CORVIS CORP
Form 10-Q
May 11, 2001

FORM 10-Q

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

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

For the quarterly period ended March 31, 2001

[ ] 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 0-12751

Corvis Corporation
(Exact name of registrant as specified in its charter)

Delaware	52-2041343
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7015 Albert Einstein Drive, Columbia, Maryland	21046-9400
(Address of principal executive offices)	(Zip Code)

(443) 259-4000
(Registrant's telephone number, including area code)

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

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

Yes ___X____ No_______

Number of shares of Common Stock, $0.01 par value, outstanding at April 28, 2001: 359,023,202

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Item 1. Financial Statements.

CORVIS CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 30, 2000	March 31, 2001
ASSETS		
Current assets:		

Cash and cash equivalents	$1,024,758	$ 877,810
Trade accounts receivable	16,085	63,741
Inventory, net	219,414	231,191
Other current assets	26,802	33,265
Total current assets	1,287,059	1,206,007
Restricted cash, long-term	46,292	46,292
Property and equipment, net	106,681	162,544
Goodwill and other intangible assets, net	929,204	822,882
Other long-term assets, net	12,600	29,440
Total assets	$2,381,836	$2,267,165
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable, current portion	$ 1,438	$ 1,359
Capital lease obligations, current portion	1,841	3,310
Accounts payable	90,995	63,751
Deferred revenue	2,236	17,710
Accrued expenses and other liabilities	18,509	41,687
Total current liabilities	115,019	127,817
Noncurrent liabilities:		
Notes payable, net of current portion	44,529	44,505
Capital lease obligations, net of current portion	1,380	2,246
Deferred lease liability	4,315	4,166
Total liabilities	165,243	178,734
Commitments and contingencies		
Redeemable stock	30,000	30,000
Stockholders' equity:		
Common stock--$0.01 par value; 425,121,094 shares authorized; 348,039,489 shares issued and outstanding as of December 30, 2000; 358,625,041 shares issued and outstanding as of March 31, 2001	3,478	3,584
Additional paid-in capital	2,497,773	2,526,607
Accumulated other comprehensive income:		
Foreign currency translation adjustment	60,176	3,903
Accumulated deficit	(374,834)	(475,663)
Total stockholders' equity	2,186,593	2,058,431
Total liabilities, redeemable stock and stockholders' equity	$2,381,836	$2,267,165

See accompanying notes to unaudited condensed consolidated financial statements.

CORVIS CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended	
	April 1, 2000	March 31, 2001
Revenue	$ --	$ 84,086
Costs of revenue	--	52,903
Gross profit	--	31,183
Operating expenses:		
Research and development, exclusive of equity-based expense	20,121	40,975
Sales and marketing, exclusive of equity-based expense	4,637	15,412
General and administrative, exclusive of equity-based expense	2,677	10,979
Equity-based expense:		
Research and development	745	12,775
Sales and marketing	--	3,663
General and administrative	--	9,195
Amortization of intangible assets	91	52,245
Total operating expenses	28,271	145,244
Operating loss	(28,271)	(114,061)
Interest income, net	1,440	13,232
Net loss	$(26,831)	$(100,829)
Other comprehensive loss -- Foreign currency translation adjustment	--	(56,274)
Comprehensive loss	$(26,831)	$(157,103)
Basic and diluted net loss per common share	$ (0.65)	$ (0.29)
Weighted average number of common shares outstanding	41,128	342,359

See accompanying notes to unaudited condensed consolidated financial statements.

