BOOKHAM, INC.
Form 10-Q
May 06, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2008

OR

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

For the transition period from __________ to __________

Commission file number 0-30684

BOOKHAM, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-1303994**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2584 Junction Avenue San Jose, California	**95134**
(Address of Principal Executive Offices)	(Zip Code)

408-383-1400

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes þ No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. As of May 2, 2008, there were 100,739,778 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. ***Financial Statements***

BOOKHAM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and par value amounts)
(Unaudited)

	March 29, 2008	June 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,363	$ 36,631
Short term investments	14,066	
Restricted cash	1,320	6,079
Accounts receivable, net	45,620	33,685
Inventories	58,615	52,114
Prepaid expenses and other current assets	4,288	9,121
Total current assets	163,272	137,630
Goodwill	7,881	7,881
Other intangible assets, net	8,179	11,766
Property and equipment, net	34,133	33,707
Non-current deferred tax asset		13,248
Other non-current assets	338	294
Total assets	$ 213,803	$ 204,526
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 20,453	$ 21,101
Bank loan payable	2,000	3,812
Accrued expenses and other liabilities	20,289	22,704
Current deferred tax liability		13,248
Total current liabilities	42,742	60,865
Other long-term liabilities	1,411	1,908
Deferred gain on sale-leaseback	19,985	20,786
Total liabilities	64,138	83,559
Commitments and contingencies (Note 9)		
Stockholders equity:		
Common stock:		
$.01 par value per share; 175,000,000 shares authorized; 100,739,778 and 83,275,394 shares issued and outstanding at March 29, 2008 and June 30, 2007, respectively	1,007	832

Additional paid-in capital		1,160,491		1,114,391
Accumulated other comprehensive income		45,847		42,444
Accumulated deficit		(1,057,680)		(1,036,700)
Total stockholders equity		149,665		120,967
Total liabilities and stockholders equity	$	213,803	$	204,526

The accompanying notes form an integral part of these condensed consolidated financial statements.

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BOOKHAM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
Revenues	$ 59,703	$ 41,845	$ 172,941	$ 125,415
Revenues from related party		3,144		32,293
Net revenues	59,703	44,989	172,941	157,708
Costs of revenues	46,320	40,707	133,787	135,760
Gross profit	13,383	4,282	39,154	21,948
Operating expenses:				
Research and development	7,570	10,853	24,430	33,871
Selling, general and administrative	11,765	12,043	36,130	36,983
Amortization of intangible assets	667	2,170	4,017	6,928
Restructuring and severance charges	672	4,273	2,451	8,475
Legal settlements				490
Impairment of other long-lived assets				1,901
(Gain)/loss on sale of property and equipment and other long-lived assets	(596)	6	(2,312)	(824)
Total operating expenses	20,078	29,345	64,716	87,824
Operating loss	(6,695)	(25,063)	(25,562)	(65,876)
Other income/(expense):				
Interest income	414	277	1,160	699
Interest expense	(97)	(164)	(484)	(270)
Gain/(loss) on foreign exchange	995	664	3,315	(3,031)
Total other income/(expense)	1,312	777	3,991	(2,602)
Loss before income taxes	(5,383)	(24,286)	(21,571)	(68,478)
Income tax (benefit)/provision	17	37	(30)	83
Net loss	$ (5,400)	$ (24,323)	$ (21,541)	$ (68,561)
Net loss per share:				
Net loss per share (basic and diluted)	$ (0.05)	$ (0.35)	$ (0.24)	$ (1.03)
Weighted average shares of common stock outstanding (basic and diluted)	99,316	70,077	90,955	66,297

The accompanying notes form an integral part of these condensed consolidated financial statements.

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BOOKHAM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended	
	March 29, 2008	March 31, 2007
Cash flows used in operating activities:		
Net loss	$ (21,541)	$ (68,561)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	13,249	17,797
Stock-based compensation	5,643	5,145
Impairment of long-lived assets		1,901
Gain on sale of property, equipment and other long-lived assets	(2,312)	(836)
Amortization of deferred gain on sale leaseback	(801)	(868)
Changes in current assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(11,229)	4,769
Inventories	(1,407)	5,934
Prepaid expenses and other current assets	5,241	4,400
Accounts payable	(1,663)	(3,828)
Accrued expenses and other liabilities	(3,736)	(11,762)
Net cash used in operating activities	(18,556)	(45,909)
Cash flows provided by investing activities:		
Purchases of property and equipment	(7,459)	(5,861)
Proceeds from sale of property, equipment and other long-lived assets	2,713	3,174
Purchases of available for sale securities and investments	(14,066)	
Proceeds from sale of land held for resale		9,402
Transfer (to)/from restricted cash	4,875	(624)
Cash flows provided/(used) by investing activities	(13,937)	6,091
Cash flows provided by financing activities:		
Amount paid to repurchase shares from former officer	(2)	
Proceeds from issuance of common stock, net	40,787	55,423
Repayment bank loan payable	(1,812)	
Repayment of other loans	(28)	(39)
Net cash provided by financing activities	38,945	55,384
Effect of exchange rate on cash	(3,720)	2,150
Net increase in cash and cash equivalents	2,732	17,716
Cash and cash equivalents at beginning of period	36,631	37,750
Cash and cash equivalents at end of period	$ 39,363	$ 55,466

Supplemental disclosures of cash flow information:				
Cash paid for interest	$	120	$	1
Cash paid for income taxes	$	51	$	78

The accompanying notes form an integral part of these condensed consolidated financial statements.

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BOOKHAM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Nature of Business

Bookham Technology plc was incorporated under the laws of England and Wales on September 22, 1988. On September 10, 2004, pursuant to a scheme of arrangement under the laws of the United Kingdom, Bookham Technology plc became a wholly-owned subsidiary of Bookham, Inc., a Delaware corporation. Bookham, Inc. designs, manufactures and markets optical components, modules and subsystems principally for use in high-performance fiber optics communications networks. Bookham, Inc. also manufactures high-speed electronic components for the industrial, research, semiconductor capital equipment, military and biotechnology industries. References herein to the Company mean Bookham, Inc. and its subsidiaries consolidated business activities since September 10, 2004 and Bookham Technology plc s consolidated business activities prior to September 10, 2004.

Note 2. Basis of Preparation

The accompanying unaudited condensed consolidated financial statements as of March 29, 2008 and for the three and nine months ended March 29, 2008 and March 31, 2007 have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP) for interim financial statements and with the instructions to Form 10-Q and Regulation S-X, and include the accounts of Bookham, Inc. and all of its subsidiaries. Certain information and footnote disclosures required to be included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited condensed consolidated financial statements contained herein reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company s condensed consolidated financial position at March 29, 2008 and the condensed consolidated operating results for the three and nine months ended March 29, 2008 and March 31, 2007 and cash flows for the nine months ended March 29, 2008 and March 31, 2007. The consolidated results of operations for the three and nine months ended March 29, 2008 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending June 28, 2008.

The condensed consolidated balance sheet as of June 30, 2007 has been derived from the audited consolidated financial statements as of that date.

The unaudited condensed consolidated financial statements included in this report should be read in conjunction with the Company s audited financial statements and accompanying notes for the year ended June 30, 2007 included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

The preparation of the Company s financial statements in conformity with US GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These estimates, judgments and assumptions can be subjective and complex, and consequently actual results could differ materially from the results based on these estimates, judgments and assumptions. Descriptions of these estimates, judgments and assumptions are included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2007 under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies .

Note 3. Stockholders Equity and Stock-Based Compensation Expense

On November 13, 2007, the Company completed a public offering of 16,000,000 shares of its common stock at a price to the public of $2.75 per share that generated $40.8 million of cash, net of underwriting discounts and offering expenses.

The Company accounts for stock-based compensation under Statement of Financial Accounting Standards (SFAS) No. 123R Share-Based Payments , which requires companies to recognize in their statement of operations all share-based payments, including grants of stock options, based on the grant date fair value of such share-based awards. The application of SFAS No. 123R requires the Company s management to make judgments in the determination of inputs into the Black-Scholes option pricing model which the Company uses to determine the grant date fair value of stock options it grants. Inherent in this model are assumptions related to expected stock price volatility, option life, risk free interest rate and dividend yield. While the risk free interest rate and dividend yield are less subjective assumptions, typically based on factual data derived from public sources, the expected stock-price volatility and option life assumptions require a greater level of judgment which make them critical accounting estimates.

The Company has not issued and does not anticipate issuing dividends to stockholders and accordingly uses a 0% dividend yield assumption for all Black-Scholes option pricing calculations. The Company uses an expected stock-price volatility assumption that is primarily based on historical realized volatility of the underlying common stock during a period of time. With regard to the weighted average option life assumption, the Company evaluates the exercise behavior of past grants as a basis to predict future activity.

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The assumptions used to value option grants during the three and nine months ended March 29, 2008 and March 31, 2007 are as follows:

	Three Months Ended		Nine Months Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
Expected life	4.5 years	4.5 years	4.5 years	4.5 years
Risk-free interest rate	2.32% to 3.18%	4.51% to 4.85%	2.32% to 4.89%	4.51% to 5.12%
Volatility	73%	83%	73% to 79%	83% to 85%
Dividend yield	0.00%	0.00%	0.00%	0.00%

The amounts included in costs of revenues and operating expenses for stock-based compensation expense for the three and nine months ended March 29, 2008 and March 31, 2007 were as follows:

	Three Months Ended		Nine Months Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
	(In thousands)		(In thousands)	
Costs of revenues	$ 380	$ 478	$ 1,703	$ 1,660
Research and development	243	260	1,337	1,168
Selling, general and administrative	611	557	2,603	2,317
Total	$ 1,234	$ 1,295	$ 5,643	$ 5,145

Note 4. Comprehensive Loss

For the three and nine months ended March 29, 2008 and March 31, 2007, the Company s comprehensive loss was comprised of its net loss, the change in the unrealized gain/(loss) on currency instruments designated as hedges, the change in unrealized gain/loss on short-term investments and foreign currency translation adjustments. The components of comprehensive loss were as follows:

	Three Months Ended		Nine Months Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
	(In thousands)			
Net loss	$ (5,400)	$ (24,323)	$ (21,541)	$ (68,561)
Other comprehensive income/(loss):				
Unrealized gain/(loss) on currency instruments designated as hedges	(74)	(197)	(296)	(148)
Unrealized gain/loss on short-term investments	14		14	
Foreign currency translation adjustments	3,123	(41)	3,685	6,446
Comprehensive loss	$ (2,337)	$ (24,561)	$ (18,138)	$ (62,263)

Note 5. Earnings per Share

SFAS No. 128, Earnings per Share , requires dual presentation of basic and diluted earnings per share on the face of the statement of operations. Basic earnings per share is computed using only the weighted average number of shares of common stock outstanding for the applicable period, while diluted earnings per share is computed assuming the exercise or conversion of all potentially dilutive securities, such as options, convertible debt and warrants, during such period.

Because the Company incurred a net loss for each of the three and nine month periods ended March 29, 2008 and March 31, 2007, the effect of potentially dilutive securities totaling 18,894,017 and 17,736,926 shares, respectively, has been excluded from the calculation of diluted net loss per share because their inclusion would have been anti-dilutive.

Note 6. Inventories

Inventories consist of the following:

	March 29, 2008	June 30, 2007
	(In thousands)	
Raw materials	$ 21,933	$ 20,238
Work in process	21,095	18,489
Finished goods	15,587	13,387
Total	$ 58,615	$ 52,114

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Note 7. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	March 29, 2008	June 30, 2007
	(In thousands)	
Trade creditor accruals	$ 4,717	$ 4,324
Compensation and benefits related accruals	5,938	5,212
Warranty accrual	2,717	2,569
Other accruals	5,291	7,886
Current portion of restructuring accrual	1,626	2,713
Total	$ 20,289	$ 22,704

Note 8. Credit Agreement

On August 2, 2006, the Company and its wholly-owned subsidiaries Bookham Technology plc, New Focus, Inc. and Bookham (US) Inc. (the Borrowers) entered into a Credit Agreement with Wells Fargo Foothill, Inc. and other lenders regarding a three-year $25.0 million senior secured revolving credit facility. Advances are available under the Credit Agreement based on 80% of qualified accounts receivable, as defined in the Credit Agreement, at the time an advance is requested.

The obligations of the Borrowers under the Credit Agreement are guaranteed by the Company, Onetta, Inc., Focused Research, Inc., Globe Y. Technology, Inc., Ignis Optics, Inc., Bookham (Canada) Inc., Bookham Nominees Limited and Bookham International Ltd., each a wholly-owned subsidiary of the Company (together, the Guarantors and together with the Borrowers, the Obligors), and are secured by the assets of the Obligors pursuant to a security agreement (the Security Agreement), including a pledge of the capital stock holdings of the Obligors in certain of their direct subsidiaries. Any new direct subsidiary of the Obligors is required to execute a security agreement in substantially the same form as the Security Agreement and become a party to the Security Agreement. Pursuant to the terms of the Credit Agreement, borrowings made under the Credit Agreement bear interest at a rate based on either the London Interbank Offered Rate (LIBOR) plus 2.75% or the prime rate plus 1.25%. In the absence of an event of default, any amounts outstanding under the Credit Agreement may be repaid and borrowed again any time until maturity on August 2, 2009. A termination of the commitment line by the Borrowers any time prior to August 2, 2008 will subject the Borrowers to a prepayment premium of 1.0% of the maximum revolver amount.

The obligations of the Borrowers under the Credit Agreement may be accelerated upon the occurrence of an event of default under the Credit Agreement, which includes payment defaults, defaults in the performance of affirmative and negative covenants, the material inaccuracy of representations or warranties, a cross-default related to other indebtedness in an aggregate amount of $1.0 million or more, bankruptcy and insolvency related defaults, defaults relating to such matters as ERISA, judgments, and a change of control default. The Credit Agreement contains negative covenants applicable to the Company, the Borrowers and their subsidiaries, including financial covenants requiring the Borrowers to maintain a minimum level of EBITDA (if the Borrowers have not maintained specified levels of liquidity), as well as restrictions on liens, capital expenditures, investments, indebtedness, fundamental changes, dispositions of property, making certain restricted payments (including restrictions on dividends and stock repurchases), entering into new lines of business, and transactions with affiliates. As of March 29, 2008, the Company had $2.0 million in outstanding borrowings under the Credit Agreement, was in compliance with all covenants and had $5.2 million in outstanding letters of credit with vendors and landlords secured by the Credit Agreement.

