

JDSU, which changed its name during calendar 2005 from JDS Uniphase, is the leader in active and passive components and sub-systems used in fiber-optic based communications networks. In recent years, JDS has expanded into non-communications markets that increasingly rely on optical expertise and solutions, including display, security, biotech, semiconductor equipment, decorative, instrumentation, and aerospace/defense. The acquisition of Acterna, a provider of network testing services, further diversifies end markets. Going forward, revenues will likely be derived about 35% from Optical Communications Products, 20% from Commercial & Consumer, and 45% from Test & Measurement. The JDSU shares are appropriate solely for risk-tolerant investors.

## Analyst's Notes

Argus Rating: **HOLD**

- JDS Uniphase Corp.'s reported 4Q06 revenue rose 86% year-over-year to \$318 million; management's 1Q07 sales guidance, however, is tepid and price pressures are putting hard-won recent margin gains in jeopardy.
- We are reducing our FY07 pro forma EPS forecast to \$0.02 from \$0.03. For FY08, we are establishing a preliminary pro forma EPS forecast of \$0.03.
- Our long-term EPS growth rate projection remains 10%; our financial strength ranking is unchanged at Medium.
- JDSU trades at 89-times our FY07 EPS forecast and at 83-times our FY08 projection; industry peers generally trade closer to the market multiple. Fair value implied by our blended model is under \$1.
- JDSU is, in our view, a speculative investment that is appropriate only for risk-tolerant investors.
- Based on the company's market leadership position, its proprietary technology, its relationships with the top-tier carriers and equipment vendors, and the improving long-term demand environment, we believe a HOLD rating remains prudent at this time.

Analysis by Jim Kelleher, CFA, 8/31/06

### INVESTMENT THESIS

We are maintaining our HOLD rating on JDS Uniphase Corp. (NNM: JDSU). The company capped an eventful FY06 with strong revenue growth in the fourth quarter. The growth was partly reflective of the acquisition of the Test & Measurement business from Acterna and partly reflective of organic strength in the Optical Communications business. Profitability, however, remains elusive and the company's sales guidance looks insufficient to drive meaningful profit growth.

While we applaud CEO Kevin Kennedy's overhaul at the company, we think JDSU could be encountering structural limits in its effort to turn its chronic losses into gains. JDSU now operates in three disparate businesses and synergies between the units are scarce, in our view. Moreover, the company's tepid guidance suggests a more difficult sales environment ahead. With price pressures intensifying, hard-won recent margin gains are already in jeopardy. We reiterate our HOLD rating on the JDSU shares, and would need to see meaningful earnings acceleration before becoming more positive on the stock.

### RECENT DEVELOPMENTS

JDSU reported fiscal 4Q06 sales of \$318 million, up 86% year-over-year, but up just 1% sequentially. On a GAAP basis, JDSU reported a 4Q06 loss of \$0.03 per share, compared to a 4Q05 loss of \$0.10 per share and roughly breakeven GAAP results in 3Q06. On a pro forma basis, JDSU posted a loss of less than \$0.01 per share, compared to

## Argus Recommendations

<b>Twelve Month Rating</b>	SELL	<b>HOLD</b>	BUY
<b>Five Year Rating</b>	SELL	<b>HOLD</b>	BUY
<b>Sector Rating</b>	Under Weight	<b>Market Weight</b>	Over Weight

## Value/Growth Analysis

	Value	Growth/Income	Growth
<b>P/E</b>			
<b>Yield</b>			
<b>Beta</b>			
<b>Sector</b>			

This chart illustrates the way in which JDSU fits into and modifies an investor's portfolio. For more specific details, please see the "JDSU In Context" graphic on page 2.

## Key Statistics

All pricing data reflects previous trading day's closing price.

