed communication of voice and data traffic over public and private fiber optic networks. Our products support a wide range of network applications, transmission speeds, distances and standards, including international transmission standards.

The Company was founded in October 1991 with initial funding from The Furukawa Electric Company, Ltd. of Japan (“Furukawa”). We offer a comprehensive line of high performance, cost-effective solutions to our customers supported by volume production capabilities. We believe that our close working relationship with leading fiber optic communication equipment manufacturers allows us to quickly design and build advanced fiber optic subsystems and modules, enabling our customers to focus on their core competencies in designing and building overall systems. Our customers include communication equipment manufacturers, such as Acterna Corporation, Alcatel, Allied Telesyn, Canoga Perkins, CIENA, Cisco Systems, EXFO Protocol, Huawei Technologies, Nortel Networks, and Telrad Telecommunication and Electronic Industries, Ltd. some of whom purchase through contract manufacturers such as Benchmark Electronics, Celestica, Jabil Circuits, Plexus, and Sollectron.

Industry Background

Increased Network Traffic

During the past several years, the amount of voice and data transmitted over communication networks has increased significantly. This growth is primarily attributed to the rapid growth and popularity of data intensive applications, such as Internet access, distance learning, web hosting, real-time data backup, e-mail, video conferencing, multimedia file transfers and the movement of large blocks of stored data across networks. To meet this demand, communication service providers upgraded their communication networks to expand capacity, which greatly reduced transmission costs per bit. This cost reduction has, in turn, further increased the demand for and usage of communication networks. This cycle, increased demand fueling increased capacity at reduced costs and increasing demand further, has enabled the growth in voice and data traffic across networks.

Evolution of Network Infrastructure

Communication networks were originally designed to handle voice traffic. The infrastructure of existing prior generation, or legacy, networks consists of copper cabling along which voice communications are transmitted in the form of electronic signals. While copper cabling is generally a reliable transmission medium, its ability to transmit large volumes of data at high speed is limited, and it is prone to electromagnetic interference, or EMI, from nearby electronic equipment and other sources. EMI interferes with the transmission of a signal and degrades signal quality.

To overcome the limitations of the legacy copper cable infrastructure and meet increasing demand for high capacity and high-speed voice and data transmission, communication service providers have adopted optical fiber optic technology in their networks. Fiber optic technology involves the transmission of data over fiber optic cable via digital pulses of light, which allows for greater bandwidth over longer distances than copper cable and higher quality transmissions that are not subject to EMI.

Widespread deployment of fiber optic technology initially occurred in the long-haul network. Long-haul networks connect the communications networks of metropolitan areas around the world and facilitate the transport of large amounts of voice and data traffic over long distances, up to thousands of miles. Companies designing equipment for this segment have typically focused on providing as much bandwidth as possible between any two locations. The long-haul market was the first to face increasing network congestion as data, aggregated from expanding MAN, LAN, and SAN infrastructures, began to overload long-haul networks. Long-haul network managers, focused on maintaining network performance, were the first to adopt advanced subsystems and modules to increase the capacity of existing fiber. Long-haul network managers have typically been concerned more about network performance than transmission equipment cost because the cost of increasing the capacity of long-haul networks through adding fiber is expensive relative to upgrading the transmission equipment to higher data transmission rates.

The build-out of optical long-haul networks through the adoption of advanced subsystems and modules to increase capacity represents an important step in improving network infrastructure to support increased demand for new services and greater traffic volumes. While optical fiber continues to be deployed, and its transmission capacity is expanded in long-haul networks, fiber optic technologies are increasingly being adopted to support high data rate connections to link end-users to the long-haul networks.

Metropolitan Area Networks, Local Area Networks, Storage Area Networks

Metropolitan area networks consist of metro core and access networks. Metro core networks are the distribution points between long-haul networks and metro access networks. In a typical system, a long-haul network connects to a city-wide MAN through which long-haul data is aggregated by network managers, such as Internet service providers, or ISP, and distributed to local users via an access network. Metro core networks enable enterprises and service providers to interconnect network systems over areas from as small as a city block or corporate campus to a wider geographic area.

Metro access networks connect business and residential end-users to metro core networks. These end-users have increasingly demanded higher-speed connections to take advantage of new data-intensive, multimedia-centric applications. Access networks traditionally have used relatively slow copper cable based connections. A number of high-speed transmission technologies have been developed to improve the speed of access networks, including digital technologies such as digital subscriber line, or DSL, and cable modem technologies. DSL technology utilizes the legacy copper-based infrastructure to provide users with increased bandwidth at low cost. Cable modems, which connect computers to local cable TV lines, also provide users with access to high bandwidth at low cost. As these high data rates and new services become more widely available to end-users, legacy copper cable connections are expected to become increasingly insufficient to meet demand. Consequently, service providers are beginning to deploy fiber optic cable directly to end-users or to neighborhood distribution points, enabling the business or residential end-user to obtain a wide range of current and future services.

Local area networks connect users within a building or groups of buildings. Storage area networks connect computers and data storage sites within buildings or groups of buildings. These networks were originally developed as copper cable networks using standards such as Ethernet and Fast Ethernet. As performance requirements surpassed the limitations of copper-based deployments, these networks were upgraded to support multimode fiber optic solutions to address the expanding application needs of the end-user. As the data rate and transmission distance requirements of these networks increase further, they are being upgraded with single mode fiber optics technology to support the next-generation of high-speed networking standards, such as Fibre Channel (single, double and quad speed), Gigabit Ethernet, and 10 Gigabit Ethernet.

Market Opportunity

With increasing volumes of digitally-based data being transmitted across long-haul networking infrastructures, the MAN topology is often viewed as the limiting factor in overall network performance. In addition, LAN and SAN segments are also requiring greater bandwidth and performance capabilities to address data traffic congestion. As a result, network managers have been upgrading their LAN and SAN infrastructures to higher speeds using optical transmission technologies and high-speed networking standards such as Gigabit Ethernet, Fibre Channel (single, double and quad speed) and the recently adopted 10 Gigabit Ethernet protocol.

As demand for bandwidth grows, service providers will require increasingly sophisticated systems to support metro, local and storage networks applications. Systems must meet the unique requirements of these networks, such as cost-effectiveness and reliability in harsh environmental conditions. Historically, the MAN, LAN and SAN optical infrastructures have been supplied by large vertically integrated fiber optic communication equipment manufacturers, which manufactured their own components such as lasers and photodiodes. The demand for optical networking equipment has led to the expansion of production by existing optical component manufacturers, as well as the creation of new companies offering cost-effective fiber optic systems. These new companies are typically not vertically integrated and do not employ system design teams to create mixed analog/digital circuits required for laser and photodiode interfaces.

The market demands on fiber optic communication equipment manufacturers to produce optical networking solutions for the MAN, LAN and SAN markets have given rise to a number of significant technical challenges, including the following:

- Providing solutions which balance performance and cost. The metropolitan market requires optical subsystems and modules that are designed specifically to meet the unique performance and cost requirements of this market.
- Providing long distance operation in MAN applications where interconnection distances can range from a few kilometers (km) up to 120km. Systems that are unable to transmit over long distances require expensive repeaters to boost and regenerate signals, raising the overall cost of the solution to the end-customer.
- Providing wide operating temperature range in metro networks where equipment is located in remote locations with no environmental control. Products that operate from -40 to 85 degrees Celsius are a necessity in this market. This is in contrast to the long-haul network and local area networks where equipment is deployed within temperature controlled buildings.
- Delivering products that address the demand for increasingly smaller packages to provide higher port density requires greater component miniaturization, thermal and EMI engineering design expertise.
- Supporting a wide range of data rates, transmission distance requirements, network standards, optical interfaces and packaging options requires that fiber optic communication equipment manufacturers offer a broad range of products.
- Producing increasingly integrated products requires cross-disciplinary expertise in optics, circuit design, packaging, software, microwave and radio frequency engineering.

- Responding to demands for shorter lead times requires manufacturers to design products and scale production rapidly.
- Producing systems to handle increasingly higher data rates in compliance with Federal Communications Commission standards for EMI emissions requires advanced fiber optic subsystem and module design.
- Responding to customer requirements for “customized” standard products requires scalable base-line designs.

Current Industry Environment

Since early 2001, the telecommunications sector, and in particular the fiber optic networking sector, has suffered a severe downturn. System providers have scaled back on deployment and have dramatically slowed their purchases of systems from equipment manufacturers. As a result, equipment manufacturers have also slowed purchases of components and modules from our competitors and from us. Moreover, as equipment manufacturers’ sales declined, they have relied on their excess component inventories to meet reduced demand and have moved to reduce their overall component and module inventory levels. Consequently, the slowdown continues to have a negative impact on our business as we face declining sales as the result of our customers’ declining business and the resulting adjustment to their inventory levels. See “Business — Risk Factors — Unfavorable current economic and market conditions have resulted in decreased sales and increased difficulty predicting our future operating results.” and “— General economic factors could negatively impact our growth plan.”

However, despite the slowdown in the industry, we believe that the future market for optical components remains very promising. We believe that voice, data and Internet traffic will continue to grow in future years with an increasingly large portion of this traffic expected to include the transfer of data intensive applications requiring expanded network capacity and transmission speed, such as fiber to the home initiatives, distance learning, full motion video, multi-channel high quality audio, video conferencing, and movement of large blocks of stored data across networks. We believe that once the industry recovers from its current downturn, service providers and equipment manufacturers will focus on relieving the network congestion and limitations in overall network performance at the MAN, LAN, and SAN levels. Accordingly, we believe that specific sectors in the industry, such as the enterprise segment, will experience particularly strong growth when the industry recovers. However, given our current lack of visibility, we cannot provide any assurance as to the timing or extent of any industry recovery or as to any increase in business or other benefits that we may receive as a result thereof.

Our Solution

We design, manufacture and sell a comprehensive line of high performance, reliable fiber optic subsystems and modules that are used in fiber optic transmission systems. Our subsystems and modules are integrated into systems, which address the bandwidth limitations in MAN, LAN, and SAN infrastructures. We provide communication equipment manufacturers with high-value, cost-effective optical solutions to meet the market requirements of the MAN, LAN, and SAN industry segments, allowing them to focus on their core competencies of designing and building overall systems.

We provide our customers with the following key benefits:

- *High-performance, high reliability, cost-effective products* — Our portfolio of high performance subsystems and modules enables optical networks to operate at high data transmission rates, transmit signals over a variety of distances up to 120km and operate in wide temperature ranges of between –40 to 85 degrees Celsius. Our products are engineered using advanced packaging technologies and feature low levels of radiated EMI. Our products are qualified under requirements established by Telcordia (Bellcore), an engineering and administrative services consortium that establishes industry standards and specifications for the telecommunications, wireless and fiber optic industries. The Telcordia requirements relate to the environmental, electrical and optical testing for fiber optic transmitters and

receivers, to ensure that they offer the high reliability required for critical applications. Our products are engineered to meet the specific distance, temperature and other performance requirements of the MAN, LAN, and SAN markets.

- *Comprehensive product line* — Our comprehensive fiber optic product line provides communication equipment manufacturers with a broad range of solutions for MAN, LAN, and SAN applications. Our subsystems and modules are available with all the common fiber optic interfaces, and are available in a wide variety of thru-hole and pluggable package styles. They support a wide range of data rates, standards, wavelengths and transmission distances.
- *Innovative design capabilities* — We believe that our expertise in high-speed electronic circuit design and packaging of fiber optic devices, enhanced by our close working relationships with customers, enables us to provide innovative subsystems and modules for the MAN, LAN, and SAN markets. Our engineers work closely with Furukawa and other suppliers to integrate advanced semiconductor lasers and custom fiber optic packaging techniques. We also have expertise in designing the complex transmitter circuitry that converts a digital logic signal into the proper signal for the laser or light emitting diode. We design and manufacture our own fiber optic receiver subassemblies using our proprietary automated processes. As a result of our fiber optic device design expertise and our close customer relationships, we are able to quickly adapt our products to respond to new standards and our customers' requirements for subsystems and modules.
- *Reduced time to market* — Our subsystems and modules allow communication equipment manufacturers to design and assemble fiber optic interfaces as easily as standard electronic components by eliminating the need for complex setup of individual lasers or receivers. By working closely with our customer design teams, we are able to provide optimized solutions that are cost-effective and meet time to market objectives.
- *Scalable manufacturing capabilities* — Our broad portfolio of products use modular designs which enable us to rapidly configure and manufacture subsystems and modules to meet each customers specifications and to rapidly scale our production to deliver these products in volume. We can easily customize our products for example by implementing different electrical connections, or pin configurations, voltages and package sizes as requested by our customers, without impairing the functionality of our products.

Products

We offer a comprehensive line of high-performance fiber optic subsystems and modules, including fiber optic transmitters, receivers, transceivers, parallel optical modules and transponders, primarily for use in MAN, LAN, and SAN. Fiber optic subsystems and modules are pre-assembled components that are used to build network equipment. Our products convert electronic signals into optical signals and back into electronic signals, thereby facilitating the transmission of information over fiber optic communication networks. We believe our products' technical specifications meet or exceed industry standards for fiber optic subsystems and modules.

Our fiber optic products integrate advanced optical devices with mixed analog/digital integrated circuits. These circuits allow continuously varying signals and digital data to be designed in the same circuit rather than separate circuits. Our products provide subsystem/module functionality over a wide variety of connectivity speeds, distances, standards and operating temperature ranges.

Our products are engineered with varying levels of integration to suit our customers. The lowest level of integration involves separate transmitter and receiver modules, which provides our customers the greatest flexibility in product design by allowing them to place the transmitters and the receivers according to their design specifications. Parallel optics and transceivers provide the next level of integration. Parallel optics combines multiple receivers or transmitters in a single package for back plane applications where enhanced density is a requirement. Transceivers place both the transmitter and receiver in the same package with a dual

fiber or connector interface. Transponders provide the highest level of integration by combining the functionality of a transceiver with the addition of multiplexer and demultiplexer circuits in the same package.

Current Products

Transmitters and Receivers — Transmitters convert an electronic digital input signal into an optical output signal for transmission over a fiber optic network. Receivers detect optical signals from a fiber optic network and convert them into an electronic signal in standard digital/logic format for further signal processing. We offer separate transmitter and receiver modules that provide our customers with the greatest flexibility in product design by allowing them to place transmitters and receivers separately according to design specifications.

Our optical transmitter and receiver products support the SONET/SDH, Fast Ethernet, Gigabit Ethernet and Fibre Channel transmission standards and are offered in a wide range of data rates, transmission distances and packaging options.

DWDM Transmitter — Dense wavelength division multiplexing, or DWDM, transmitters allow the mixing of optical signals using different standards such as SONET/SDH, asynchronous transfer mode, or ATM, and Gigabit Ethernet, by utilizing different wavelengths. Our DWDM transmitters are available in a compact, low-profile 24-pin package along with two supply voltage options. Also, the transmitters are provided with additional functions such as disable inputs, LD degradation alarm, and wavelength deviation alarm signals.

Transceivers — Optical transceivers are products that contain both a transmitter and a receiver in a single device and serve as high data rate interconnects between network devices, such as routers, switches, servers and storage elements. Our optical transceivers are available in a wide variety of fiber optic interfaces, or form factors, and support a wide range of data rates, wavelengths, modes and transmission distances. Our transceivers support the SONET/SDH, Fast Ethernet, Gigabit Ethernet and Fibre Channel transmission standards.

CWDM Transceivers — Coarse wavelength division multiplexing, or CWDM, transceivers, allow the mixing of optical signals by utilizing different wavelengths. The CWDM transceivers use lasers with wide channel wavelength spacing, typically 20 nm, which allows the equipment to achieve a lower overall system cost. This lower cost is the result of a lower transmitter cost since no temperature and wavelength control is needed, as well as a lower optical MUX/DMUX cost due to wider tolerance on the wavelength stability and bandwidth.

Our CWDM transceivers are available in all the common industry standard transceiver footprints of 1x9, 2x9, GBIC, SFF and SFP, and provide eight wavelength channels at nominally 1470 nm, 1490 nm, 1510 nm, 1530 nm, 1550 nm, 1570 nm, 1590 nm, and 1610 nm. They are available in a multi-rate format that allows operation at all speeds from 100 Mb/s Ethernet up to 2.5Gb/s. SONET/SDH.

SFP Transceivers — Small form-factor pluggable, or SFP, transceivers are “hot-pluggable” optical transceivers that can be removed or inserted into the equipment without turning off the power of the system. This feature allows our customers to readily reconfigure their systems without interrupting their network services, thereby, eliminating system downtime during upgrades and maintenance. Our cam latches are color coded to provide the end-user with an easy way to identify module types in an installed system.

Our SFP transceiver is available in a variety of distances and speeds and uses the popular small form factor LC fiber optic connector interface, allowing fiber optic equipment makers to increase their port density. They are also offered in speeds from 155 Mb/s up to 2.5Gb/s including multimode LED and 850nm VCSEL as well as single mode 1310 and 1550nm lasers. We provide commercial and industrial temperature ranges of many SFP transceiver models.

Transponders — Our optical transponders combine the functionality of a transceiver with integrated circuits for electronic multiplexing and demultiplexing in the same package. We have provided samples of these products to customers for initial testing. Multiplexers are paired with transmitters and allow the system

designer to combine multiple low-speed electronic data streams onto a single optical wavelength, while demultiplexers and receivers reverse this process. The transmitter portion of the transponder accepts sixteen 155 Mb/s (or 622 Mb/s for OC-192) electronic signals, multiplexes them together and provides at the output a single 2,488 Mb/s (or 9.95 Gb/s for OC-192) optical signal. The receiver portion of the transponder performs the reverse function, namely accepting a single optical signal and providing back sixteen 155 Mb/s (or 622 Mb/s for OC-192) electronic signals. The advantage of this product is the compact overall design that minimizes the equipment size and the low speed electronic interface that simplifies our customers' printed circuit design.

Parallel Transmitters and Receivers — Parallel transmitters convert an array of electronic digital input signals into an array of optical output signals for transmission over a fiber ribbon cable. Parallel receivers detect optical signals from a fiber ribbon cable and convert them into an array of electronic signals in standard digital/logic format for further signal processing. We offer separate transmitter and receiver modules with 12 channels configuration that operate at 2.7 Gb/s per channel for an aggregate bandwidth of 32.4Gb/s for short reach applications. We have provided samples of these products to customers for initial testing.

Products Under Development

Our product development efforts have, and will continue to be, focused on developing new products and technologies to support increased transmission speeds, distances and capacities. We have been developing products to support future generations of fiber optic MAN, LAN, and SAN by utilizing CWDM, DWDM, 850nm VCSEL-based parallel optical modules, the integration of 1310nm VCSELs into optical modules and to address 10 Gb/s transmission standards.

Multiplexers are integrated circuits that combine signals from many inputs into a single output, and demultiplexers are integrated circuits that accomplish the reverse, or create many outputs from a single input. Wavelength division multiplexing is a technology that allows multiple signals to be sent along the same optical fiber by using different colors of light for each signal. We have expanded efforts in this area to cover SONET/SDH and Gigabit Ethernet applications for multiple operating temperature ranges.