Note 9. Commitments and Contingencies

Guarantees

The Company or its subsidiaries have entered into the following financial guarantees:

In connection with the sale by New Focus, Inc. of its passive component line to Finisar, Inc., New Focus agreed to indemnify Finisar for claims related to the intellectual property sold to Finisar. This obligation expires in May 2009 and has no limitation on maximum liability. In connection with the sale by New Focus of its tunable laser technology to Intel Corporation, New Focus agreed to indemnify Intel against losses for certain intellectual property claims. This obligation expires in May 2008 and has a maximum limitation on liability of $7.0 million. The Company does not currently expect to pay out any amounts in respect of these obligations; therefore, no accrual has been made in the accompanying financial statements.

The Company indemnifies its directors and certain employees as permitted by law, and has entered into indemnification agreements with each of its directors and senior officers. The Company has not recorded a liability associated with these obligations as the Company historically has not incurred any costs associated with such obligations. Costs associated with such obligations may, in certain circumstances, be mitigated, in whole or in part, by insurance coverage that the Company maintains.

The Company is also bound by indemnification obligations under various contracts that it enters into in the normal course of business, such as guarantees or letters of credit issued by its commercial banks in favor of several of its suppliers and indemnification obligations in favor of customers in respect of liabilities they may incur as a result of any infringement of a third party s intellectual property rights by the Company s products. The Company has not historically paid out any amounts related to these obligations and currently does not expect to do so in the future; therefore, no accrual has been made for these obligations in the accompanying financial statements.

Provision for warranties

The Company accrues for the estimated costs to provide warranty services at the time revenue is recognized. The Company s estimate of costs to service its warranty obligations is based on historical experience and expectation of future conditions. To the extent the Company experiences increased warranty claim activity or increased costs associated with servicing those claims, the Company s warranty costs will increase, resulting in a decrease to gross profit and an increase to net loss.

	Nine Months Ended	
	March 29, 2008	March 31, 2007
	(In thousands)	
Warranty provision at beginning of period	$ 2,569	$ 3,429
Warranties issued	1,768	1,316
Warranties utilized	(1,151)	(1,614)
Warranties expired, and other changes in liability	(551)	(461)
Foreign currency translation	82	251
Warranty provision at end of period	$ 2,717	$ 2,921

Litigation

On June 26, 2001, a putative securities class action captioned Lanter v. New Focus, Inc. et al., Civil Action No. 01-CV-5822, was filed against New Focus, Inc. and several of its officers and directors, or the Individual Defendants, in the United States District Court for the Southern District of New York. Also named as defendants were Credit Suisse First Boston Corporation, Chase Securities, Inc., U.S. Bancorp Piper Jaffray, Inc. and CIBC World Markets Corp., or the Underwriter Defendants, the underwriters in New Focus s initial public offering. Three subsequent lawsuits were filed containing substantially similar allegations. These complaints have been consolidated. On April 19, 2002, plaintiffs filed an Amended Class Action Complaint, described below, naming as defendants the Individual Defendants and the Underwriter Defendants.

On November 7, 2001, a Class Action Complaint was filed against Bookham Technology plc and others in the United States District Court for the Southern District of New York. On April 19, 2002, plaintiffs filed an Amended Class Action Complaint, described below. The Amended Class Action Complaint names as defendants Bookham Technology plc, Goldman, Sachs & Co. and FleetBoston Robertson Stephens, Inc., two of the underwriters of Bookham Technology plc s initial public offering in April 2000, and Andrew G. Rickman, Stephen J. Cockrell and David Simpson, each of whom was an officer and/or director at the time of Bookham Technology plc initial public offering.

The Amended Class Action Complaint asserts claims under certain provisions of the securities laws of the United States. It alleges, among other things, that the prospectuses for Bookham Technology plc s and New Focus s initial public offerings were materially false and misleading in describing the compensation to be earned by the underwriters in connection with the offerings, and in not disclosing certain alleged arrangements among the underwriters and initial purchasers of ordinary shares, in the case of Bookham Technology plc, or common stock, in the case of New Focus, from the underwriters. The Amended Class Action Complaint seeks unspecified damages (or, in the alternative, rescission for those class members who no longer hold shares of common stock of the Company or New Focus), costs, attorneys fees, experts fees, interest and other expenses. In October 2002, the Individual Defendants were dismissed, without prejudice, from the action subject to their execution of tolling agreements. In July 2002, all defendants filed Motions to Dismiss the Amended Class Action Complaint. The motion was denied as to Bookham Technology plc and New Focus in February 2003. Special committees of the board of directors authorized the companies to negotiate a settlement of pending claims substantially consistent with a memorandum of understanding negotiated among class plaintiffs, all issuer defendants and their insurers.

The plaintiffs and most of the issuer defendants and their insurers entered into a stipulation of settlement for the claims against the issuer defendants, including Bookham Technology plc. This stipulation of settlement was subject to, among other things, certification of the underlying class of plaintiffs. Under the stipulation of settlement, the plaintiffs would dismiss and release all claims against participating defendants in exchange for a payment guaranty by the insurance companies collectively responsible for insuring the issuers in the related cases, and the assignment or surrender to the plaintiffs of certain claims the issuer defendants may have against the underwriters. On February 15, 2005, the District Court issued an Opinion and Order preliminarily approving the settlement provided that the defendants and plaintiffs agree to a modification narrowing the scope of the bar order set forth in the original settlement agreement. The parties agreed to the modification narrowing the scope of the bar order, and on August 31, 2005, the District Court issued an order preliminarily approving the settlement.

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On December 5, 2006, following an appeal from the underwriter defendants, the United States Court of Appeals for the Second Circuit overturned the District Court s certification of the class of plaintiffs who are pursuing the claims that would be settled in the settlement against the underwriter defendants. Plaintiffs filed a Petition for Rehearing and Rehearing En Banc with the Second Circuit on January 5, 2007 in response to the Second Circuit s decision and have informed the District Court that they would like to be heard as to whether the settlement may still be approved even if the decision of the Court of Appeals is not reversed. The District Court indicated that it would defer consideration of final approval of the settlement pending plaintiffs request for further appellate review. On April 6, 2007, the Second Circuit denied plaintiffs petition for rehearing, but clarified that the plaintiffs may seek to certify a more limited class in the District Court. In light of the overturned class certification on June 25, 2007, the District Court signed an Order terminating the settlement. The Company believes that both Bookham Technology plc and New Focus have meritorious defenses to the claims made in the Amended Class Action Complaint and therefore believes that such claims will not have a material effect on its financial position, results of operations or cash flows.

On November 12, 2007, Xi an Raysung Photonics Inc. filed a civil suit against the Company, and its wholly-owned subsidiary, Bookham Technology (Shenzhen) Co., Ltd., in the Xi an Intermediate People s Court in Shanxi Province of the People s Republic of China. The complaint filed by Xi an Raysung Photonics Inc. alleges that the Company and Bookham Technology (Shenzhen) Co., Ltd. breached an agreement between the parties pursuant to which Xi an Raysung Photonics Inc. had supplied certain sample components and was to supply certain components to the Company and Bookham Technology (Shenzhen) Co., Ltd. Xi an Raysung Photonics Inc. has increased its request that the court award damages of 20,000,000 Chinese Yuan (approximately $2.9 million based on an exchange rate of $1.00 to 7.0075 Chinese Yuan as in effect on April 22, 2008) and require that the Company and Bookham Technology (Shenzhen) Co., Ltd. pay its legal fees in connection with the suit. The Company and Bookham Technology (Shenzhen) Co., Ltd. believes they have meritorious defenses to the claims made by Xi an Raysung Photonics Inc. and therefore believes that such claims will not have a material effect on its financial position, results of operations or cash flows.

On April 18, 2008, the Company reached a settlement in a lawsuit filed by the Company against a real estate developer in the United Kingdom arising out of the Company s purchase, and subsequent sale in 2005, of a parcel of land in the United Kingdom. Under the terms of the settlement, the Company is scheduled to receive £2.1 million ($4.2 million based on an exchange rate of $1.9776 to £1 as of the date of the settlement) on or before May 8, 2008. In its fiscal quarter ending June 28, 2008, the Company expects to record a gain of approximately $3.8 million which is the £2.1 million settlement amount net of estimated remaining legal fees incurred in connection with this lawsuit and settlement.

Note 10. Restructuring and Severance

The following table summarizes the activity related to the Company s restructuring liability for the three months ended March 29, 2008:

(In thousands)	Accrued restructuring costs at December 29, 2007	Amounts charged to restructuring costs and other	Amounts reversed	Amounts paid or written-off	Adjustments	Accrued restructuring costs at March 29, 2008
Lease cancellations and commitments	$ 2,488	$ 605	$	$ (716)	$	$ 2,377
Asset impairment						
Termination payments to employees and related costs	671	67		(322)	(10)	406

Total accrued restructuring	3,159	$ 672	$	$ (1,038)	$ (10)	2,783
Less non-current accrued restructuring charges	(1,293)					(1,157)
Accrued restructuring charges included within accrued expenses and other liabilities	$ 1,866					$ 1,626

The following table summarizes the activity related to the Company s restructuring liability for the nine months ended March 29, 2008:

(In thousands)	**Accrued restructuring costs at June 30, 2007**	**Amounts charged to restructuring costs and other**	**Amounts reversed**	**Amounts paid or written-off**	**Adjustments**	**Accrued restructuring costs at March 29, 2008**
Lease cancellations and commitments	$ 3,845	$ 1,141	$ (20)	$ (2,601)	$ 12	$ 2,377
Asset impairment		35		(35)		
Termination payments to employees and related costs	546	1,331	(36)	(1,472)	37	406
Total accrued restructuring	4,391	$ 2,507	$ (56)	$ (4,108)	$ 49	2,783
Less non-current accrued restructuring charges	(1,678)					(1,157)
Accrued restructuring charges included within accrued expenses and other liabilities	$ 2,713					$ 1,626

On January 31, 2007, the Company adopted an overhead cost reduction plan which included workforce reductions, facility and site consolidation of its Caswell, U.K. semiconductor operations within existing U.K. facilities and the transfer of certain research and development activities to its Shenzhen, China facility. As of March 29, 2008, this cost reduction plan, which had been expected to cost $8.0 million to $9.0 million, was substantially complete. As of March 29, 2008, the Company incurred expenses of $7.7 million with respect to the cost reduction plan, of which $7.1 million was paid in cash through March 29, 2008. Any remaining expense associated with this plan, which the Company expects to be less than $0.1 million, is expected to be incurred and along with any other unpaid amounts, to be paid by the end of the fiscal quarter ending December 27, 2008. The restructuring and severance expense for nine months ended March 29, 2008 includes $0.2 million associated with the consolidation of certain administrative functions at the Company s San Jose, California facility.

In connection with earlier restructuring plans, and the assumption of restructuring accruals upon the March 2004 acquisition of New Focus, Inc., in the fiscal quarter ended March 29, 2008, the Company continued to make scheduled payments drawing down the related lease cancellations and commitments. The Company accrued $0.3 million in the three months ended March 29, 2008 and $0.5 million in the nine months ended March 29, 2008 in expenses for revised estimates related to these cancellations and commitments.

For all periods presented, separation payments under the restructuring and cost reduction efforts were accrued and charged to restructuring in the period in which both the benefit amounts were determined and the amounts had been communicated to the affected employees.

Note 11. Accounting for Uncertainty in Income Taxes

Effective July 1, 2007, the Company adopted Financial Accounting Standards Interpretation, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN No. 48). FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax positions taken, or expected to be taken, in a company s income tax return; and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 utilizes a two-step approach for evaluating uncertain tax positions accounted for in accordance with SFAS No. 109, Accounting for Income Taxes . Step one, Recognition, requires a company to determine if the weight of available evidence indicates that a tax position is more likely than not to be sustained upon audit, including resolution of related appeals or litigation processes, if any. Step two, Measurement, is based on the largest amount of benefit, which is more likely than not to be realized on ultimate settlement. In accordance with FIN No. 48, the Company recognized the cumulative effect of adopting FIN No. 48 as a change in accounting principle recorded as an adjustment to the opening balance of accumulated deficit on July 1, 2007, the adoption date. As a result of the implementation of FIN No. 48, the Company recognized a decrease in the liability for unrecognized tax benefits related to tax positions taken in prior periods and therefore the Company made a corresponding adjustment of $562,000 to its opening balance of accumulated deficit at July 1, 2007.

The Company s total amount of unrecognized tax benefits as of July 1, 2007, the adoption date, was approximately $3.6 million. There was not a material change to this amount from the quarter ended September 29, 2007 to the quarter ended March 29, 2008. Also, the Company had no unrecognized tax benefits that, if recognized, would affect its effective tax rate for the quarter ended September 29, 2007 or March 29, 2008.

Upon adoption of FIN No. 48, the Company did not change its policy of including interest and penalties related to unrecognized tax benefits within the Company s income tax (benefit)/provision. As of March 29, 2008, the Company did not have any accrual for payment of interest and penalties related to unrecognized tax benefits.

The Company files U.S. federal, U.S. state, and foreign tax returns and has determined its major tax jurisdictions are the United States, the United Kingdom, and China. Tax returns filed in certain jurisdictions remain open to examination by the appropriate governmental agencies; U.S. federal and China for tax years 2004-2007, various U.S. states for tax years 2003-2007, and the United Kingdom for tax years 2005-2007. The Company is not currently under audit in any major tax jurisdiction.

Note 12. Segments of an Enterprise and Related Information

The Company is currently organized and operates as two operating segments: (i) optics and (ii) research and industrial. The optics segment designs, develops, manufactures, markets and sells optical solutions for telecommunications and industrial applications. The research and industrial segment, comprised of our New Focus business, designs, develops, manufactures, markets and sells photonic solutions. The Company evaluates the performance of its segments and allocates resources based on consolidated revenues and overall performance.

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Segment information for the three and nine months ended March 29, 2008 and March 31, 2007 is as follows:

	For the Three Months Ended		For the Nine Months Ended	
	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
	(In thousands)		(In thousands)	
Revenues:				
Optics	$ 50,978	$ 36,735	$ 148,483	$ 134,673
Research and industrial	8,725	8,254	24,458	23,035
Consolidated revenues	$ 59,703	$ 44,989	$ 172,941	$ 157,708
Net loss:				
Optics	$ (5,786)	$ (24,553)	$ (22,111)	$ (67,898)
Research and industrial	386	230	570	(663)
Consolidated net loss	$ (5,400)	$ (24,323)	$ (21,541)	$ (68,561)

Note 13. Significant Related Party Transactions and Significant Customer Revenues

As of March 31, 2007, Nortel Networks Corporation owned 3,999,999 shares of the Company s common stock. For the three and nine months ended March 31, 2007, the Company had revenues from Nortel Networks of $14.5 million and $29.1 million, respectively, which are disclosed as related party revenues for those periods. The Company believes Nortel Networks sold its shares of the Company s common stock prior to the start of the nine month period ended March 29, 2008 and as a result no longer considers Nortel Networks to be a related party.