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CORVIS CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ende	
	April 1, 2000	March 2001

Cash flows from operating activities:		
Net loss	$(26,831)	$ (100,
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,475	60,
Equity-based expense	745	25,
Amortization of deferred financing fees	372	
Changes in operating assets and liabilities:		
Increase in accounts receivable	--	(47,
Increase in inventory, net	(13,484)	(11,
Increase in other assets	(1,319)	(8,
Increase in accounts payable and accrued expenses	7,065	10,
Net cash used in operating activities	(31,977)	(72,
Cash flows from investing activities:		
Purchase of property and equipment	(7,688)	(59,
Decrease (increase) in deposits and other non-current assets	179	(15,
Net cash used in investing activities	(7,509)	(74,
Cash flows from financing activities:		
Repayments of notes payable and capital lease obligations	.(3,738)	(
Proceeds from the issuance of stock	174	3,
Net cash provided by (used in) financing activities	(3,564)	2,
Effect of exchange rate changes on cash and cash equivalents	--	(2,
Net decrease in cash and cash equivalents	(43,050)	(146,
Cash and cash equivalents--beginning	244,597	1,024,
Cash and cash equivalents--ending	$201,547	$ 877,
Supplemental disclosure of cash flow information:		
Interest paid	$ 2,252	$
Supplemental disclosure of noncash activities:		
Financed leasehold improvements	$ --	$
Obligations under capital lease	$ --	$ 3,

See accompanying notes to unaudited condensed consolidated financial statements.

CORVIS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands except per share amounts)

(1) Summary of Significant Accounting Policies and Practices

(a) Basis of Presentation

The unaudited condensed consolidated financial statements included herein for Corvis Corporation and subsidiaries (the "Company") have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the consolidated financial statements included in this report reflect all normal recurring adjustments which the Company considers necessary for the fair presentation of the results of operations for the interim periods. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to understand the information presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year.

These financial statements should be read in conjunction with the Company's December 30, 2000 audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed on March 28, 2001.

(b) Revenue and Cost of Revenue

Revenue from product sales is recognized upon execution of a contract and the completion of all delivery obligations provided that there are no uncertainties regarding customer acceptance and collectibility is deemed probable. If uncertainties exist, revenue is recognized when such uncertainties are resolved.

Revenue from installation services is recognized as the services are performed unless the terms of the supply contract combine product acceptance with installation, in which case revenues for installation services are recognized when the terms of acceptance are satisfied and installation is completed. Revenues from installation service fixed price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date compared to estimated total costs for each contract. Amounts received in excess of revenue recognized are included as deferred revenue in the accompanying condensed consolidated balance sheets.

Cost of revenue includes the costs of manufacturing the Company's products and other costs associated with warranty and other contractual obligations, inventory obsolescence costs and overhead related to the Company's manufacturing, engineering, finishing and installation. Warranty reserves are determined based upon actual warranty cost experience, estimates of component failure rates and management's industry experience.

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CORVIS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands except per share amounts)

(c) Uses of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Inventory

Inventories are comprised of the following:

	December 30, 2000	March 31, 2001
Raw materials	$131,983	$ 161,290
Work-in-process	50,161	37,377
Finished goods	51,119	53,066
	233,263	251,733
Less reserve for excess inventory and obsolescence.	(13,849)	(20,542)
Inventory, net	$219,414	$ 231,191

(3) Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share are computed as follows (in thousands, except per share data):

	Three Months Ended	
	April 1, 2000	March 31, 2001
Net loss	$(26,831)	$(100,829)
Basic and diluted weighted average shares	41,128	342,359
Basic and diluted net loss per share	$ (0.65)	$ (0.29)

Options and warrants outstanding as of March 31, 2001 to purchase 51,520,816 and 7,634,676 shares of common stock, respectively, and 12,590,067 unvested shares acquired through the exercise of options were not included in the computation of diluted loss per share for the three month period ended March 31, 2001 as their inclusion would be anti-dilutive.

Convertible Preferred Stock outstanding as of April 1, 2000, convertible into 211,692,564 shares of common stock, options and warrants to purchase 20,367,024 and 17,554,394 shares of common stock, respectively, and 23,200,188 unvested shares acquired through the exercise of options were not included in the computation of diluted loss per share for the three month period ended April 1, 2000 as their inclusion would be anti-dilutive.