We plan to introduce optical transmitters, receivers and transceivers using both DWDM and CWDM technologies. These are being designed to allow the mixing of optical signals using different standards, such as SONET/SDH, asynchronous transfer mode, or ATM, and Gigabit Ethernet, by utilizing different wavelengths. We also plan to develop a series of pluggable transceivers for applications in the different standards.

In October 2002 we acquired certain assets of Cielo Communications, Inc., a research and design company located in Broomfield, Colorado focused on creating VCSEL technology for fiber optic communication networks. The purchase price was \$5 million and includes the acquisition of capital equipment, inventory and intellectual property.

We believe the Cielo Communications' technology will enhance our ability to accelerate the integration of 1300 nm VCSEL sources into multi-channel optical modules. These parallel array optical modules will offer the advantages of high optical port density and low power consumption which are required by the next generation optical networking applications.

In January 2003 we acquired the parallel optical module assets and intellectual property of Gore Photonics, the fiber optics business unit of W.L. Gore & Associates, Inc., an industry leader in the research and development of VCSEL parallel optical modules for fiber optic communication networks.

We believe that the Gore Photonics 850nm VCSEL parallel optical module technology will allow us to provide our customers with an enabling building block for the next generation of optical systems. The 850nm optical module technology will allow us to accelerate the introduction of parallel optical modules. These parallel array optical modules offer the advantages of high speed data transfer and low power consumption, which are required for the next generation of interconnecting multiple equipments. We will continue to manufacture Gore's new parallel fiber optic modules including the nLIGHTEN™ 2300 product, which conforms to the SNAP-12, one of the industry standard for 12 x 2.7 Gb/s modules.

We believe that some of our competitors are developing similar products to those that we have under development. While we are currently developing products in all of the areas described above, we may choose to prioritize or redirect our development efforts in response to market demands. Therefore, it is not certain that we will introduce products for all of the categories listed above.

Customers

We sell our products to communication equipment manufacturers, or CEMs, directly and through contract manufacturers who incorporate them into systems they assemble for CEMs. Contract manufacturers assemble specific products for CEMs. We define our customers as CEMs who have purchased our products directly or ordered our products for incorporation into systems produced by contract manufacturers, such as Benchmark Electronics, Celestica, Jabil Circuits, Plexus, and Solectron. We typically do not enter into long-term contracts with our customers.

A small number of customers have historically accounted for a significant portion of our total revenue. For the fiscal year ended September 30, 2003, our 10 largest customers accounted for 61.2% of our total revenue, with Cisco Systems, Alcatel, and Huawei (including sales to each of their contract manufacturers) accounting for approximately 12.2%, 11.8%, and 10.0% of our total revenue, respectively. No other customer accounted for more than 10.0% of our revenue during the fiscal year ended September 30, 2003.

For financial reporting purposes, we consider our customers to be the contract manufacturers and CEMs who place purchase orders with us or otherwise purchase our products directly. Comstar Communications accounted for approximately 11.0% of our total revenue for the fiscal year ended September 30, 2003. No other customer accounted for more than 10.0% of our revenue during the fiscal year ended September 30, 2003. See “Business — Risk Factors — We derive a significant portion of our total revenue from a few significant customers, and our total revenue may decline significantly if any of these customers cancels, reduces or delays purchases of our products or extracts price concessions from us.”

Technology

The development and manufacture of high-performance fiber optic subsystems and modules for MAN, LAN, and SAN require diverse technical skills and expertise. We believe that our understanding of fundamental optical devices, their packaging and high speed circuit design allows us to extend the performance of low cost packaging and technology, which we originally designed for smaller local area networks, to provide the high-performance required for fiber optic MAN, LAN, and SAN. Key elements of our technological capabilities include:

- *Optical device technology* — With the purchase of certain assets of Cielo Communications, Inc., a research and design company located in Broomfield, Colorado, we have acquired the technology of designing, fabricating and packaging long wave VCSEL devices. We believe that this long wave VCSEL device technology is a key building block for next generation optical modules.

In addition, we understand the performance requirements for many optical devices for use in fiber optic systems. There is a wide range of optical source and detector technologies available, and these must be optimized for each application.

- *Optical packaging/subassembly design* — We work closely with Furukawa and other suppliers to combine advanced semiconductor laser designs and custom optical packaging techniques to produce advanced optical subassemblies. Less than one micron tolerances, or variability in the alignment of components, are required in these laser packages and reliability specifications require us to hold these mechanical tolerances over a wide range of temperatures and the specified life of our products. A micron is one thousandth of a millimeter. We believe these designs and technologies improve the performance of our products as well as enhance yields and reduce material costs. We also design our receiver packages for automated assembly, and we design and manufacture our own optical subassemblies for our receivers. This allows us to provide design flexibility, high-performance, and the ability to manufacture in volume.

- *Links with Furukawa* — We have worked closely with Furukawa to develop new optical devices for our products using technology that they have developed. Furukawa supplies us with the majority of the optical devices, such as lasers, needed for some of the optical subassemblies used in our products.
- *Electronic circuit design* — We have the expertise to design complex transmitter circuitry that converts a digital logic signal into the proper signal for the laser or light emitting diode. This circuit has compensation and feedback control loops that change the current to maintain constant optical power output. This electronic signal must also be modulated and the waveform of the modulation must be carefully controlled to ensure that the optical output meets the fiber optic communications equipment manufacturer's defined specifications. We also have considerable expertise in designing receivers to minimize the effects of external noise that can significantly affect the performance of a receiver. Our products operate at speeds up to 2.5 Gb/s and we are working to develop future products to work at 10 Gb/s. At these speeds, microwave and radio frequency design techniques must be used to ensure that the waveforms do not degrade and meet the parameters defined in standards. We believe our technical competencies in these areas enable us to produce fiber optic subsystems and modules with low electromagnetic interference emission levels.
- *Fast product development cycle time* — Our products are designed using a building block approach that allows us to combine different subassemblies in different ways to provide a wide range of products. Our integrated subassemblies allow us to quickly adapt our products to respond to new standards and our customers' requirements for special subsystems and modules. This ability, in combination with our market knowledge, allows us to select the commercial opportunities we believe to be the best and provide samples and production volumes in very short time frames.

Manufacturing

We assemble, burn in and test all of our products in our facility in Woodland Hills, California. We also conduct all of our manufacturing engineering, quality assurance and documentation control at this facility.

We use a number of subcontractors and suppliers, including Furukawa, to supply subassemblies. We rely upon domestic and international contract manufacturers for most of our printed circuit board assembly. Our manufacturing supply chain management team manages these relationships supported by our research and development group. We do not have any long-term contracts with any of our contract manufacturers and none of them are obligated to perform assembly services for us for any specific period or at any specific price, except as may be provided in a particular purchase order.

We provide quality assurance through internal testing procedures throughout the entire manufacturing process. Our quality control procedures include vendor inspection, incoming material inspection, in-process testing and outgoing inspection. We provide specialized training to assure the competency of our manufacturing personnel.

We purchase several key components for our products from a limited number of suppliers. The components that we purchase include integrated circuits, lasers, light emitting diodes, vertical cavity surface-emitting lasers, photodiode devices and other passive electronic components. We have periodically experienced shortages and delivery delays for these materials. Because we operate in an industry where material supplies are constrained, we maintain an inventory of some limited source components to decrease the risk of shortage. As a result, we have excess inventory of these components that have led to write downs of excess inventory.

Research and Development

In fiscal 2001, 2002, and 2003, our research and development expenses were \$3.0 million, \$5.3 million and \$16.2 million, respectively. Although our experienced optics engineers and the modular nature of our products allowed us to enjoy relatively low research and development expenses in the past, we believe our strategic investment into research and development in the recent and future periods will allow us to respond to rapid technological changes, changes in customer requirements and evolving industry standards. During fiscal

2003, we continued our investment in our research and development capabilities through the addition of personnel on our R&D team, including our October 2002 acquisition of certain assets of Cielo Communications, a research and design company focused on creating 1300nm VCSEL technology for fiber optic communication networks and our January 2003 acquisition of the certain assets of Gore Photonics, a research and design company focused on creating 850nm VCSEL parallel optical module technology for fiber optic communication networks.

We plan to continue to provide resources to develop new product lines and fund development contracts with universities, research institutes and companies. In addition, Furukawa has developed a number of innovative components that we have integrated into our products. We plan to continue to collaborate with Furukawa as we expand our internal research and development capabilities. We expect our future research and development expenses to increase in absolute dollars as we continue to focus our research and development activities on enhancing our existing products, developing new products to meet the evolving needs of our customers within our existing markets and supporting emerging standards that are consistent with our product strategies.

Sales, Marketing and Technical Support

We sell our products primarily through our worldwide direct sales force supported by independent manufacturers' representatives and distributors. Our direct sales force and field applications engineering team maintains close contact with our customers and provides technical support to our manufacturers' representatives and distributors. We maintain regional sales offices in Northern and Southern California, Texas, New Hampshire, Canada and the United Kingdom. In addition, we have direct sales representatives located on the East Coast of the United States, working from home offices. Our corporate customer service department in Woodland Hills, California provides day-to-day updates on orders and deliveries to our customers world-wide, excluding Europe. We also have a satellite customer service operation in our United Kingdom facility to better address our growing European customer base.

We have established contractual relationships with manufacturers' representatives and distributors in North America, Europe, Israel, and Asia. Manufacturers' representatives and distributors are third parties who provide commercial and technical support in selling our products to customers. Manufacturers' representatives represent us with customers, but customers place orders directly with us. We pay the manufacturers' representatives a fee for this service. Distributors perform the same function, but differ in that the distributor buys products from us and resells them at a profit to the end customer. We have short-term contracts with our manufacturers' representatives and distributors, which can be cancelled by either party upon 30 days notice. We intend to expand our indirect sales activity by establishing relationships with additional independent manufacturers' representatives and distributors. Please refer to Note 14 to our Notes to Financial Statements for further information about our sales to particular geographic areas.

We focus our marketing on CEMs in the fiber optic MAN, LAN, and SAN markets. Our intent is to become a market driven supplier that provides cost-effective, value-add solutions to our customer base. Our efforts in the development of an effective branding campaign are to better position our strengths as customer-focused suppliers of a broad product portfolio that addresses optical applications. Key elements of our marketing initiatives are as follows:

- Expansion of the overall marketing resources to provide more focus on industry segments, to identify and drive new product efforts, to position our company strengths with our customers as well as the technical community, and to introduce new revenue opportunities into the company product portfolio.
- The development of key marketing relationships at our identified strategic accounts with high-level decision makers to better position us for current and next-generation opportunities during the product development and specification defining phases.
- The expansion of our applications engineering group to provide our customers with complete pre- and post-sales technical support on our products, including design and troubleshooting assistance. We have

added geographically-based field applications engineers to service key regional design centers to support the sales efforts.

- The implementation of a marketing communications plan to focus efforts on strategic corporate branding and positioning initiatives in advertising, press relations, tradeshow events, web site, speaking engagements, and publication opportunities. The new web site launched in September 2003 includes a part number search engine and provides customers with a comprehensive listing of our broad product portfolio.

We also interact with our customers in industry associations, standards committees and participation in multi-source agreements, to promote and further enhance our position within the technical community.

We provide extensive technical support to our customers during their design and qualification process through direct contact with our application and design engineering teams. In addition, our web site provides product documentation and application notes. Our account managers and customer service personnel provide ongoing post-sales support.

Backlog

Backlog consists of orders for shipments with release dates from our customers. As of September 30, 2003 and September 30, 2002, our backlog was approximately \$5.3 million and \$3.7 million, respectively. Orders in backlog are firm, but are subject to cancellation or rescheduling by the customer. We do not believe that backlog comparisons on a year to year or quarter to quarter basis are meaningful as our backlog is unpredictable and fluctuates monthly.

Competition

The MAN, LAN, and SAN markets for optical subsystems and modules for CEM applications are highly competitive and subject to rapidly changing technology. We believe the primary competitive factors impacting our business are as follows:

- Breadth of product portfolio
- Competitive with market-level pricing
- Time to market of new product introductions
- Established relationships with key customers
- Capability to scale production requirements
- Quality and reliability of products
- Complete technical documentation for product lines
- Financially stable suppliers
- Ability to provide technical design support
- Scope and responsiveness of service and technical support
- Compliance to industry standard specifications
- Meeting the customer design phase timelines for product qualification

We believe that we have established a favorable position in the MAN, LAN, and SAN markets by identifying and focusing on fiber optic subsystems and modules specifically for these segments. We believe that we are focused on these markets with a combination of comprehensive product portfolios, management and design expertise, market understanding and manufacturing capabilities. We compete primarily with Agilent Technologies, ExceLight Communications, Finisar, Infineon Technologies, JDS Uniphase, MRV Communications, OpNext, Picolight, and Stratos Lightwave. Many of our current and potential competitors have significantly greater financial, technical, marketing, purchasing and other resources than we do. In

addition, several low-cost Asian competitors are entering into our market segment. We have competitors for all of our current products.

Our products may also compete with technologies that provide alternatives to optical networking, including fixed and mobile radio, free space point-to-point optical transmission and copper-based technologies such as digital subscriber line, or DSL, and cable modems. Most of these technologies provide lower speed and shorter distance capabilities than optical networking technologies, but may provide certain advantages such as lower costs and mobile capabilities. See “Business — Risk Factors — Our markets are highly competitive, some of our customers are also our competitors, and our other customers may choose to purchase our competitors’ products rather than our products or develop internal capabilities to produce their own fiber optic subsystems and modules.”

Intellectual Property

Our success and ability to compete is dependent in part on our proprietary technology. We rely primarily on patent, copyright, trademark and trade secret laws, as well as confidentiality agreements and other methods, to establish and protect our proprietary technologies and processes. However, these measures afford only limited protection of our proprietary technology. Including patent properties acquired from Cielo Communications in October 2002, our patent portfolio now counts more than 30 issued United States patents and more than 40 pending United States patent applications. In addition, there are four pending Canadian patent applications, and three pending PCT international patent applications. There can be no assurance that we will continue to seek the issuance of patents from our pending patent applications filed in the United States and other foreign governmental authorities. Furthermore, there can be no assurance that any of our patent applications will result in the issuance of any patents or that any patents issued will provide competitive advantages for our products or protect us against claims asserting that our products infringe or may infringe the proprietary rights of third parties.

On April 12, 2002, the Company entered into a five-year license agreement with Stratos Lightwave, Inc. covering Stratos’ portfolio of optoelectronic transceiver patents. In addition, we acquired two licenses related to VCSEL technology resulting from our acquisition of certain assets of Cielo Communications. With the exception of these three licenses, we currently do not license to or from any other third parties the technology used in the manufacture of our fiber optic subsystems and modules. In addition, no technology is transferred or licensed in connection with our supply relationship with Furukawa. Accordingly, Furukawa owns the technology relating to the manufacture of its laser and other products we purchase for incorporation into our products and may license or sell this technology to other parties. We own the technology relating to the manufacture of our fiber optic subsystems and modules. We have not transferred to Furukawa any intellectual property rights that would allow it to compete with us in the MAN, LAN, and SAN markets. However, there can be no assurance that Furukawa would not develop in the future internal capabilities to manufacture fiber optic subsystems and modules similar to and competitive with our products.

Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. This litigation could result in substantial costs and diversion of resources and could significantly harm our business. See “Business — Risk Factors — If we are unable to protect our proprietary technology, this technology could be misappropriated, which would make it difficult for us to compete in our industry.” From time-to-time, third parties may assert patent, copyright, trademark and other intellectual property rights to technologies and in various jurisdictions that are important to our business. Any claims asserting that our products infringe or may infringe proprietary rights of third parties, if determined adversely to us, could significantly harm our business. Any claims, with or without merit, could be time-consuming, result in costly litigation, divert the efforts of our technical and management personnel, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could significantly harm our business. Royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all. In addition, our agreements with our customers typically require us to indemnify our customers from any expense or liability resulting from claimed infringement of third party intellectual property rights. In the event a claim against us is successful, we could be liable for significant monetary damages. If we cannot obtain a license to the relevant technology on acceptable terms or license a

substitute technology or redesign our products to avoid infringement, our business would be significantly harmed. See “Business — Risk Factors — We could be subjected to additional litigation regarding intellectual property rights, which may divert management attention, cause us to incur significant costs or prevent us from selling our products.”

Employees

As of September 30, 2003, we had 296 full-time employees and no part-time employees. Our employees are not represented by any collective bargaining agreements and we have never experienced a work stoppage. Notwithstanding the current economic downturn, we consider our employee relations to be generally good.

Our Relationship with Furukawa

We were incorporated as a California corporation in October 1991 and we subsequently reincorporated as a Delaware corporation in October 2000 in connection with our initial public offering. In November 1991, a wholly owned subsidiary of The Furukawa Electric Co., Ltd. provided our initial capital investment. Furukawa, a publicly held company incorporated under the laws of Japan, is one of the world’s leading manufacturers of electric wire and cable, nonferrous metals and related products. It also provides engineering services, including the installation of power and telecommunications cables, and is a major manufacturer of fiber optic cable. Furukawa’s stock is publicly traded on the Tokyo Exchange Nikkei in Japan. Furukawa beneficially owns all of our outstanding Class B common stock, which as of November 30, 2003 represented 58.8% of our outstanding shares of common stock and 93.4% of the combined voting power of all of our outstanding common stock.

Our relationship with Furukawa has allowed us to benefit from the optical device and packaging technologies developed at its laboratories in Japan, which are incorporated into laser products, that we purchase from Furukawa for inclusion in our products. We have also established a close working relationship with Furukawa’s research and development team through periodic meetings and discussions to understand our product and manufacturing requirements. Under these arrangements, Furukawa customizes to our specifications the components that it supplies to us. For example, Furukawa has developed laser products with customized features in the areas of package design and power output. We have not licensed from Furukawa any of its optical devices or other technologies.

We currently purchase the majority of lasers from Furukawa under a Master Purchase Agreement which we entered into with Furukawa on October 1, 2003. We have enjoyed a reliable supply of these critical components from Furukawa in the past. Under this Master Purchase Agreement, we agreed to purchase from Furukawa, and Furukawa agreed to manufacture and sell to us, specific types of lasers which are critical parts in the manufacture of our subsystems and modules. This Agreement continues until September 30, 2004, and renews automatically each year thereafter unless it is terminated upon written notice by either Furukawa or us prior to renewal. Under this Agreement, we must place orders with Furukawa based on both our past three months’ usage trends and our material requirements for the following four weeks. Each quarter, we must purchase a minimum number of particular products, which minimums may be reduced only with Furukawa’s consent. The pricing for these products are set out in the Agreement, although we have agreed to negotiate with Furukawa on a quarterly basis to determine whether the pricing needs to be revised. Either Furukawa or we may terminate the Agreement upon written notice to the other for material breach, bankruptcy, or force majeure.

From time to time our research and development team works closely with Furukawa’s team to assist in the development of our design and manufacturing process. We may enter into similar development agreements with Furukawa in the future. However we have no current commitments and currently have no development agreements under negotiation with Furukawa. We believe that our prior business dealings with Furukawa and its subsidiaries and affiliates were on terms that were no less favorable than terms that would be available from unrelated third parties for similar transactions.