Significant customers of the Company included Nortel Networks with revenues of $7.9 million, $25.0 million, $3.1 million and $32.3 million, Cisco Systems with revenues of $2.8 million, $15.5 million, $5.0 million and $21.4 million, and Huawei with $8.0 million, $16.9 million, $4.1 million and $14.1 million in the three month and nine month periods ended March 29, 2008 and March 31, 2007, respectively.

Note 14. Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board, or the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 gives companies the option of applying at specified election dates fair value accounting to certain financial instruments and other items that are not currently required to be measured at fair value. If a company chooses to record eligible items at fair value, the company must report unrealized gains and losses on those items in earnings at each subsequent reporting date. SFAS 159 also prescribes presentation and disclosure requirements for assets and liabilities that are measured at fair value pursuant to this standard and pursuant to the guidance in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities . SFAS 159 is effective for years beginning after November 15, 2007. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 159 on its consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also requires requests for expanded information about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect that the adoption of SFAS 157 will have on its consolidated results of operations and financial condition.

In June 2007, the FASB also ratified Emerging Issues Task Force 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The Company does not expect the adoption of EITF 07-3 to have a material effect on its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. The Company does not believe the adoption of SFAS 141R will have a material impact on its consolidated results of operations and financial condition.

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In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS No. 160). SFAS 160 changes the accounting and reporting for minority interests, which are to be re-characterized as non-controlling interests and classified as a component of equity on the balance sheet and statement of shareholders equity. This consolidation method will significantly change the accounting for transactions with minority interest holders. The Company is required to adopt SFAS No. 160 at the beginning of the first quarter of fiscal 2010, which begins on June 27, 2009. The Company is currently evaluating the effect, if any, that the adoption of SFAS No. 160 will have on its consolidated results of operations and financial condition.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS 161 requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008, and will be applicable to the Company in the first quarter of fiscal 2010. The Company is currently evaluating the effect, if any, that the adoption of SFAS No. 161 may have on its consolidated results of operations and financial condition.

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

This Quarterly Report on Form 10-Q contains forward-looking statements about our plans, objectives, expectations and intentions. You can identify these statements by words such as expect, anticipate, intend, scheduled, designed, plan, believe, seek, estimate, may, will, continue, proposed and similar words. You should read these for statements carefully. They discuss our future expectations, contain projections of our future results of operations or our financial condition or state other forward-looking information, and may involve known and unknown risks over which we have limited or no control. You should not place undue reliance on forward-looking statements and actual results may differ materially from those contained in forward-looking statements. We cannot guarantee any future results, levels of activity, performance or achievements. Moreover, we assume no obligation to update forward-looking statements or update the reasons actual results could differ materially from those anticipated in forward-looking statements, except as required by law. The factors discussed in the sections captioned Management s Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors in this Quarterly Report on Form 10-Q identify important factors that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

Overview

We design, manufacture and market optical components, modules and subsystems that generate, detect, amplify, combine and separate light signals principally for use in high-performance fiber optics communications networks. Due to its advantages of higher capacity and transmission speed, optical transmission has become the predominant technology for large-scale communications networks. We are one of the largest vertically-integrated vendors of optical components used for fiber optic telecommunications network applications. Our customers include leading equipment systems vendors, including ADVA, Alcatel-Lucent, Ciena, Cisco, Huawei, Nortel Networks and Tyco. We also leverage our optical component technologies and expertise in manufacturing optical subsystems to address opportunities in other markets, including industrial, research, semiconductor capital equipment, military and biotechnology, where we believe the use of our technologies is expanding.

Our products typically have a long sales cycle. The period of time between our initial contact with a customer and the receipt of a purchase order is frequently a year or more. In addition, many customers perform, and require us to perform, extensive process and product evaluation and testing of components before entering into purchase arrangements.

We operate in two business segments: (i) optics and (ii) research and industrial. The optics segment relates to the design, development, manufacture, marketing and sale of optical solutions for telecommunications and industrial applications. The research and industrial segment, comprised of our New Focus division, relates to the design, development, manufacture, marketing and sale of photonics solutions.

Critical Accounting Policies

We believe that several accounting policies we have implemented are important to understanding our historical and future performance. We refer to such policies as critical because they generally require us to make estimates, judgments and assumptions about matters that are uncertain at the time we make such estimates, judgments and assumptions and different estimates, judgments and assumptions which also would have been reasonable at the time could have been used, and would have resulted in materially different financial results.

The critical accounting policies we identified in our Annual Report on Form 10-K for the year ended June 30, 2007 related to revenue recognition and sales returns, inventory valuation, accounting for acquisitions and goodwill, impairment of goodwill and other intangible assets and accounting for share-based payments. It is important that the discussion of our operating results that follows be read in conjunction with the critical accounting policies discussed in our Annual Report on Form 10-K for the year ended June 30, 2007.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board, or FASB, issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 , or SFAS 159. SFAS 159 gives companies the option of applying at specified election dates fair value accounting to certain financial instruments and other items that are not currently required to be measured at fair value. If a company chooses to record eligible items at fair value, the company must report unrealized gains and losses on those items in earnings at each subsequent reporting date. SFAS 159 also prescribes presentation and disclosure requirements for assets and liabilities that are measured at fair value pursuant to this standard and pursuant to the guidance in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, of the adoption of SFAS 159 on our consolidated results of operations or financial condition.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements , or SFAS 157. SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also requires requests for expanded information about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the effect that the adoption of SFAS 157 will have on its consolidated financial position and results of operations.

In June 2007, the FASB also ratified Emerging Issues Task Force 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities , or EITF 07-3. EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. We do not expect the adoption of EITF 07-3 to have a material effect on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations , or SFAS 141R. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of SFAS 141R on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 , or SFAS 160. SFAS 160 changes the accounting and reporting for minority interests, which are to be re-characterized as non-controlling interests and classified as a component of equity on the balance sheet and statement of shareholders equity. This consolidation method will significantly change the accounting for transactions with minority interest holders. We are required to adopt SFAS 160 at the beginning of the first quarter of fiscal 2010, which begins on June 27, 2009. We are currently evaluating the effect, if any, that the adoption of SFAS 160 will have on our consolidated results of operations and financial condition.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (or SFAS No. 161). SFAS No. 161 requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008, and will be applicable to us in the first quarter of fiscal 2010. We are assessing the potential impact that the adoption of SFAS 161 may have on our consolidated results of operations and financial condition.

Results of Operations

Revenues

$ Millions	**For Three Months Ended March 29, 2008**	**March 31, 2007**	**% Change**	**For Nine Months Ended March 29, 2008**	**March 31, 2007**	**% Change**
Net revenues	$ 59.7	$ 45.0	33%	$ 172.9	$ 157.7	10%

Revenues in the three month period ended March 29, 2008 increased by $14.7 million, or 33%, compared to revenues in the three month period ended March 31, 2007. Revenues from customers other than Nortel Networks increased by $10.0 million, or 24%, in the three months ended March 29, 2008, as compared to the corresponding period in the prior year, largely due to increased sales, primarily related to higher sales volumes, of our 980nm laser pumps, tunable laser products, high power lasers, industrial and thin film filters, and increased product revenues in our New Focus division. Revenues from Nortel Networks increased by $4.8 million to $7.9 million in the three months ended March 29, 2008 compared to the three months ended March 31, 2007, primarily as a result of recovery of revenues after decreases at the end of the three months ended March 31, 2007 associated with the expiration of the third addendum to the supply agreement with Nortel Networks.

Revenues in the nine month period ended March 29, 2008 increased by $15.2 million, or 10%, compared to revenues in the nine months ended March 31, 2007. Revenues from customers other than Nortel Networks increased by $22.5 million, or 18%, in the nine months ended March 29, 2008, as compared to the corresponding period in the prior year, largely due to increased sales, primarily related to higher sales volumes, of our 980nm laser pumps, tunable products, high power lasers, industrial and thin-film filters and increased product sales volumes in our New Focus division. Revenues from Nortel Networks decreased by $7.3 million to $25.0 million in the nine months ended March 29, 2008 compared to the nine months ended March 31, 2007, primarily as a result of the expiration of certain purchase commitments associated with the third addendum to a supply agreement with Nortel Networks during the three months ended March 31, 2007.

Cost of Revenues

	For Three Months Ended			For Nine Months Ended		
$ Millions	March 29, 2008	March 31, 2007	% Change	March 29, 2008	March 31, 2007	% Change
Cost of revenues	$ 46.3	$ 40.7	14%	$ 133.8	$ 135.8	(1%)

Our cost of revenues consists of the costs associated with manufacturing our products, and includes the costs to purchase raw materials, manufacturing-related labor costs and related overhead, including stock-based compensation expense. Cost of revenues also includes costs associated with under-utilized production facilities and resources. Charges for inventory obsolescence, the cost of product returns and warranty costs are also included in cost of revenues. Costs and expenses of the manufacturing resources which relate to the development of new products are included in research and development expense.

Our cost of revenues for the three month period ended March 29, 2008 increased by $5.6 million or 14% compared to cost of revenues in the three month period ended March 30, 2007 due to the direct costs associated with the higher product volumes that resulted in our 33% higher revenues over the same period. Our cost of revenues for the nine month period ended March 29, 2008 decreased by $2.0 million compared to the nine month period ended March 30, 2007 due to the direct costs associated with the higher product volumes that resulted in our 10% higher revenues over the same period, offset by reductions in our manufacturing overhead costs as a result of our restructuring and cost reduction plans, including the closure of the manufacturing operations of our Paignton, U.K. facility subsequent to the transfer of assembly and test and related activities to our Shenzhen, China facility and the consolidation of our Caswell U.K. fabrication operations. We believe that we have further specific cost reduction programs in place, primarily related to materials procurement as well as the transfer of most of our photonic tools and solutions manufacturing operations from San Jose to Shenzhen, which we expect, in total, may lead to a quarterly savings rate of $3 million to $4 million by the end of our fiscal quarter ending December 27, 2008. We expect to incur a total of approximately $1 million of additional manufacturing overhead costs associated with this transfer of photonic tools and solutions manufacturing operations to Shenzhen, to be recorded in cost of revenues, spread over the next two to three fiscal quarters. Our cost of revenues for the three and nine month periods ended March 29, 2008 included $0.4 and $1.7 million of stock-based compensation charges, respectively, compared to $0.5 million and $1.7 million in the three and nine month periods ended March 31, 2007, respectively.

Gross Profit

	Three Months Ended		Nine Months Ended	
$ Millions	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
Gross profit	$13.4	$ 4.3	$39.2	$ 21.9
Gross margin rate	22%	10%	23%	14%

Gross profit is calculated as net revenues less cost of revenues. The gross margin rate is gross profit reflected as a percentage of revenues.

Our gross profit rate increased to 22% and 23% in the three and nine month periods ended March 29, 2008, respectively, compared to 10% and 14% in the nine month periods ended March 31, 2007, respectively. The increases in gross profit and gross margin rate during both periods were primarily due to higher revenues and decreases in our manufacturing cost base as a result of our restructuring and cost reduction plans, including the closure of the manufacturing operations of our Paignton, U.K. facility subsequent to the transfer of assembly and test and related activities to our Shenzhen, China facility and the consolidation of our Caswell, U.K. fabrication operations. We believe we have further specific cost reduction programs in place, primarily related to materials procurement as well as the transfer of most of our photonic tools and solutions manufacturing operations from San Jose to Shenzhen, which we expect may lead, in total, to a quarterly savings rate of $3 million to $4 million by the end of our fiscal quarter ending December 27, 2008. We expect to incur a total of approximately $1 million of additional manufacturing overhead costs, spread over the next two to three fiscal quarters, associated with this transfer of photonic tools and solutions manufacturing operations to Shenzhen. These potential savings, net of costs of the transfer, we expect will have a positive impact on our gross margin percentage in future quarters.

Research and Development Expenses

	Three Months Ended			Nine Months Ended		
$ Millions	**March 29, 2008**	**March 31, 2007**	**% Change**	**March 29, 2008**	**March 31, 2007**	**% Change**
Research and development expenses	$7.6	$ 10.9	(30%)	$24.4	$ 33.9	(28%)
As a percentage of net revenues	13%	24%		14%	21%	

Research and development expenses consist primarily of salaries and related costs of employees engaged in research and design activities, including stock-based compensation charges related to those employees, costs of design tools and computer hardware, costs related to prototyping, and facilities costs for certain research and development focused sites.

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Research and development expenses decreased to $7.6 million in the three month period ended March 29, 2008 compared to $10.9 million in the three month period ended March 31, 2007, and to $24.4 million in the nine month period ended March 29, 2008 compared to $33.9 million in the nine month period ended March 31, 2007. The decreases over both periods were primarily due to staff reductions and a decrease in related costs as a result of our restructurings and cost reduction plans. Research and development expenses included stock-based compensation charges of $0.2 million and $1.3 million in the three and nine month periods ended March 29, 2008, respectively, compared to $0.3 million and $1.2 million in the three and nine month periods ended March 31, 2007, respectively.

Selling, General and Administrative Expenses

	Three Months Ended			Nine Months Ended		
$ Millions	**March 29, 2008**	**March 31, 2007**	**% Change**	**March 29, 2008**	**March 31, 2007**	**% Change**
Selling, general and administrative expenses	$11.8	$ 12.0	(2%)	$36.1	$ 37.0	(2%)
As a percentage of net revenues	20%	27%		21%	23%	

Selling, general and administrative expenses consist primarily of personnel-related expenses, including stock-based compensation charges, related to employees engaged in sales, general and administrative functions, legal and professional fees, facilities expenses, insurance expenses and certain information systems costs.