CORVIS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands except per share amounts)

(4) Legal Matters

In July 2000, Ciena Corporation ("Ciena") informed the Company of its belief that there is significant correspondence between products that the Company offers and several U.S. patents held by Ciena relating to optical networking systems and related dense wavelength division multiplexing communications systems technologies. On July 19, 2000, Ciena filed a lawsuit in the United States District Court for the District of Delaware alleging that the Company is willfully infringing three of Ciena's patents. Ciena is seeking injunctive relief, an unspecified amount of damages including treble damages, as well as costs of the lawsuit, including attorneys' fees. On September 8, 2000, the Company filed an answer to the complaint, as well as counter-claims alleging, among other things, invalidity and/or unenforceability of the three patents in question. On March 5, 2001, a motion was granted, allowing Ciena to amend its complaint to include allegations that the Company is willfully infringing two additional patents. The litigation is currently in the discovery phase and a trial date has been set for April 1, 2002. Based on the status of the litigation, the Company cannot reasonably predict the likelihood of any potential outcome.

On May 7, 2000, Paul Felzen, as Trustee of the Louise Laskin 1991 Revocable Trust, filed a class action lawsuit in the Southern District of New York. The complaint names Corvis, our directors and officers who signed the registration statement in connection with our initial public offering, and Credit Suisse First Boston Corporation as defendants. The complaint alleges that the registration statement and prospectus relating to our initial public offering contained material misrepresentations and/or omissions in that those documents did not disclose (1) that Credit Suisse First Boston Corporation had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of Corvis' common stock in the initial public offering and (2) that Credit Suisse First Boston had entered into arrangements with some investors that were designed to distort and/or inflate the market price for Corvis' common stock in the aftermarket following the initial public offering. The complaint asks the court to award to members of the class the right to rescind their purchases of Corvis common stock (or to be awarded rescissory damages if the class member has sold its Corvis stock) and prejudgment and post-judgment interest, reasonable attorneys' and experts witness' fees and other costs. The complaint was only recently filed and we are still in the process of reviewing the allegations. We intend to vigorously defend ourselves and our officers and directors. Therefore, it is the position of the Company's management that, at this time, it is not possible to estimate the amount of a probable loss, if any, that might result from this matter. Accordingly, no provision for this matter has been made in the Company's condensed consolidated financial statements.

(5) Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities." This statement requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the value of these derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. SFAS No. 133, as amended by SFAS No. 137, "Accounting for Derivative Instruments and Certain Hedging Activities - Deferral of the Effective Date for SFAS No. 133," and by SFAS No. 138, "Accounting for Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS No. 133," was adopted on January 1, 2001. The adoption of SFAS

No. 133, SFAS No. 137 and SFAS No. 138 did not have a material effect on our consolidated financial statements.

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

You should read the following discussion and analysis along with our unaudited condensed consolidated financial statements and the notes to those statements included elsewhere in this report.

Overview

We design, manufacture and market high performance optical communications systems that lower the overall cost of network ownership for service providers. Our all-optical products enable a fundamental shift in the design and efficiency of backbone networks by allowing for the transmission, switching and management of communications traffic entirely in the optical domain. Our products enable the creation of all-optical backbone networks that support transmission over long distances and eliminate the need for expensive and bandwidth-limiting electrical regeneration and switching equipment.

We currently have three customers, Broadwing Communications, Inc., Williams Communications, Inc. and Qwest Communications Corporation. During the first half of 2000, we shipped, installed and activated laboratory trial systems and field trial systems for both Broadwing and Williams Communications to allow for customer testing and inspection. In July 2000, we successfully completed the Broadwing Communications field trial and Broadwing agreed to purchase $200 million of our products and services over a two-year period. Throughout the remainder of 2000, we began the deployment of both transmission and switching equipment to Broadwing and built up finished goods inventory necessary to support customer orders in early 2001.

In January 2001, the field trial system provided to Williams Communications was accepted and Williams Communications agreed to purchase up to $300 million of our products and services over a multi-year period.

Qwest has agreed to purchase $150 million of our products, some of which are currently under development, over a two-year period. In April 2001, we received a commitment of $110 million to purchase both transmission and switching equipment under the aforementioned agreement with shipments commencing during fiscal 2001. Qwest's acceptance of delivered equipment is contingent upon passing Qwest's lab certification.