RISK FACTORS

This Report contains forward-looking statements based on the current expectations, assumptions, estimates and projections about us and our industry. Our actual results could differ materially from those discussed in these forward-looking statements as a result of certain factors, as more fully described in this section and elsewhere in this Report. These forward-looking statements involve risks and uncertainties. You should carefully consider the following risks before you decide to buy shares of our Class A common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties, including those risks set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Report, may also adversely impact and impair our business. If any of the following risks actually occur, our business, results of operations or financial condition would likely suffer. In such case, the trading price of our Class A common stock could decline, and you may lose all or part of the money you paid to buy our stock. We do not undertake to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Our continued success in generating revenue depends on growth in construction of fiber optic MAN, LAN, and SAN.

Our fiber optic subsystems and modules are used primarily in MAN, LAN, and SAN. These markets are rapidly evolving, and it is difficult to predict their potential size or future growth rate. In addition, we are uncertain as to the extent to which fiber optic technologies will be used in these markets. Our success in generating revenue will depend on the growth of these markets and their adoption of fiber optic technologies. A substantial portion of our revenue is derived from sales of our product in the MAN market. Sales of our products for the MAN market represented approximately 84%, 86% and 91% of our revenue for the years ended September 30, 2003, 2002 and 2001, respectively.

The continuing downturn in our industry have caused communications service providers to reduce their capital spending on fiber optic equipment and delayed the deployment of new and build-out of existing fiber optic networks. As a result, revenue decreased from \$144.0 million for the fiscal year ended September 30, 2001 to \$37.2 million and \$38.9 million for fiscal years ended September 30, 2002 and 2003, respectively.

As the result of currently uncertain economic and market conditions, (a) our revenue may decline, (b) we are unable to predict future revenue accurately, and (c) we are currently unable to provide long-term guidance for future financial performance. The conditions contributing to this difficulty include:

- uncertainty regarding the capital spending plans of the major telecommunications carriers, upon whom our customers and, ultimately we, depend for revenue;
- the telecommunications carriers' current limited access to the capital required for expansion;
- lower near term revenue visibility; and
- general market and economic uncertainty.

Based on these and other factors, many of our major customers have reduced orders for our products and have expressed uncertainty as to their future requirements. As a result, our revenue in future periods may decline. In addition, our ability to meet financial expectations for future periods may be harmed.

We derive a significant portion of our total revenue from a few significant customers, and our total revenue may decline significantly if any of these customers cancels, reduces or delays purchases of our products or extracts price concessions from us.

Our success depends on our continued ability to develop and maintain relationships with a limited number of significant customers. We sell our products into markets dominated by a relatively small number of systems manufacturers, a fact that limits the number of our potential customers. Our dependence on orders from a relatively small number of customers makes our relationship with each customer critical to our business.

We do not have long-term sales contracts with our customers. Instead, sales to our customers are made on the basis of individual purchase orders that our customers may cancel or defer on short notice without significant penalty. In the past, some of our major customers canceled, delayed or significantly accelerated orders in response to changes in the manufacturing schedules for their systems, and they are likely to do so in the future. The reduction, cancellation or delay of individual customer purchase orders would cause our revenue to decline. Moreover, these uncertainties complicate our ability to accurately plan our manufacturing schedule. Additionally, if any of our customers cancel or defer orders, our operating expenses may increase as a percentage of revenue.

In the past, our customers have sought price concessions from us, and they are likely to continue to do so in the future. In addition, some of our customers may shift their purchases of products from us to our competitors. The loss of one or more of our significant customers, our inability to successfully develop relationships with additional customers or future price concessions could cause our revenue to decline significantly.

We are dependent on a limited number of suppliers for most of our key components. If these suppliers are unable to meet our manufacturing requirements, we may experience production delays leading to delays in shipments, increased costs and cancellation of orders for our products.

We purchase several key components that we incorporate into our products from a limited number of suppliers. We also purchase the majority of lasers from Furukawa under a Master Purchase Agreement. We do not have long-term supply contracts with any of our other key suppliers and our agreement with Furukawa is only for one year. Our dependence on a small number of suppliers and our lack of longer term supply contracts exposes us to several risks, including our potential inability to obtain an adequate supply of quality components, price increases and late deliveries. We have experienced shortages and delays in obtaining key components in the past and expect to experience shortages and delays in the future.

In the past, industry capacity has been constrained and some of our component suppliers placed limits on the number of components sold to us. If industry capacity becomes constrained in the future, our component suppliers may place similar limits on us. We do not have any control over these limits, and our suppliers may choose to allocate more of their production to our competitors. In addition, our suppliers could discontinue the manufacture or supply of these components at any time.

A disruption in, or termination of, our supply relationship with Furukawa or any of our other key suppliers, or our inability to develop relationships with new suppliers would interrupt and delay the manufacturing of our products, which could result in delays in our revenue, or the cancellation of orders for our products. We may not be able to identify and integrate alternative suppliers in a timely fashion, or at all. Any transition to alternative suppliers would likely result in delays in shipment, quality control issues and increased expenses, any of which would limit our ability to deliver products to our customers. Furthermore, if we are unable to identify an alternative source of supply, we may have to redesign or modify our products, which would cause delays in shipments, increase design and manufacturing costs and require us to increase the prices of our products.

Our future operating results are likely to fluctuate from quarter to quarter, and if we fail to meet the expectations of securities analysts or investors, our stock price could decline significantly.

Our historical quarterly operating results have varied significantly, and our future quarterly operating results are likely to continue to vary significantly from period to period. As a result, we believe that period-to-period comparisons of our operating results should not be relied upon as an indicator of our future performance. Some of the factors that could cause our operating results to vary include:

- fluctuations in demand for, and sales of, our products, which is dependent on the implementation of fiber optic networks;
- the timing of customer orders, particularly from our significant customers;

- competitive factors, including introductions of new products, product enhancements and the introduction of new technologies by our competitors, the entry of new competitors into the fiber optic subsystems and modules market and pricing pressures;
- our ability to control expenses;
- the mix of our products sold; and
- economic conditions specific to the communications and related industries.

We incur expenses from time to time that may not generate revenue until subsequent quarters. In addition, in connection with new product introductions, we incur research and development expenses and sales and marketing expenses that are not matched with revenue until a subsequent quarter when the new product is introduced. We cannot assure you that our expenditures on manufacturing capacity will generate increased revenue in subsequent quarters. If growth in our revenue does not outpace the increase in our expenses, our quarterly operating results may fall below expectations and cause our stock price to decline significantly.

Due to these and other factors, we believe that our quarterly operating results are not an indicator of our future performance. If our operating results are below the expectations of public market analysts or investors in future quarters, the trading price of our Class A common stock would be likely to decrease significantly.

General economic factors could negatively impact our growth plan.

Since early 2001, unfavorable economic conditions in the United States detrimentally affected the U.S. manufacturing industry, particularly sales of fiber optics equipment to service providers and communication equipment companies. Announcements by fiber optics equipment manufacturers and their customers during this period indicate that there is a reduction in spending for fiber optic equipment as a result of the economic slowdown and efforts to reduce existing inventories. Based on these and other factors, some of our customers have reduced, modified, cancelled or rescheduled orders for our products and have expressed uncertainty as to their future requirements. In addition, the economic slowdown has required us to aggressively manage our costs and expenses, including our July 2001 and April 2002 announcements of the elimination of approximately 110 jobs and 45 jobs, respectively, primarily in the manufacturing area, and may require us to implement further cost management procedures in the future. Our business, operating results and financial condition will suffer if economic conditions in the United States worsen, the fiber optics equipment market continues to slowdown, or if a wider or global economic slowdown occurs.

If we do not develop and introduce new products with higher average selling prices in a timely manner, the overall average selling prices of our products will decrease.

The market for fiber optic subsystems and modules is characterized by declining average selling prices for existing products due to increased competition, the introduction of new products, product obsolescence and increased unit volumes as manufacturers deploy new network equipment. We have in the past experienced, and in the future may experience, period-to-period fluctuations in operating results due to declines in our overall average selling prices. We anticipate that the selling prices for our existing products will decrease in the future in response to product introductions by competitors or us, or other factors, including pressure from significant customers for price concessions. Therefore, we must continue to develop and introduce new products that can be sold at higher prices on a timely basis to maintain our overall average selling prices. Failure to do so could cause our revenue and gross margins to decline.

If our customers do not approve our manufacturing process and qualify our products, we will lose significant customer sales and opportunities.

Customers generally will not purchase any of our products before they qualify them and approve our manufacturing process and quality control system. Our customers may require us to register under international quality standards, such as ISO 9001. Delays in product qualification or loss of ISO 9001 certification may cause a product to be dropped from a long-term supply program and result in a significant lost revenue

opportunity. If particular customers do not approve of our manufacturing process, we will lose the sales opportunities with those customers.

We have been registered under ISO 9001:1994 in the past and we are undergoing a transition to be registered under ISO 9001:2000. If we are unsuccessful in obtaining timely registration of the ISO 9001:2000 standards, we may lose the sales opportunities with certain customers based on their specific requirements. We are currently certified under ISO 9001:1994.

If we fail to predict our manufacturing requirements accurately, we could incur additional carrying costs and have excess and obsolete inventory or we could experience manufacturing delays, which could cause us to lose orders or customers.

We currently use historical data, a backlog of orders and estimates of future requirements to determine our demand for components and materials. We must accurately predict both the demand for our products and the lead-time required to obtain the necessary components and materials. Lead times for components and materials vary significantly depending on factors such as the specific supplier, the size of the order, contract terms and demand for each component at a given time. We generally maintain excess inventory of parts that increases our inventory carrying costs and periodically causes us to have excess and obsolete inventory. However, if we were to underestimate our purchasing requirements, manufacturing could be interrupted, resulting in delays in shipments.

Our markets are highly competitive, some of our customers are also our competitors, and our other customers may choose to purchase our competitors' products rather than our products or develop internal capabilities to produce their own fiber optic subsystems and modules.

The market for fiber optic subsystems and modules is highly competitive and we expect competition to intensify in the future. Our primary competitors include Agilent Technologies, ExceLight Communications, Finisar, Infineon Technologies, JDS Uniphase, MRV Communications, OpNext, Picolight, and Stratos Lightwave. We also face indirect competition from public and private companies providing products that address the same fiber optic network problems that our products address. The development of alternative solutions to fiber optic transmission problems by our competitors, particularly systems companies that also manufacture modules, such as Fujitsu, could significantly limit our growth and harm our competitive position.

Many of our current competitors and potential competitors have longer operating histories and significantly greater financial, technical, sales and marketing resources than we do. As a result, these competitors are able to devote greater resources to the development, promotion, sale and support of their products. In addition, our competitors that have large market capitalization or cash reserves are in a much better position to acquire other companies in order to gain new technologies or products that may displace our products. Any of these potential acquisitions could give our competitors a strategic advantage. In addition, many of our competitors have much greater brand name recognition, more extensive customer bases, more developed distribution channels and broader product offerings than we do. These companies can use their broader customer bases and product offerings and adopt aggressive pricing policies to gain market share.

In addition, existing and potential customers, especially in Japan and other international markets, may also become competitors. These customers have the internal capabilities to integrate their operations by producing their own optical subsystems and modules or by acquiring our competitors or the rights to produce competitive products or technologies, which may allow them to reduce their purchases or cease purchasing from us.

We expect our competitors to introduce new and improved products with lower prices, and we will need to do the same to remain competitive. We may not be able to compete successfully against either current or future competitors with respect to new products. We believe that competitive pressures may result in price reductions, reduced margins and our loss of market share.

Our sales cycle runs from our customers' initial design to production for commercial sale. This cycle is long and unpredictable and may cause our revenue and operating results to vary from our forecasts.

The period of time between our initial contact with a customer and the receipt of a purchase order from that customer may span to more than a year and varies by product and customer. During this time, customers may perform or require us to perform extensive evaluation and qualification testing of our products. Generally, they consider a wide range of issues before purchasing our products, including interoperation with other subsystems and components, product performance and reliability. We may incur substantial sales and marketing expenses and expend significant management effort while potential customers are qualifying our products. Even after incurring these costs, we ultimately may not sell any or sell only small amounts of our products to a potential customer. If sales forecasts to specific customers are not realized, our revenue and results of operations may be negatively impacted.

If we do not achieve acceptable manufacturing yields in a cost-effective manner, or we are required to develop new manufacturing processes to improve our yields, our operating results would be impaired.

The manufacture of our products involves complex and precise processes. As a result, it may be difficult to cost-effectively meet our production goals. In addition, changes in our manufacturing processes or those of our suppliers, or our suppliers' inadvertent use of defective materials, could significantly reduce our manufacturing yields, increase our costs and reduce our product shipments. To increase our gross margin, while offering products at prices acceptable to customers, we will need to develop new manufacturing processes and techniques that will involve higher levels of automation.

We could be subjected to litigation regarding intellectual property rights, which may divert management attention, cause us to incur significant costs or prevent us from selling our products.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights in the networking technologies industry. Many companies aggressively use their patent portfolios to bring infringement claims against competitors. As a result, we may be a party to litigation or be involved in disputes over our alleged infringement of others' intellectual property in the future. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and prevent us from making or selling some of our products. These lawsuits, regardless of their merit, would likely be time-consuming and expensive to resolve and would divert management's time and attention. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling, incorporating or using our products that use the infringed intellectual property;
- obtain a license to make, sell or use the relevant technology from the owner of the infringed intellectual property, which license may not be available on commercially reasonable terms, if at all; or
- redesign the products to not use the infringed intellectual property, which may not be technically or commercially feasible.

If we are forced to take any of these actions, we may be limited in our ability to execute our business plan.

We may in the future initiate claims or litigation against third parties for infringement of our proprietary rights. These claims could result in costly litigation and the diversion of our technical and management personnel. In the process of asserting our intellectual property rights, these rights could be found to be invalid, unenforceable or not infringed. Failure to successfully assert our intellectual property rights could result in our inability to prevent our competitors from utilizing our proprietary rights.

If we are unable to protect our proprietary technology, this technology could be misappropriated, which would make it difficult for us to compete in our industry.

Our success and ability to compete is dependent in part on our proprietary technology. We rely primarily on patent, copyright, trademark and trade secret laws, as well as confidentiality agreements and other methods, to establish and protect our proprietary rights. Existing patent, copyright, trademark and trade secret

laws afford only limited protection. While we are pursuing foreign patent protections, the laws of some foreign countries do not protect the unauthorized use of our proprietary technology and processes to the same extent as do the laws of the United States, and policing the unauthorized use of our products is difficult. Many U.S. companies have encountered substantial infringement problems in some foreign countries. Because we sell some of our products overseas, we have exposure to foreign intellectual property risks. Any infringement of our proprietary rights could result in costly litigation, and any failure to adequately protect our proprietary rights could result in our competitors offering similar products, potentially resulting in the loss of some of our competitive advantage and a decrease in our revenue.

If we are unable to generate adequate additional revenue as a result of the planned expansion of our sales operations, our competitive position may be harmed and our revenue or margins may decline.

Historically, we have relied primarily on a limited direct sales force, supported by third party manufacturers' representatives and distributors, to sell our products. Our sales strategy focuses primarily on developing and expanding our direct sales force, manufacturers' representatives and distributors. We have incurred and will continue to incur significant costs related to the expansion of our sales operations. If the expansion of our sales operations does not generate adequate additional revenue, our operating margins may decline. To the extent we are unsuccessful in expanding our direct sales force, we will likely be unable to compete successfully against the significantly larger and well-funded sales and marketing operations of many of our current or potential competitors. In addition, if we fail to develop relationships with significant manufacturers' representatives or distributors, or if these representatives or distributors are not successful in their sales or marketing efforts, sales of our products may decrease and our competitive position would be harmed. Our representatives or distributors may not market our products effectively or may not continue to devote the resources necessary to provide us with effective sales, marketing and technical support. Our inability to effectively manage the expansion of our domestic and foreign sales and support staff or maintain existing or establish new relationships with manufacturer representatives and distributors would harm our revenue and result in declining margins.

The market for our products is new and is characterized by rapid technological changes and evolving industry standards. If we do not respond to the changes in a timely manner, our products likely will not achieve market acceptance.

The market for our products is characterized by rapid technological change, new and improved product introductions, changes in customer requirements and evolving industry standards. Our future success will depend to a substantial extent on our ability to develop, introduce and support cost-effective new products and technology on a successful and timely basis. We plan to increase our budget for research and development of new products and technology. Since these costs are expensed as incurred, we expect a negative impact on our reported net income. If we fail to develop and deploy new cost-effective products and technologies or enhancements of existing products on a timely basis, or if we experience delays in the development, introduction or enhancement of our products and technologies, our products will no longer be competitive and our revenue will decline.

The development of new, technologically advanced products is a complex and uncertain process requiring high levels of innovation and highly skilled engineering and development personnel, as well as the accurate anticipation of technological and market trends. We cannot assure you that we will be able to identify, develop, manufacture, market or support new or enhanced products on a timely basis, if at all. Furthermore, we cannot assure you that our new products will gain market acceptance or that we will be able to respond effectively to product announcements by competitors, technological changes or emerging industry standards. Our failure to respond to product announcements, technological changes or industry changes in standards would likely prevent our products from gaining market acceptance and harm our competitive position.

Terrorist activities and resulting military and other actions could adversely affect our business.

The September 11, 2001 terrorist attacks in the United States and recent terrorist attacks in other parts of the world, as well as continued threats of global terrorism, current and future military response to them and

the possible United States military action against Iraq have created many economic and political uncertainties that make it extremely difficult for us, our customers and our suppliers to accurately forecast and plan future business activities. This reduced predictability challenges our ability to operate profitably or to grow our business. In particular, it is difficult to develop and implement strategies, sustainable business models and efficient operations, and effectively manage contract manufacturing and supply chain relationships. In addition, the continued threats of terrorism and the heightened security measures in response to such threats have and may continue to cause significant disruption to commerce throughout the world. Disruption in air transportation in response to these threats or future attacks may result in transportation and supply-chain disruptions, increase our costs for both receipt of inventory and shipment of products to our customers, and cause customers to defer their purchasing decisions. Disruptions in commerce could also cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and worldwide financial markets and economy. They also could result in economic recession in the U.S. or abroad. Any of these occurrences could have a significant impact on our operating results, revenue and costs and may result in the volatility of the market price for our Class A common stock and on the future price of our Class A common stock.

Our success depends on our key personnel, including our executive officers, the loss of any of whom could harm our business.

Our success depends on the continued contributions of our senior management and other key research and development, sales and marketing and operations personnel, including Muoi Van Tran, our Chief Executive Officer and President, Susie Nemeti, our Chief Financial Officer and Vice President of Finance and Administration, Mohammad Ghorbanali, our Chief Operating Officer and Vice President of Technical Operations, and Masato Sakamoto, our Executive Vice President of Corporate Development. Competition for employees in our industry is intense. We do not have life insurance policies covering any of our executives. There can be no assurance that we will be successful in retaining such key personnel, or that we will be successful in hiring replacements or additional key personnel. Our loss of any key employee, the failure of any key employee to perform in his or her current position, or the inability of our officers and key employees to expand, train and manage our employee base would prevent us from executing our growth strategy.