Selling, general and administrative expenses for the three months ended March 29, 2008 were $11.8 million, a $0.2 million decrease from $12.0 million in the three month period ended March 31, 2007, and for the nine months ended March 29, 2008 were $36.1 million, a $0.9 million decrease from $37.0 million in the nine months ended March 30, 2007. The decrease in selling, general and administrative expenses in the three months ended March 29, 2008 compared to the same period in the prior year was primarily related to decreases in professional fees, which included $0.1 million in legal expenses related to a lawsuit we filed against a real estate developer in the United Kingdom arising out of our purchase and subsequent sale in 2005 of a parcel of land in the United Kingdom. The decrease in selling, general and administrative expenses in the nine months ended March 29, 2008 compared to the same period in the prior year was primarily the result of a decrease in professional fees, including $0.9 million in legal expenses related to a lawsuit we filed against a real estate developer in the United Kingdom arising out of our purchase and subsequent sale in 2005 of a parcel of land in the United Kingdom, and information systems cost savings in connection with our cost reduction plans, partly offset by a $0.3 million increase in stock compensation for the nine month periods ended March 29, 2008 compared to the nine months ended March 30, 2007 associated with the achievement of performance based vesting awards in the nine months ended March 29, 2008. On April 18, 2008, a settlement was reached in the lawsuit we filed against the real estate developer in the United Kingdom referred to above. Under the terms of the settlement, we are scheduled to receive £2.1 million ($4.2 million based on an exchange rate of $1.9776 to £1 as of the date of the settlement) on or before May 8, 2008. We expect to record a gain of $3.8 million in the quarter ending June 28, 2008, which corresponds to the £2.1 million settlement, net of estimated remaining legal fees incurred in connection therewith. Stock-based compensation expenses were $0.6 million and $2.6 million in the three and nine month periods ended March 29, 2008, respectively, and were $0.6 million and $2.3 million in the three and nine month periods ended March 31, 2007, respectively.

Amortization of Intangible Assets

	Three Months Ended		Nine Months Ended	
$ Millions	**March 29, 2008**	**March 31, 2007**	**March 29, 2008**	**March 31, 2007**
Amortization of intangible assets	$0.7	$ 2.2	$4.0	$ 6.9
As a percentage of net revenues	1%	5%	2%	4%

In previous years, we acquired six optical components companies and businesses and one photonics and microwave company. Our last such acquisition was in March 2006. Each of these business combinations added to the balance of our purchased intangible assets, and the related amortization of these intangible assets was recorded as an expense in each of the three and nine month periods ended March 29, 2008 and March 31, 2007. Subsequent to the three month period ended March 31, 2007, the purchased intangible assets from certain of these business acquisitions became fully amortized, which reduced our expense for amortization of purchased intangible assets in the three and nine month periods ended March 29, 2008 to $0.7 million and $4.0 million, respectively, as compared to $2.2 million and $6.9 million during the three and nine month periods ended March 31, 2007, respectively.

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Restructuring and Severance Charges

$ Millions	Three Months Ended March 29, 2008	Three Months Ended March 31, 2007	Nine Months Ended March 29, 2008	Nine Months Ended March 31, 2007
Lease cancellation and commitments	$ 0.6	$ 0.1	$ 1.2	$ 0.8
Termination payments to employees and related costs	0.1	4.2	1.3	7.7
Total	$ 0.7	$ 4.3	$ 2.5	$ 8.5

On January 31, 2007, we adopted an overhead cost reduction plan which included workforce reductions, facility and site consolidation of our Caswell, U.K. semiconductor operations within existing U.K. facilities and the transfer of certain research and development activities to our Shenzhen, China facility. We began implementing the overhead cost reduction plan in the quarter ended March 31, 2007. As of March 29, 2008, we incurred expenses of $7.7 million with respect to this cost reduction plan, of which $7.1 million had been paid through March 29, 2008, the substantial portion being personnel severance and retention related expenses. This overhead and cost reduction plan is now substantially complete. As a result of the completion of this plan, we have saved approximately $8 million per fiscal quarter in expenses when compared to the quarter ended December 30, 2006. Any remaining expenses, which we expect to be less than $0.1 million, are expected to be incurred and paid by the end of our fiscal quarter ending December 27, 2008. In the three and nine month periods ended March 29, 2008, a substantial portion of our restructuring and severance charges for termination payments to employees and related costs were associated with this overhead cost reduction plan and related costs associated with consolidation of certain administrative functions at our San Jose facility. We continue to seek further costs reduction, in particular, subsequent to March 29, 2008 we initiated plans to transfer most of the manufacturing activities of our photonics products and solution business from our San Jose, California site to our Shenzhen, China facility, as described above under Cost of Revenues . Restructuring and severance charges related to this move are expected to total $1.0 million over the next two to three quarters, and once complete the cost savings are expected to amount to approximately $0.75 million per quarter compared to our fiscal quarter ended March 29, 2008. The substantial portion of these charges is expected to be for personnel related severance and retention costs.

In May, September and December 2004, we also announced restructuring plans, including the transfer of our assembly and test operations from Paignton, U.K. to Shenzhen, China, along with reductions in research and development and selling, general and administrative expenses. These cost reduction efforts were expanded in November 2005 to include the transfer of our chip-on-carrier assembly from Paignton to Shenzhen. The transfer of these operations was completed in the quarter ended March 31, 2007. In May 2006, we announced further cost reduction plans, which included transitioning all remaining manufacturing support and supply chain management, along with pilot line production and production planning, from Paignton to Shenzhen, and these plans were also substantially completed in the quarter ended June 30, 2007. In total, as of March 29, 2008, we have spent $32.8 million on these restructuring programs. In the three and nine month periods ended March 31, 2007, the substantial portion of our restructuring and severance charges for termination payments to employees and related costs were associated with these programs.

In connection with these restructuring plans, earlier restructuring plans, and the assumption of restructuring accruals upon the March 2004 acquisition of New Focus, we continue to make scheduled payments drawing down the related lease cancellations and commitments. In the three month and nine month periods ended March 29, 2008, and the three month and nine month periods ended March 31, 2007, we recorded $0.6 million, $1.2 million, $0.1 million and $0.8 million, respectively, in expenses for revised estimates related to these cancellations and commitments.

Legal Settlements

	Three Months Ended	Nine Months Ended

$ Millions	March 29, 2008	March 31, 2007	March 29, 2008	March 31, 2007
Legal settlements	$	$	$	$ 0.5

In the nine months ended March 31, 2007, we recorded $0.5 million for additional legal fees and other professional costs related to a settlement of the litigation with Howard Yue, the former sole shareholder of Globe Y. Technology, Inc. (a company acquired by New Focus, Inc. in February 2001). This settlement had been reached in the fiscal year ended July 1, 2006, and net charges of $5.0 million were recorded in our statement of operations in that period. On April 18, 2008, a settlement was reached in the lawsuit we filed against the real estate developer in the United Kingdom arising out of our purchase and sale of a parcel of land in the United Kingdom. Under the terms of the settlement, we are scheduled to receive £2.1 million ($4.2 million based on an exchange rate of $1.9776 to £1 as of the date of the settlement) on or before May 8, 2008. We expect to record a gain of $3.8 million in the quarter ending June 28, 2008, which corresponds to £2.1 million settlement, net of estimated remaining legal fees incurred in connection therewith. $0.9 million of related legal expenses incurred prior to March 29, 2008 have been previously recorded as selling, general and administrative expense.

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Impairment of Other Long-Lived Assets

$ Millions	Three Months Ended March 29, 2008	Three Months Ended March 31, 2007	Nine Months Ended March 29, 2008	Nine Months Ended March 31, 2007
Impairment of long-lived assets	$	$	$	$ 1.9

During the nine month period ended March 31, 2007, we designated the assets underlying our Paignton, U.K. manufacturing site as held for sale. We recorded an impairment charge of $1.9 million as a result of this designation. During the quarter ended March 31, 2007, Bookham Technology plc, our wholly-owned subsidiary, sold the site to a third party.

Other Income/(Expense), Net

$ Millions	Three Months Ended March 29, 2008	Three Months Ended March 31, 2007	Nine Months Ended March 29, 2008	Nine Months Ended March 31, 2007
Other income/(expense), net	$1.3	$ 0.8	$4.0	$ (2.6)

Other income/(expense), net consists of interest expense, interest income and foreign currency gains and losses primarily related to the re-measurement of short term balances between our international subsidiaries, the re-measurement of United States dollar denominated cash and accounts receivable of foreign subsidiaries with local functional currencies and realized gains or losses on forward contracts designated as hedges. The increases in other income/(expense), net, in the three months ended March 29, 2008 compared to the three months ended March 31, 2007, and in the nine months ended March 29, 2008 compared to the nine months ended March 31, 2007, are primarily related to an increase in non-cash gains, or decreases in non-cash losses on the re-measurement of short term balances between our international subsidiaries primarily generated by changes in currency exchange rates between the United States dollar and the United Kingdom pound sterling, as well as increased interest income from investment funds generated from the November 17, 2007 public offering of our common stock which raised $40.8 million of net proceeds.

Income Tax Provision/(Benefit)

$ Millions	Three Months Ended March 29, 2008	Three Months Ended March 31, 2007	Nine Months Ended March 29, 2008	Nine Months Ended March 31, 2007
Income tax provision/(benefit)	$	$	$	$

We have incurred substantial losses to date and expect to incur additional losses in the future, and accordingly our income tax provision is negligible in each period presented. Based upon the weight of available evidence, which includes our historical operating performance and the recorded cumulative net losses in all prior periods, we provided a full valuation allowance against our net deferred tax assets at March 29, 2008 and at March 31, 2007.

Liquidity, Capital Resources and Contractual Obligations

Liquidity and Capital Resources

Operating activities

$ Millions	Nine Months Ended March 29, 2008 (Unaudited)	Nine Months Ended March 31, 2007 (Unaudited)
Net loss	$ (21.5)	$ (68.6)

Non-cash accounting items:		
Depreciation and amortization	13.2	17.8
Stock-based compensation	5.6	5.1
Impairment of long-lived assets		1.9
Gain on sale of property and equipment	(2.3)	(0.8)
Amortization of deferred gain on sale leaseback	(0.8)	(0.9)
Total non-cash accounting charges	15.7	23.1
Changes in operating assets and liabilities, net	(12.8)	(0.4)
Net cash used in operating activities	$ (18.6)	$ (45.9)

Net cash used in operating activities for the nine month period ended March 29, 2008 was $18.6 million, primarily resulting from our net loss of $21.5 million, offset by non-cash accounting charges of $15.7 million, primarily consisting of $13.2 million of expense related to depreciation and amortization of certain assets, $5.6 million of expense related to stock based compensation and a $2.3 million gain on sale of property, equipment. A net change in our operating assets and liabilities of $12.8 million due to increases in accounts receivable, inventories, and decreases in prepaid expenses and other current assets, accrued expenses and other liabilities and accounts payable also contributed to the use of cash. In particular our accounts receivable increased by $12.0 million as of March 29, 2008 compared to June 30, 2007 as a result of increased revenues and timing of shipments in the three months ended March 29, 2008 weighted more heavily towards the end of the fiscal quarter with corresponding payment due dates and expected collections in the following quarter.

Net cash used in operating activities for the nine month period ended March 31, 2007 was $45.9 million, primarily resulting from the net loss of $68.6 million, offset by non-cash accounting charges of $23.1 million, primarily consisting of $5.1 million of expense related to stock based compensation, $1.9 million of expense related to impairment of long-lived assets and $17.8 million of expense related to depreciation and amortization of certain assets. The remaining $0.4 million was due to the net change in our operating assets and liabilities, which arose primarily from cash generated from reductions in accounts receivable, inventories at our Paignton, UK site as operations have moved to Shenzhen, China, and in prepaid expenses and other current assets, partially offset by decreases in accounts payable and accrued expenses and other liabilities, including the payment of professional fees and accrued restructuring costs.

Investing activities

Net cash used in investing activities in the nine month period ended March 29, 2008 was $13.9 million, primarily consisting of $7.5 million used in capital expenditures and $14.1 million of cash and cash equivalents transferred to short term investments only partly offset by $4.9 million from the release of restricted cash which had been security on an unoccupied leased facility and $2.7 million in net proceeds from the sale of property, equipment and other long-lived assets.

Investing activities generated cash of $6.1 million in the nine month period ended March 31, 2007, primarily consisting of $9.4 million in net proceeds from sale of land held for re-sale and $3.2 million in net proceeds from sale of property, equipment and other long-lived assets, offset by $5.9 million of cash used in capital expenditures and $0.6 million of cash transferred to restricted cash. During the quarter ended December 30, 2006, Bookham Technology plc, our wholly-owned subsidiary, sold our Paignton U.K. manufacturing site to a third party for proceeds of £4.8 million (approximately $9.4 million based on an exchange rate of $1.96 to £1.00 in effect on the date of the sale), net of selling costs. In connection with this transaction, we recorded a loss of $0.1 million which is included in loss on sale of property and equipment and other long-lived assets.

Financing activities

Net cash provided in financing activities in the nine month period ended March 29, 2008 was $38.9 million, consisting primarily of $40.8 million in proceeds, net of expenses and commissions, from an underwritten public offering of 16 million shares of our common stock at a price to the public of $2.75 a share, partly offset by the repayment of $1.8 million drawn under our senior secured $25 million credit facility.

On March 22, 2007, we entered into a definitive agreement for a private placement, pursuant to which we issued, on March 22, 2007, 13,640,224 shares of common stock and warrants to purchase up to 4,092,066 shares of common stock with accredited investors for net proceeds of approximately $26.9 million. The warrants have a five year term, expiring March 22, 2012, and are exercisable beginning on September 23, 2007 at an exercise price of $2.80 per share, subject to adjustment based on weighted average antidilution formula if we effect certain issuances in the future for consideration per share that is less than the then current exercise price.

On August 31, 2006, we entered into an agreement for a private placement of common stock and warrants pursuant to which we issued and sold 8,696,000 shares of common stock and warrants to purchase up to 2,174,000 shares of common stock, which sale closed on September 1, 2006, and issued and sold an additional 2,892,667 shares of common stock and warrants to purchase up to an additional 724,667 shares of common stock in a second closing on September 19, 2006. In both cases such shares of common stock and warrants were issued and sold to certain accredited investors. Our net proceeds from this private placement, including the second closing, were a total of $28.7 million. The warrants are exercisable during the period beginning on March 2, 2007 through September 1, 2011, at an exercise price of $4.00 a share.

Sources of Cash

In the past five years, we have funded our operations from several sources, including public and private offerings of equity, issuance of debt and convertible debentures, sales of assets, our senior secured $25 million credit facility and net cash obtained in connection with acquisitions. On November 13, 2007, we completed a public offering of 16,000,000 shares of common stock that generated $40.8 million of cash, net of commissions and expenses. As of

March 29, 2008, we held $54.7 million in cash and cash equivalents, restricted cash and short term investments. Based on these balances, and amounts expected to be available under our senior secured $25 million credit facility, under which advances are available based on a percentage of accounts receivable at the time the advance is requested, we believe we have sufficient financial resources in order to operate as a going concern through at least the quarter ending March 28, 2009. We may need to raise additional funds by any one or a combination of the following: issuing equity, debt or convertible debt or selling certain non-core businesses. In the event we choose to raise additional funds, there can be no guarantee of our ability to raise those additional funds on terms acceptable to us, or at all.