We are in discussions with other service providers to begin field trials and to purchase our products and services.

Revenue. Revenue from product sales is recognized upon execution of a contract and the completion of all delivery obligations provided that there are no uncertainties regarding customer acceptance and collectibility is deemed probable. If uncertainties exist, revenue is recognized when such uncertainties are resolved.

Revenue from installation services is recognized as the services are performed unless the terms of the supply contract combine product acceptance with installation, in which case revenues for installation services are recognized when the terms of acceptance are satisfied and installation is completed. Revenues from installation service fixed price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date compared to estimated total costs for each contract.

Amounts received in excess of revenue recognized are included as deferred revenue in the our consolidated balance sheets.

Research and Development, Excluding Equity-Based Expense. Research and development, excluding equity-based expense consists primarily of salaries and related personnel costs, test and

prototype expenses related to the design of our hardware and software products, laboratory units and facilities costs. All costs related to product development, both hardware and software, are recorded as expenses in the period in which they are incurred. Due to the timing and nature of the expenses associated with this process, significant quarterly fluctuations may result. We believe that research and development is critical in achieving current and future strategic product objectives.

Sales and Marketing, Excluding Equity-Based Expense. Sales and marketing, excluding equity-based expense consists primarily of salaries and related personnel costs, laboratory trial systems provided to customers, trade shows, other marketing programs and travel expenses. We intend to continue to adjust our sales operations in order to increase market awareness and acceptance of our products. We also expect to initiate additional marketing programs to support our current products. Our success depends on establishing and maintaining key customer relationships.

General and Administrative, Excluding Equity-Based Expense. General and administrative, excluding equity-based expense consists primarily of salaries and related personnel costs, information systems support, recruitment expenses and facility demands associated with establishing the proper infrastructure to support our organization. This infrastructure consists of executive, financial, legal, information systems and other administrative responsibilities.

Results of Operations

Three months ended March 31, 2001 compared to three months ended April 1, 2000

Revenue. Revenue increased to $84.1 million for the three months ended March 31, 2001 from zero for the three months ended April 1, 2000. The increase in revenue is attributable to the acceptance of a field trial system and the sale of network hardware and associated software for commercial use. Revenue for the period is attributable to two customers.

Gross Profit. Costs of revenue consists of component costs, direct compensation costs, warranty and other contractual obligations, inventory obsolescence costs and overhead related to our manufacturing and engineering, finishing and installation operations. Gross profit was $31.2 million for the three months ended March 31, 2001. Gross margin as a percentage of revenues was 37.1%.

Research and Development, Excluding Equity-Based Expense. Research and development expenses, excluding equity-based expense increased to $41.0 million for the three months ended March 31, 2001 from $20.1 million for the three months ended April 1, 2000. The increase in expenses was primarily attributable to significant increases in headcount, as well as material costs associated with prototype development and laboratory materials.

Sales and Marketing, Excluding Equity-Based Expense. Sales and marketing expenses, excluding equity-based expense increased to $15.4 million for the three months ended March 31, 2001 from $4.6 million for the three months ended April 1, 2000. The increase in expenses was primarily attributable to significant increases in headcount and increases in promotions and trade show activities.

General and Administrative, Excluding Equity-Based Expense. General and administrative expenses, excluding equity-based expense increased to $11.0 million for the three months ended March 31, 2001 from $2.7 million for the three months ended April 1, 2000. The increase in expenses was primarily attributable to salaries and related benefits due to the hiring of additional personnel and increased costs associated with establishing the proper infrastructure to support our organization.

Equity-based Expense. Equity-based expense related to research and development, sales and marketing and general and administrative functions for the three months ended March 31, 2001 increased to $25.6 million from $0.7 million in the three months ended April 1, 2000. The increase in equity-based compensation primarily resulted from expenses associated with stock options granted at an exercise price below fair value on the date of grant.

Amortization of Goodwill and Intangible Assets. Amortization of intangible assets expenses increased to $52.2 million for the three months ended March 31, 2001 from $0.1 million for the three months ended April 1, 2000. The increase was primarily attributable to the amortization of intangibles resulting from our recent acquisitions.