We will need to attract and retain highly qualified managers, sales and marketing and technical support personnel. We have had difficulty hiring the necessary engineering, sales and marketing and management personnel in the past. If we fail to hire and retain qualified personnel when needed, our product development efforts and customer relations will suffer. Our key management personnel have limited experience in managing the growth of technologically complex businesses in a rapidly evolving environment. If we are unable to manage our growth effectively, we will incur additional expenses that will negatively impact our operating results.

Our products may have defects that are not detected until full deployment of a customer's system. Any of these defects could result in a loss of customers, damage to our reputation and substantial costs.

We design our products for large and complex fiber optic networks, and our products must be compatible with other components of the network system, both current and future. We have experienced in the past, and may continue to experience in the future, defects in our products. Defects in our products or incompatibilities in our products may appear only when deployed in networks for an extended period of time. In addition, our products may fail to meet our customers' design specifications, or our customers may change their design specifications after the production of our product. A failure to meet our customers' design specification often results in a loss of the sale due to the length of time required to redesign the product. We may also experience defects in third party components that we incorporate into our products. We have experienced the following due to our inability to detect or fix errors in the past:

- increased costs associated with the replacement of defective products, redesign of products to meet customer design specification and/or refund of the purchase price;

- diversion of development resources; and
- increased service and warranty costs.

Our products and the systems into which our products are incorporated must comply with domestic and international governmental regulations, and if our products do not meet these regulations, our ability to sell our products will be restricted.

Our products are subject to various regulations of U.S. and foreign governmental authorities principally in the areas of radio frequency emission standards and eye safety. Radio frequency emission standards govern allowable radio interference with other services. Eye safety standards govern the labeling and certification of laser products to ensure that they are used in a way that does not create a hazard to the human eye. Our products and the systems into which they are incorporated must also comply with international standards and governmental standards of the foreign countries where our products are used. Our inability, or the inability of our customers, to comply with existing or evolving standards established by regulatory authorities, or to obtain timely domestic or foreign regulatory approvals or certificates will restrict our ability to sell our products.

We are subject to environmental laws and other legal requirements that have the potential to subject us to substantial liability and increase our cost of doing business.

Our properties and business operations are subject to a wide variety of federal, state and local environmental, health and safety laws and other legal requirements, including those relating to the storage, use, discharge and disposal of toxic, volatile or otherwise hazardous substances. We may be required to incur substantial costs to comply with current or future legal requirements. In addition, if we fail to obtain required permits or otherwise fail to operate within these or future legal requirements, we may be required to pay substantial penalties, suspend our operations or make costly changes to our manufacturing processes or facilities. We believe our properties and business operations are in compliance with applicable environmental laws. We do not anticipate any material capital expenditures for environmental control facilities for the 2004 fiscal year.

We face risks associated with our international operations that could prevent us from marketing and distributing our products internationally.

Although a significant portion of our sales has historically been in North America, a growing percentage of our revenue is generated from sales outside North America. Sales of our products outside North America accounted for approximately 39.5%, 24.3% and 17.0% of our revenue for the periods ended September 30, 2003, 2002 and 2001, respectively. We expect that our sales outside of North America will continue to contribute materially to our revenue. We have limited experience in marketing and distributing our products internationally. We intend to expand our international operations in the future. Significant management attention and financial resources are needed to develop our international sales, support and distribution channels and manufacturing. We may not be able to establish or maintain international market demand for our products.

In addition, international operations are subject to other risks, including:

- greater difficulty in accounts receivable collection and longer collection periods;
- difficulties and costs of staffing and managing foreign operations with personnel who have expertise in fiber optic technology;
- unexpected changes in regulatory or certification requirements for optical networks; and
- political or economic instability.

A portion of our international revenue and expenses may be denominated in foreign currencies in the future. Accordingly, we could experience the risks of fluctuating currencies and may choose to engage in currency hedging activities. These factors could adversely impact our international sales or increase our costs

of doing business abroad or impair our ability to expand into international markets, and therefore could significantly harm our business.

Disruption of our operations at our Woodland Hills, California manufacturing facility could require us to lease alternative manufacturing facilities or limit our manufacturing operations.

In August 2003, we relocated our headquarters from Chatsworth, California to Woodland Hills, California. All of our manufacturing operations are conducted in our Woodland Hills, California headquarters. Due to this geographic concentration, a disruption of our manufacturing operations, resulting from sustained process abnormalities, human error, government intervention or natural disasters, such as earthquakes, fires or floods, or other causes, could require us to cease or limit our manufacturing operations. See “Business — Manufacturing” and “Properties.”

Our limited experience in acquiring other businesses, product lines and technologies may make it difficult for us to overcome problems encountered in connection with any acquisition we may undertake.

We expect to review opportunities to buy other businesses, products or technologies that would enhance our technical capabilities, complement our current products or expand the breadth of our markets or which may otherwise offer growth opportunities. Our acquisition of businesses or technologies will require significant commitment of resources. We may be required to pay for any acquisition with cash, but we cannot be certain that additional capital will be available to us on favorable terms, if at all. In lieu of paying cash, we could issue stock as consideration for an acquisition that would dilute existing stockholders’ percentage ownership, incur substantial debt or assume contingent liabilities. We have little experience in acquiring other businesses and technologies. Potential acquisitions also involve numerous risks, including:

- problems assimilating the purchased operations, technologies or products;
- unanticipated costs associated with the acquisition;
- diversion of management’s attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience; and
- potential loss of key employees of purchased organizations.

On October 9, 2002, we acquired certain assets of privately-held Cielo Communications, Inc and on January 31, 2003 we acquired certain assets of Gore Photonics, the fiber optics business unit of W.L. Gore & Associates. We may encounter problems integrating the acquired operations, technologies or products into our own and could lose the services of certain key employees associated with these acquired entities.

Our stock price is likely to be volatile and could drop unexpectedly.

Our Class A common stock has been publicly traded since November 3, 2000. The market price of our Class A common stock has been subject to significant fluctuations since the date of our initial public offering. The stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices of securities, particularly securities of telecommunications and fiber optic companies. As a result, the market price of our Class A common stock may materially decline, regardless of our operating performance. In the past, following periods of volatility in the market price of a particular company’s securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation of this type is often expensive and diverts management’s attention and resources.

We may not be able to maintain our listing on the Nasdaq National Market and if we fail to do so, the price and liquidity of our Class A common stock may decline.

The Nasdaq Stock Market has quantitative maintenance criteria for the continued listing of securities on the Nasdaq National Market. The current requirements affecting us include maintaining a minimum bid price per share of \$1. Our bid price has been below \$1 in the past. If the bid price of our Class A common stock drops below \$1 per share and remains at that level for more than 30 consecutive trading days, we will be in violation of Nasdaq's listing standards. If within 90 days thereafter, our Class A common stock does not have a minimum bid price of \$1 per share for 10 consecutive trading days, Nasdaq will commence proceedings to delist our Class A common stock from the Nasdaq National Market. If we fail to maintain continued listing on the Nasdaq National Market and must move to a market with less liquidity, our stock price would likely decline. If we are delisted, it could have a material adverse effect on the market price of, and the liquidity of the trading market for, our Class A common stock.

We have business conflicts of interest with Furukawa, the resolution of which may not be as favorable to us as if we were dealing with an unaffiliated third party.

We have historically relied on Furukawa's research and development capabilities to provide us with technologically advanced lasers and fiber optic components that we purchase from Furukawa for inclusion in our products, and we expect to continue to rely on Furukawa in the future. We currently purchase the majority of lasers from Furukawa under a Master Purchase Agreement. We cannot assure you that Furukawa will renew the Agreement upon its expiration on September 30, 2004 or whether it will continue to provide services and components to us, and if not, whether or on what terms we could find adequate alternative sources for these services and components. We believe that our past business dealings with Furukawa and its subsidiaries and affiliates were on terms that were no less favorable than terms that would be available from third parties for similar transactions. We intend to continue to maintain our relationship with Furukawa and Furukawa can control the outcome of any stockholder votes, as discussed below. The terms of future transactions with Furukawa may or may not be comparable to those that would be available from unaffiliated third parties.

Conflicts of interest may arise between Furukawa and us in a number of areas, including the nature and quality of services rendered by Furukawa to us, potential competitive business activities, sales or distributions by Furukawa of all or any portion of its ownership interest in us, or Furukawa's ability to control our management and affairs. It is possible that business decisions made by management that are in the best interest of our stockholders may conflict with Furukawa's interests. For example, we may decide to enter into or acquire a line of business competitive with Furukawa, or Furukawa may decide to enter into or acquire a line of business competitive with us. Any of these events may alter or eliminate our ability to rely on Furukawa to supply key components to us in the future, increase our costs of producing our products and result in increased competition in our markets. We cannot assure you that we will be able to resolve any conflicts we may have with Furukawa or, if we are able to do so, that the resolution will be favorable to us.

Furukawa will control the outcome of stockholder voting and there may be an adverse effect on the price of our Class A common stock due to disparate voting rights of our Class A common stock and our Class B common stock.

Furukawa beneficially owns all of our outstanding shares of Class B common stock, which as of November 30, 2003 represented 93.4% voting control over all stockholder issues. The holders of our Class A common stock and Class B common stock have identical rights except that holders of our Class A common stock are entitled to one vote per share while holders of our Class B common stock are entitled to ten votes per share on matters to be voted on by stockholders. The differential in the voting rights of our Class A common stock and Class B common stock could adversely affect the price of our Class A common stock to the extent that investors or any potential future purchaser of our shares of Class A common stock give greater value to the superior voting rights of our Class B common stock. Each share of our Class B common stock will automatically convert into one share of Class A common stock if it is transferred to any entity, other than an entity controlling, controlled by or under common control with Furukawa. In addition, our Class B common stock will automatically convert into shares of our Class A common stock if the total number of outstanding

shares of Class B common stock falls below 20% of total number of outstanding shares of our common stock. As long as Furukawa has a controlling interest, it will continue to be able to elect our entire board of directors and generally be able to determine the outcome of all corporate actions requiring stockholder approval. As a result, Furukawa will be in a position to continue to control all matters affecting us, including:

- a change of control, including a merger;
- our acquisition or disposition of assets;
- our future issuances of common stock or other securities;
- our incurrence of debt; and
- our payment of dividends on our common stock.

Two members of our board of directors are also executives of Furukawa. These individuals have obligations to both our company and Furukawa and may have conflicts of interest with respect to matters potentially or actually involving or affecting us, such as acquisitions and other corporate opportunities that may be suitable for both Furukawa and us.

Our exploration of strategic alternatives may not be successful.

On September 29, 2003, we announced that a special committee of our board of directors is evaluating strategic alternatives. The special committee, which is comprised of our three independent directors, has retained Bear, Stearns & Co. Inc. to advise it in evaluating strategic alternatives, including a special dividend, share repurchase, strategic merger or sale of the Company.

We are uncertain as to what strategic alternatives may be available to us or what impact any particular strategic alternative will have on our stock price if accomplished. Uncertainties and risks relating to our exploration of strategic alternatives include:

- the exploration of strategic alternatives may disrupt operations and distract management, which could have a material adverse effect on our operating results;
- the process of exploring strategic alternatives may be more time consuming and expensive than we currently anticipate;
- we may not be able to successfully achieve the benefits of the strategic alternative recommended to us by our financial advisor and our board; and
- perceived uncertainties as to the future direction of the Company may result in the loss of employees or business partners.

Item 2. *Properties*

In August 2003, we relocated our corporate headquarters, manufacturing, research and development and sales operations to a building in Woodland Hills, California with approximately 149,000 square feet. We acquired the building in June 2001 for \$18,750,000. The purchase price was paid from our existing cash on-hand. We are occupying an aggregate of approximately 89,000 square feet and are currently leasing an aggregate of 59,550 square feet of this building to two unrelated parties. In addition, we own an approximately 65,000 square foot building in Chatsworth, California which, prior to September 2003, housed our corporate headquarters, manufacturing, research and development and sales operations. This building is currently not occupied. We purchased the property in July 1999 with the proceeds of a \$3.3 million term loan that matures in July 2006. The term loan bears interest on amounts outstanding at a per annum rate equal to LIBOR plus 1.80% and is secured by all of our assets. In November 2002, we leased a 21,660 square foot building in Broomfield, Colorado, which serves as a research and design facility. This lease expires in October 2005 and the base rent is approximately \$21,700 per month. In December 2003, we leased a 6,800 square foot building in Elkton, Maryland, which will also serve as a research and design facility. This lease expires in November 2006 and the base rent is approximately \$5,700 per month. In addition, we lease small sales facilities in

Nashua, New Hampshire, Richardson, Texas, Santa Clara, California, Ottawa Canada, and Bury St. Edmunds, England. Our leases for the facilities in Ottawa, Canada and Santa Clara, California are on a month-to-month basis. Our leases for the facilities in Nashua, New Hampshire, Richardson, Texas, and Bury St. Edmunds, England expire in February 2005, June 2005, and July 2006, respectively.

We believe that our existing space is adequate for our current operations. We believe that suitable replacement and additional spaces, if needed, will be available in the future on commercially reasonable terms.

Item 3. *Legal Proceedings*

We are not currently involved in any material legal proceedings. We are not aware of any other material legal proceedings threatened or pending against us. From time to time, however, we may become subject to additional legal proceedings, claims, and litigation arising in the ordinary course of business. In addition, in the past we have received, and we may continue to receive in the future, letters alleging infringement of patent or other intellectual property rights. Our management believes that these letters generally are without merit and intend to contest them vigorously.

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

None.

PART II

Item 5. *Market for the Registrant’s Common Equity and Related Stockholder Matters*

Market Information

Our Class A common stock has traded on The Nasdaq National Market under the symbol “OCPI”. The following table sets forth the range of high and low intra-day sales prices (rounded to the nearest cent) reported on The Nasdaq National Market for our Class A common stock for the periods indicated.

	<u>Price Range of Common Stock</u>	
	<u>High</u>	<u>Low</u>
Fiscal Year Ended September 30, 2002:		
First Quarter	\$5.18	\$2.20
Second Quarter	\$4.30	\$1.80
Third Quarter	\$2.82	\$1.03
Fourth Quarter	\$1.60	\$0.75
Fiscal Year Ended September 30, 2003:		
First Quarter	\$1.22	\$0.66
Second Quarter	\$1.28	\$0.85
Third Quarter	\$2.02	\$0.86
Fourth Quarter	\$2.88	\$1.70

Our Class B common stock is not publicly traded and is held entirely by Furukawa. Each share of our Class B common stock will automatically convert into one share of Class A common stock if it is transferred to any entity, other than an entity controlling, controlled by or under common control with Furukawa. In addition, our Class B common stock will automatically convert into shares of our Class A common stock if the total number of outstanding shares of Class B common stock falls below 20% of total number of outstanding shares of our common stock.

Recent Share Prices

The following table sets forth the closing sales prices per share of our Class A common stock on The Nasdaq National Market on (i) September 30, 2003 and (ii) December 23, 2003. Because the market price of our Class A common stock is subject to fluctuation, the market value of the shares of our Class A common stock may increase or decrease.

	<u>Closing Price</u>
September 30, 2003	\$2.36
December 23, 2003	\$3.10

Holdings

As of November 30, 2003 there were 104 record holders of our Class A common stock and 1 record holder of our Class B common stock.

Dividend Policy

We have not declared or paid any cash dividends on our capital stock since our inception and we intend to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying regular or periodic cash dividends in the foreseeable future. However, on September 29, 2003, we announced that a special committee of our board of directors is evaluating strategic alternatives to enhance shareholder value and liquidity, including a special dividend to our shareholders.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes the number of shares issuable under our equity compensation plans, the weighted-average exercise price and the number of shares available for issuance, as of September 30, 2003.

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)</u>
Equity compensation plans approved by security holders	4,591,668	\$ 6.87	6,329,512
Equity compensation plans not approved by security holders(1)	3,301,680	\$11.00	0
Total	7,893,348	\$ 8.60	6,329,512

(1) These were shares granted on August 29, 2000 to certain executive officers prior to our initial public offering.

Recent Sales of Unregistered Securities

None.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with, and are qualified by reference to, our consolidated financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The selected income statement data for the three fiscal years ended September 30, 2003, 2002 and 2001 and the selected balance sheet data as of September 30, 2003 and 2002 are derived from, and qualified by reference to, the audited consolidated financial statements included elsewhere in this Form 10-K. The selected income statement data for the fiscal years ended September 30, 2000 and 1999 and the selected balance sheet data as of September 30, 2001, 2000 and 1999 are derived from audited financial statements not included in this Form 10-K.

<u>Income Statement Data</u>	<u>Fiscal Years Ended September 30,</u>				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
	(In thousands, except per share data)				
Revenue	\$ 36,036	\$101,867	\$144,012	\$ 37,207	\$ 38,880
Cost of revenue	<u>20,860</u>	<u>50,326</u>	<u>94,684</u>	<u>26,375</u>	<u>25,048</u>
Gross profit	15,176	51,541	49,328	10,832	13,832
Operating Expenses:					
Research and development	1,134	2,527	2,958	5,261	16,246
Sales and marketing	1,364	2,943	3,799	3,717	4,562
General and administrative	<u>1,065</u>	<u>3,877</u>	<u>4,553</u>	<u>4,671</u>	<u>7,011</u>
Total operating expenses	<u>3,563</u>	<u>9,347</u>	<u>11,310</u>	<u>13,649</u>	<u>27,819</u>
Income (loss) from operations	11,613	42,194	38,018	(2,817)	(13,987)
Other income, net	<u>116</u>	<u>305</u>	<u>6,081</u>	<u>3,391</u>	<u>1,834</u>
Income (loss) before income taxes	11,729	42,499	44,099	574	(12,153)
Income taxes	<u>4,693</u>	<u>17,319</u>	<u>17,655</u>	<u>(265)</u>	<u>(1,952)</u>
Net income (loss)	<u>\$ 7,036</u>	<u>\$ 25,180</u>	<u>\$ 26,444</u>	<u>\$ 839</u>	<u>\$ (10,201)</u>
Earnings (loss) per share:					
Basic	\$ 0.26	\$ 0.91	\$ 0.26	\$ 0.01	\$ (0.09)
Diluted	\$ 0.07	\$ 0.25	\$ 0.24	\$ 0.01	\$ (0.09)
Shares outstanding:					
Basic	27,348	27,547	100,263	108,391	111,074
Diluted	101,132	102,500	111,430	112,578	111,074
<u>Balance Sheet Data</u>	<u>September 30,</u>				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
	(In thousands)				
Cash and cash equivalents	\$ 2,447	\$ 3,202	\$ 62,529	\$ 85,426	\$ 64,895
Working capital	11,970	34,078	166,416	167,865	145,820
Total assets	26,149	50,426	204,268	205,061	200,143
Long-term portion of debt	2,750	2,296	1,825	1,353	864
Stockholders’ equity	15,096	40,373	194,713	197,196	188,360

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes to such financial statements included elsewhere in this Report beginning on page F-1. The following discussion contains forward-looking statements that involve risks and uncertainties. The statements are based on current expectations and actual results could differ materially from those discussed herein. Factors that could cause or contribute to the differences are discussed in "Business — Risk Factors" and elsewhere in this Report.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 2 to the Financial Statements describes the significant accounting policies and methods used in the preparation of our Financial Statements. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventory write-downs, and accrued expenses. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of our Financial Statements.