Credit Facility

On August 2, 2006, we, with Bookham Technology plc, New Focus and Bookham (US) Inc., each a wholly-owned subsidiary, which we collectively refer to as the Borrowers, entered into a credit agreement, or the Credit Agreement, with Wells Fargo Foothill, Inc. and other lenders regarding a three-year $25 million senior secured revolving credit facility. Advances are available under the Credit Agreement based on a percentage of qualified accounts receivable, as defined in the Credit Agreement, at the time the advance is requested.

The obligations of the Borrowers under the Credit Agreement are guaranteed by us, Onetta, Focused Research, Inc., Globe Y. Technology, Inc., Ignis Optics, Inc., Bookham (Canada) Inc., Bookham Nominees Limited and Bookham International Ltd., each also a wholly-owned subsidiary (which we refer to collectively as the Guarantors and together with the Borrowers, as the Obligors), and are secured , by the assets of the Obligors pursuant to a security agreement, or the Security Agreement, including a pledge of the capital stock holdings of the Obligors in some of their direct subsidiaries. Any new direct subsidiary of the Obligors is required to execute a security agreement in substantially the same form and join in the Security Agreement.

Pursuant to the terms of the Credit Agreement, borrowings made under the Credit Agreement bear interest at a rate based on either the London Interbank Offered Rate (LIBOR) plus 2.75 percentage points or the prime rate plus 1.25 percentage points. In the absence of an event of default, any amounts outstanding under the Credit Agreement may be repaid and re-borrowed any time until maturity, which is August 2, 2009. A termination of the commitment line any time prior to August 2, 2008 will subject the Borrowers to a prepayment premium of 1.0% of the maximum revolver amount.

The obligations of the Borrowers under the Credit Agreement may be accelerated upon the occurrence of an event of default under the Credit Agreement, which includes customary events of default, including payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations or warranties, a cross-default related to indebtedness in an aggregate amount of $1 million or more, bankruptcy and insolvency related defaults, defaults relating to such matters as ERISA and judgments, and a change of control default. The Credit Agreement contains negative covenants applicable to the Borrowers and their subsidiaries, including financial covenants requiring the Borrowers to maintain a minimum level of EBITDA (if the Borrowers have not maintained minimum liquidity defined as $30 million of qualified cash and excess availability, each as also defined in the Credit Agreement), as well as restrictions on liens, capital expenditures, investments, indebtedness, fundamental changes to the Borrower s business, dispositions of property, making certain restricted payments (including restrictions on dividends and stock repurchases), entering into new lines of business, and transactions with affiliates. As of March 29, 2008, we have $2.0 million in outstanding borrowings and there were $5.2 million in outstanding letters of credits with vendors and landlords secured under this Credit Agreement and we were in compliance with all covenants under the Credit Agreement.

In connection with the Credit Agreement, we agreed to pay a monthly servicing fee of $3,000 and an unused line fee equal to 0.375% per annum, payable monthly on the unused amount of revolving credit commitments. To the extent there are letters of credit outstanding under the Credit Agreement, we are obligated to pay the administrative agent a letter of credit fee at a rate equal to 2.75% per annum.

Future Cash Requirements

As of March 29, 2008, we held $54.7 million in cash and cash equivalents, restricted cash and short term investments. Based on these balances, and amounts expected to be available under the Credit Agreement, which are based on a percentage of qualified accounts receivable at the time the advance is requested, we believe we have sufficient financial resources in order to operate as a going concern through at least the quarter ended March 28, 2009. In the future we may need to raise additional funds by any one or a combination of the following: issuing equity, debt or convertible debt or selling certain non core businesses. In the event we choose to raise additional finds, there can be no guarantee of our ability to raise those additional funds on terms acceptable to us, or at all.

From time to time, we have engaged in discussions with third parties concerning potential acquisitions of product lines, technologies and businesses. We continue to consider potential acquisition candidates. Any of these transactions could involve the issuance of a significant number of new equity securities, debt, and/or cash consideration. We may also be required to raise additional funds to complete any such acquisition, through either the issuance of equity securities or borrowings. If we raise additional funds or acquire businesses or technologies through the issuance of equity securities, our existing stockholders may experience significant dilution.

Risk Management Foreign Currency Risk

We are exposed to fluctuations in foreign currency exchange rates. As our business has become multinational in scope, we have become increasingly subject to fluctuations based upon changes in the exchange rates between the currencies in which we collect revenues and pay expenses. Despite our change in domicile from the United Kingdom to the United States in 2004, and our movement of certain functions, including assembly and test operations, from the United Kingdom to China, in the future, we expect that a majority of our revenues will continue to be denominated in U.S. dollars, while a significant portion of our expenses will continue to be denominated in U.K. pounds sterling. Fluctuations in the exchange rate between the U.S. dollar and the U.K. pound sterling and, to a lesser extent, other currencies in which we collect revenues and pay expenses, could affect our operating results. This includes the Chinese Yuan and the Swiss franc, in which we pay expenses in connection with operating our facilities in Shenzhen, China, and Zurich, Switzerland, respectively. To the extent the exchange rate between the U.S. dollar and the Chinese Yuan were to fluctuate more significantly than experienced to date, our exposure would increase. We enter into foreign currency forward exchange contracts in an effort to mitigate our exposure to such fluctuations between the U.S. dollar and the U.K. pound sterling, and we may be required to convert currencies to meet our obligations. Under certain circumstances, foreign currency forward exchange contracts can have an adverse effect on our financial condition. As of March 29, 2008, we held 15 foreign currency forward exchange contracts with a nominal value of $12.5 million, which included put and call options which expire, or expired, at various dates from April 2008 to December 2008. During the nine month period ended March 29, 2008, we recorded a net gain of $0.3 million in our statement of operations in connection with foreign exchange contracts that expired during that period. As of March 29, 2008, we recorded an unrealized loss of $0.1 million to other comprehensive income in connection with marking these contracts to fair value.

Contractual Obligations

During the quarter ended March 29, 2008, there have been no material changes to the contractual obligations disclosed as of June 30, 2007 in our Annual Report on Form 10-K filed with the SEC on August 31, 2007.

Off-Balance Sheet Arrangements

In connection with the sale by New Focus, Inc. of its passive component line to Finisar, Inc., prior to our acquisition of New Focus, New Focus agreed to indemnify Finisar for claims related to the intellectual property sold to Finisar. This indemnification obligation expires in May 2009 and has no maximum liability. In connection with the sale by New Focus of its tunable laser technology to Intel Corporation prior to our acquisition of New Focus, New Focus indemnified Intel against losses for certain intellectual property claims. This indemnification obligation expires in May 2008 and has a maximum liability of $7.0 million. We do not expect to payout any amounts in respect of these obligations, therefore no accrual has been made.

We indemnify each of our directors and certain employees as permitted by law, and have entered into indemnification agreements with our directors and senior officers. We have not recorded a liability associated with these indemnification arrangements as we historically have not incurred any costs associated with such obligations and do not expect to in the future. Costs associated with such obligations may be mitigated, in whole or in part, by insurance coverage that we maintain.

We also have indemnification clauses in various contracts that we enter into in the normal course of business, such as guarantees or letters of credit issued by our commercial banks in favor of several of our suppliers or indemnification clauses in favor of customers in respect of liabilities they may incur as a result of purchasing our products should such products infringe the intellectual property rights of a third party. We have not historically paid out any amounts related to these obligations and do not expect to in the future; therefore, no accrual has been made for these obligations.

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

We finance our operations through a mixture of the issuance of equity securities, operating leases, working capital and by drawing on a three year $25 million senior secured revolving credit facility under a credit agreement we entered into on August 3, 2006. Our only exposure to interest rate fluctuations is on our cash deposits and for amounts borrowed under the credit agreement. During the quarter ended December 29, 2007, we paid off $4.3 million of borrowings outstanding under our senior secured $25 million credit agreement with Wells Fargo Foothill, Inc. and then borrowed $2.0 million drawn under the credit agreement which remained outstanding as of March 29, 2008. We monitor our interest rate risk on cash balances primarily through cash flow forecasting. Cash that is surplus to immediate requirements is invested in short-term deposits with banks accessible with one day s notice and invested in overnight money market accounts. We believe our interest rate risk is immaterial.

Foreign currency

We are exposed to fluctuations in foreign currency exchange rates. As our business has become multinational in scope, we have become increasingly subject to fluctuations based upon changes in the exchange rates between the currencies in which we collect revenues and pay expenses. Despite our change in domicile from the United Kingdom to the United States in 2004, and our movement of certain functions, including assembly and test operations, from the United Kingdom to China, in the future we expect that a majority of our revenues will continue to be denominated in U.S. dollars, while a significant portion of our expenses will continue to be denominated in U.K. pounds sterling. Fluctuations in the exchange rate between the U.S. dollar and the U.K. pound sterling and, to a lesser extent, other currencies in which we collect revenues and pay expenses, could affect our operating results. This includes the Chinese Yuan and the Swiss franc in which we pay expenses in connection with operating our facilities in Shenzhen, China, and Zurich, Switzerland, respectively. To the extent the exchange rate between the U.S. dollar and the Chinese Yuan were to fluctuate more significantly than experienced to date, our exposure would increase. We enter into foreign currency forward exchange contracts in an effort to mitigate our exposure to such fluctuations between the U.S. dollar and the U.K. pound sterling, and we may be required to convert currencies to meet our obligations. Under certain circumstances, foreign currency forward exchange contracts can have an adverse effect on our financial condition. As of March 29, 2008, we held 15 foreign currency forward exchange contracts with a nominal value of $12.5 million, which included put and call options which expire, or expired, at various dates from April 2008 to December 2008. During the nine month period ended March 29, 2008, we recorded an unrealized loss of $0.3 million to other comprehensive income in connection with marking these contracts to fair value. It is estimated that a 10% fluctuation in the dollar

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between March 29, 2008 and the maturity dates of these put and call options would lead to a profit of $1.3 million (U.S. dollar weakening), or loss of $1.1 million (U.S. dollar strengthening) on our outstanding foreign currency forward exchange contracts, should they be held to maturity.

Item 4. *Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 29, 2008. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures, as of March 29, 2008, our Chief Executive Office and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d - 15(f) under the Exchange Act) occurred during the quarter ended March 29, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

On June 26, 2001, a putative securities class action captioned Lanter v. New Focus, Inc. et al., Civil Action No. 01-CV-5822, was filed against New Focus, Inc. and several of its officers and directors, or the Individual Defendants, in the United States District Court for the Southern District of New York. Also named as defendants were Credit Suisse First Boston Corporation, Chase Securities, Inc., U.S. Bancorp Piper Jaffray, Inc. and CIBC World Markets Corp., or the Underwriter Defendants, the underwriters in New Focus s initial public offering. Three subsequent lawsuits were filed containing substantially similar allegations. These complaints have been consolidated. On April 19, 2002, plaintiffs filed an Amended Class Action Complaint, described below, naming as defendants the Individual Defendants and the Underwriter Defendants.

On November 7, 2001, a Class Action Complaint was filed against Bookham Technology plc and others in the United States District Court for the Southern District of New York. On April 19, 2002, plaintiffs filed an Amended Class Action Complaint, described below. The Amended Class Action Complaint names as defendants Bookham Technology plc, Goldman, Sachs & Co. and FleetBoston Robertson Stephens, Inc., two of the underwriters of Bookham Technology plc s initial public offering in April 2000, and Andrew G. Rickman, Stephen J. Cockrell and David Simpson, each of whom was an officer and/or director at the time of Bookham Technology plc s initial public offering.

The Amended Class Action Complaint asserts claims under certain provisions of the securities laws of the United States. It alleges, among other things, that the prospectuses for Bookham Technology plc s and New Focus s initial public offerings were materially false and misleading in describing the compensation to be earned by the underwriters in connection with the offerings, and in not disclosing certain alleged arrangements among the underwriters and initial purchasers of ordinary shares, in the case of Bookham Technology plc, or common stock, in the case of New Focus, from the underwriters. The Amended Class Action Complaint seeks unspecified damages (or, in the alternative, rescission for those class members who no longer hold our or New Focus common stock), costs, attorneys fees, experts fees, interest and other expenses. In October 2002, the Individual Defendants were dismissed, without prejudice, from the action subject to their execution of tolling agreements. In July 2002, all defendants filed Motions to Dismiss the Amended Class Action Complaint. The motion was denied as to Bookham Technology plc and New

Focus in February 2003. Special committees of the board of directors authorized the companies to negotiate a settlement of pending claims substantially consistent with a memorandum of understanding negotiated among class plaintiffs, all issuer defendants and their insurers.

The plaintiffs and most of the issuer defendants and their insurers entered into a stipulation of settlement for the claims against the issuer defendants, including Bookham Technology plc. This stipulation of settlement was subject to, among other things, certification of the underlying class of plaintiffs. Under the stipulation of settlement, the plaintiffs would dismiss and release all claims against participating defendants in exchange for a payment guaranty by the insurance companies collectively responsible for insuring the issuers in the related cases, and the assignment or surrender to the plaintiffs of certain claims the issuer defendants may have against the underwriters. On February 15, 2005, the District Court issued an Opinion and Order preliminarily approving the settlement provided that the defendants and plaintiffs agree to a modification narrowing the scope of the bar order set forth in the original settlement agreement. The parties agreed to the modification narrowing the scope of the bar order, and on August 31, 2005, the District Court issued an order preliminarily approving the settlement.

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On December 5, 2006, following an appeal from the underwriter defendants the United States Court of Appeals for the Second Circuit overturned the District Court s certification of the class of plaintiffs who are pursuing the claims that would be settled in the settlement against the underwriter defendants. Plaintiffs filed a Petition for Rehearing and Rehearing En Banc with the Second Circuit on January 5, 2007 in response to the Second Circuit s decision and have informed the District Court that they would like to be heard as to whether the settlement may still be approved even if the decision of the Court of Appeals is not reversed. The District Court indicated that it would defer consideration of final approval of the settlement pending plaintiffs request for further appellate review. On April 6, 2007, the Second Circuit denied plaintiffs petition for rehearing, but clarified that the plaintiffs may seek to certify a more limited class in the District Court. In light of the overturned class certification on June 25, 2007, the District Court signed an Order terminating the settlement. The Company believes that both Bookham Technology plc and New Focus have meritorious defenses to the claims made in the Amended Class Action Complaint and therefore believes that such claims will not have a material effect on its financial position, results of operations or cash flows.

