CORVIS CORP
Form 10-Q
August 13, 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 June 30, 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 (State or other jurisdiction of incorporation or organization)	52-2041343 (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 July 28, 2001: 360,100,877.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

CORVIS CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 30, 2000
ASSETS	
Current assets:	
Cash and cash equivalents	$1,024,758
Trade accounts receivable	16,085
Inventory, net	219,414
Other current assets	26,802
Total current assets	1,287,059
Restricted cash, long-term	46,292
Property and equipment, net	106,681
Goodwill and other intangible assets, net	929,204
Other long-term assets, net	12,600
Total assets	$2,381,836
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Notes payable, current portion	$ 1,438
Capital lease obligations, current portion	1,841
Accounts payable	90,995
Accrued expenses and other liabilities	20,745
Provision for restructuring and other charges	--
Total current liabilities	115,019
Noncurrent liabilities:	
Notes payable, net of current portion	44,529
Capital lease obligations, net of current portion	1,380
Deferred lease liability and other	4,315
Total liabilities	165,243
Commitments and contingencies	
Redeemable stock	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; 359,626,829 shares issued and outstanding as of June 30, 2001	3,478
Additional paid-in capital	2,497,773
Accumulated other comprehensive income (loss):	
Foreign currency translation adjustment	60,176
Accumulated deficit	(374,834)
Total stockholders' equity	2,186,593

Total liabilities, redeemable stock and stockholders' equity	$2,381,836

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		Six M
	July 1, 2000	June 30, 2001	July 1 2000
Revenue	$ --	$ 64,959	$
Costs of revenue:			
Product sales	--	40,542	
Inventory write-downs and other charges	--	99,166	
Gross profit (loss)	--	(74,749)	
Operating expenses:			
Research and development, exclusive of equity-based expense.......................	13,536	41,950	33,6
Sales and marketing, exclusive of equity-based expense............................	4,367	15,101	9,0
General and administrative, exclusive of equity-based expense....................	5,468	8,533	8,1
Equity-based expense:			
Research and development.................	904	12,653	1,6
Sales and marketing	35,529	3,632	35,5
General and administrative	1,457	9,154	1,4
Amortization of intangible assets	106	49,631	1
Purchased research and development	40,300	--	40,3
Restructuring, impairment and other charges............................	--	606,735	
Total operating expenses	101,667	747,389	129,9
Operating loss	(101,667)	(822,138)	(129,9
Interest income and other, net	925	306	2,3
Net loss	$ (100,742)	$(821,832)	$(127,5
Other comprehensive loss -- Foreign currency translation adjustment...............	--	(24,402)	-
Comprehensive loss	$ (100,742)	$(846,234)	$(127,5
Basic and diluted net loss per common			

share....................................	$ (2.51)	$(2.36)	$(3.
Weighted average number of common shares outstanding.................	40,077	347,909	38,5

See accompanying notes to unaudited condensed consolidated financial statements.

CORVIS CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Mo
	July 1, 2000
Cash flows from operating activities:	
Net loss	$(127,572)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	3,558
Equity-based expense	38,635
Purchased research and development	40,300
Restructuring, impairment and other charges	--
Asset impairment and other non-cash expenses	745
Changes in operating assets and liabilities:	
Increase in accounts receivable	--
Increase in inventory, net	(55,567)
Increase in other assets	(1,305)
Increase (decrease) in accounts payable and accrued expenses	15,982
Net cash used in operating activities	(85,224)
Cash flows from investing activities:	
Purchase of property and equipment	(26,842)
Cash acquired in business combination	20,782
Decrease (increase) in deposits and other non-current assets	179
Net cash used in investing activities	(5,881)
Cash flows from financing activities:	
Restricted cash	61
Payments on note payable and capital leases	(7,880)
Proceeds from the issuance of stock	40,972
Net cash provided by financing activities	33,153
Effect of exchange rate changes on cash and cash equivalents	--
Net decrease in cash and cash equivalents	(57,952)
Cash and cash equivalents--beginning	244,597

Cash and cash equivalents--ending	$ 186,645
Supplemental disclosure of cash flow information:	
Interest paid	$ 3,616
Supplemental disclosure of noncash activities:	
Financed leasehold improvements	$ 923
Obligations under capital lease	$ --
Purchase business combinations consideration paid with preferred stock	$ 218,706

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 Costs 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. 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.