- The allowance for doubtful accounts is based on our assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than our historical experience, our estimates of the recoverability of amounts due us could be adversely affected.
- Inventory purchases and commitments are based upon future demand forecasts. If there is a sudden or significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of rapidly changing technology and customer requirements, we may be required to write down our inventory and our gross margin could be adversely affected.
- We use estimates in the determination of the required accrual for warranty costs. This estimate is based upon a detailed examination of past experience and current information. The information available to us may change in the future and may require us to revise this accrual.
- We have evaluated the available evidence about future taxable income and other possible sources of realization of deferred tax assets. We have established a valuation allowance to reduce deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized.
- We continually reassess our assumptions and judgments and make adjustments when significant facts and circumstances dictate. Historically, actual results have not been materially different than the estimates that are described above.

Overview

We design, manufacture and sell a comprehensive line of high performance, highly reliable fiber optic subsystems and modules for fiber optic transmission systems that are used to address the bandwidth limitations in metropolitan area networks, or MANs, local area networks, or LANs, and storage area networks, or SANs, markets. Our subsystems and modules include optical transmitters, receivers, transceivers and transponders that convert electronic signals into optical signals and back to electronic signals, enabling high-speed communication of voice and data traffic over public and private networks. We began our operations and shipped our first products in November of 1991.

Furukawa beneficially owns all of our outstanding Class B common stock, representing 58.8% of our outstanding shares of common stock and 93.4% of the combined voting power of all of our outstanding common stock as of the fiscal year ended September 30, 2003. Since our inception, we have purchased substantially all of our lasers and the majority of our other fiber optic components from Furukawa. We have

relied on Furukawa's research and development capabilities to provide us with technologically advanced lasers and fiber optic components that we purchase from Furukawa for inclusion in our products. We currently purchase the majority of lasers from Furukawa under a Master Purchase Agreement which we entered into with Furukawa on October 1, 2003.

We operate in one industry segment, the design and manufacture of fiber optic subsystems and modules. We sell our products to original equipment manufacturers or OEMs, their contract manufacturers or CMs, who incorporate them into systems they assemble for OEMs and to distributors. We define our customers as OEMs who have purchased our products directly or indirectly through CMs and distributors. We recognize revenue upon product shipment, and sales returns and allowances have been insignificant. Historically, a relatively small number of customers have accounted for a significant percentage of our revenue. Our 10 largest customers accounted for approximately 61.2% and 57.9% of our total revenue for the fiscal years ended September 30, 2003 and 2002, respectively. Cisco Systems, Alcatel, and Huawei (including sales to each of their contract manufacturers) accounted for approximately 12.2%, 11.8% and 10.0%, respectively, of our total revenue for the fiscal year ended September 30, 2003. Cisco Systems, Alcatel, and Nortel Networks (including sales to each of their contract manufacturers) accounted for approximately 13.8%, 12.6% and 10.0%, respectively, of our total revenue for the fiscal year ended September 30, 2002. No other customer accounted for more than 10.0% of our total revenue for the fiscal years ended September 30, 2003 and 2002.

For financial reporting purposes, we consider our customers to be the OEMs, CMs and distributors who place purchase orders with us directly. For the fiscal year ended September 30, 2003, Comstar Communications accounted for 11.0% of our total revenue. No other direct sales customer accounted for more than 10.0% of our total revenue for the fiscal years ended September 30, 2003 and 2002. Although our revenue from sales to our other customers continues to increase, we expect that significant customer concentration will continue for the foreseeable future. Our sales are made on a purchase order basis rather than by long-term purchase commitments. Our customers may cancel or defer purchase orders without penalty on short notice.

In October 1999, Methode Electronics, Inc. filed a lawsuit against Infineon Technologies Corporation and us seeking unspecified damages, including monetary damages, injunctive relief, attorneys' fees and costs arising from our alleged infringement of some of the claims contained in patents assigned to Methode, including patents relating to our 1x9 pin configuration products. After Methode initiated the lawsuit, it assigned to Stratos Lightwave, Inc., a Methode spin-off, all of Methode's rights, title and interest in the patent at issue. The court subsequently added Stratos as a plaintiff to the lawsuit. On April 12, 2002, we resolved our patent infringement litigation with Stratos. The settlement resolves all claims in the lawsuit among us and Stratos. As part of the settlement, we entered into a five-year license agreement with Stratos covering Stratos' portfolio of optoelectronic transceiver patents. In consideration of the license agreement, we are required to pay a total of \$2 million over the license term. Our optoelectronic products covered by this license include our 1x9, GBIC, small form factor (SFF) and small form-factor pluggable (SFP) product families. At the end of the five-year term, we have the option to renegotiate with Stratos for an extension of the license.

Since early 2001, the telecommunications sector, and in particular the fiber optic networking sector, has suffered a severe downturn. System providers have scaled back on deployment and have dramatically reduced their purchases of systems from equipment manufacturers. As a result, equipment manufacturers have also reduced purchases of components and modules from our competitors and from us. The slowdown continues to have a negative impact on our business and our revenue as a result of our customers' declining business.

On October 9, 2002, we acquired certain assets of Cielo Communications, Inc. ("Cielo Communications"), a research and design company located in Broomfield, Colorado, focused on creating VCSEL technology for fiber optic communication networks for a cash purchase price and direct costs of \$6.6 million. The purchase price includes the acquisition of capital equipment and intellectual property.

On January 31, 2003, we acquired parallel optical module assets and intellectual property from Gore Photonics, an industry leader in the research and development of VCSEL parallel optical modules for fiber optic communication networks located in Elkton, Maryland, for a cash purchase price of \$3.4 million. The purchase price includes the acquisition of capital equipment and inventory.

The average selling prices of our products generally decrease as the products mature from factors such as increased competition, the introduction of new products, increased unit volumes, and price concessions required by our customers. We anticipate that average selling prices of our existing products will continue to decline in future periods although the timing and degree of the declines cannot be predicted with any certainty. We must continue to develop and introduce new products that incorporate features that can be sold at higher average selling prices on a timely basis.

Our cost of revenue consists principally of materials, as well as salaries and related expenses for manufacturing personnel, manufacturing overhead and provisions for excess and obsolete inventory. We purchase several key components for our products from a limited number of suppliers.

Our research and development expenses consist primarily of salaries and related expenses for design engineers and other technical personnel, cost of developing prototypes, and depreciation of test and prototyping equipment. Our research and development expenses also consist of materials and overhead costs related to major product development projects. We charge all research and development expenses to operations as incurred. We believe that continued investment in research and development is critical to our future success. Accordingly, we may continue to expand our internal research and development capabilities in the future to develop new products. As a result, we expect that our research and development expenses in absolute dollar amounts will increase in future periods.

Sales and marketing expenses consist primarily of salaries and related expenses for sales and marketing personnel, commissions paid to sales personnel and independent manufacturers' representatives, marketing and promotion costs. We intend to expand our sales and marketing operations and efforts in order to increase sales and market awareness of our products. In July 2000 we opened sales offices in Bury St. Edmunds, England and Richardson, Texas; in May 2001 we opened a sales office in Ottawa, Canada; in May 2002 we opened a sales office in Santa Clara, California; and in March 2003 we opened a sales office in Nashua, New Hampshire. We believe that investment in sales and marketing is critical to our success and expect these expenses to increase in the future.

General and administrative expenses consist primarily of salaries, stock compensation and related expenses for our administrative, finance and human resources personnel, professional fees and other corporate expenses. We expect that general and administrative expenses will decrease in the near term primarily due to a decrease in stock compensation. However, we believe that this decrease will be partially offset by an increase in our legal and consulting fees associated with analysis of strategic alternatives, including future market opportunities that have been undertaken by our management and board of directors. As a result, our general and administrative expenses in absolute dollars may increase in future periods.

Results of Operations

The following table sets forth income statement data for the periods indicated as a percentage of revenue:

	Fiscal Years Ended September 30,		
	2001	2002	2003
Revenue	100.0%	100.0%	100.0%
Cost of revenue	65.6	70.9	64.4
Gross Profit	34.4	29.1	35.6
Operating Expenses:			
Research and development	2.1	14.1	41.8
Sales and marketing	2.6	10.0	11.8
General and administrative	3.2	12.6	18.0
Total operating expenses	7.9	36.7	71.6
Income (loss) from operations	26.5	(7.6)	(36.0)
Other income	4.2	9.1	4.7
Income (Loss) before income taxes	30.7	1.5	(31.3)
Income taxes	12.3	(0.7)	(5.1)
Net income (Loss)	18.4%	2.2%	(26.2)%

Fiscal Years Ended September 30, 2003 and 2002

Revenue — Revenue increased 4.5% to \$38.9 million in the fiscal year ended September 30, 2003 from \$37.2 million in the fiscal year ended September 30, 2002. Sales of our products for metropolitan area networks were approximately 84% of revenue for the fiscal year ended September 30, 2003 compared to approximately 86% of revenue for the fiscal year ended September 30, 2002. Sales of our products for local area and storage area networks were approximately 13% of revenue for the fiscal year ended September 30, 2003 compared to approximately 10% of revenue for the fiscal year ended September 30, 2002. In addition, the selling prices for our existing products may decline in response to new product introductions by our competitors or us, and pressure from our significant customers for price concessions. Also, in May 2003, Acterna, one of our significant customers, filed for Chapter 11 bankruptcy with respect to itself and its domestic subsidiaries. We do not believe that Acterna's bankruptcy filing will impact its operating subsidiaries in Europe, Latin America and the Asia-Pacific region. We have experienced lower revenue from Acterna in the last six months of the fiscal year ended September 30, 2003 compared to the first six months of the fiscal year. This was primarily offset by an increase in sales to other customers. If Acterna's bankruptcy filing causes it to continue to reduce its orders to us, it could negatively affect our revenue in future quarters.

Cost of Revenue — Cost of revenue decreased 5.0% to \$25.0 million in the fiscal year ended September 30, 2003 from \$26.4 million in the fiscal year ended September 30, 2002. Gross margin increased to 35.6% in the fiscal year ended September 30, 2003 from 29.1% in the same period last year. The increase in gross margin was primarily due to a \$1.7 million increase of inventory used in production in the fiscal year ended September 30, 2003 that was previously written down as excess inventory compared to the fiscal year ended September 30, 2002, and a \$1.6 million decrease in inventory write downs in the fiscal year ended September 30, 2003 compared to the fiscal year ended September 30, 2002. These were partially offset by a \$644,000 increase in material cost as a result of the increase in revenues, an increase in licensing fees as a result of the licensing agreement entered into with Stratos Lightwave, Inc being included in cost of revenue in 2003 and higher warranty expense when compared to the prior year.

Research and Development — Research and development expenses increased 208.8% to \$16.2 million in the fiscal year ended September 30, 2003 from \$5.3 million in the fiscal year ended September 30, 2002. This increase was due to an increase in salaries and other operating costs resulting from the increase of personnel and operation costs associated with the acquisitions of certain business assets of Cielo Communications and

Gore Photonics and the addition of engineering personnel hired in Woodland Hills, California and Bury St. Edmunds, England.

Sales and Marketing — Sales and marketing expenses increased 22.7% to \$4.6 million in the fiscal year ended September 30, 2003 from \$3.7 million in the fiscal year ended September 30, 2002. The increase was primarily due to an increase of \$1.1 million in salaries and benefits from the addition of sales and marketing personnel hired and an increase of \$242,000 in commissions paid to our direct sales force and independent manufacturers' representatives. This increase was partially offset by a decrease in licensing fees for the license agreement entered into with Stratos Lightwave, Inc. due to licensing fees being included in cost of revenue for the fiscal year ended September 30, 2003.

General and Administrative — General and administrative expenses increased 50.1% to \$7.0 million in the fiscal year ended September 30, 2003 from \$4.7 million in the fiscal year ended September 30, 2002. During the third quarter of 2003, the Company repurchased stock from two executives. The stock repurchased by the Company had been recently acquired by the executives through the exercise of stock options. The Company has recorded a \$1.3 million expense associated with this stock repurchase as stock compensation expense. In addition, the increase was due to an increase of \$700,000 in insurance expense primarily related to an increase in directors' and officers' insurance premiums and an increase of \$590,000 in salaries and benefits related to the addition of personnel hired. These increases were partially offset by a decrease in legal and consulting fees due to a decrease in legal fees associated with the Stratos Lightwave, Inc. patent infringement litigation and a decrease in consulting fees associated with the analysis of strategic alternatives.

Other Income, Net — Other income, net decreased 45.9% to \$1.8 million in the fiscal year ended September 30, 2003 from \$3.4 million in the fiscal year ended September 30, 2002. This decrease was due to a decrease in investment income, which was primarily the result of a decrease in interest rates.

Income Taxes — The income tax benefit was \$2.0 million for the fiscal year ended September 30, 2003, based on an effective tax rate of 16.1% compared to a income tax benefit of \$265,000 for the fiscal year ended September 30, 2002. The income tax benefit for the fiscal year ended September 30, 2003 includes a charge of \$3.5 million related to the valuation allowance of certain deferred tax assets and state net operating loss and credit carry-forwards.

Fiscal Years Ended September 30, 2002 and 2001

Revenue — Revenue decreased 74.2% to \$37.2 million in the fiscal year ended September 30, 2002 from \$144.0 million in the fiscal year ended September 30, 2001. This decrease was primarily due to the generally weaker economy and continued downturn in the telecommunications sector since early 2001, which has caused system providers to scale back on deployment of fiber optic networks and draw down on existing inventory levels. This resulted in a decrease in demand from our customers and equipment manufacturers of their purchases of components and modules that we provide. Sales of our products for MAN decreased to approximately 86% of revenue for the fiscal year ended September 30, 2002 from approximately 91% of revenue for the fiscal year ended September 30, 2001. We expect our revenue to continue to be negatively affected by the economic downturn and its impact on the overall market growth in the foreseeable future. In addition, the average selling prices for existing products may decline in response to product introductions by competitors or us, and pressure from our significant customers for price concessions.

Cost of Revenue — Cost of revenue decreased 72.1% to \$26.4 million in the fiscal year ended September 30, 2002 from \$94.7 million in the fiscal year ended September 30, 2001. The decrease in cost of revenue in absolute dollars was primarily due to the decrease in revenue and a \$14.9 million decrease in excess inventory write downs. The decrease in excess inventory write downs was primarily due to a decrease in overall inventory levels and an increase in inventory write downs in the fiscal year ended September 30, 2001 as a result of the industry slowdown and its impact on the demand for our products. Gross margin decreased from 34.4% during the fiscal year ended September 30, 2001 to 29.1% during the fiscal year ended September 30, 2002. The decrease in gross margin was primarily due to an increase of 14.3% in salaries and related expenses for indirect manufacturing personnel and 1.8% in direct labor costs as a percentage of revenue, both of which decreased in absolute dollars. The increases in salaries and related expenses for indirect manufacturing

personnel as a percentage of revenue were due to a decrease in production and the increase in direct labor costs as a percentage of revenue was due to a decrease in labor efficiency. These increases as a percentage of revenue were partially offset by decreases as a percentage of revenue of 5.2 % in the cost of materials, 4.0% in excess inventory write downs and 1.7% in the warranty provision. The decrease in material cost as a percentage of revenue was due to inventory that was used in production that was previously written down by approximately \$1.9 million as excess. The decrease in the warranty provision as a percentage of revenues was due to a decrease in customer returns allowance required as a result of the decrease in revenue.

Research and Development — Research and development expenses increased 77.9% to \$5.3 million in the fiscal year ended September 30, 2002 from \$3.0 million in the fiscal year ended September 30, 2001. This increase was primarily due to an increase in salaries and other operating costs resulting from the hiring of additional engineering personnel. Research and development expenses as a percentage of revenue increased to 14.1% from 2.1% over this period because of decreased revenue. We expect research and development expenses to increase significantly in absolute dollars and as a percentage of revenue as we continue to expand our research and development efforts.

Sales and Marketing — Sales and marketing expenses decreased 2.2% to \$3.7 million in the fiscal year ended September 30, 2002 from \$3.8 million in the fiscal year ended September 30, 2001. This decrease was primarily due to a decrease of \$1.6 million in commissions to independent manufacturers' representatives partially offset by increases of \$936,000 in salaries and employee benefits resulting from the hiring of additional sales and marketing personnel. We believe that investment in sales and marketing is critical to our success and expect these expenses to increase in absolute dollars in the future as we expand our sales and marketing efforts.

General and Administrative — General and administrative expenses increased 2.6% to \$4.7 million in the fiscal year ended September 30, 2002 from \$4.6 million in the fiscal year ended September 30, 2001. This increase was primarily due to a \$1.2 million increase in legal expenses and consulting fees related to our patent infringement litigation with Stratos Lightwave, Inc. and consulting services associated with an analysis of strategic alternatives, including future market opportunities, undertaken by our management and board of directors. The increase was also due to a \$395,000 increase in insurance expenses related to an increase in directors and officers insurance premiums. These increases were substantially offset by a decrease in bad debt expense as a result of the decrease in revenue and the decrease in past due accounts. We expect the dollar level of legal and consulting fees to increase as we continue to explore and evaluate strategic alternatives and expected increases in our directors' and officers' insurance premiums as a result of market changes for such insurance coverage.

Income Taxes — The benefit for income taxes was \$265,000 in the fiscal year ended September 30, 2002, compared to a provision for income taxes of \$17.7 million in the fiscal year ended September 30, 2001. The benefit for income taxes in the fiscal year ended September 30, 2002 was the result of tax benefits associated with our extra-territorial elections.

Supplementary Data — Quarterly Results

The following table sets forth some of our selected financial information for our eight most recently completed fiscal quarters. In the opinion of our management, this unaudited financial information has been prepared on the same basis as the audited financial information, and includes all adjustments, consisting only of normal recurring adjustments, necessary to present this information fairly when read in conjunction with our financial statements and the related notes contained elsewhere in this Report. These operating results are not necessarily indicative of results of any future period.