On November 12, 2007, Xi an Raysung Photonics Inc. filed a civil suit against Bookham Inc., and our wholly-owned subsidiary, Bookham Technology (Shenzhen) Co., Ltd., in the Xi an Intermediate People s Court in Shanxi Province of the People s Republic of China. The complaint filed by Xi an Raysung Photonics Inc. alleges that Bookham Inc. and Bookham Technology (Shenzhen) Co., Ltd. breached an agreement between the parties pursuant to which Xi an Raysung Photonics Inc. had supplied certain sample components and was to supply certain components to Bookham Inc. and Bookham Technology (Shenzhen) Co., Ltd. Xi an Raysung Photonics Inc. has increased its request that the court award damages of 20,000,000 Chinese Yuan (approximately $2.9 million based on an exchange rate of $1.00 to 7.0075 Chinese Yuan as in effect on April 22, 2008) and require that Bookham, Inc. and Bookham Technology (Shenzhen) Co., Ltd. pay its legal fees in connection with the suit. Bookham, Inc. and Bookham Technology (Shenzhen) Co., Ltd. believes they have meritorious defenses to the claims made by Xi an Raysung Photonics Inc. and therefore believes that such claims will not have a material effect on its financial position, results of operations or cash flows.

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Item 1A. *Risk Factors*

Investing in our securities involves a high degree of risk. You should carefully consider the risks and uncertainties described below in addition to the other information included or incorporated by reference in this Quarterly Report on Form 10-Q. If any of the following risks actually occurs, our business, financial condition or results of operations would likely suffer. In that case, the trading price of our common stock could fall.

Risks Related to Our Business

We have a history of large operating losses and we may not be able to achieve profitability in the future.

We have never been profitable. We have incurred losses and negative cash flows from operations since our inception. As of March 29, 2008, we had an accumulated deficit of $1,058 million.

Our net loss for the nine month period ended March 29, 2008 was $21.5 million. Our net loss for the year ended June 30, 2007 was $82.2 million. For the year ended July 1, 2006, our net loss was $87.5 million, which included an $18.8 million loss on conversion of convertible debt and early extinguishment of debt, and an aggregate of $11.2 million of restructuring charges, partially offset by an $11.7 million tax gain. For the year ended July 2, 2005, our net loss was $248 million, which included goodwill and intangibles impairment charges of $114.2 million and restructuring charges of $20.9 million. We may not be able to achieve profitability in any future period and if we are unable to do so, we may need additional financing to execute on our current or future business strategies, which may not be available on commercially acceptable terms or at all.

We may not be able to maintain positive gross margins.

Even though we generated positive gross margins in each of the past thirteen fiscal quarters, we have a history of negative gross margins. We may not be able to maintain positive gross margins due to, among other things, new product transitions, changing product mix or semiconductor facility under-utilization. Additionally, we must continue to reduce our costs and improve our product mix to offset price erosion on certain product categories. In particular, over the last two quarters we have introduced a family of tunable products that account for an increasing percentage of our overall product revenues. We anticipate that we will be capacity constrained in our delivery of these products for at least the next quarter due to component supply and production limitations. In addition, we have not yet achieved targeted margins on these products as we introduce them into large-scale production. Although we have plans in place both to address production constraints and improve margins in our tunable products, any failure to do so will adversely affect our financial results, including our goal to achieve cash flow positive operations.

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

The market for telecommunications equipment is characterized by substantial capital investment and diverse and evolving technologies. For example, the market for optical components is currently characterized by a trend toward the adoption of pluggable components and tunable transmitters that do not require the customized interconnections of traditional fixed wavelength gold box devices and the increased integration of components on subsystems. Our ability to anticipate and respond to these and other changes in technology, industry standards, customer requirements and product offerings and to develop and introduce new and enhanced products will be significant factors in our ability to succeed. We expect that new technologies will continue to emerge as competition in the telecommunications industry increases and the need for higher and more cost efficient bandwidth expands. The introduction of new products embodying new technologies or the emergence of new industry standards could render our existing products or products in development uncompetitive from a pricing standpoint, obsolete or unmarketable.

The market for optical components continues to be characterized by excess capacity and intense price competition which has had, and will continue to have, a material adverse effect on our results of operations.

Even though the market for optical components has been gradually recovering from the industry-wide slump experienced at the beginning of the decade, particularly in the metro market segment, there continues to be excess capacity for many optical components companies, intense price competition among optical component manufacturers and continued consolidation in the industry. As a result of this excess capacity, and other industry factors, pricing pressure remains intense. The continued uncertainties in the telecommunications industry and the global economy make it difficult for us to anticipate revenue levels and therefore to make appropriate estimates and plans relating to cost management. Continued uncertain demand for optical components has had, and will continue to have, a material adverse effect on our results of operations.

We depend on a limited number of customers for a significant percentage of our revenues.

Historically, we have generated most of our revenues from a limited number of customers. For example, in the nine months ended March 29, 2008 and the fiscal year ended June 30, 2007, our three largest customers accounted for 33% and 41% of our revenues, respectively. Revenues from any of our major customers may decline or fluctuate significantly in the future. We may not be able to offset any decline in revenues from our existing major customers with revenues from new customers or other existing customers.

Historically, Nortel Networks has been our largest customer. Sales to Nortel Networks accounted for 14%, 20% and 48% of our revenues for the nine month period ended March 29, 2008 and the years ended June 30, 2007 and July 1, 2006, respectively. Through December 2006, sales of our products to Nortel Networks were made pursuant to the terms of a supply agreement. Certain minimum purchase obligations and favorable pricing provisions within that supply agreement expired in December 2006 as a result of which Nortel Networks is no longer obligated to buy any of our products. Revenues from Nortel Networks decreased to $3.1 million in the quarter ended March 31, 2007 from $14.5 million in the quarter ended December, 30, 2006. Even though revenues from Nortel Networks increased from $3.1 million in the quarter ended March 31, 2007 to $7.6 million in the quarter ended June 30, 2007, and have since been $8.3 million, $8.8 million and $7.9 million in the quarters ended September 29, 2007, December 29, 2007 and March 29, 2008, respectively, as with other major customers, revenues from Nortel may decline or fluctuate significantly in the future. Our inability to replace these revenues will have an adverse impact on our business and results of operations.

We and our customers depend upon a limited number of major telecommunications carriers.

Our dependence on a limited number of customers is due to the fact that the optical telecommunications systems industry is dominated by a small number of large companies. These customers in turn depend primarily on a limited number of major telecommunications carrier customers to purchase their products that incorporate our optical components. Many major telecommunication systems companies and telecommunication carriers are experiencing losses from operations. The further consolidation of the industry, coupled with declining revenues from our major customers, may have a material adverse impact on our business.

We typically do not enter into long-term contracts with our customers and our customers may decrease, cancel or delay their buying levels at any time with little or no advance notice to us.

Our customers typically purchase our products pursuant to individual purchase orders. While our customers generally provide us with their expected forecasts for our products several months in advance, in most cases they are not contractually committed to buy any quantity of products beyond those in purchase orders previously submitted to us. Our customers may decrease, cancel or delay purchase orders already in place. If any of our major customers decrease, stop or delay purchasing our products for any reason, our business and results of operations would be harmed. Cancellation or delays of such orders may cause us to fail to achieve our short- and long-term financial and operating goals and result in excess and obsolete inventory.

As a result of our global operations, our business is subject to currency fluctuations that have adversely affected our results of operations in recent quarters and may continue to do so in the future.

Our financial results have been materially impacted by foreign currency fluctuations and our future financial results may also be materially impacted by foreign currency fluctuations. At certain times in our history, declines in the value of the U.S. dollar versus the U.K. pound sterling have had a major negative effect on our profit margins and our cash flow. Despite our change in domicile from the United Kingdom to the United States in 2004 and the transfer of our assembly and test operations from Paignton, U.K. to Shenzhen, China, a significant portion of our expenses are still denominated in U.K. pounds sterling and substantially all of our revenues are denominated in U.S. dollars. Fluctuations in the exchange rate between these two currencies and, to a lesser extent, other currencies in which we collect revenues and pay expenses will continue to have a material effect on our operating results. For example, from September 30, 2007 to March 29, 2008 the Swiss Franc has appreciated 18.0% relative to the U.S. dollar, and could continue to appreciate in the future. Additional exposure could also result should the exchange rate between the U.S. dollar and the Chinese Yuan vary more significantly than it has to date.

We engage in currency transactions in an effort to cover some of our exposure to such currency fluctuations, and we may be required to convert currencies to meet our obligations. Under certain circumstances, these transactions could have an adverse effect on our financial condition.

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

We are taking advantage of the comparatively low costs of operating in China. We have recently transferred substantially all of our assembly and test operations, chip-on-carrier operations and manufacturing and supply chain management operations to our facility in Shenzhen, China, and have also transferred certain iterative research and development related activities from the U.K. to Shenzhen, China. We are also planning to transfer certain manufacturing operations of our San Jose, California based photonics business to our Shenzhen facility. To be successful in China we will need to:

- qualify our manufacturing lines and the products we produce in Shenzhen, as required by our customers;
- attract qualified personnel to operate our Shenzhen facility; and
- retain employees at our Shenzhen facility.

There can be no assurance we will be able to do any of these.

Operations in China are subject to greater political, legal and economic risks than our operations in other countries. In order to operate the facility, we must obtain and retain required legal authorization and train and hire a workforce. In particular, the political, legal and economic climate in China, both nationally and regionally, is fluid and unpredictable. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations such as those related to taxation, import and export tariffs, environmental regulations, land use rights, intellectual property and other matters. In addition, we may not obtain or retain the requisite legal permits to continue to operate in China and costs or operational limitations may be imposed in connection with obtaining and complying with such permits. Employee turnover in China is high due to the intensely competitive and fluid market for skilled labor.

We have been advised that power may be rationed in the location of our Shenzhen facility, and were power rationing to be implemented, it could have an adverse impact on our ability to complete manufacturing commitments on a timely basis or, alternatively, could require significant investment in generating capacity to sustain uninterrupted operations at the facility, which we may not be able to do successfully.

We intend to export the majority of the products manufactured at our Shenzhen facility. Under current regulations, upon application and approval by the relevant governmental authorities, we will not be subject to certain Chinese taxes and will be exempt from certain duties on imported materials that are used in the manufacturing process and subsequently exported from China as finished products. However, Chinese trade regulations are in a state of flux, and we may become subject to other forms of taxation and duties in China or may be required to pay export fees in the future. In the event that we become subject to new forms of taxation or export fees in China, our business and results of operations could be materially adversely affected. We may also be required to expend greater amounts than we currently anticipate in connection with increasing production at the Shenzhen facility. Any one of the factors cited above, or a combination of them, could result in unanticipated costs, which could materially and adversely affect our business.

Fluctuations in operating results could adversely affect the market price of our common stock.

Our revenues and operating results are likely to fluctuate significantly in the future. The timing of order placement, size of orders and satisfaction of contractual customer acceptance criteria, as well as order or shipment delays or deferrals, with respect to our products, may cause material fluctuations in revenues. Our lengthy sales cycle, which may extend to more than one year, may cause our revenues and operating results to vary from period to period and it may be difficult to predict the timing and amount of any variation. Delays or deferrals in purchasing decisions may increase as we develop new or enhanced products for new markets, including data communications, industrial, research, semiconductor capital equipment, military and biotechnology markets. Our current and anticipated future dependence on a small number of customers increases the revenue impact of each such customer s decision to delay or defer purchases from us. Our expense levels in the future will be based, in large part, on our expectations regarding future revenue sources and, as a result, operating results for any quarterly period in which material orders fail to occur, or are delayed or deferred could vary significantly.

Because of these and other factors, quarter-to-quarter comparisons of our results of operations may not be an indication of future performance. In future periods, results of operations may differ from the estimates of public market analysts and investors. Such a discrepancy could cause the market price of our common stock to decline.

We may incur additional significant restructuring charges that will adversely affect our results of operations.

Over the past nine years, we have enacted a series of restructuring plans and cost reduction plans designed to reduce our manufacturing overhead and our operating expenses. In 2001, we reduced manufacturing overhead and our operating expenses in response to the initial decline in demand in the optical components industry. In connection with our acquisitions of Nortel Networks optical components business in November 2002 and New Focus in March 2004, we enacted restructuring plans related to the consolidation of our operations, which we expanded in September 2004 to include the transfer of our main corporate functions, including consolidated accounting, financial reporting, tax and treasury, from Abingdon, U.K. to our U.S headquarters in San Jose, California.

In May, September and December 2004, we announced restructuring plans, including the transfer of our assembly and test operations from Paignton, U.K. to Shenzhen, China, along with reductions in research and development and selling, general and administrative expenses. These cost reduction efforts were expanded in November 2005 to include the transfer of our chip-on-carrier assembly from Paignton to Shenzhen. The transfer of these operations was completed in the quarter ended March 31, 2007. In May 2006, we announced further cost reduction plans, which included transitioning all remaining manufacturing support and supply chain management, along with pilot line production and production planning, from Paignton to Shenzhen. This was substantially completed in the quarter ended June 30, 2007. We have spent an aggregate of $32.8 million on these restructuring programs.

On January 31, 2007, we adopted an overhead cost reduction plan which included workforce reductions, facility and site consolidation of our Caswell, U.K. semiconductor operations within our existing U.K. facilities and the transfer of certain research and development activities to our Shenzhen facility. As of March 29, 2008, we had incurred expenses of $7.7 million with respect to this cost reduction plan, the substantial portion being personnel severance and retention related expenses. This plan is now substantially complete. As a result of the completion of this plan, we have saved approximately $8 million per fiscal quarter in expenses when compared to the quarter ended December 30, 2006. Any remaining expenses, which we expect to be less than $0.1 million, are expected to be incurred and paid by the end of our fiscal quarter ending December 27, 2008.

We plan on taking further advantage of the relatively lower costs in our Shenzhen facility by transferring most of the manufacturing operations of our San Jose, California based photonics and solution business to Shenzhen over the next two to three quarters, with related charges expected to be approximately $1.0 million, with anticipated cost savings of approximately $0.75 million a quarter upon completion, compared to the quarter ended March 29, 2008. The substantial portion of these charges is expected to be for personnel related severance and retention costs.

We may incur charges in excess of amounts currently estimated for these restructuring and cost reduction plans. We may incur additional charges in the future in connection with future restructurings and cost reduction plans. These charges, along with any other charges, have adversely affected, and will continue to adversely affect, our results of operations for the periods in which such charges have been, or will be, incurred.

Our results of operations may suffer if we do not effectively manage our inventory, and we may incur inventory-related charges.

We need to manage our inventory of component parts and finished goods effectively to meet changing customer requirements. Accurately forecasting customers product needs is difficult. Some of our products and supplies have in the past, and may in the future, become obsolete while in inventory due to rapidly changing customer specifications or a decrease in customer demand. If we are not able to manage our inventory effectively, we may need to write down the value of some of our existing inventory or write off unsaleable or obsolete inventory, which would adversely affect our results of operations. We have from time to time incurred significant inventory-related charges. For example, during the year ended July 1, 2006, we incurred significant costs for inventory production variances associated with unanticipated shifts in the mix of our customers product orders. Any such charges we incur in future periods could significantly adversely affect our results of operations.