Costs of revenue include 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.

(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 Write-downs, Restructuring and Other Charges

During the second fiscal quarter of 2001, the Company recorded inventory write-downs, restructuring, impairment and other charges totaling $714.6 million. These charges were comprised of $99.2 million in cost of revenue charges associated with inventory write-downs and losses on open purchase commitment cancellations associated with component parts for discontinued product lines; $9.4 million associated with workforce reduction; $9.0 million associated with consolidation of excess facilities and write-down of idle equipment; $588.3 million associated with the write-down of goodwill associated with the acquisition of Algety Telecom S.A.; and $8.7 million associated with impairment charges on investments carried at cost. The restructuring actions, under a plan approved by the Company's Board of Directors were taken in response to unfavorable economic conditions and a reduction in capital expenditures by telecommunication service providers.

(a) Inventory write-downs

The restructuring plan includes discontinuance of certain product lines and reduction of planned production levels that resulted in an approximate charge of $99.2 million, which has been classified as a component of costs of revenues. These charges include approximately $65.8 million associated with the write-down of excess inventory and $33.4 million in incremental costs associated with canceling certain open purchase commitments.

(amounts in thousands except per share amounts)

(b) Workforce reduction

The restructuring plan includes a work force reduction program that resulted in the termination of approximately 300 employees or 20% within the Company's United States operations. The Company recorded a workforce reduction charge of approximately $9.4 million, consisting of $4.5 million for severance and related benefits and $4.9 million for equity-based compensation charges associated with the acceleration of vesting for related employee stock options. The workforce reduction was substantially complete by the end of the second quarter of fiscal 2001.

(c) Facility Consolidation and Idle Equipment

To reduce costs and improve productivity, the restructuring plan includes a consolidation of excess facilities and equipment. Losses on excess facility exit plans include $9.0 million in incremental lease exit costs. Consolidation of facilities expected to be completed by the end of the third quarter of fiscal 2001.

(d) Impairment of Goodwill and Other Assets

When events and circumstances warrant a review, Corvis Corporation evaluates the carrying value of long-lived assets to be held and used in accordance with Statement of Financial Accounting

Standards ("SFAS") No. 121 "Accounting for the Impairment and for Long-Lived Assets to be Disposed Of." In the second quarter, unfavorable economic conditions have resulted in a reduction in capital expenditures by telecommunications service providers. In light of the business environment and uncertain telecommunications spending, Corvis evaluated its long-lived assets in accordance with SFAS No. 121 and determined that the carrying value exceeded the estimated fair value of goodwill recorded in association with the acquisition of Algety Telecom S.A., resulting in an impairment charge of approximately $588.3 million. In addition the Company recorded an impairment charge of $8.7 million associated with the write-down of certain investments carried at cost.

(e) Summary of Inventory Write-downs, Restructuring and Other Charges

	Total Charge	Cash Payments	Non-cash Charge
Costs of revenue, special charges			
Inventory write-down and open purchase commitments ...	$ 99,166	$3,500	$ 65,823

Restructuring and other charges:			
Workforce reduction	9,409	2,766	4,885
Facility consolidations and idle equipment	9,031	--	4,273
Write-down of impaired goodwill	588,295	--	588,295
Total restructuring and other charges	606,735	2,766	597,453
Interest income and other, net of impairment of investments	8,682	--	8,682
Total	$714,583	$6,266	$671,958
Less current portion			
Provision balance, net of current portion			

The provision balance above is anticipated to be paid out in the remainder of fiscal year 2001, except for excess lease facilities charges of approximately $2.5 million, which will be paid out over an additional six month period.