	Three-Month Period Ended							
	Dec. 31, 2001	Mar. 31, 2002	Jun. 30, 2002	Sept. 30, 2002	Dec. 31, 2002	Mar. 31, 2003	Jun. 30, 2003	Sept. 30, 2003
	(In thousands, except per share data)							
Revenue	\$ 8,841	\$ 9,620	\$ 9,837	\$ 8,909	\$ 9,400	\$ 9,568	\$ 9,481	\$ 10,431
Cost of revenue	<u>6,707</u>	<u>6,742</u>	<u>7,145</u>	<u>5,781</u>	<u>6,439</u>	<u>6,005</u>	<u>6,120</u>	<u>6,484</u>
Gross profit	2,134	2,878	2,692	3,128	2,961	3,563	3,361	3,947
Operating Expenses:								
Research and development . . .	1,096	1,132	1,424	1,609	3,011	4,232	4,489	4,514
Sales and marketing	733	1,147	1,024	813	959	1,103	1,270	1,230
General and administrative . .	<u>1,023</u>	<u>1,361</u>	<u>1,499</u>	<u>788</u>	<u>1,309</u>	<u>1,354</u>	<u>2,823</u>	<u>1,525</u>
Total operating expenses	2,852	3,640	3,947	3,210	5,279	6,689	8,582	7,269
Loss from operations	(718)	(762)	(1,255)	(82)	(2,318)	(3,126)	(5,221)	(3,322)
Other income	<u>1,023</u>	<u>867</u>	<u>813</u>	<u>688</u>	<u>592</u>	<u>492</u>	<u>411</u>	<u>339</u>
Income (loss) before income taxes	305	105	(442)	606	(1,726)	(2,634)	(4,810)	(2,983)
Income tax provision (benefit)	<u>122</u>	<u>42</u>	<u>(177)</u>	<u>(252)</u>	<u>(587)</u>	<u>(899)</u>	<u>325</u>	<u>(791)</u>
Net income (loss) ..	<u>\$ 183</u>	<u>\$ 63</u>	<u>\$ (265)</u>	<u>\$ 858</u>	<u>\$ (1,139)</u>	<u>\$ (1,735)</u>	<u>\$ (5,135)</u>	<u>\$ (2,192)</u>
Earnings (loss) per share:								
Basic	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.02)
Diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.02)
Shares outstanding:								
Basic	108,023	108,103	108,460	108,900	109,523	110,720	111,766	112,287
Diluted	112,488	112,478	108,460	112,561	109,523	110,720	111,766	112,287
As a percentage of revenue:								
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue	<u>75.9</u>	<u>70.1</u>	<u>72.6</u>	<u>64.9</u>	<u>68.5</u>	<u>62.8</u>	<u>64.6</u>	<u>62.2</u>
Gross profit	24.1	29.9	27.4	35.1	31.5	37.2	35.4	37.8

	Three-Month Period Ended							
	Dec. 31, 2001	Mar. 31, 2002	Jun. 30, 2002	Sept. 30, 2002	Dec. 31, 2002	Mar. 31, 2003	Jun. 30, 2003	Sept. 30, 2003
	(In thousands, except per share data)							
Operating Expenses:								
Research and development . . .	12.4	11.8	14.5	18.1	32.1	44.2	47.3	43.3
Sales and marketing	8.3	11.9	10.4	9.1	10.2	11.5	13.4	11.8
General and administrative . .	11.6	14.1	15.2	8.8	13.9	14.2	29.8	14.6
Total operating expenses	32.3	37.8	40.1	36.0	56.2	69.9	90.5	69.7
Income (loss) from operations	(8.2)	(7.9)	(12.7)	(0.9)	(24.7)	(32.7)	(55.1)	(31.9)
Other income	11.6	9.0	8.3	7.7	6.3	5.2	4.3	3.3
Income (loss) before income taxes	3.4	1.1	(4.4)	6.8	(18.4)	(27.5)	(50.8)	(28.6)
Income taxes (benefit)	1.4	0.4	(1.8)	(2.8)	(6.3)	(9.4)	3.4	(7.6)
Net income (loss) . .	2.0%	0.7%	(2.6)%	9.6%	(12.1)%	(18.1)%	(54.2)%	(21.0)%

Our historical operating results have varied significantly, and our future quarterly operating results are likely to continue to vary significantly from period-to-period. We believe that period-to-period comparisons of operating results should not be relied upon as an indicator of our future performance. Some of the factors which could cause our operating results to vary include fluctuations in the demand for and sales of our products, the timing of customer orders, the cancellation of existing orders, competitive factors such as introductions of new products, our ability to develop, introduce and manufacture new products in a timely manner, our ability to control expenses, the availability of components for our products, the mix of our products sold, changes in industry standards and general economic conditions in the communications and related industries.

The following table sets forth revenue attributable to each of our product groups as a percentage of revenue for the periods presented.

	Fiscal Years Ended September 30,		
	2001	2002	2003
Receivers	12.1%	10.7%	10.8%
Transceivers	72.3	71.4	72.7
Transmitters	10.5	14.1	13.5
Other	5.1	3.8	3.0
Revenue	100.0%	100.0%	100.0%

Liquidity and Capital Resources

As of September 30, 2003, our primary source of liquidity was our cash and cash equivalents balance of \$64.9 million and \$65.6 million of marketable securities, which consist primarily of United States treasury notes and treasury bonds. At September 30, 2002, we had \$85.4 million in cash and cash equivalents balance and \$65.8 million in marketable securities. The total of our cash and cash equivalents balance and our marketable securities balance decreased during the fiscal year primarily due to the \$6.6 million cash purchase price and direct costs associated with the acquisition of certain assets of Cielo Communications, the \$3.4 million cash purchase price associated with the acquisition of certain assets of Gore Photonics, the \$3.4 million in property, plant and equipment purchases and the \$1.3 million of stock compensation paid in

cash. The purchase prices for Cielo Communications and Gore Photonics include the acquisition of inventory, capital equipment and intellectual property.

Since inception, we have financed our operations primarily with cash generated from operations. Additional financing has been generated through term loans and through our initial public offering of our Class A common stock, which we completed on November 3, 2000. As of September 30, 2003, our working capital was \$145.8 million with a current ratio of 15:1 compared to our working capital of \$167.9 million with a current ratio of 30:1 as of September 30, 2002. Our working capital decreased during the fiscal year primarily due to the \$10.0 million cash purchase price and direct costs associated with the acquisition of certain assets of Cielo Communications and Gore Photonics in addition to the purchases of property, plant and equipment and the stock compensation paid in cash. Because of our low debt balances, we believe that additional cash could be borrowed if necessary; however, cash flow from operations, cash and cash equivalents, marketable securities, and existing loan facilities are expected to be sufficient to fund operations for the next 12 months.

On March 27, 2003, we terminated our revolving credit facility with Manufacturer's Bank. The credit limit of the revolving credit facility was \$1.0 million. No amounts had been borrowed against the revolving credit facility through the termination date of the revolving credit facility in 2003.

As of September 30, 2003, we had a \$1.3 million balance outstanding under our term loan. The term loan bears interest on amounts outstanding at various time intervals and the market rates based on our election at a per annum rate equal to either (a) the prime rate or (b) LIBOR plus 1.8%. The term loan matures in July 2006, and the proceeds of the term loan were used to purchase our former primary corporate and manufacturing facility in Chatsworth, California.

The term loan contains customary covenants, including covenants limiting indebtedness and the disposition of assets. To secure our payment and performance obligations under the term loan we have pledged all of our assets as collateral. The term loan also requires that we comply with financial covenants, which require us to maintain our tangible net worth, cash position and revenue at specified levels. As of September 30, 2003, we were not in compliance with selected loan covenants, however the Company has obtained a waiver from the financial institution. Our need to comply with these covenants does not materially affect the operation of our business.

During the fiscal year ended September 30, 2003, we used net cash in operations of \$253,000. The cash used in operating activities during this period was due to the net loss, which included the \$1.3 million of stock compensation paid in cash and increases in accounts receivables and income taxes receivable. These were partially offset by a decrease in deferred income taxes and an increase in accounts payable and accounts payable to related parties. For the years ended September 30, 2002 and 2001, we generated net cash flow from operations of \$17.7 million and \$28.1 million, respectively. The cash generated by operations in the year ended September 30, 2002 was due to an increase in the net income after adding back adjustments to reconcile net income to cash provided and decreases in accounts receivable and inventories, partially offset by an increase in income taxes receivable and decreases in accounts payable and accounts payable to related parties. The cash generated by operations in the year ended September 30, 2001 was due to an increase in income and a decrease in accounts receivable, partially offset by increases in income tax benefits and other current assets and decreases in accounts payable and accounts payable to related parties.

During the fiscal year ended September 30, 2003, cash used in investing activities was \$19.9 million compared to cash provided by investing activities of \$5.5 million and cash used in investing activities of \$90.7 million for fiscal year ended September 30, 2002 and 2001, respectively. The cash used in investing activities for the fiscal year ended September 30, 2003 was due to the \$10.0 million cash purchase price and direct costs associated with the acquisition of certain assets of Cielo Communications and Gore Photonics, a \$6.4 million increase in marketable securities resulting from our purchases being greater than the maturities, and a \$3.4 million increase in capital expenditures for the purchase of property, plant and equipment to upgrade, expand and automate our manufacturing and research and development operations and to relocate our headquarters, manufacturing, research and development and sales operations from Chatsworth, California to our larger facility in Woodland Hills, California. The increase in cash from investing activities for the fiscal year ended September 30, 2002 was due to an \$8.3 million decrease in marketable securities resulting from

maturities being greater than our purchases, partially offset by a \$2.8 million increase in capital expenditures for the purchase of property, plant and equipment to upgrade, expand and automate our manufacturing facility. The cash used in investing activities for fiscal year ended September 30, 2001 was due to a \$67.3 million increase in marketable securities resulting from our purchases being greater than the maturities, for the June 2001 purchase of a 145,720 square feet building in Woodland Hills, California for \$18.8 million and additional capital expenditures for the purchase of property, plant and equipment to expand and automate our manufacturing facility. As of September 30, 2003, we have committed to make capital expenditures totaling approximately \$656,000 during the next six months, primarily to purchase additional equipment to develop new products and to complete building improvements to our Woodland Hills facility.

During the fiscal year ended September 30, 2003, cash used by financing activities was \$408,000 compared to cash used of \$320,000 and cash provided of \$122.0 million during the fiscal years ended September 30, 2002 and 2001, respectively. The decrease in cash from financing activities for the fiscal year ended September 30, 2003 was due to a \$489,000 reduction in long-term debt, partially offset by \$81,000 provided by the issuance of common stock for the exercise of employee stock options and stock plan purchases. The decrease in cash from financing activities for the fiscal year ended September 30, 2002 was due to a \$472,000 reduction in long-term debt, partially offset by \$152,000 provided by the issuance of common stock for the exercise of employee stock options and stock plan purchases. The increase in cash from financing activities for the fiscal year ended September 30, 2001 was primarily the result of the November 3, 2000 completion of our initial public offering of our Class A Common Stock. After deducting the underwriting discounts and commissions and the offering expenses, we received net proceeds from the initial public offering of approximately \$122.1 million.

On January 31, 2003, we acquired parallel optical module assets and intellectual property from Gore Photonics, an industry leader in the research and development of VCSEL parallel optical modules for fiber optic communication networks located in Elkton, Maryland, for a cash purchase price of \$3.4 million. The purchase price includes the acquisition of capital equipment and inventory.

On October 9, 2002, we acquired certain assets of Cielo Communications, Inc. (“Cielo Communications”), a research and design company located in Broomfield, Colorado, focused on creating VCSEL technology for fiber optic communication networks for a cash purchase price and direct costs of \$6.6 million. The purchase price includes the acquisition of capital equipment and intellectual property.

On April 12, 2002, we resolved our patent infringement litigation with Stratos Lightwave, Inc. As part of the settlement, we entered into a five-year license agreement with Stratos covering Stratos’ portfolio of optoelectronic transceiver patents. In consideration of the license agreement, we are required to pay a total of \$2 million over the five-year license term.

On November 3, 2000, we completed an initial public offering of our Class A Common Stock. All 12,075,000 shares of Class A Common Stock registered under the Registration Statement were sold at a price of \$11.00 per share, which amount includes exercise of the underwriters’ over-allotment option of 1,575,000 shares. After deducting the underwriting discounts and commissions and the offering expenses, we received net proceeds from the initial public offering of approximately \$122.1 million.

We believe that our existing cash, cash equivalents and investments on hand, together with cash that we expect to generate from our operations, will be sufficient to meet our capital needs for at least the next twelve months. However, it is possible that we may need or elect to raise additional funds to fund our activities beyond the next year or to consummate acquisitions of other businesses, products or technologies. We could raise such funds by selling more stock to the public or to selected investors, or by borrowing money. In addition, even though we may not need additional funds, we may still elect to sell additional equity securities or obtain credit facilities for other reasons. We cannot assure you that we will be able to obtain additional funds on commercially favorable terms, or at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing stockholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of the holders of our common stock.

Although we believe we have sufficient capital to fund our activities for at least the next twelve months, our future capital requirements may vary materially from those now planned. The amount of capital that we will need in the future will depend on many factors, including:

- the market acceptance of our products;
- the levels of promotion and advertising that will be required to launch our new products and achieve and maintain a competitive position in the marketplace;
- price discounts on our products to our customers;
- our business, product, capital expenditure and research and development plans and product and technology roadmaps;
- the levels of inventory and accounts receivable that we maintain;
- capital improvements to new and existing facilities;
- technological advances;
- our competitors' response to our products;
- our pursuit of strategic alternatives, including future market opportunities; and
- our relationships with suppliers and customers.

In addition, we may require additional capital to accommodate planned growth, hiring, infrastructure and facility needs or to consummate acquisitions of other businesses, products or technologies.

Inflation

Inflation has not had a material adverse effect on our results of operations, however, our results of operations may be materially and adversely affected by inflation in the future.

Other Events

On September 29, 2003, we announced that a special committee of our board of directors is evaluating strategic alternatives to enhance shareholder value and liquidity. The special committee, which is comprised of our three independent directors, has retained Bear Stearns & Co. Inc., which is advising the committee in evaluating strategic alternatives, including a special dividend, share repurchase, strategic merger or sale of the Company.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

We are currently exposed to interest rate risk on our existing term and on our investment portfolio. Our variable rate debt consists of term loan borrowing of \$1.3 million.

The primary objective of our investment activities is to preserve capital. We have not used derivative financial instruments in our investment portfolio. Our cash and cash equivalents includes \$64.9 million invested in money market and other interest bearing accounts. In addition, we have \$70.7 million invested in marketable securities, which represents investments in United States treasury notes and treasury bonds.

As of September 30, 2003, our investment in marketable securities had a weighted-average time to maturity of approximately 167 days. Marketable securities represent United States treasury notes and treasury bonds with a maturity of greater than three months. These securities are classified as held to maturity because we have the intention and ability to hold the securities to maturity. Gross unrealized gains and losses on held-to-maturity marketable securities have historically not been material. Maturities on held-to-maturity marketable debt securities range from three months to two years.

If interest rates were to increase or decrease 1%, the result would be an annual increase or decrease of interest expense of approximately \$13,000 on our term loan and an annual increase or decrease of interest income of \$1.4 million on our investment portfolio. However, due to the uncertainty of the actions that would be taken and their possible effects, this analysis assumes no such action. Further, this analysis does not consider the effect of the change in the level of overall economic activity that could exist in such an environment.

Foreign Currency Risk

Sales to foreign customers are denominated in U.S. dollars and as such we have no foreign currency fluctuation risk.

Item 8. *Financial Statements and Supplementary Data*

The financial statements required by this item are included in Part IV, Item 15 of this Report and the supplementary data required by this item are included in Part II, Item 7 of this Report.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Evaluation of Disclosure Controls and Procedures

Based on their evaluation, as of the end of the period covered by this quarterly report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”)) are effective based on their evaluation of these controls and procedures required by paragraph (b) of Rules 13a-15 or 15d-15 under the Exchange Act.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

The information required by this Item is included in “Proposal 1: Elections of Directors,” “Management,” and “Section 16(a) Beneficial Ownership Reporting Compliance” sections of our Proxy Statement to be filed in connection with our 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 11. *Executive Compensation*

The information required by this Item is included in the “Executive Compensation and Related Information” section of the our Proxy Statement to be filed in connection with our 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this Item is included in the “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” sections of our Proxy Statement to

be filed in connection with the our 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions*

The information required by this Item is included in the “Compensation Committee Interlocks and Insider Participation” and “Certain Transactions” sections of our Proxy Statement to be filed in connection with the our 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. *Principal Accounting Fees and Services*

The information required by this Item is included in the “Ratification of Appointment of Independent Auditors” section of the our Proxy Statement to be filed in connection with our 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 15. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K*

(a) Documents filed as part of this Report:

1. *Financial Statements.* The following financial statements of Optical Communication Products, Inc. are included in a separate section of this Annual Report on Form 10-K commencing on the pages referenced below:

	<u>Page</u>
Optical Communication Products Financial Statements	
Independent Auditors’ Report	F-2
Balance Sheets at September 30, 2002 and 2003	F-3
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2. *Financial Statement Schedule.* The financial statement schedule of Optical Communication Products, Inc. is included below. All other schedules have been omitted because they are not applicable, not required, or the information is included in the financial statements or notes thereto.

**Schedule II — Valuation and Qualifying Accounts
For the Year Ended September 30, 2001, 2002 and 2003**

<u>Description</u>	<u>Period</u>	<u>Balance at Beginning of Period (\$)</u>	<u>Additions Charged to Expense (\$)</u>	<u>(Deductions) Recoveries (\$)</u>	<u>Balance at End of Period (\$)</u>
Allowance for Doubtful Accounts	2001	1,777,000	1,200,000	(1,821,000)	1,156,000
	2002	1,156,000	450,000	(1,479,000)	127,000
	2003	127,000	200,000	132,000	459,000

3. *Exhibits.* The following Exhibits are attached hereto and incorporated herein by reference:

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Bylaws
3.2.1***	Amendment Number One to Bylaws
4.1	See Exhibits 3.1, 3.2 and 3.2.1 for provisions of the Certificate of Incorporation and Bylaws for the Registrant defining the rights of holders of common stock of the Registrant
4.2*	Specimen Stock Certificate
4.3*	Standstill and Registration Rights Agreement, dated as of October 26, 2000, by and between the Registrant and The Furukawa Electric Co., Ltd.
10.1*†	2000 Stock Incentive Plan
10.2*†	Employee Stock Purchase Plan
10.3*	Form of Indemnification Agreement
10.5*†	Employment Agreement, dated November 1, 1999, by and between the Registrant and Muoi Van Tran, as currently in effect
10.6*†	Employment Agreement, dated November 1, 1999, by and between the Registrant and Mohammad Ghorbanali, as currently in effect
10.7*†	Employment Agreement, dated November 1, 1999, by and between the Registrant and Susie L. Nemeti, as currently in effect
10.8*†	Form of Stock Option Agreement, dated August 29, 2000, by and between the Registrant and each of Muoi Van Tran, Mohammad Ghorbanali and Susie L. Nemeti (including a schedule of substantially identical terms)
10.9*†	Form of Stock Option Agreement, dated June 28, 1993, by and between the Registrant and each of Muoi Van Tran, Mohammad Ghorbanali and Susie L. Nemeti (including a schedule of substantially identical terms)
10.10**	Master Purchase Agreement, dated October 1, 2003, by and between the Registrant and The Furukawa Electric Co., Ltd.
21.1*	List of Subsidiaries of the Registrant
23.1	Consent of Deloitte & Touche LLP
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* This exhibit was previously filed as an exhibit to the Company's Registration Statement on Form S-1 declared effective November 2, 2000 (File No. 333-44862) under the same exhibit number, and is incorporated by reference herein.

† Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(c) of Form 10-K.

** Portions of this document have been redacted pursuant to a Request for Confidential Treatment filed with the Securities and Exchange Commission.

*** Filed as an exhibit to the Annual Report on Form 10-K for the year ended September 30, 2002 on December 27, 2002 and incorporated herein by reference.

(b) Reports on Form 8-K:

On July 31, 2003, the Company filed a current report on Form 8-K to report that it had issued a press release announcing that it had elected Hideo Sakura to its board of directors to fill the vacancy created by the resignation of Kunihiro Matsubara.

On September 3, 2003, the Company filed a current report on Form 8-K to report that it had issued a press release announcing the relocation of its corporate headquarters to Woodland Hills, California.

On September 30, 2003, the Company filed a current report on Form 8-K to report that it had issued a press release announcing a special committee of its board of directors is evaluating strategic alternatives to enhance shareholder value and liquidity.

(c) Exhibit Index:

See Exhibit index.

(d) Financial Statement Schedule:

See Financial statement schedule set forth in (a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Woodland Hills, State of California, on the 22nd day of December, 2003.

OPTICAL COMMUNICATION PRODUCTS, INC.

By: /s/ MUOI VAN TRAN
 Name: Muoi Van Tran
 Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ MUOI VAN TRAN Muoi Van Tran	Chairman of the Board of Directors, Chief Executive Officer and President (principal executive officer)	December 22, 2003
/s/ SUSIE L. NEMETI Susie L. Nemeti	Chief Financial Officer (principal financial and accounting officer)	December 22, 2003
/s/ MASATO SAKAMOTO Masato Sakamoto	Director	December 22, 2003
/s/ HIDEO SAKURA Hideo Sakura	Director	December 19, 2003
/s/ NAOOMI TACHIKAWA Naoomi Tachikawa	Director	December 19, 2003
/s/ STEWART D. PERSONICK Stewart D. Personick	Director	December 22, 2003
/s/ HOBART BIRMINGHAM Hobart Birmingham	Director	December 24, 2003
/s/ DAVID WARNES David Warnes	Director	December 22, 2003

OPTICAL COMMUNICATION PRODUCTS, INC.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Optical Communication Products, Inc.:

We have audited the accompanying balance sheets of Optical Communication Products, Inc. (the "Company") as of September 30, 2002 and 2003, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2002 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Deloitte & Touche LLP
Los Angeles, California
December 22, 2003

OPTICAL COMMUNICATION PRODUCTS, INC.

BALANCE SHEETS
September 30, 2002 and 2003

	September 30,	
	2002	2003
	(In thousands, except share and per share amounts)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 85,426	\$ 64,895
Marketable securities	65,774	65,607
Accounts receivable less allowance for doubtful accounts of \$127 and \$459 in 2002 and 2003, respectively	3,463	6,960
Income taxes receivable	1,008	11,743
Inventories	7,415	5,592
Deferred income taxes	9,156	
Prepaid expenses and other current assets	1,367	1,342
Total current assets	173,609	156,139
Property, plant and equipment, net	30,519	36,721
Marketable securities		5,048
Intangible assets, net	933	2,235
TOTAL	\$205,061	\$200,143
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 471	\$ 471
Accounts payable	623	1,169
Accounts payable to related parties	30	1,061
Accrued bonus	2,302	4,433
Other accrued expenses	2,200	3,159
Income taxes payable	118	26
Total current liabilities	5,744	10,319
LONG-TERM DEBT, net of current portion	1,353	864
OTHER LONG-TERM LIABILITIES	750	600
DEFERRED INCOME TAXES	18	
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Class A common stock, \$0.001 par value; 200,000,000 shares authorized, 43,035,110 and 46,297,285 shares outstanding at September 30, 2002 and 2003, respectively	43	46
Class B common stock, \$0.001 par value; 66,000,000 shares authorized, 66,000,000 shares issued and outstanding at September 30, 2002 and 2003, respectively	66	66
Additional paid-in capital	131,350	132,712
Retained earnings	65,737	55,536
Total stockholders' equity	197,196	188,360
TOTAL	\$205,061	\$200,143

See notes to financial statements.

OPTICAL COMMUNICATION PRODUCTS, INC.
STATEMENTS OF OPERATIONS
Years Ended September 30, 2001, 2002, and 2003

	<u>2001</u>	<u>2002</u>	<u>2003</u>
	<small>(In thousands, except per share amounts)</small>		
REVENUE	\$144,012	\$ 37,207	\$ 38,880
COST OF REVENUE	<u>94,684</u>	<u>26,375</u>	<u>25,048</u>
GROSS PROFIT	<u>49,328</u>	<u>10,832</u>	<u>13,832</u>
EXPENSES:			
Research and development	2,958	5,261	16,246
Selling and marketing	3,799	3,717	4,562
General and administrative (including stock compensation expense of \$86 and \$1,292 for years ended September 30, 2002 and 2003, respectively)	<u>4,553</u>	<u>4,671</u>	<u>7,011</u>
Total expenses	<u>11,310</u>	<u>13,649</u>	<u>27,819</u>
INCOME (LOSS) FROM OPERATIONS	38,018	(2,817)	(13,987)
OTHER INCOME, Net	<u>6,081</u>	<u>3,391</u>	<u>1,834</u>
INCOME (LOSS) BEFORE INCOME TAXES	44,099	574	(12,153)
INCOME TAX PROVISION (BENEFIT)	<u>17,655</u>	<u>(265)</u>	<u>(1,952)</u>
NET INCOME (LOSS)	<u>\$ 26,444</u>	<u>\$ 839</u>	<u>\$(10,201)</u>
BASIC EARNINGS (LOSS) PER SHARE	\$ 0.26	\$ 0.01	\$ (0.09)
DILUTED EARNINGS (LOSS) PER SHARE	\$ 0.24	\$ 0.01	\$ (0.09)
BASIC SHARES OUTSTANDING	100,263	108,391	111,074
DILUTED SHARES OUTSTANDING	111,430	112,578	111,074

See notes to financial statements.

OPTICAL COMMUNICATION PRODUCTS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended September 30, 2001, 2002, and 2003

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
	(In thousands, except share data)						
BALANCE, SEPTEMBER 30, 2000	66,000,000	\$ 1,650	27,871,440	\$ 269	\$ —	\$ 38,454	\$ 40,373
Net income						26,444	26,444
Issuance of common stock from initial public offering			12,075,000	12	122,067		122,079
Conversion of preferred stock to class B common stock with a \$0.001 par value	(66,000,000)	(1,650)	66,000,000	66	1,584		
Conversion of common stock with no par value to class A common stock with \$0.001 par value				(241)	241		
Issuance of common stock for exercise of stock options and employee stock purchase plan			2,060,162	2	348		350
Tax benefit from exercise of non- qualified stock options					5,467		5,467
BALANCE, SEPTEMBER 30, 2001			108,006,602	108	129,707	64,898	194,713
Net income						839	839
Issuance of common stock for exercise of stock options and employee stock purchase plan			1,028,508	1	151		152
Tax benefit from exercise of non- qualified stock options					1,406		1,406
Stock option compensation expense					86		86
BALANCE, SEPTEMBER 30, 2002			109,035,110	109	131,350	65,737	197,196
Net loss						(10,201)	(10,201)
Issuance of common stock for exercise of stock options and employee stock purchase plan			3,262,175	3	78		81
Tax benefit from exercise of non- qualified stock options					1,303		1,303
Stock option compensation expense					(19)		(19)
BALANCE, SEPTEMBER 30, 2003	<u>—</u>	<u>\$ —</u>	<u>112,297,285</u>	<u>\$ 112</u>	<u>\$132,712</u>	<u>\$ 55,536</u>	<u>\$188,360</u>

See notes to financial statements.

OPTICAL COMMUNICATION PRODUCTS, INC
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2001, 2002, and 2003

	<u>2001</u>	<u>2002</u>	<u>2003</u>
	(In thousands)		
OPERATING ACTIVITIES:			
Net income (loss)	\$ 26,444	\$ 839	\$(10,201)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,429	2,433	5,642
Amortization of premium on marketable securities	467	2,041	1,543
Tax benefit from exercise of non-qualified stock options	5,467	1,406	1,303
Stock option compensation expense		86	(19)
Changes in operating assets and liabilities:			
Accounts receivable, net	12,027	4,541	(3,497)
Income taxes receivable		(1,008)	(10,735)
Inventories	166	8,437	2,123
Deferred income taxes	(7,490)	101	9,138
Prepaid expense and other assets	(1,759)	6	25
Accounts payable	(2,671)	(742)	546
Accounts payable to related parties	(3,915)	(1,230)	1,031
Accrued bonuses	(1,142)	402	2,131
Other accrued expenses	192	(49)	959
Income taxes payable	(1,139)	(310)	(92)
Other liabilities		750	(150)
Net cash provided by (used in) operating activities	<u>28,076</u>	<u>17,703</u>	<u>(253)</u>
INVESTING ACTIVITIES:			
Purchase of marketable securities	(161,789)	(66,713)	(71,424)
Maturities of marketable securities	94,500	75,000	65,000
Purchase of property, plant and equipment	(23,418)	(2,773)	(3,441)
Cash paid for acquisitions			<u>(10,005)</u>
Net cash provided by (used in) investing activities	<u>(90,707)</u>	<u>5,514</u>	<u>(19,870)</u>
FINANCING ACTIVITIES:			
Principal payments on long-term debt	(471)	(472)	(489)
Proceeds from Initial Public Offering	122,079		
Issuance of common stock	350	152	81
Net cash provided by (used in) financing activities	<u>121,958</u>	<u>(320)</u>	<u>(408)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	59,327	22,897	(20,531)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR ..	<u>3,202</u>	<u>62,529</u>	<u>85,426</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 62,529</u>	<u>\$ 85,426</u>	<u>\$ 64,895</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for interest expense	\$ 185	\$ 85	\$ 54
Cash paid (received) during the year for income taxes	\$ 20,803	\$ (431)	\$ (1,567)

See notes to financial statements.

OPTICAL COMMUNICATION PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS

1. General Information

The accompanying financial statements of Optical Communication Products, Inc., a Delaware corporation (the "Company"), includes its balance sheets as of September 30, 2002 and 2003 and reflects the results of its operations for the years ended September 30, 2001, 2002 and 2003. The Company's operations are primarily located in Woodland Hills, California. The Company is a majority-owned subsidiary of Furukawa Electric Company, Ltd. of Japan ("Furukawa"). Furukawa beneficially owns 58.8% of the Company's capital stock at September 30, 2003, which accounts for 93.4% of the combined voting power of all of the Company's outstanding common stock.

Operations - The Company operates in one industry segment, which includes the design and manufacture of fiber optic components. The Company's products consist of optical transmitters, receivers, transceivers and transponders, which convert electronic signals into optical signals and back to electronic signals.

The Company sells its products to original equipment manufacturers or OEMs, their contract manufacturers or CMs, who incorporate them into systems they assemble for the OEMs and to distributors. For financial reporting purposes, the Company considers its direct sale customers to be either OEMs, CMs or distributors who place purchase orders with the Company directly. Revenue from the Company's two largest direct sale customers amounted to 12.7% and 10.5% for the year ended September 30, 2001. No direct sale customer accounted for more than 10.0% of the Company's revenue for the year ended September 30, 2002. Revenue from the Company's largest direct sale customers amounted to 11.0% for the year ended September 30, 2003.

2. Significant Accounting Policies

Cash and Cash Equivalents - Cash and cash equivalents include unrestricted deposits and short-term investments with a maturity at the date of purchase of three months or less.

Marketable Securities - Marketable securities represent United States treasury notes and treasury bonds with an original maturity of greater than three months. These securities are classified as held to maturity because the Company has the intent and ability to hold the securities to maturity. Gross unrealized gains and losses on held-to-maturity marketable securities have historically not been material. Maturities on held-to-maturity marketable debt securities range from three months to two years.

Investments in marketable securities were as follows:

<u>Type of Security</u>	<u>Book/Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains</u>	<u>Unrealized (Losses)</u>
	(In thousands)			
United States Treasury Notes				
2002	\$65,774	\$65,966	\$192	\$ —
2003	70,655	70,689	45	(11)

Inventories - Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method.

Property, Plant and Equipment - Property, plant and equipment are recorded at cost. Provision for depreciation has been made based upon the estimated useful lives of the assets, which range from three to thirty-nine years, using the straight-line method. Significant improvements and betterments are capitalized if they extend the useful life of the asset. Routine repairs and maintenance are expensed when incurred.

Impairment of Long-Lived Assets - The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may no longer be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. For purposes of estimating future cash flows from impaired assets, the Company groups assets at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. There have been no impairment charges recorded by the Company.

Income Taxes - Income taxes are provided for taxes currently payable or refundable, and deferred income taxes arising from future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred income tax assets to the amounts expected to be realized.

Earnings per Share - Basic earnings per share are computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period, using the as-if-converted method for the Company's preferred shares and the treasury stock method for stock options.

Revenue Recognition - The Company recognizes revenue from product sales upon shipment, as shipments are FOB shipping point, assuming collectibility of the resulting receivable is probable. Sales returns and warranty claims are not material.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," which summarizes views of the Commission staff in applying accounting principles generally accepted in the United States of America to revenue recognition in financial statements. The Company believes that its current revenue recognition policies comply with this bulletin.

Research and Development Costs - Costs associated with the development of new products are charged to expense when incurred.

Common Stock - At September 30, 2003, the Company had two classes of common stock with a par value of \$0.001 per share. Holders of Class A common stock generally have identical rights to holders of Class B common stock, except that holders of Class A common stock are entitled to one vote per share while holders of Class B common stock are entitled to ten votes per share on matters submitted to a vote of the stockholders. Furukawa owns all 66,000,000 shares of the Company's outstanding Class B common stock.

Use of Estimates in the Preparation of the Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Fair Value of Financial Instruments - The recorded values of marketable securities, accounts receivable, accounts payable and accrued expenses approximate their fair values based on their short-term nature. The recorded value of long-term debt and other liabilities approximate fair value, as interest is variable based on market rates.

Concentration of Credit Risk - Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, placed with high credit quality institutions, and accounts receivable. The Company sells products and extends credit to customers, primarily in the United States, and periodically monitors its exposure to credit losses, and maintains allowances for anticipated losses.

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

The direct sales customer with the largest accounts receivable amounted to \$541,000 (15.1%) and \$2,298,000 (31.0%) at September 30, 2002 and 2003, respectively.

Segment Reporting - Statement of Financial Accounting Standards (“SFAS”) No. 131, “Disclosures about Segments of an Enterprise and Related Information,” establishes standards for the manner in which public companies report information about operating segments in annual and interim financial statements. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. The method for determining what information to report is based on the way management organizes the operating segments within a Company for making operating decisions and assessing financial performance.

The Company’s chief executive officer (“CEO”) and chief financial officer (“CFO”) are its chief operating decision makers. The financial information the CEO and CFO review is identical to the information presented in the accompanying financial statements. The Company has determined that it operates in one reportable segment, which includes the design and manufacture of fiber optic components. The Company has a subsidiary in England, which provides commercial and technical support to the Company’s customers in Europe. The Company does not have foreign operations.

Stock Based Compensation

The Company accounts for its employee stock option plan under the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. The Company has a stock-based compensation plan. The Company’s September 30, 2003 operating results include compensation expense related to the repurchase of stock from certain executives of the Company. All options granted had an exercise price equal to the quoted market price of the underlying common stock on the date of grant. The following table illustrates the effect on the operating results and per share amounts if the fair value recognition provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148 *Accounting for Stock-Based Compensation — Transition and Disclosure an amendment of FASB Statement No. 123* had been applied to stock-based employee compensation:

	<u>Year Ended September 30,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
	<u>(In thousands, except per share amounts)</u>		
Net income (loss):			
As reported	\$26,444	\$ 839	\$(10,201)
Add: The stock-based employee compensation cost, net of related tax effects, included in the determination of net income as reported.....			852
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(9,439)</u>	<u>(7,561)</u>	<u>(7,022)</u>
Pro forma	<u>\$17,005</u>	<u>\$(6,722)</u>	<u>\$(16,371)</u>
Basic income (loss) per share			
As reported	\$ 0.26	\$ 0.01	\$ (0.09)
Pro forma	\$ 0.17	\$ (0.06)	\$ (0.15)
Diluted income (loss) per share			
As reported	\$ 0.24	\$ 0.01	\$ (0.09)
Pro forma	\$ 0.15	\$ (0.06)	\$ (0.15)

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

The fair value of each option grant estimated on the date of grant used to compute pro forma net income (loss) and pro forma net income (loss) per share is estimated using the Black-Scholes option pricing model. The following assumptions were used in completing the model:

	September 30,		
	2001	2002	2003
Dividend yield	0%	0%	0%
Expected volatility	137%	157%	174%
Risk-free rate of return	5.16%	4.94%	3.67%
Expected life (years)	7.3	7.2	7.1

Recent Accounting Pronouncements - In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation it has undertaken in issuing the guarantee. FIN 45 also requires guarantors to disclose certain information for guarantees, beginning December 31, 2002. The adoption of FIN 45 did not have a material effect on the Company's financial condition, results of operations or liquidity.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities*, an Interpretation of ARB No. 51. FIN 46, which requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provision of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The adoption of FIN 46 did not have a material effect on the Company's financial condition, results of operations or liquidity.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. The statement establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. SFAS No. 150 must be applied immediately to instruments created or modified after May 31, 2003. The adoption of SFAS No. 150 in the third quarter of fiscal 2003 did not have a material effect on the Company's financial condition, results of operations or liquidity.

3. Acquisitions

On October 9, 2002, the Company acquired certain assets of Cielo Communications, Inc., a research and design company located in Broomfield, Colorado, focused on creating VCSEL technology for fiber optic communication networks for a cash purchase price and direct costs of \$6.6 million. The purchase price includes the acquisition of capital equipment and intellectual property.

On January 31, 2003, the Company acquired parallel optical module assets and intellectual property from Gore Photonics, an industry leader in the research and development of VCSEL parallel optical modules for fiber optic communication networks located in Elkton, Maryland, for a cash purchase price of \$3.4 million. The purchase price includes the acquisition of capital equipment and inventory.

As a result of the acquisitions, the Company recorded \$7.5 million in capital equipment, \$2.2 million of intangible assets, and \$300,000 of inventory.

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

4. Inventories

Inventories consist of the following:

	September 30,	
	2002	2003
	(In thousands)	
Raw materials	\$6,217	\$1,988
Work-in-process	486	3,090
Finished goods	712	514
Total	\$7,415	\$5,592

During fiscal year end 2002 and 2003, the Company recorded write-downs of excess inventory of \$3.2 million and \$1.6 million, respectively.