Bookham Technology plc may not be able to utilize tax losses and other tax attributes against the receivables that arise as a result of its transaction with Deutsche Bank.

On August 10, 2005, Bookham Technology plc purchased all of the issued share capital of City Leasing (Creekside) Limited, a subsidiary of Deutsche Bank. Creekside was entitled to receivables of £73.8 million (approximately $135.8 million, based on an exchange rate of £1.00 to $1.8403, the noon buying rate on September 2, 2005 for cable transfers in foreign currencies as certified by the Federal Reserve Bank of New York) from Deutsche Bank in connection with certain aircraft subleases and these payments have been applied over a two-year term to obligations of £73.1 million (approximately $134.5 million based on an exchange rate of £1.00 to $1.8403) owed to Deutsche Bank. As a result of the completion of these transactions, Bookham Technology plc has had available through Creekside cash of approximately £6.63 million (approximately $12.2 million based on an exchange rate of £1.00 to $1.8403). We expect Bookham Technology plc to utilize certain expected tax losses and other tax attributes to reduce the taxes that might otherwise be due by Creekside as the receivables are paid. In the event that Bookham Technology plc is not able to utilize these tax losses and other tax attributes when U.K. tax returns are filed for the relevant periods (or these tax losses and other tax attributes do not arise), Creekside may have to pay taxes, reducing the cash available from Creekside. In the event there is a future change in applicable U.K. tax law, Creekside and in turn Bookham Technology plc would be responsible for any resulting tax liabilities, which amounts could be material to our financial condition or operating results.

Our products are complex and may take longer to develop than anticipated and we may not recognize revenues from new products until after long field testing and customer acceptance periods.

Many of our new products must be tailored to customer specifications. As a result, we are constantly developing new products and using new technologies in those products. For example, while we currently manufacture and sell discrete gold box technology, we expect that many of our sales of gold box technology will soon be replaced by pluggable modules. New products or modification to existing products often take many quarters to develop because of their complexity and because customer specifications sometimes change during the development cycle. We often incur substantial costs associated with the research and development and sales and marketing activities in connection with products that may be purchased long after we have incurred the costs associated with designing, creating and selling such products. In addition, due to the rapid technological changes in our market, a customer may cancel or modify a design project before we begin large-scale manufacture of the product and receive revenue from the customer. It is unlikely that we would be able to recover the expenses for cancelled or unutilized design projects. It is difficult to predict with any certainty, particularly in the present economic climate, the frequency with which customers will cancel or modify their projects, or the effect that any cancellation or modification would have on our results of operations.

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If our customers do not qualify our manufacturing lines or the manufacturing lines of our subcontractors for volume shipments, our operating results could suffer.

Most of our customers do not purchase products, other than limited numbers of evaluation units, prior to qualification of the manufacturing line for volume production. Our existing manufacturing lines, as well as each new manufacturing line, must pass through varying levels of qualification with our customers. Our manufacturing lines have passed our qualification standards, as well as our technical standards. However, our customers also require that we pass their specific qualification standards and that we, and any subcontractors that we may use, be registered under international quality standards. In addition, we have in the past, and may in the future, encounter quality control issues as a result of relocating our manufacturing lines or introducing new products to fill production. We may be unable to obtain customer qualification of our manufacturing lines or we may experience delays in obtaining customer qualification of our manufacturing lines. Such delays or failure to obtain qualifications would harm our operating results and customer relationships.

Delays, disruptions or quality control problems in manufacturing could result in delays in product shipments to customers and could adversely affect our business.

We may experience delays, disruptions or quality control problems in our manufacturing operations or the manufacturing operations of our subcontractors. As a result, we could incur additional costs that would adversely affect gross margins, and product shipments to our customers could be delayed beyond the shipment schedules requested by our customers, which would negatively affect our revenues, competitive position and reputation. Furthermore, even if we are able to deliver products to our customers on a timely basis, we may be unable to recognize revenues at the time of delivery based on our revenue recognition policies.

We may experience low manufacturing yields.

Manufacturing yields depend on a number of factors, including the volume of production due to customer demand and the nature and extent of changes in specifications required by customers for which we perform design-in work. Higher volumes due to demand for a fixed, rather than continually changing, design generally results in higher manufacturing yields, whereas lower volume production generally results in lower yields. In addition, lower yields may result, and have in the past resulted, from commercial shipments of products prior to full manufacturing qualification to the applicable specifications. Changes in manufacturing processes required as a result of changes in product specifications, changing customer needs and the introduction of new product lines have historically caused, and may in the future cause, significantly reduced manufacturing yields, resulting in low or negative margins on those products. Moreover, an increase in the rejection rate of products during the quality control process, before, during or after manufacture, results in lower yields and margins. Finally, manufacturing yields and margins can also be lower if we receive or inadvertently use defective or contaminated materials from our suppliers.

We depend on a limited number of suppliers who could disrupt our business if they stopped, decreased or delayed shipments.

We depend on a limited number of suppliers of raw materials and equipment used to manufacture our products. Some of these suppliers are sole sources. We typically have not entered into long-term agreements with our suppliers and, therefore, these suppliers generally may stop supplying materials and equipment at any time. The reliance on a sole supplier or limited number of suppliers could result in delivery problems, reduced control over product pricing and quality, and an inability to identify and qualify another supplier in a timely manner. Any supply deficiencies relating to the quality or quantities of materials or equipment we use to manufacture our products could adversely affect our ability to fulfill customer orders and our results of operations.

Our intellectual property rights may not be adequately protected.

Our future success will depend, in large part, upon our intellectual property rights, including patents, design rights, trade secrets, trademarks, know-how and continuing technological innovation. We maintain an active program of identifying technology appropriate for patent protection. Our practice is to require employees and consultants to execute non-disclosure and proprietary rights agreements upon commencement of employment or consulting arrangements. These agreements acknowledge our exclusive ownership of all intellectual property developed by the individuals during their work for us and require that all proprietary information disclosed will remain confidential. Although such agreements may be binding, they may not be enforceable in full or in part in all jurisdictions and any breach of a confidentiality obligation could have a very serious effect on our business and the remedy for such breach may be limited.

Our intellectual property portfolio is an important corporate asset. The steps we have taken and may take in the future to protect our intellectual property may not adequately prevent misappropriation or ensure that others will not develop competitive technologies or products. We cannot assure investors that our competitors will not successfully challenge the validity of our patents or design products that avoid infringement of our proprietary rights with respect to our technology. There can be no assurance that other companies are not investigating or developing other similar technologies, that any patents will be issued from any application pending or filed by us or that, if patents are issued, the claims allowed will be sufficiently broad to deter or prohibit others from marketing similar products. In addition, we cannot assure investors that any patents issued to us will not be challenged, invalidated or circumvented, or that the rights under those patents will provide a competitive advantage to us. Further, the laws of certain regions in which our products are or may be developed, manufactured or sold, including Asia-Pacific, Southeast Asia and Latin America, may not protect our products and intellectual property rights to the same extent as the laws of the United States, the U.K. and continental European countries. This is especially relevant now that we have transferred all of our assembly and test operations and chip-on-carrier operations from our facilities in the U.K. to Shenzhen, China and as our competitors establish manufacturing operations in China to take advantage of comparatively low manufacturing costs.

Our products may infringe the intellectual property rights of others which could result in expensive litigation or require us to obtain a license to use the technology from third parties, or we may be prohibited from selling certain products in the future.

Companies in the industry in which we operate frequently receive claims of patent infringement or infringement of other intellectual property rights. We have, from time to time, received such claims, including from competitors and from companies that have substantially more resources than us. One such claim was received from JDS UniphaseCorp, or JDSU, and in response, on March 3, 2008, we filed a complaint in the United States District Court for the Northern District of California, asking for, among other things, a declaratory judgment of non-infringement and invalidity related to the patent which JDSU raised in its claim to us. Third parties may in the future assert claims against us concerning our existing products or with respect to future products under development. We have entered into and may in the future enter into indemnification obligations in favor of some customers that could be triggered upon an allegation or finding that we are infringing other parties proprietary rights. If we do infringe a third party s rights, we may need to negotiate with holders of those rights relevant to our business. We have from time to time received notices from third parties alleging infringement of their intellectual property and where appropriate have entered into license agreements with those third parties with respect to that intellectual property. We may not in all cases be able to resolve allegations of infringement through licensing arrangements, settlement, alternative designs or otherwise. We may take legal action to determine the validity and scope of the third-party rights or to defend against any allegations of infringement. In the course of pursuing any of these means or defending against any lawsuits filed against us, we could incur significant costs and diversion of our resources. Due to the competitive nature of our industry, it is unlikely that we could increase our prices to cover such costs. In addition, such claims could result in significant penalties or injunctions that could prevent us from selling some of our products in certain markets or result in settlements that require payment of significant royalties that could adversely affect our ability to price our products profitably.

If we fail to obtain the right to use the intellectual property rights of others necessary to operate our business, our ability to succeed will be adversely affected.

Certain companies in the telecommunications and optical components markets in which we sell our products have experienced frequent litigation regarding patent and other intellectual property rights. Numerous patents in these industries are held by others, including academic institutions and our competitors. Optical component suppliers may seek to gain a competitive advantage or other third parties may seek an economic return on their intellectual property portfolios by making infringement claims against us. In the future, we may need to obtain license rights to patents or other intellectual property held by others to the extent necessary for our business. Unless we are able to obtain such licenses on commercially reasonable terms, patents or other intellectual property held by others could inhibit or prohibit our production and sale of existing products and our development of new products for our markets. Licenses granting us the right to use third-party technology may not be available on commercially reasonable terms, if at all. Generally, a license, if granted, would include payments of up-front fees, ongoing royalties or both. These payments or other terms could have a significant adverse impact on our operating results. Our larger competitors may be able to obtain licenses or cross-license their technology on better terms than we can, which could put us at a competitive disadvantage.

The markets in which we operate are highly competitive, which could result in lost sales and lower revenues.

The market for fiber optic components and modules is highly competitive and such competition could result in our existing customers moving their orders to competitors. We are aware of a number of companies that have developed or are developing optical component products, including tunable lasers, pluggables and thin film filter products, among others, that compete directly with our current and proposed product offerings. Certain of our competitors may be able to more quickly and effectively:

- respond to new technologies or technical standards;

- react to changing customer requirements and expectations;

- devote needed resources to the development, production, promotion and sale of products; and
- deliver competitive products at lower prices.

Many of our current competitors, as well as a number of our potential competitors, have longer operating histories, greater name recognition, broader customer relationships and industry alliances and substantially greater financial, technical and marketing resources than we do. In addition, market leaders in industries such as semiconductor and data communications, who may also have significantly more resources than we do, may in the future enter our market with competing products. All of these risks may be increased if the market were to further consolidate through mergers or other business combinations between competitors.

We may not be able to compete successfully with our competitors and aggressive competition in the market may result in lower prices for our products or decreased gross profit margins. Any such development would have a material adverse effect on our business, financial condition and results of operations.

We generate a significant portion of our revenues internationally and therefore are subject to additional risks associated with the extent of our international operations.

For the nine months ended March 29, 2008 and the years ended June 30, 2007, July 1, 2006 and July 2, 2005, 24%, 23%, 21%, and 28% of our revenues, respectively, were derived in the United States and 76%, 77%, 79%, and 72% of our revenues, respectively, were derived outside the United States. We are subject to additional risks related to operating in foreign countries, including:

- currency fluctuations, which could result in increased operating expenses and reduced revenues;
- greater difficulty in accounts receivable collection and longer collection periods;
- difficulty in enforcing or adequately protecting our intellectual property;
- foreign taxes;
- political, legal and economic instability in foreign markets; and
- foreign regulations.

Any of these risks, or any other risks related to our foreign operations, could materially adversely affect our business, financial condition and results of operations.

Our business will be adversely affected if we cannot manage the significant changes in the number of our employees and the size of our operations.

We have significantly reduced the number of employees and scope of our operations because of declining demand for certain of our products and continue to reduce our headcount in connection with our on going restructuring and cost reduction efforts. During periods of growth or decline, management may not be able to sufficiently coordinate the roles of individuals to ensure that all areas of our operations receive appropriate focus and attention. If we are unable to manage our headcount, manufacturing capacity and scope of operations effectively, the cost and quality of our products may suffer, we may be unable to attract and retain key personnel and we may be unable to market and develop new products. Further, the inability to successfully manage a more geographically diverse organization, or any significant delay in achieving successful management, could have a material adverse effect on us and, as a result, on the market price of our common stock.

We may be faced with product liability claims.

Despite quality assurance measures, defects may occur in our products. The occurrence of any defects in our products could give rise to liability for damages caused by such defects, including consequential damages. Such defects could, moreover, impair the market s acceptance of our products. Both could have a material adverse effect on our business and financial condition. In addition, we may assume product warranty liabilities related to companies we acquire, which could have a material adverse effect on our business and financial condition. In order to mitigate the risk of liability for damages, we carry product liability insurance with a $26 million aggregate annual limit and errors and omissions insurance with a $5 million annual limit. We cannot assure investors that this insurance could adequately cover our costs arising from defects in our products or otherwise.

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

Our future depends, in part, on our ability to attract and retain key personnel. Competition for highly skilled technical people is extremely intense and we continue to face difficulty identifying and hiring qualified engineers in many areas of our business. We may not be able to hire and retain such personnel at compensation levels consistent with our existing compensation and salary structure. Our future also depends on the continued contributions of our executive management team and other key management and technical personnel, each of whom would be difficult to replace. The loss of services of these or other executive officers or key personnel or the inability to continue to attract qualified personnel could have a material adverse effect on our business.

Similar to other technology companies, we rely upon our ability to use stock options and other forms of equity-based compensation as key components of our executive and employee compensation structure. Historically, these components have been critical to our ability to retain important personnel and offer competitive compensation packages. Without these components, we would be required to significantly increase cash compensation levels (or develop alternative compensation structures) in order to retain our key employees. Accounting rules relating to the expensing of equity compensation may cause us to substantially reduce, modify, or even eliminate, all or portions of our equity compensation programs which may, in turn, prevent us from retaining or hiring qualified employees.

Our business and future operating results may be adversely affected by events outside of our control.

Our business and operating results are vulnerable to interruption by events outside of our control, such as earthquakes, fire, power loss, telecommunications failures, political instability, military conflict and uncertainties arising out of terrorist attacks, including a global economic slowdown, the economic consequences of additional military action or additional terrorist activities and associated political instability, and the effect of heightened security concerns on domestic and international travel and commerce.