Interest Income, Net. Interest income, net of interest expense, increased to $13.2 million for the three months ended March 31, 2001 from $1.4 million for the three months ended April 1, 2000. The increase was primarily attributable to higher invested cash balances from the proceeds of the initial public offering and various private placements, offset in part by interest expense incurred under various credit facilities.

Liquidity and Capital Resources

Since inception through March 31, 2001, we have financed a significant portion of our operations, capital expenditures and working capital primarily through public and private sales of our capital stock, borrowings under credit and lease facilities and cash generated from operations. At March 31, 2001, our cash and cash equivalents totaled $877.8 million.

Net cash used in operating activities was $72.2 million for the quarter ended March 31, 2001. Cash used in operating activities for the quarter ended March 31, 2001 was primarily attributable to a net loss of $100.8 million and $47.7 million of accounts receivable, partially offset by non-cash expense items including depreciation and amortization of $60.3 million and equity-based expense of $25.6 million.

Net cash used in investing activities for the quarter ended March 31, 2001 was $74.9 million which was primarily attributable to purchases of manufacturing and test equipment, information systems and office equipment. We continue to evaluate our need for production and administrative equipment and facilities to accommodate our current and future operations. Capital expenditures for the remainder of 2001 are expected to total between $50.0 million and $75.0 million.

Net cash provided by financing activities for the quarter ended March 31, 2001, was $2.3 million, primarily attributable to proceeds from the exercise of warrants and employee stock options.

As of March 31, 2001, long-term restricted cash totaled $46.3 million, of which $43.5 million represents cash held as security under a note payable. This restriction will be released upon repayment of the note which is due in November 2002. In addition, as of March 31, 2001, we had outstanding irrevocable letters of credit aggregating $2.8 million relating to lease obligations for various manufacturing and office facilities and other business arrangements. These letters of credit are collateralized by funds in our operating account. Various portions of the letters of credit expire at the end of each respective lease term or agreement term.

Currently, our industry is experiencing significant competitive pricing pressures and a general slow down in telecommunication infrastructure spending. As such, we expect gross margins for the remainder of the year to decrease from previous levels. Lower gross margins are likely to

result from several factors including, but not limited to, selling our products to customers at lower prices, providing financing to customers and reduced manufacturing efficiencies due to changes in volume.

In light of the current economic environment, we slowed expansion within current operations during the first quarter of 2001 and are formulating plans to strategically lower operating expenses for the remainder of the fiscal year. Plans will include strategic personnel reductions, elimination of excess facilities and other measures to streamline operating costs. If we are unable to plan and execute these cost reduction measures effectively and in a timely manner, or if margin pressures continue for longer than expected, our liquidity and capital resources could be adversely effected.

Our liquidity will also be dependent on our ability to manufacture and sell our products. Changes in the timing and extent of the sale of our products will affect our liquidity, capital resources and results of operations. We currently have three customers that could provide substantially all of our revenues for the near future. The loss of any of these customers, any substantial reduction in current or anticipated orders or an inability to attract new customers, could materially adversely affect our liquidity and results of operations. We plan to diversify our customer base by seeking new customers both domestically and internationally.

We believe that our current cash and cash equivalents and cash generated from operations will satisfy our expected working capital, capital expenditure, and investment requirements through at least the next twelve months.

If cash on hand and cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities. To the extent that we raise additional capital through the sale of equity or debt securities, the issuance of such securities could result in dilution to our existing shareholders. If additional funds are raised through the issuance of debt securities, the terms of such debt could impose additional restrictions on our operations. Additional capital, if required, may not be available on acceptable terms, or at all. If we are unable to obtain additional financing, we may be required to reduce the scope of our planned product development and sales and marketing efforts, which could harm our business, financial condition and operating results. Increasingly, as a result of the financial demands of major network deployments, service providers are looking to their suppliers for financing assistance. From time to time, we may provide or commit to extend credit or credit support to our customers as we consider appropriate in the course of our business.