5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30,		Useful Lives
	2002	2003	
	(In thousands)		
Land	\$ 8,074	\$ 8,074	
Buildings	16,227	17,959	39 years
Machinery and equipment	10,647	18,937	5 years
Furniture and fixtures	233	367	5 years
Computer hardware and software	716	1,388	3 years
Leasehold improvements	6	32	9 years
	35,903	46,757	
(Less) accumulated depreciation	(5,384)	(10,036)	
Total	\$30,519	\$ 36,721	

On June 8, 2001, the Company purchased land and a 145,720 square foot building in Woodland Hills, California for the purchase price of \$18,750,000. The Company is occupying an aggregate of approximately 89,000 square feet and currently leases an aggregate of 59,550 square feet of this building to two unrelated parties under lease agreements expiring through February 2006. Rental income from these leases was \$147,000, \$433,000 and \$398,000 for the fiscal years ended September 30, 2001, 2002 and 2003, respectively. Rental income is included in other income in the accompanying financial statements.

In September, 2003, the Company relocated its corporate headquarters, manufacturing, research and development and sales operations to the building in Woodland Hills, California. In addition, the Company owns a building of approximately 65,000 square feet located in Chatsworth, California which, prior to September 2003, housed corporate headquarters, manufacturing, research and development and sales operations. The net book value of the land and building at September 30, 2003 for the Chatsworth, California facility was \$4,845,000. This building is currently not occupied.

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

6. Intangible Assets

Effective May 1, 2001, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." The Company completed its annual impairment test during the fourth quarter of fiscal year ended September 30, 2003 and no impairment was recorded. The following sets forth the intangible assets by major asset class:

	September 30,		Weighted Average Amortization Period (Years)
	2002	2003	
	(In thousands)		
Licensing Fees	\$2,000	\$ 2,000	3.5
Accumulated Amortization	(600)	(1,067)	
Patents		950	5.0
Accumulated Amortization		(174)	
Acquired Technology		1,216	5.0
Accumulated Amortization		(223)	
Total intangible assets	1,400	2,702	
(Less) current portion	(467)	(467)	
	\$ 933	\$ 2,235	

Aggregate amortization expense related to intangible assets was approximately \$600,000 and \$864,000 for the years ended September 30, 2002 and 2003, respectively. There was no impairment loss recorded during fiscal years 2003 or 2002.

Following is a summary of future amortization expense in each of the next five fiscal years.

	(In thousands)
Fiscal 2004	\$ 900
Fiscal 2005	900
Fiscal 2006	433
Fiscal 2007	433
Fiscal 2008	36
	\$2,702

7. Long-term Debt

Term Loan - The term loan was used to fund the purchase of the Company's land and building located in Chatsworth, California. The term loan bears interest on the amount outstanding at various time intervals based on the Company's election at a per annum rate equal to either (a) the prime rate or (b) LIBOR plus 1.80%. The term loan is secured by all of the Company's assets. The term loan is paid in monthly installments and matures on July 15, 2006. The term loan also requires compliance with specified financial covenants, including interest coverage ratios and indebtedness to total capital ratios and other covenants. As of September 30, 2003, the Company was not in compliance with selected loan covenants, however the Company has obtained a waiver from the financial institution.

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

Long-term debt at September 30, 2002 and 2003 consists of the following:

	2002	2003
	(In thousands)	
Term loan due July, 2006 (3.10% at September 30, 2003)	\$1,824	\$1,335
Less current portion	471	471
Long-term debt, net of current portion	<u>\$1,353</u>	<u>\$ 864</u>

Long-term debt maturities as of September 30, 2003 consist of the following:

	(In thousands)
Fiscal 2004	\$ 471
Fiscal 2005	471
Fiscal 2006	393
	<u>\$1,335</u>

Revolving Credit Facility - On March 27, 2003, the Company terminated its revolving credit facility with Manufacturer's Bank. The credit limit of the revolving credit facility was \$1.0 million. No amounts had been borrowed against the revolving credit facility through the termination date of the revolving credit facility in 2003.

8. Earnings Per Share

The following is a calculation of basic and diluted earnings per share ("EPS"):

	Year Ended September 30,		
	2001	2002	2003
	(In thousands, except per share data)		
BASIC EPS COMPUTATION:			
Net income (loss) applicable to common stock	\$ 26,444	\$ 839	\$(10,201)
Weighted average common shares outstanding	100,263	108,391	111,074
Basic earnings (loss) per share	\$ 0.26	\$ 0.01	\$ (0.09)
DILUTED EPS COMPUTATION:			
Net income (loss) applicable to common stock	\$ 26,444	\$ 839	\$(10,201)
Weighted average common shares outstanding	100,263	108,391	111,074
Effect of diluted securities:			
Convertible preferred stock	6,148	—	—
Common stock options	5,019	4,187	—
Diluted shares outstanding	111,430	112,578	111,074
Diluted earnings (loss) per share	<u>\$ 0.24</u>	<u>\$ 0.01</u>	<u>\$ (0.09)</u>

The weighted average diluted common shares outstanding for years ended September 30, 2001, 2002, and 2003 excludes the dilutive effect of approximately 5,480,800, 5,635,900 and 7,893,300 options, respectively. The options are excluded when the options have an exercise price in excess of the average market value of the Company's Common Stock during the fiscal year or due to a net operating loss.

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

9. Commitments and Contingencies

Operating Leases - The Company has operating leases for certain facilities. Lease payments are made monthly. The Company's leases are renewable either monthly, semiannually, annually or for five years. Rent expense for these leases for the years ended September 30, 2001, 2002, and 2003 was \$38,000, \$83,000 and \$488,000, respectively.

Following is a summary of future minimum payments due under operating leases that have initial or remaining noncancelable lease terms in excess of one year at September 30, 2003:

<u>Fiscal Year</u>	<u>(In thousands)</u>
2004	\$ 514
2005	517
2006	185
2007	<u>12</u>
Total minimum lease payments.....	<u>\$1,228</u>

Legal Proceedings - On April 12, 2002, the Company resolved its patent infringement litigation with Stratos Lightwave, Inc. ("Stratos"). As part of the settlement, the Company entered into a five-year license agreement with Stratos covering Stratos' portfolio of optoelectronic transceiver patents. In consideration of the license agreement, the Company is required to pay a total of \$2 million over the license term. At the end of the five-year term, the Company has the option to renegotiate with Stratos for an extension of the license.

Warranty Accruals - The Company provides a warranty of its products from defects in materials and workmanship. The warranty is limited to repair or replacement, at the Company's option, of defective items authorized for return within one year from the date of the sale. The table below sets forth the activity of the Company's warranty reserve.

	<u>Fiscal Year</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Expense</u>	<u>(Deductions)</u>	<u>Balance at End of Period</u>
Warranty Reserve	2001	\$407,000	\$451,000	\$(120,000)	\$738,000
	2002	\$738,000	—	\$(695,000)	\$ 43,000
	2003	\$ 43,000	\$ 19,000	\$ (16,000)	\$ 46,000

10. Stockholders' Equity

Initial Public Offering - On November 3, 2000, the Company completed its initial public offering of 12,075,000 newly issued shares of Class A common stock, which included the exercise of the underwriters' over-allotment option of 1,575,000 shares, at an offering price of \$11.00 per share. Proceeds from the offering were \$123,572,000 less of underwriting discounts and commissions.

Preferred and Common Stock - On October 27, 2000, the Company reincorporated in Delaware and created two new classes of common stock with a par value of \$0.001 per share. All of the Company's outstanding shares of common stock and convertible preferred stock automatically converted into shares of Class A and Class B common stock, respectively. Holders of Class A common stock generally have identical rights to holders of Class B common stock, except that holders of Class A common stock are entitled to one vote per share while holders of Class B common stock are entitled to ten votes per share on matters submitted to a vote of the stockholders. Furukawa owns all 66,000,000 shares of the Company's outstanding Class B common stock, which accounts for 93.4% of the combined voting power of all of the Company's outstanding common stock.

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

Stock Options - In September 1992, the Company's Board of Directors approved the 1992 Stock Option Plan for the issuance of 6,666,680 shares of the Company's common stock to certain key employees. In August 2000, the Company's Board of Directors approved the 2000 Stock Option/Stock Issuance Plan for the issuance of 1,000,000 shares of the Company's common stock to certain key employees. These plans provide that options may have a term of up to 10 years, and become exercisable and generally vest in annual increments of 25 percent per year over four years. In addition, key executives were granted 9,670,360 stock options that were separate from the Company's stock option plans and are fully vested. All options were granted at fair value.

On August 29, 2000, the Board of Directors approved the 2000 Stock Incentive Plan. Upon the effectiveness of the Company's IPO, the 1992 Stock Option Plan and the 2000 Stock Option/Stock Issuance Plan were terminated and no further options grants may be made under these plans. All options outstanding from the 1992 Stock Option Plan and the 2000 Stock Option/Stock Issuance Plan were transferred to the 2000 Stock Incentive Plan. The 2000 Stock Incentive Plan provides that options may have a term of up to 10 years, and become exercisable and vest in increments. The normal vesting is 25 percent per year. However, the vesting period can vary. All options were granted at fair value.

In July, 2002, the Company granted stock options under the 2000 Stock Incentive Plan to a member of the Board of Directors for consulting services to be performed through January, 2004. The options vest ratably in monthly increments over the term of the services rendered. Compensation cost has been determined on the basis of fair value pursuant to SFAS No. 123 "Accounting for Stock-Based Compensation" and EITF 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or Conjunction with Selling, Goods or Services." Compensation expense recognized on the vested options for fiscal year ended September 30, 2002 was \$85,700. On November 2002, that member of the Board of Directors terminated performance of the consulting services. Compensation expense for the fiscal year ended September 30, 2003 was (\$19,500), representing an adjustment of compensation expense previously recognized due to the early termination of the consulting services.

On May 1, 2003, the Company purchased in a private sale 829,746 shares of its Class A common stock from Muoi Van Tran, the Company's Chief Executive Officer and President and 536,833 shares of its Class A common stock from Mohammad Ghorbanali, the Company's Chief Operating Officer and Vice President of Technical Operations. In each case, the purchase price was \$0.96 per share, representing a 12% discount relative to the closing price of the Company's stock on May 1, 2003, resulting in an aggregate cash payment of approximately \$1,312,000. The stock repurchased by the Company resulted in a new measurement date and therefore compensation expense of \$1,311,000 has been recorded for the net cash paid for the shares less the intrinsic value of the options on the original date of grant.

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

There were 6,329,512 shares available for future grant under the Company's 2000 Stock Incentive Plan at September 30, 2003. Stock option activity, including the options granted outside the plans, is as follows:

	<u>Number of Options</u>	<u>Exercise Price Per Option</u>	<u>Weighted Average Exercise Price</u>
Options outstanding — October 1, 2000	12,190,360	\$0.0003 to \$11.00	\$ 3.09
Options granted	2,507,535	3.20 to 17.38	14.08
Options exercised	(2,041,700)	0.0003 to 2.88	0.10
Options canceled	<u>(196,560)</u>	<u>2.88 to 17.38</u>	<u>10.26</u>
Options outstanding — September 30, 2001	12,459,635	0.0003 to 17.38	5.67
Options granted	867,460	1.04 to 4.55	1.93
Options exercised	(974,250)	0.0003 to 0.39	0.04
Options canceled	<u>(375,795)</u>	<u>0.19 to 17.38</u>	<u>7.95</u>
Options outstanding — September 30, 2002	11,977,050	0.0003 to 17.38	5.78
Options granted	946,504	0.68 to 2.29	1.02
Options exercised	(3,186,651)	0.0003 to 0.39	0.007
Options canceled*	<u>(1,843,555)</u>	<u>0.0003 to 17.38</u>	<u>1.25</u>
Options outstanding — September 30, 2003	<u>7,893,348</u>	<u>\$0.06 to \$17.38</u>	<u>\$ 8.60</u>

* Cancelled options include 1,366,579 options repurchased by the Company from two executive officers. These options were granted outside of the Company's stock option plan.

The following table summarizes information regarding options outstanding at September 30, 2003.

<u>Range of Exercise Prices</u>	<u>Number Outstanding</u>	<u>Remaining Contractual Life</u>	<u>Average Exercise Price</u>	<u>Shares Exercisable</u>	<u>Average Exercise Price</u>
\$0.0000 - \$1.7380	1,899,323	6.8	\$ 0.5940	1,062,529	\$ 0.2770
\$1.7381 - \$3.4760	619,670	8.3	\$ 2.1781	181,180	\$ 2.3379
\$3.4761 - \$5.2140	38,750	7.9	\$ 4.5477	14,750	\$ 4.7315
\$6.9521 - \$8.6900	100,820	7.8	\$ 8.0500	50,560	\$ 8.0500
\$8.6901 - \$10.4280	15,000	7.8	\$ 9.7200	7,500	\$ 9.7200
\$10.4281 - \$12.1660	4,141,585	6.9	\$11.0017	3,830,467	\$11.0009
\$12.1661 - \$13.9040	12,000	7.6	\$13.3800	6,000	\$13.3800
\$15.6421 - \$17.3800	<u>1,066,200</u>	<u>7.3</u>	<u>\$17.3800</u>	<u>533,100</u>	<u>\$17.3800</u>
	<u>7,893,348</u>	<u>7.1</u>	<u>\$ 8.5980</u>	<u>5,686,086</u>	<u>\$ 9.2774</u>

The weighted average estimated fair value of options granted in 2001, 2002, and 2003 was \$11.33, \$1.90, and \$1.00, respectively.

11. Profit Sharing Plan

The Company has a deferred cash and profit sharing plan covering all employees, subject to certain participation and vesting requirements. The plan provides that the Company will partially match employees contributions or provide discretionary contributions up to a certain amount. Total contributions by the Company were \$456,000 and \$705,000 for the years ended September 30, 2001 and 2002, respectively. The Company has \$1,462,000 reserved for year ended September 30, 2003 contributions.

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

12. Income Taxes

The components of income tax expense are as follows:

	Year Ended September 30,		
	2001	2002	2003
	(In thousands)		
Current:			
Federal	\$15,548	\$(1,546)	\$(12,408)
State	4,130	(226)	19
Foreign	—	—	26
Total current	19,678	(1,772)	(12,363)
Effect of non-qualified stock option exercises upon income taxes currently payable	5,467	1,406	1,273
Deferred:			
Federal	(5,915)	64	7,453
State	(1,575)	37	1,685
Total deferred	(7,490)	101	9,138
Provision for income taxes	\$17,655	\$ (265)	\$ (1,952)

The components of deferred income taxes are as follows:

	September 30,	
	2002	2003
Allowance for doubtful accounts	\$ 55	\$ 195
Uniform capitalization and obsolete inventory	9,170	1,542
State NOL and credits carry-forwards	—	1,738
Other	(87)	(13)
Net deferred tax asset	9,138	3,462
Valuation allowance	—	(3,462)
Net deferred tax asset	\$9,138	\$ —

A reconciliation of the Company's provision for income taxes to the U.S. federal statutory rate is as follows (in thousands):

	Year Ended September 30,					
	2001		2002		2003	
	Amount	%	Amount	%	Amount	%
Provision for income taxes at statutory rate ...	\$15,435	35.0%	\$ 201	35.0%	\$(4,254)	(35.0)%
State taxes, net of federal benefit	2,415	5.5	123	21.4	1,107	9.1
Federal valuation allowance					1,373	11.3
Tax benefit on export sales			(595)	(103.6)		
Other	(195)	(0.5)	6	1.0	(178)	(1.5)
	\$17,655	40.0%	\$(265)	(46.2)%	\$(1,952)	(16.1)%

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

13. Related Party Transactions

The Company is a subsidiary of Furukawa Electric North America, which is a wholly owned subsidiary of Furukawa. The Company's related party transactions occur between itself and other Furukawa owned subsidiaries and affiliates.

The Company sells fiber optic components and purchases raw materials from some of these entities in the regular course of business. Sales of fiber optic subsystems and modules to related parties amounted to \$2,726,000, \$399,000, and \$481,000 for the years ended September 30, 2001, 2002, and 2003, respectively. Purchases of raw materials from related parties amounted to \$42,063,000, \$5,967,000, and \$6,690,000 for the years ended September 30, 2001, 2002, and 2003, respectively. Accounts receivable due from related parties were \$51,000 and \$7,000 at September 30, 2002 and 2003, respectively. Accounts payable to related parties were \$30,000 and \$1,061,000 at September 30, 2002 and 2003, respectively. No management fees were paid in the fiscal years ended September 30, 2001, 2002, and 2003.

14. Segment and Geographic Information

The Company operates in one reportable segment, which includes the design and manufacture of fiber optic subsystems and modules. The following are summaries of sales to geographic areas based on the location of the entity purchasing the Company's products and sales for each of the components within the segment:

	<u>September 30,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
	(In thousands)		
Revenue by Geographical Area:			
United States	\$ 95,582	\$23,587	\$19,933
Canada	23,942	4,582	3,578
Israel	15,290	1,563	3,129
Asia	2,182	2,932	6,395
Europe	5,272	3,603	5,565
Other	<u>1,744</u>	<u>940</u>	<u>280</u>
	<u>\$144,012</u>	<u>\$37,207</u>	<u>\$38,880</u>
Revenue by Component:			
Receivers	\$ 17,420	\$ 3,975	\$ 4,208
Transceivers	104,190	26,574	28,249
Transmitters	15,120	5,241	5,254
Other	<u>7,282</u>	<u>1,417</u>	<u>1,169</u>
	<u>\$144,012</u>	<u>\$37,207</u>	<u>\$38,880</u>

CORPORATE INFORMATION

Board of Directors

Muoi Van Tran
Chairman of the Board, President
and Chief Executive Officer

Masato Sakamoto
Executive Vice President of
Corporate Development,
Optical Communication Products, Inc.

Naoomi Tachikawa
General Manager of Planning and Administration,
Information Systems Group,
The Furukawa Electric Company, Ltd.

Stewart D. Personick
Independent Consultant

Hobart Birmingham
Managing Director,
The Perreault Birmingham Group LLC

David Warnes
President and Chief Executive Officer,
BEST Direct Networks

Hideo Sakura
General Manager,
Corporate Administration Department,
The Furukawa Electric Company, Ltd.

Officers

Muoi Van Tran
Chairman of the Board, President
and Chief Executive Officer

Susie L. Nemeti
Chief Financial Officer, Secretary, and
Vice President of Finance and Administration

Mohammad Ghorbanali
Chief Operating Officer and
Vice President of Technical Operations

Masato Sakamoto
Executive Vice President of
Corporate Development

Corporate Office

Optical Communication Products, Inc
6101 Variel Avenue
Woodland Hills, California 91367

Legal Counsel

Paul, Hastings, Janofsky & Walker LLP
515 South Flower Street, 25th Floor
Los Angeles, California 90071

Independent Accountants

Deloitte & Touche LLP
350 South Grand Avenue
Los Angeles, California 90071

Registrar and Transfer Agent

American Stock Transfer and Trust Company
59 Maiden Lane
New York, New York 10038

Annual Meeting

The Company's annual meeting
of stockholders will be held
Thursday, February 19, 2004 at
10:00 a.m. Pacific Time at
Optical Communication Products, Inc.
6101 Variel Avenue
Woodland Hills, California 91367

Other Information

If you would like additional copies of the
annual report or other investor information,
please direct your written requests to:

Optical Communication Products, Inc.
Investor Relations
6101 Variel Avenue
Woodland Hills, California 91367