### Market Analysis

<b>Price:</b>	<b>\$2.27</b>
52 Week Price Range	<b>\$4 to \$2</b>
Shares Outstanding	<b>1.68 Billion Shares</b>
JDSU does not pay a dividend	

### Sector Analysis

Sector	<b>Technology</b>
Sector Rating	<b>Market Weight</b>
Total % of S&P 500 Market Cap.	<b>15.00%</b>

### Financial Strength Analysis

Financial Strength Rating	<b>Medium</b>
Debt/Capital Ratio	<b>36.2%</b>
Return on Equity	<b>--</b>
Net Margin	<b>-12.6%</b>
Payout Ratio	<b>--</b>
Current Ratio	<b>4.27</b>
Revenue	<b>\$1.20 Billion</b>
After-Tax Income	<b>-\$151.20 Million</b>

### Valuation Analysis

Forecast P/E	<b>113.50</b>
Market Capitalization	<b>\$3.82 Billion</b>
Book Value/Share	<b>\$0.96</b>
Trailing P/E	<b>-25.30</b>
Price/Sales	<b>3.18</b>
Price/Book	<b>2.36</b>

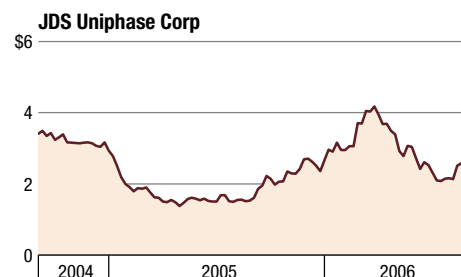
### Growth Analysis

1 Year EPS Growth Forecast	<b>50.0%</b>
5 Year EPS Growth Forecast	<b>10.0%</b>
1 Year Dividend Growth Forecast	<b>0.0%</b>

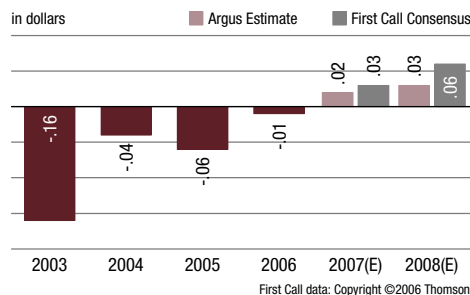
### Risk Analysis

Beta	<b>1.51</b>
Institutional Ownership	<b>52.7%</b>

## Market Data



## EPS Trend





## Analyst's Notes...continued

circuit packs, according to management, which also says that demand is so strong for these products that it is unable to fully ship to meet its customers needs. While this may partly reflect dislocations related to JDSU reducing its domestic footprint from seven plants to three, we believe growth in the intelligent optical infrastructure is a bigger factor.

The Test & Measurement business, which was a key contributor to revenue growth, does not promise a comparably high level of growth going forward, in our view. The business is seasonally sensitive, and is now heading into one of its slower quarters. In a mild negative surprise, T&M sales were sequentially flat; we had modeled a single-digit sequential sales gain. Sales were, however, aided by the acquisition of Test-Um, a business mainly focused on network testing solutions for consumers and small business applications. We expect IP networks and triple-play applications to drive T&M sales growth in coming years. A key component of IP networks is their intelligence, which includes self-monitoring as a necessary ingredient of hitless failover (a self-healing application that allows automatic restoration of disrupted service within 50 milliseconds). While test & measuring will remain important businesses in the next-generation network, the level of these services will never match the T&M functionality required in, say, a TDM-based Access network. The T&M business is also being buffeted by the industry consolidation among major players, according to CEO Kennedy; indeed, management expects a 1Q07 segment sales to soften sequentially.

The business that has undergone the most extensive transformation in the past year is the Commercial & Consumer business. The former Consumer & Commercial business, which had included Custom Optics, Flex Coatings, and Commercial Lasers, has been reformed as Advanced Optical Technology, which includes Custom Optics and the Flex Coatings business; the Commercial Laser business is now carried in the Other revenue line. All three businesses will still be included in discussions of the commercial and consumer portions of the market.