(3) Inventory

Inventories are comprised of the following:

	December 30, 2000	Jun 2
Raw materials	$131,983	$ 16
Work-in-process	50,161	3
Finished goods	51,119	4
	233,263	24
Less reserve for excess inventory and obsolescence	(13,849)	(6
Inventory, net	$219,414	$ 17

CORVIS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands except per share amounts)

(4) 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	
	July 1, 2000	June 30, 2001
Net loss	(100,742)	$(821,832)
Basic and diluted weighted average common shares	40,077	347,909
Basic and diluted net loss per common share	$ (2.51)	$ (2.36)

	Six Months Ended	
	July 1, 2000	June 30, 2001
Net loss	$(127,572)	$ (922,661
Basic and diluted weighted average common shares	38,595	345,172
Basic and diluted net loss per common share	$ (3.31)	$ (2.67

Convertible Preferred Stock outstanding as of July 1, 2000, convertible into 217,956,916 shares of common stock, options and warrants to purchase 41,921,932 and 22,092,228 shares of common stock, respectively, and 21,543,896 unvested shares acquired through the exercise of options were not included in the computation of diluted loss per share for the three months ended July 1, 2000 as their inclusion would be anti-dilutive.

Options and warrants outstanding as of June 30, 2001 to purchase 47,974,514 and 7,634,676 shares of common stock, respectively, and 10,187,222 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 June 30, 2001 as their inclusion would be anti-dilutive.

(5) 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

CORVIS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands except per share amounts)

any potential outcome. Accordingly, no provision for this matter has been made in the Company's condensed consolidated financial statements.

Between May 7, 2001 and June 15, 2001, nine putative class action lawsuits were filed in the United States District Court for the Southern District of New York relating to the Company's initial public offering on behalf of all persons who purchased Company stock between July 28, 2000 and the filing of the complaints. Each of the complaints names as defendants: the Company, its directors and officers who signed the registration statement in connection with the Company's initial public offering, and certain of the underwriters that participated in the Company's initial public offering. The complaints allege that the registration statement and prospectus relating to the Company's initial public offering contained material misrepresentations and/or omissions in that those documents did not disclose (1) that certain of the underwriters had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of the Company's common stock in the initial public offering and (2) that certain of the underwriters had entered into arrangements with some investors that were designed to distort and/or inflate the market price for the Company's common stock in the aftermarket following the initial public offering. The complaints ask 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 plaintiffs have moved to appoint lead plaintiff, to appoint lead counsel and to consolidate the actions. These motions are pending. No discovery has yet occurred. The Company intends to vigorously defend itself and its officers and directors. It is the position of 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.

(6) Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued 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 fair 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 the Company's consolidated financial statements.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations." This Statement addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, "Business Combinations" and FASB Statement No. 38, "Accounting for

Preacquisition Contingencies of Purchased Enterprises." The provisions of this Statement apply to all business combinations initiated after June 30, 2001. The application of this

accounting standard is not expected to have a material adverse effect on the business, results of operations of financial condition.

Also in July 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and other Intangible Assets." This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes Accounting Practice Board ("APB") Opinion No.17, Intangible Assets. It addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. This statement is effective beginning January 2, 2002. The Company is currently reviewing the provisions of this statement and its potential impact on the Company's results of operations.

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 and in conjunction with our Form 10-K filed on March 29, 2001 with the Securities and Exchange Commission.

Overview

We design, manufacture and sell high performance optical communication systems that lower the overall cost of network ownership for service providers. Our all-optical products have enabled a fundamental shift in network design and efficiency by allowing for the transmission, switching and management of communication traffic entirely in the optical domain, thereby eliminating the capital and operational expense of electrical regeneration and switching equipment in the backbone network. Our point to point and repeaterless transmission products and optical switching products allow us to offer high performance solutions that address a broad range of networking requirements encountered by service providers.