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

The rapidly changing industry in which we operate, the length of time between developing and introducing a product to market and frequent changing customer specifications for products, among other things, makes our prospects difficult to evaluate. It is possible that we may not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs. If this occurs, we may need additional financing to execute on our current or future business strategies.

In the past, we have sold shares of our common stock in public offerings, private placements or otherwise in order to fund our operations. On November 13, 2007, we completed a public offering of 16,000,000 shares of common stock that generated $40.9 million of cash, net of commissions and expenses. On March 22, 2007, pursuant to a private placement, we issued 13,640,224 shares of common stock and warrants to purchase up to 4,092,066 shares of common stock. In September 2006, pursuant to a private placement, we issued an aggregate of 11,594,667 shares of common stock and warrants to purchase an aggregate of 2,898,667 shares of common stock. In January and March 2006, pursuant to a private placement, we issued an aggregate of 10,507,158 shares of common stock and warrants to purchase an aggregate of 1,086,001 shares of common stock.

If we raise funds through the issuance of equity or convertible debt securities, our stockholders may be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of securities held by existing stockholders. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations, develop or enhance our products, or otherwise respond to competitive pressures could be significantly limited.

Risks Related to Regulatory Compliance and Litigation

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results, which may cause stockholders to lose confidence in the accuracy of our financial statements.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our brand and operating results could be harmed. In addition, compliance with the internal control requirements, as well as other financial reporting standards applicable to a public company, including the Sarbanes-Oxley Act of 2002, has in the past and will in the future continue to involve substantial cost and investment of our management s time. We will continue to spend significant time and incur significant costs to assess and report on the effectiveness of internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act. In our prior fiscal years ended July 1, 2006 and July 2, 2005, we reported certain material weaknesses, in fiscal 2006 relating to inconsistent treatment of translation/transaction gains and loses in respect to certain intercompany loan balances, and in fiscal 2005 relating to: i) shortage of, and turnover in, qualified financial reporting personnel to ensure complete application of U.S. generally accepted accounting principles, ii) insufficient management review of analyses and reconciliations, iii) inaccurate updating of accounting inputs for estimates of complex non-routine transactions, and iv) accounting for foreign currency exchange transactions. Although we have since concluded as to the satisfactory remediation of these material weaknesses, finding more material weaknesses in the future could make it more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers, which could harm our business. In addition, if we discover future material weaknesses, disclosure of that fact could reduce the market s confidence in our financial statements, which could harm our stock price and our ability to raise capital.

Our business involves the use of hazardous materials, and we are subject to environmental and import/export laws and regulations that may expose us to liability and increase our costs.

We historically handled small amounts of hazardous materials as part of our manufacturing activities and now handle more and different hazardous materials as a result of the manufacturing processes related to our New Focus division, the optical components business acquired from Nortel Networks and the product lines we acquired from

Marconi. Consequently, our operations are subject to environmental laws and regulations governing, among other things, the use and handling of hazardous substances and waste disposal. We may incur costs to comply with current or future environmental laws. As with other companies engaged in manufacturing activities that involve hazardous materials, a risk of environmental liability is inherent in our manufacturing activities, as is the risk that our facilities will be shut down in the event of a release of hazardous waste. The costs associated with environmental compliance or remediation efforts or other environmental liabilities could adversely affect our business. Under applicable EU regulations, we, along with other electronics component manufacturers, are prohibited from using lead and certain other hazardous materials in our products. We have incurred unanticipated expenses in connection with the related reconfiguration of our products, and could lose business or face product returns if we failed to implement these requirements properly or on a timely basis.

In addition, the sale and manufacture of certain of our products require on-going compliance with governmental security and import/export regulations. Our New Focus division has, in the past, been notified of potential violations of certain export regulations which on one occasion resulted in the payment of a fine to the U.S. federal government. We may, in the future, be subject to

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investigation which may result in fines for violations of security and import/export regulations. Furthermore, any disruptions of our product shipments in the future, including disruptions as a result of efforts to comply with governmental regulations, could adversely affect our revenues, gross margins and results of operations.

Litigation regarding Bookham Technology plc s and New Focus initial public offering and follow-on offering and any other litigation in which we become involved, including as a result of acquisitions on the arrangements we have with suppliers and customers, may substantially increase our costs and harm our business.

On June 26, 2001, a putative securities class action captioned Lanter v. New Focus, Inc. et al., Civil Action No. 01-CV-5822, was filed against New Focus, Inc. and several of its officers and directors, or the Individual Defendants, in the United States District Court for the Southern District of New York. Also named as defendants were Credit Suisse First Boston Corporation, Chase Securities, Inc., U.S. Bancorp Piper Jaffray, Inc. and CIBC World Markets Corp., or the Underwriter Defendants, the underwriters in New Focus s initial public offering. Three subsequent lawsuits were filed containing substantially similar allegations. These complaints have been consolidated. On April 19, 2002, plaintiffs filed an Amended Class Action Complaint, described below, naming as defendants the Individual Defendants and the Underwriter Defendants.

On November 7, 2001, a Class Action Complaint was filed against Bookham Technology plc and others in the United States District Court for the Southern District of New York. On April 19, 2002, plaintiffs filed an Amended Class Action Complaint, described below. The Amended Class Action Complaint names as defendants Bookham Technology plc, Goldman, Sachs & Co. and FleetBoston Robertson Stephens, Inc., two of the underwriters of Bookham Technology plc s initial public offering in April 2000, and Andrew G. Rickman, Stephen J. Cockrell and David Simpson, each of whom was an officer and/or director at the time of Bookham Technology plc s initial public offering.

The Amended Class Action Complaint asserts claims under certain provisions of the securities laws of the United States. It alleges, among other things, that the prospectuses for Bookham Technology plc s and New Focus s initial public offerings were materially false and misleading in describing the compensation to be earned by the underwriters in connection with the offerings, and in not disclosing certain alleged arrangements among the underwriters and initial purchasers of ordinary shares, in the case of Bookham Technology plc, or common stock, in the case of New Focus, from the underwriters. The Amended Class Action Complaint seeks unspecified damages (or; in the alternative; rescission for those class members who no longer hold our or New Focus common stock), costs, attorneys fees, experts fees, interest and other expenses. In October 2002, the Individual Defendants were dismissed, without prejudice, from the action subject to their execution of tolling agreements. In July 2002, all defendants filed Motions to Dismiss the Amended Class Action Complaint. The motion was denied as to Bookham Technology plc and New Focus in February 2003. Special committees of the board of directors authorized the companies to negotiate a settlement of pending claims substantially consistent with a memorandum of understanding negotiated among class plaintiffs, all issuer defendants and their insurers.

Plaintiffs and most of the issuer defendants and their insurers entered into a stipulation of settlement for the claims against the issuer defendants, including us. This stipulation of settlement was subject to, among other things, certification of the underlying class of plaintiffs. Under the stipulation of settlement, the plaintiffs would dismiss and release all claims against participating defendants in exchange for a payment guaranty by the insurance companies collectively responsible for insuring the issuers in the related cases, and the assignment or surrender to the plaintiffs of certain claims the issuer defendants may have against the underwriters. On February 15, 2005, the District Court issued an Opinion and Order preliminarily approving the settlement provided that the defendants and plaintiffs agree to a modification narrowing the scope of the bar order set forth in the original settlement agreement. The parties agreed to the modification narrowing the scope of the bar order, and on August 31, 2005, the District Court issued an order preliminarily approving the settlement.

On December 5, 2006, following an appeal from the underwriter defendants the United States Court of Appeals for the Second Circuit overturned the District Court s certification of the class of plaintiffs who are pursuing the claims that would be settled in the settlement against the underwriter defendants. Plaintiffs filed a Petition for Rehearing and Rehearing En Banc with the Second Circuit on January 5, 2007 in response to the Second Circuit s decision and have informed the District Court that they would like to be heard as to whether the settlement may still be approved even if the decision of the Court of Appeals is not reversed. The District Court indicated that it would defer consideration of final approval of the settlement pending plaintiffs request for further appellate review. On April 6, 2007, the Second Circuit denied plaintiffs petition for rehearing, but clarified that the plaintiffs may seek to certify a more limited class in the District Court. In light of the overturned class certification on June 25, 2007, the District Court signed an Order terminating the settlement. We believe that both Bookham Technology plc and New Focus have meritorious defenses to the claims made in the Amended Class Action Complaint and therefore believe that such claims will not have a material effect on our financial position, results of operations or cash flows.

On November 12, 2007, Xi an Raysung Photonics Inc. filed a civil suit against Bookham Inc., and our wholly-owned subsidiary, Bookham Technology (Shenzhen) Co., Ltd., in the Xi an Intermediate People s Court in Shanxi Province of the People s Republic of China. The complaint filed by Xi an Raysung Photonics Inc. alleges that Bookham Inc. and Bookham Technology (Shenzhen) Co., Ltd. breached an agreement between the parties pursuant to which Xi an Raysung Photonics Inc. had supplied certain sample components and was to supply certain components to Bookham Inc. and Bookham Technology (Shenzhen) Co., Ltd. Xi an Raysung Photonics Inc. has increased its request that the court award damages of 20,000,000 Chinese Yuan (approximately

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$2.9 million based on an exchange rate of $1.00 to 7.0075 Chinese Yuan as in effect on April 22, 2008) and require that Bookham, Inc. and Bookham Technology (Shenzhen) Co., Ltd. pay its legal fees in connection with the suit. Bookham, Inc. and Bookham Technology (Shenzhen) Co., Ltd. believes they have meritorious defenses to the claims made by Xi an Raysung Photonics Inc. and therefore believes that such claims will not have a material effect on its financial position, results of operations or cash flows.

Litigation is subject to inherent uncertainties, and an adverse result in these or other matters that may arise from time to time could have a material adverse effect on our business, results of operations and financial condition. Any litigation to which we are subject may be costly and, further, could require significant involvement of our senior management and may divert management s attention from our business and operations.

Some anti-takeover provisions contained in our charter and under Delaware laws could hinder a takeover attempt.

We are subject to the provisions of Section 203 of the General Corporation Law of the State of Delaware prohibiting, under some circumstances, publicly-held Delaware corporations from engaging in business combinations with some stockholders for a specified period of time without the approval of the holders of substantially all of our outstanding voting stock. Our certificate of incorporation and bylaws contain provisions relating to the limitations of liability and indemnification of our directors and officers, dividing our board of directors into three classes of directors serving staggered three year terms and providing that our stockholders can take action only at a duly called annual or special meeting of stockholders. All of these provisions could delay or impede the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving us, even if such events could be beneficial, in the short-term, to the interests of the stockholders. In addition, such provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock.

These provisions also may have the effect of deterring hostile takeovers or delaying changes in control or management of us.

Risks Related to Our Common Stock

A variety of factors could cause the trading price of our common stock to be volatile or decline.

The trading price of our common stock has been, and is likely to continue to be, highly volatile. Many factors could cause the market price of our common stock to rise and fall. In addition to the matters discussed in other risk factors included herein, some of the reasons for the fluctuations in our stock price are:

- fluctuations in our results of operations;
- changes in our business, operations or prospects;
- hiring or departure of key personnel;
- new contractual relationships with key suppliers or customers by us or our competitors;
- proposed acquisitions by us or our competitors;
- financial results that fail to meet public market analysts expectations and changes in stock market analysts recommendations regarding us, other optical technology companies or the telecommunication industry in general;
- future sales of common stock, or securities convertible into or exercisable for common stock;
- adverse judgments or settlements obligating us to pay damages;
- acts of war, terrorism, or natural disasters;
- industry, domestic and international market and economic conditions;

low trading volume in our stock;

developments relating to patents or property rights; and

government regulatory changes.

Since Bookham Technology plc s initial public offering in April 2000, Bookham Technology plc s ADSs and ordinary shares, our shares of common stock and the shares of our customers and competitors have experienced substantial price and volume fluctuations, in many cases without any direct relationship to the affected company s operating performance. An outgrowth of this market volatility is the significant vulnerability of our stock price and the stock prices of our customers and competitors to any actual or perceived fluctuation in the strength of the markets we serve, regardless of the actual consequence of such fluctuations. As a result, the market prices for these companies are highly volatile. These broad market and industry factors caused the market price of Bookham Technology plc s ADSs, ordinary shares, and our common stock to fluctuate, and may in the future cause the market price of our common stock to fluctuate, regardless of our actual operating performance or the operating performance of our customers.

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We may incur significant costs from class action litigation due to our expected stock volatility.

Our stock price may fluctuate for many reasons, including as a result of public announcements regarding the progress of our product development efforts, the addition or departure of key personnel, variations in our quarterly operating results and changes in market valuations of companies in our industry. Recently, when the market price of a stock has been volatile, as our stock price may be, holders of that stock have occasionally brought securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit of this type against us, even if the lawsuit were without merit, we could incur substantial costs defending the lawsuit. The lawsuit could also divert the time and attention of our management. In addition, if the suit were resolved in a manner adverse to us, the damages we could be required to pay may be substantial and would have an adverse impact on our ability to operate our business.

Because we do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We have never declared or paid any dividends on our common stock. We anticipate that we will retain any future earnings to support operations and to finance the development of our business and do not expect to pay cash dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

We can issue shares of preferred stock that may adversely affect your rights as a stockholder of our common stock.

Our certificate of incorporation authorizes us to issue up to 5,000,000 shares of preferred stock with designations, rights and preferences determined from time-to-time by our board of directors. Accordingly, our board of directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights superior to those of holders of our common stock. For example, an issuance of shares of preferred stock could:

- adversely affect the voting power of the holders of our common stock;
- make it more difficult for a third party to gain control of us;
- discourage bids for our common stock at a premium;
- limit or eliminate any payments that the holders of our common stock could expect to receive upon our liquidation; or
- otherwise adversely affect the market price of our common stock.

We may in the future issue additional shares of authorized preferred stock at any time.

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

None

Item 6. Exhibits

See the Exhibit Index on the page immediately preceding the exhibits for a list of exhibits filed as part of this Quarterly Report on Form 10-Q, which Exhibit Index is incorporated herein by reference.

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SIGNATURES

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

	BOOKHAM, INC.
May 5, 2008	By: /s/ Stephen Abely Stephen Abely *Chief Financial Officer (Principal Financial and Accounting Officer)*

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EXHIBIT INDEX
DOUG AND KATE TO COMMENT ON ANY OTHER EXHIBITS NEEDED.

Exhibit Number	Description of Exhibit
10.1	Form of Executive Severance and Retention Agreement between the Registrant and its Executive Officers.
31.1	Rule 13a-14(a)/15(d)-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15(d)-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.