More than almost any company in Argus technology coverage, in our view, JDSU re-invented itself during FY06. In acquiring the Acterna Test & Measurement business, the company added a third significant reporting segment. JDSU sold seven niche businesses, principally in its Commercial & Consumer business, but also in Optical Communications. (Significant businesses exited include digital light engines, for high-definition televisions, and bulk optics.) The company's latest cost-reduction program, which featured significant plant closings and personnel retrenchment, cut annual operating costs about \$90 million. The optical communications division now has 80% of its employees in overseas locales, up from 50% at the April 2005 launch of the restructuring effort.

The addition of Acterna, along with very good organic growth in the optical communications business, enabled JDSU to boost its fiscal 2006 revenue 70% to \$1.2 billion. The company attained non-GAAP EBITDA profitability during fiscal 2006 for the first time in over five years. Nonetheless, we are concerned that any further operating progress and margin expansion will be much harder won. The bulk of activity in the optical communications space is pushing ever closer to customer premises, and margins in this space are much more compressed than those derived from sales

to the optical core. This trend, we believe, was reflected in JDSU's fiscal 4Q06 gross margins, which declined sequentially.

A more vexing problem may be that JDSU now participates in three disparate businesses. When the optical communications market imploded in fiscal 2006, JDSU strengthened its participation in the Commercial & Consumer segment; when that business failed to compensate for the still depressed communications business, the company emptied its wallet to pay for Acterna's T&M business. Now, the company is obligated to support the operating and non-operating infrastructure of three businesses. All three high-tech niches require a heavy dose of R&D; despite some surface similarities, the three units offer little opportunity to exploit reusable engineering resources.

When a company participates in this many markets, the chances are high that at least one will experience cyclical weakness in any given quarter. JDSU was once one of the hottest names in technology investing, based on its exposure to the Optical Communications market. At a time when that segment is again hot, the company must contend with lower-growth areas such as Commercial Lasers and Test & Measurement. We think investors may look for more pure-play opportunities.

We are reducing our FY07 pro forma EPS forecast to \$0.02 from \$0.03. For FY08, we are establishing a preliminary pro forma EPS forecast of \$0.03. Our long-term EPS growth projection for JDSU remains 10%.

### FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on JDSU is Medium. The Acterna and Lightwave acquisitions meaningfully reduced the company's cash and investment position; the Agility acquisition, which closed in November 2005, further pressured the cash position. In May, JDSU issued a \$460 million convertible note. The stated reason was to prepare for the maturity of the \$440 million convertible issued in 2003, even though that convertible does not mature until 2008. Accordingly, at the end of FY06 debt totaled \$900 million. Debt to total capitalization increased to 36.2% at the end of fiscal 2006 from 22.4% at the end of 3Q06.

Aided by the proceeds from the debt issuance, JDSU closed fiscal 2006 with cash & investments totaling \$1.22 billion, compared to \$1.3 billion at year-end 2005. The decline reflected the impact of the Acterna acquisition.

Altogether, JDSU continues to warrant a financial strength rating of Medium. If cash were to dip toward the debt level of \$500 million (excluding the \$450 million reserved to pay off the 2003 convertible), we would consider a Medium-Low rating.

JDSU does not pay a dividend, and is highly unlikely to do so anytime in the foreseeable future.

### MANAGEMENT & RISKS

CEO Kevin Kennedy came to JDSU after running the service provider business at Cisco Systems. Kennedy has noted that amid a substantial restructuring of the company, more than 47 management-level employees have left the firm in less than two years.

The Acterna deal is designed to bolster JDSU's presence in broadband access and networks, including FTTx. Should the company fail to win a meaningful test & measurement presence in the FTTx build-outs now taking place, Mr. Kennedy's position could be in jeopardy.

## Analyst's Notes...continued

The chief risk for JDSU is that it chose poorly in using a substantial portion of its liquidity to enter the new business of broadband network testing. We think that risk is mitigated by Acterna's market-leading position and by deep relationships with its extremely high-quality customer base.