We currently have five customers, including Broadwing Communications, Inc., Williams Communications, Inc., Qwest Communications Corporation, Telefonica, and a major global carrier with a business arrangement under a non-disclosure agreement. 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. Shipment of commercial equipment to Williams Communications began late in the first quarter of 2001 and continues to date.

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 certain shipment pre-requisites.

In the second quarter 2001, the Company entered into a contract with a global carrier and reached agreement with Spanish operator Telefonica for the delivery of our next generation optical products. These contracts are in early stages; however, we hope to develop these arrangements into long-term business relationships.

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

Recently, unfavorable economic conditions have resulted in reduced capital expenditures by telecommunications service providers. In response to these conditions, we implemented a restructuring plan, approved by the Company's Board of Directors, designed to decrease the Company's business expenses and to align resources for long-term growth opportunities. Additionally, we evaluated the carrying value of our long-lived assets. In the second quarter, the Company recorded business restructuring and impairment charges of approximately $714.6 million. These charges included $99.2 million associated with inventory write-downs and open purchase commitments which

were recorded in costs of revenue, $606.7 associated with workforce reduction, consolidation of excess facilities, write-down of idle equipment, and impairment of goodwill recorded in restructuring and other charges; and $8.7 million associated with impairment of certain investments carried at cost recorded as interest income and other expense, net.

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. 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 our consolidated balance sheets.

Costs of Revenue. Costs of revenue include the costs of manufacturing our products and other costs associated with warranty and other contractual obligations, inventory obsolescence costs and overhead related to our 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.

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.

Equity-based Expense. Equity-based expense consists primarily of charges associated with employee options granted at below fair market value prior to our initial public offering.

Amortization of Goodwill and Other Intangible Assets. Amortization of goodwill and other intangible assets primarily relates to the amortization of goodwill associated with the acquisition of Algety Telecom S.A. As discussed above, the Company recorded a charge of approximately $588.3 million, which was recorded in restructuring and other special charges discussed below, to reduce this

goodwill to its current estimated fair value. As a result, amortization expense should significantly decrease in future periods.

Results of Operations

Three months ended June 30, 2001 compared to three months ended July 1, 2000

Revenue. Revenue increased to $65.0 million for the three months ended June 30, 2001 from zero for the three months ended July 1, 2000. The increase in revenue is attributable to the sale of network hardware and associated software for commercial use 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. In association with discontinued product lines under the Company's restructuring plan, the Company recorded cost of revenue charges totaling $99.2 million, comprised of inventory write-downs and certain open purchase commitments of approximately $65.8 million and $33.4 million, respectively. Gross profit (loss) was $(74.7) million for the three months ended June 30, 2001. Gross margin as a percentage of revenues was (115.1)%. Excluding special charges of $99.2 million for the three months ended June 30, 2001, gross profit and gross margin were $24.5 million and 37.6%, respectively.

Research and Development, Excluding Equity-Based Expense. Research and development expenses, excluding equity-based expense increased to $41.9 million for the three months ended June 30, 2001 from $13.5 million for the three months ended July 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 $15.1 million for the three months ended June 30, 2001 from $4.4 million for the three months ended July 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 $8.5 million for the three months ended June 30, 2001 from $5.5 million for the three months ended July 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 decreased to $25.4 million for the three months ended June 30, 2001 from $37.9 million for the three months ended July 1, 2000. Equity-based expense for the three months ended June 30, 2001 primarily relates to charges associated with the granting of employee options at below fair market value prior to our initial public offering. Equity-based expense for the three months ended July 1, 2000 primarily relates to the waiving of certain forfeiture provisions contained in warrants granted to certain customers.