Litigation

On July 19, 2000, Ciena Corporation ("Ciena") filed a lawsuit in the United

States District Court for the District of Delaware alleging that we are willfully infringing three of Ciena's patents. Ciena is seeking injunctive relief, an unspecified amount of damages including treble damages, as well as costs of the lawsuit, including attorneys' fees. On September 8, 2000, we filed an answer to the complaint, as well as counter-claims alleging, among other things, invalidity and/or unenforceability of the three patents in question. On March 5, 2001, a motion was granted, allowing Ciena to amend its complaint to include allegations that we are willfully infringing two additional patents. We are currently in the discovery phase of the litigation and a trial date has been set for April 1, 2002. We intend to defend ourselves vigorously against these claims and we believe that we will prevail in this litigation. An adverse determination in, or settlement of, the Ciena litigation could involve the payment of significant amounts by us, or could include terms in addition to payments, such as a redesign of some of our products, which could have a material adverse effect on our business, financial condition and results of operations. If we are required to redesign our products, we have to stop selling our current products until they have been redesigned. We believe that defense of the lawsuit may be costly and may divert the time and attention of some members of our management.

On May 7, 2000, Paul Felzen, as Trustee of the Louise Laskin 1991 Revocable Trust, filed a class action lawsuit in the Southern District of New York. The complaint names Corvis, our directors and officers who signed the registration statement in connection with our initial public offering, and Credit Suisse First Boston Corporation as defendants. The complaint alleges that the registration statement and prospectus relating to our initial public offering contained material misrepresentations and/or omissions in that those documents did not disclose (1) that Credit Suisse First Boston Corporation had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of Corvis' common stock in the initial public offering and (2) that Credit Suisse First Boston had entered into arrangements with some investors that were designed to distort and/or inflate the market price for Corvis' common stock in the aftermarket following the initial public offering. The complaint asks the court to award to members of the class the right to rescind their purchases of Corvis common stock (or to be awarded rescissory damages if the class member has sold its Corvis stock) and prejudgment and post-judgment interest, reasonable attorneys' and experts witness' fees and other costs. The complaint was only recently filed and we are still in the process of reviewing the allegations. We intend to vigorously defend ourselves and our officers and directors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Sensitivity

We maintain a portfolio of cash equivalents in a variety of securities including: commercial paper, certificates of deposit, money market funds and government and non-government debt securities. Substantially all amounts are in money market funds, the value of which is generally not subject to interest rate changes. The other available-for-sale securities are subject to interest rate risk and may fall in value if market interest rates increase, however, because of the short-term nature of these investments, we do not believe the risk is significant. Our long-term debt obligations bear fixed interest rates. As such, we have minimal cash flow exposure due to general interest rate changes associated with our long-term debt obligations.

Exchange Rate Sensitivity

We have two wholly owned subsidiaries which use a foreign currency as their functional currency and are translated into U.S. dollars. The functional currency of Algety is the French Franc and Corvis Canada's functional currency is the Canadian dollar. As such, we are exposed to risk related to the adverse movements in foreign currency exchange rates. These exposures may change over time and could have a material adverse impact on our financial results. For the three months ended March 31, 2001, we recognized a foreign currency translation loss of $56.3 million as part of other comprehensive loss.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

By letter dated July 10, 2000, Ciena Corporation ("Ciena") informed us of its belief that there is significant correspondence between products that we offer and several U.S. patents held by Ciena relating to optical networking systems and related dense wavelength division multiplexing communications systems technologies. On July 19, 2000, Ciena filed a lawsuit in the United States District Court for the District of Delaware alleging that we are willfully infringing three of Ciena's patents. Ciena is seeking injunctive relief, an unspecified amount of damages including treble damages, as well as costs of the lawsuit, including attorneys' fees. On September 8, 2000, we filed an answer to the complaint, as well as counter-claims alleging, among other things, invalidity and/or unenforceability of the three patents in question. On March 5, 2001, a motion was granted, allowing Ciena to amend its complaint to include allegations that we are willfully infringing two additional patents. We are currently in the discovery phase of the litigation and a trial date has been set for April 1, 2002.