JDSU is at risk if the telecom market fails to sustain its budding recovery, and particularly if the higher-margined long-haul business remains sluggish. In entering non-telecom markets, JDSU confronts the normal new-entrant risks, including the difficulty of disrupting established customer-vendor relationships. At the same time, non-communications markets represent steadier if less robust growth niches. An additional risk is the complexity of new digital based technologies, requiring a higher level of R&D and engineering spending. We believe this risk is alleviated by future proprietary leadership positions in what could prove to be lucrative niches, as well as its decision to exit certain money-losing operations.

### COMPANY DESCRIPTION

JDS Uniphase Corp. uses the name 'JDSU' except where the legal entity name is required. The company is the leader in active and passive components and sub-systems used in fiber-optic based communications networks. In recent years, JDSU has expanded into non-communications markets that increasingly rely on optical expertise and solutions, including display, security, biotech, semiconductor equipment, decorative, instrumentation, and aerospace/defense. The acquisition of Acterna, a provider of network testing services, further diversifies end markets. JDSU operates the following business units: Optical Communications Products (40% of revenue), Test & Measurement (40%), Advanced Optical Technology (15%), and Commercial Lasers/Other (5%). The JDSU shares are appropriate solely for risk-tolerant investors.

### INDUSTRY

The communications equipment industry is characterized at present by a dynamic transformation in the network core, from legacy voice transport technologies based on time division multiplexing (TDM), to data-based transport protocols such as IP/MPLS and Ethernet. As a bridge to an all-IP future and to protect legacy investments, carriers are adopting various flavors of VoIP, which enables voice and data traffic to move seamlessly between legacy infrastructures and next-generation IP-enabled networks. Traditional carriers are rushing to market with 'triple-play' (voice, video and high-speed data) and now 'quadruple-play' (those three, plus wireless) to thwart the competitive threat from non-traditional sources, such as cable MSOs, wireless carriers, and internet telephony. Amid these diverse but inter-locking needs, carriers are playing catch-up after a period of severe underinvestment prompted by the telecom bubble and its subsequent implosion. Consequently, carrier spending could meaningfully exceed GDP growth in the coming years. Enterprise spending for IT and communications infrastructure is steadier and typically runs at some multiple of GDP growth. IT re-investment generally lags the early stages of economic recovery, a period when companies are preoccupied with re-establishing core competencies. As recoveries mature, corporate spending on communications infrastructure tends to accelerate to meet business requirements. In the current environment, we believe IT investment at the enterprise level will run at 1.5- to 2.0-times global GDP growth.

### VALUATION

Because of its long history of operating losses, JDSU defies valuation on traditional methods. The shares trade at 89-times our fiscal 2007 pro forma EPS forecast and at 83-times our fiscal 2008 projection; industry peers generally trade much closer to the market multiples. Our blended model for JDSU no longer renders a negative value, as it had for years, based on the company's seemingly endless cash burn. On the other hand, the fair value implied by the model is under \$1; discounted free cash flow valuation suggests value under \$0.50.

Given the company's market leadership position, its proprietary technology, its relationships with the top-tier carriers and equipment vendors, and the improving long-term demand environment, we do not regard a SELL rating as appropriate. On balance, we believe a HOLD rating remains prudent at this time. This speculative investment is appropriate solely for risk-tolerant investors.

On August 31, HOLD-rated JDSU closed at \$2.27, down \$0.36. Argus Rating: **HOLD**

- Mid-year gains in JDS Uniphase Inc. have not held up in the current correction, as the stock has fallen 51% from its peak versus a 13% decline in the NASDAQ; we believe investors are concerned about demand in the higher-margined test & measurement business.
- We reiterate our forecast of a \$0.01 loss for JDSU on a pro forma basis for the June 2006 fiscal year. For fiscal 2007, our pro forma profit forecast is \$0.03 per diluted share.
- Our long-term EPS growth projection for JDSU is 10%. Our financial strength ranking on JDS Uniphase is Medium.
- Fair value implied by our model for JDSU is under \$1, as forecast by comparables valuation and discounted free cash flows. We reiterate our HOLD rating on the JDSU shares, rather than the SELL rating that price alone might imply, because of the company's market leadership position, its proprietary technology, its relationships with the top-tier carriers and equipment vendors, and the improving demand environment.
- This speculative investment is appropriate solely for risk-tolerant investors.