Amortization of Goodwill and Intangible Assets. Amortization of intangible assets expenses increased to $49.6 million for the three months ended June 30, 2001 from $0.1 million for the three months ended July 1, 2000. The increase was primarily attributable to the amortization of intangibles resulting from our recent acquisitions.

Restructuring and Other Charges. Restructuring and other charges increased to $606.7 million for the three months ended June 30, 2001 from zero for the three months ended July 1, 2000. These charges were comprised of $9.4 million associated with workforce reduction, $9.0 million associated with consolidation of facilities and write-down of idle equipment, and $588.3 million associated with the write-down of goodwill associated with the acquisition of Algety Telecom S. A.

Interest Income and Other, Net. Interest income, net of interest and other expenses, decreased to $0.3 million for the three months ended June 30, 2001 from $0.9 million for the three months ended July 1, 2000. The decrease was primarily attributable to the write-down of certain equity investments of approximately $8.7 million associated with the permanent impairment of certain investments carried at cost and interest expense incurred under various credit facilities, offset in part by interest income attributable to invested cash balances from the proceeds of initial public offering and various private placements.

Six months ended June 30, 2001 compared to six months ended July 1, 2000

Revenue. Revenue increased to $149.0 million for the six months ended June 30, 2001 from zero for the six months ended July 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. In association with discontinued product lines under the Company's restructuring plan, the Company recorded cost of revenue charges totaling $99.2 million, comprised of inventory write-downs and certain purchase commitments of approximately $65.8 million and $33.4 million, respectively. Gross profit was $(43.6) million for the six months ended June 30, 2001. Gross margin as a percentage of revenues was (29.2)%. Excluding special charges of $99.2 million for six months ended June 30, 2001, gross profit and gross margin were $55.6 million and 37.3%, respectively.

Research and Development, Excluding Equity-Based Expense. Research and development expenses, excluding equity-based expense increased to $82.9 million for the six months ended June 30, 2001 from $33.7 million for the six months ended July 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 $30.5 million for the six months ended June 30, 2001 from $9.0 million for the six months ended July 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 $19.5 million for the six months ended June 30, 2001 from $8.1 million for the six months ended July 1, 2000. The increase in expenses was primarily attributable to significant increases in headcount, 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 increased to $51.1 million for the six months ended June 30, 2001 from $38.6 million in the six months ended July 1, 2000. The increase in equity-based compensation primarily resulted from an increase in charges associated with stock options granted prior to our initial public offering 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 $101.9 million for the six months ended June 30, 2001 from $0.2 million for the six months ended July 1, 2000. The increase was primarily attributable to the amortization of intangibles resulting from our recent acquisitions.

Restructuring and Other Charges. Restructuring and other charges increased to $606.7 million for the six months ended June 30, 2001 from zero for the six months ended July 1, 2000. These charges were comprised of $9.4 million associated with workforce reduction, $9.0 million associated with consolidation of excess facilities and write-down of idle equipment, and $588.3 million associated with the write-down of goodwill associated with the acquisition of Algety Telecom S.A.

Interest Income and Other, Net. Interest income, net of interest and other expense, increased to $13.5 million for the six months ended June 30, 2001 from $2.4 million for the six months ended July 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 and a write-down of certain equity investments of approximating $8.7 million associated with the permanent impairment of certain investments carried at cost.

Liquidity and Capital Resources

Since inception through June 30, 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 June 30, 2001, our cash and cash equivalents totaled $771.6 million.

Net cash used in operating activities was $151.0 million for the six months ended June 30, 2001. Cash used in operating activities for the six months ended June 30, 2001 was primarily attributable to a net loss of $922.7 million, $51.4 million of increases in accounts receivable, $23.5 million increase in net inventory, partially offset by non-cash expense items including depreciation and amortization of $122.8 million, equity-based expense of $51.1 million and restructuring, inventory write-down, and other charges of $663.3 million.