We have designed our products in an effort to respect the intellectual property rights of others. We intend to defend ourselves vigorously against these claims and we believe that we will prevail in this litigation. However, there can be no assurance that we will be successful in the defense of the litigation, and an adverse determination in the litigation could result from a finding of infringement of only one claim of a single patent. We may consider settlement due to the costs and uncertainties associated with litigation in general, and patent infringement litigation in particular, and due to the fact that an adverse determination in the litigation could preclude us from producing some of our products until we were able to implement a non-infringing alternative design to any portion of our products to which such a determination applied. Even if we consider settlement, there can be no assurance that we will be able to reach a settlement with Ciena. An adverse determination in, or settlement of, the Ciena litigation could involve the payment of significant amounts by us, or could include terms in addition to payments, such as a redesign of some of our products, which could have a material adverse effect on our business, financial condition and results of operations.

We believe that defense of the lawsuit may be costly and may divert the time and attention of some members of our management. Further, Ciena and other competitors may use the existence of the Ciena lawsuit to raise questions in customers' and potential customers' minds as to our ability to manufacture and deliver our products. There can be no assurance that questions raised by Ciena and others will not disrupt our existing and prospective customer relationships.

On May 7, 2000, Paul Felzen, as Trustee of the Louise Laskin 1991 Revocable Trust, filed a class action lawsuit in the Southern District of New York. The complaint names Corvis, our directors and officers who signed the registration statement in connection with our initial public offering, and Credit Suisse First Boston Corporation as defendants. The complaint alleges that the registration statement and prospectus relating to our initial public offering contained material misrepresentations and/or omissions in that those documents did not disclose (1) that Credit Suisse First Boston Corporation had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of Corvis' common stock in the initial public offering and (2) that Credit Suisse First Boston had entered into arrangements with some investors that were designed to distort and/or inflate the market price for Corvis' common stock in the aftermarket following the initial public offering. The complaint asks the court to award to members of the class the right to rescind their purchases of Corvis common stock (or to be awarded rescissory damages if the class member has sold its Corvis stock) and prejudgment and post-judgment interest, reasonable attorneys' and experts witness' fees and other costs. The complaint was only recently filed and we are still in the process of reviewing the allegations. We intend to vigorously defend ourselves and our officers and directors.

Item 2. Changes in Securities and Use of Proceeds

(a) None.

(b) None.

(c) During January 2001, a warrant holder exercised 356,976 Series B warrants, convertible into 4,283,712 shares of common stock, through a cashless exercise election at an aggregate exercise price of $0.8 million, resulting in the net issuance of 4,247,664 shares of common stock. The transaction is exempt from the registration requirements pursuant to Section 4(2) of the Securities Act.

During January 2001, a warrant holder exercised 98,877 Series C warrants, convertible into 1,186,524 shares of common stock, through a cashless exercise election at an aggregate exercise price of $0.6 million, resulting in the net issuance of 1,158,348 shares of common stock. The

transaction is exempt from the registration requirements pursuant to Section 4(2) of the Securities Act.

During January 2001, warrant holders exercised 225,485 Series E warrants, convertible into 2,705,820 shares of common stock, through a cashless exercise election at an aggregate exercise price of $2.1 million, resulting in the net issuance of 2,624,904 shares of common stock. The transaction is exempt from the registration requirements pursuant to Section 4(2) of the Securities Act.

(d) Not applicable.

Item 3. Defaults upon Senior Securities.

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) No exhibits are required to be filed herewith.

(b) On January 16, 2001, we filed a Current Report on Form 8-K dated January 9, 2001. Attached as an exhibit to that report was a copy of Amendment No. 3 to the Procurement Agreement between Williams Communications, LLC and Corvis Corporation.

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.

Corvis Corporation

Date: May 11, 2001

/s/ Anne H. Stuart

Anne H. Stuart
Senior Vice President, Chief Financial Officer and Treasurer

Date: May 11, 2001

/s/ Timothy C. Dec

Timothy C. Dec
Vice President, Chief Accounting Officer and Corporate Controller