*Analysis by Jim Kelleher, CFA, 7/13/06*

### INVESTMENT THESIS

As expected, mid-year gains in HOLD-rated JDS Uniphase Inc. (NNM: JDSU) have not held up in the current correction. While the NASDAQ has declined 13% from its late-April peak, the JDSU shares have declined 51% (as of July 13) from a peak of \$4.30 reached on March 16. We think the underperformance in a weak market reflects investors' concerns that the Acterna acquisition is not proving to be the profit booster management had hoped it would be. In a difficult and uncertain demand environment for network gear, demand for testing equipment too is impacted. Despite the sharp pullback in the JDSU shares, we do not yet think the time is right for purchasing the stock. We reiterate our intermediate-term HOLD rating on the JDSU shares.

### RECENT DEVELOPMENTS

The hard-won gains in the JDSU stock price, from \$1.50 in August 2005 to a peak above \$4.25 in March 2006, have largely evaporated in the current market sell-off. While part of the problem is no doubt investor aversion toward technology stocks at present, company-specific issues are likely weighing as well.

## Analyst's Notes...continued

We've documented the extensive restructuring undertaken by JDSU under CEO Kevin Kennedy. JDSU has closed plants, shifted production to low-cost nations, and sold or discontinued numerous businesses, in the Communications segment but in particular in the Consumer & Commercial segment. The most significant step JDSU has taken to create a profitable company is the acquisition of broadband network test & measurement company Acterna.

The test & measurement segment underperformed our expectations in the third (March 2006) quarter of the June 2006 fiscal year. Some sequential slowing in broadband test & measurement was anticipated, based on the seasonal nature of the business. Total company consolidate revenue about met expectations even though optical communications surprised on the upside; that suggest the pullback in test & measurement likely exceeded the company's own expectations. Further supporting that view is the fact that overall margins dipped 600 basis points; if the company were better prepared for a sales slowdown, it would have controlled segment costs better.

The recent news from companies with heavy network infrastructure exposure is not encouraging. Lucent has warned on revenue for all three quarters of its September 2006 fiscal year. And in each case, the chief culprit has been the wireless segment. We expect wireless network spending on 3G high data rate solutions to continue to trail year-earlier levels in North America, where Acterna does the bulk of its business. Overseas network demand is also moderating. While we expect renewed activity as new 3G technologies come to market (1x EVDO Rev A in CDMA, HSDPA in WCDMA), that recovery may be pushed out into late 2006 or early 2007.

We are encouraged overall by JDSU's new product offerings in test & measurement, as well as in the optical communications market. Late in June, JDSU announced that its Reliability Engineering Test Lab in Shenzhen, China, had become the first manufacturing test lab in Asia to complete Verizon's rigorous Fiber Optic Component (FOC) testing program. The FOC assemblies and connectors put together by JDSU in its facilities are now Verizon-certified. The certification is designed to assure that new fiber products being introduced to Verizon's FiOS FTTP network comply with industry standards and meet Verizon's reliability and quality requirements.

Also on the testing front, JDSU in late June introduced its NetComplete Service Assurance Solution for the cable industry, designed to provide network test & measurement service for cable MSOs deploying VoIP services to consumers. The NetComplete solution has already been deployed by an unspecified North America cable operator. JDSU completed the acquisition of the home network test business of Test-Um during the recently concluded fourth (June) quarter of the June 2006 fiscal year. Already, JDSU is promoting home network testing gear including a new home network installation meter, the IVT-600, and a new software management tool called Plan-Um AP (advanced planning).