Net cash used in investing activities for the six months ended June 30, 2001 was $101.3 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 $10 million and $20 million.

Net cash provided by financing activities for the six months ended June 30, 2001 was $2.1 million, primarily attributable to proceeds from the exercise of warrants and employee stock options.

As of June 30, 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 June 30, 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.

Certain of our customer agreements include customer acceptance provisions associated with equipment delivery. Unexpected delays in customer acceptance may give rise to delays in cash collection and related revenue recognition. Such delays could adversely impact our liquidity and results of operations.

In light of the current economic environment, we slowed expansion within current operations during the first six months of 2001 and implemented plans to strategically lower operating expenses for the remainder of the fiscal year. Plans included personnel reductions, elimination of excess facilities and other measures to streamline operating costs. The Company currently is developing additional cost reduction plans, which will be at lower levels than those implemented in the second quarter of 2001. If we are unable to execute these cost reduction measures effectively or 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 five 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 that we deem 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.

Between May 7, 2001 and June 15, 2001, nine putative class action lawsuits were filed in the United States District Court for the Southern District of New York relating to our initial public offering on behalf of all persons who purchased our stock between July 28, 2000 and the filing of the complaints. Each of the complaints names as defendants: Corvis, our directors and officers who signed the registration statement in connection with our initial public offering, and certain of the underwriters that participated in our initial public offering. The complaints allege 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 certain of the underwriters had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of our common stock in the initial public offering and (2) that certain of the underwriters had entered into arrangements with some investors that were designed to distort and/or inflate the market price for our common stock in the aftermarket following the initial public offering. The complaints ask 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 plaintiffs have moved to appoint lead plaintiff, to appoint lead counsel and to consolidate the actions. These motions are pending. No discovery has yet occurred. 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 six months ended June 30, 2001, we recognized a foreign currency translation loss of $80.7 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. The litigation is currently in the discovery phase 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.

Between May 7, 2001 and June 15, 2001, nine putative class action lawsuits were filed in the United States District Court for the Southern District of New York relating to our initial public offering on behalf of all persons who purchased our stock between July 28, 2000 and the filing of the complaints. Each of the complaints names as defendants: Corvis, our directors and officers who signed the registration statement in connection with our initial public offering, and certain of the underwriters that participated in our initial public offering. The complaints allege 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 certain of the underwriters had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of our common stock in the initial public offering and (2) that certain of the underwriters had entered into arrangements with some investors that were designed to distort and/or inflate the market price for our common stock in the aftermarket following the initial public offering. The complaints ask 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 plaintiffs have

moved to appoint lead plaintiff, to appoint lead counsel and to consolidate the actions. These motions are pending. No discovery has yet occurred. 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) None.

(d) Not applicable.

Item 3. Defaults upon Senior Securities.

None.

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

(a) We held our annual meeting of stockholders on May 11, 2001.

(b) Davis S. Oros was elected as a Class I Director, with a term expiring at the annual meeting stock holders to be held in 2004. Our Directors whose terms of office continued after the meeting are: Joseph R. Hardiman, Ossama R. Hassanein, David R. Huber and Frank M. Drendel.

(c) Following is a tabulation of the number of votes cast for, the number of votes cast against, the number of votes withheld and the number of broker non-votes for each item upon which stockholders voted at our annual meeting:

Item	For	Against	Withhel
Election of David S. Oros as a Class I Director......................................	233,560,149	--	360,7
Approval of the appointment of KPMG LLP as our auditors for fiscal 2001..................	232,610,927	1,307,494	2,5

(d) Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

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

(b) We did not file any Current Reports on Form 8-K during the three onths ended June 30, 2001.

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: August 10, 2001	/s/ Anne H. Stuart -- Anne H. Stuart Senior Vice President, Chief Financial Officer and Treasurer
Date: August 10, 2001	/s/ Timothy C. Dec -- Timothy C. Dec Vice President, Chief Accounting Officer and Corporate Controller