In late May, JDSU introduced new colors in its SecureShift family of product authentication labels. SecureShift labels and SecureShift technology, now in five color pairs, are used to protect global currencies as well as patent-protected products such as prescription pharmaceuticals. After introducing over 30 new products in the fiscal 2006 first half, however, JDSU has had little

to report in its optical communications business in the past three months.

Optical Communications on a global basis has enjoyed a resurgence, and JDSU has tailored its product offerings to fit its Agile Optical Networks (AON) strategy. AON products include tunable lasers, optical switches, and ROADMs (reconfigurable optical add-drop multiplexers). The business is benefiting from the resurgence in optical traffic driven by the explosion in residential and enterprise high data rate broadband access. The good growth and the improving mix enabled the division to deliver its first operating profit in over five years. We are concerned that profitability in this segment will be difficult to sustain in the current industry environment.

Overall, the sharp decline in the JDSU stock has caught our attention. But without sustainable earnings growth, JDSU is unlikely to outperform tech shares that are declining in the current environment despite solid business fundamentals. In our view, already tech-wary investors are unlikely to rally toward the JDSU stock anytime soon.

### EARNINGS & GROWTH ANALYSIS

JDSU will report its fiscal 2006 fourth-quarter earnings late in July. For the third (March 2006) quarter of the June 2006 fiscal year, JDSU reported revenue of \$314 million, representing 90% year-over-year growth and a 1% sequential gain. Excluding test & measurement income from year-earlier comparisons, revenues rose 16% year-over-year. On a GAAP basis, JDSU posted income of \$3.7 million, or breakeven on a per-share basis, compared with GAAP losses of \$0.03 per share in the sequentially adjoining fiscal 2006 second quarter and in the third quarter of fiscal 2005. Pro forma EPS for the third quarter of fiscal 2006 was a loss of \$2.8 million, or breakeven on a per-share basis, compared with breakeven for the sequentially adjoining fiscal 2006 second quarter and a pro forma loss of \$0.02 a year earlier.

We reiterate our forecast of a \$0.01 loss for JDSU on a pro forma basis for the June 2006 fiscal year. For fiscal 2007, our pro forma profit forecast is \$0.03 per diluted share. Our GAAP estimates call for a loss of \$0.07 for fiscal 2006 and a loss of \$0.02 for fiscal 2007. Our long-term EPS growth projection for JDSU is 10%.

### FINANCIAL STRENGTH & DIVIDEND

Our financial strength ranking on JDS Uniphase is Medium. The Acterna and Lightwave acquisitions meaningfully reduced the company's cash and investment position; the Agility acquisition, which closed in November 2005, further pressured the cash position. JDSU closed the fiscal 2006 third quarter with \$847 million in cash & investments, up \$6 million quarter over quarter but down from \$1.3 billion at the fiscal 2005 year-end. Because of an increment to the stockholders equity account related to the Acterna acquisition, the debt/cap ratio dipped to 22.7% at the fiscal 2006 second-quarter close from 26% at the fiscal 2005 year end; debt/cap edged lower, to 22.4%, as of the close of the third quarter of fiscal 2006. Altogether, JDS continues to warrant a Medium Financial Strength ranking. However, should cash dip toward the debt level of \$500 million, we would consider implementing a Medium-Low financial strength ranking.

JDS Uniphase does not pay a dividend, and is highly unlikely to do so anytime in the foreseeable future.

## Analyst's Notes...continued

### RISKS & MANAGEMENT

Kevin Kennedy came over to JDS Uniphase after running the service provider business at Cisco Systems. Kennedy recently noted that, amid a substantial restructuring and redirecting of the company, more than 47 managers have left the firm in the past 18 months, including CFO Ron Foster, who was replaced by Dave Vellequette. The Acterna deal is designed to bolster JDS's presence in broadband access and networks, including FTTx. Should the company fail to win a meaningful presence in the FTTx build-outs now taking place, or should Acterna turns into a bust (not likely), Kennedy's position could be in jeopardy.

The chief risk for JDS is that it chose poorly in using a substantial portion of its liquidity to enter the new business of broadband network testing. We think that risk is mitigated by Acterna's market-leading position and by deep relationships with its extremely high-quality customer base. JDS Uniphase is at risk if the telecom market fails to sustain its budding recovery, and particularly if the higher-margined long-haul business remains sluggish. In entering non-telecom markets, JDS confronts the normal new-entrant risks, including the difficulty of disrupting established customer-vendor relationships. At the same time, non-communications markets represent steadier but potentially less robust growth niches. An additional risk is the complexity of new digital based technologies, requiring a higher level of R&D and engineering spending. We believe this risk is alleviated by future proprietary leadership positions in what could prove to be lucrative niches, as well as its decision to exit certain money-losing operations.

### COMPANY DESCRIPTION

JDSU, which changed its name during calendar 2005 from JDS Uniphase, is the leader in active and passive components and sub-systems used in fiber-optic based communications networks. In recent years, JDS has expanded into non-communications markets that increasingly rely on optical expertise and solutions, including display, security, biotech, semiconductor equipment, decorative, instrumentation, and aerospace/defense. The acquisition of Acterna, a provider of network testing services, further diversifies end markets. Going forward, revenues will likely be derived about 35% from Optical Communications Products, 20% from Commercial & Consumer, and 45% from Test & Measurement. The JDSU shares are appropriate solely for risk-tolerant investors.

### INDUSTRY

The communications equipment industry is characterized at present by a dynamic transformation in the network core, from legacy voice transport technologies based on time division multiplexing (TDM) to data-based transport protocols such as IP/MPLS and Ethernet. As a bridge to an all-IP future and to protect legacy investments, carriers are adopting various flavors of VoIP which enables voice and data traffic to move seamlessly between legacy infrastructures and next-generation IP-enabled networks. Traditional carriers are rushing to market with 'triple-play' (voice, video and high-speed data) and now 'quadruple-play' (those three plus wireless) to thwart the competitive threat from non-traditional sources, such as cable MSOs, wireless carriers, and internet telephony. Amid these diverse but inter-locking needs, carriers are playing catch-up after a period of severe underinvestment prompted by the telecom bubble and its

subsequent implosion. Consequently, carrier spending could meaningfully exceed GDP growth in the coming years. Enterprise spending for IT and communications infrastructure is steadier and typically runs at some multiple of GDP growth. IT re-investment generally lags the early stages of economic recovery, a period when companies are preoccupied with re-establishing core competencies. As recoveries mature, corporate spending on communications infrastructure tends to accelerate to meet business requirements. In the current environment, we believe IT investment at the enterprise level will run at 1.5- to 2.0-times global GDP growth.

### VALUATION

JDSU defies valuation on traditional methods. P/E valuations for JDSU remain meaningless; the shares trade at over 125-times our EPS forecast for fiscal 2007. Comparable valuations are inherently suspect because of the hysterical premiums accorded the stock ahead of the telecom bubble implosion. Our blended model for JDSU no longer renders a negative value, as it had for years, based on the company's seemingly endless cash burn. On the other hand, the fair value implied by the model is under \$1; discounted free cash flow valuation suggests value under \$0.50.

Based on the company's market leadership position, its proprietary technology, its relationships with the top-tier carriers and equipment vendors, and the improving long-term demand environment, we do not regard a SELL rating as appropriate. On balance, we believe a HOLD rating remains prudent at this time. This speculative investment is appropriate solely for risk-tolerant investors.

On July 13, HOLD-rated JDSU closed at \$2.08, down \$0.10.

## About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

### THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

---

## Argus Research Disclaimer

Argus Research is an independent investment research provider and is not a member of the NASD or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of Argus Group Inc. The information contained in this research report is produced and copyrighted by Argus, and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock.