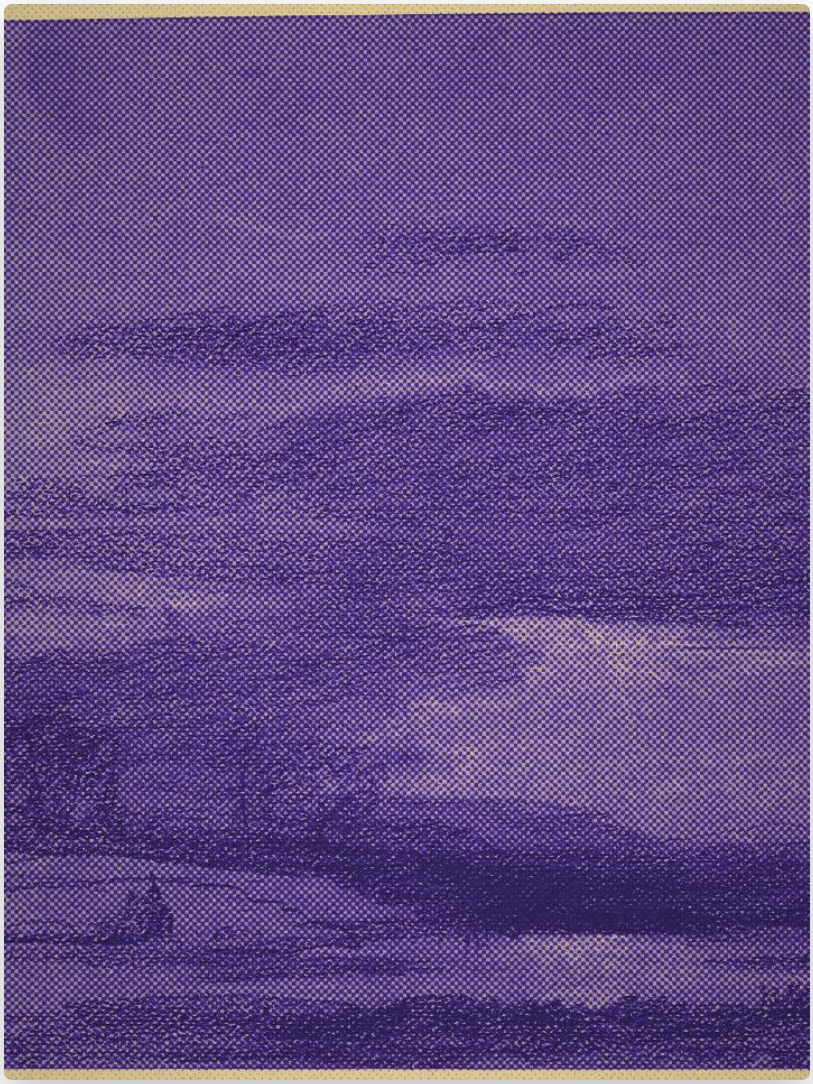
FORM S-1 · REGISTRATION STATEMENT

Avanex Corp

IPO priced 2000-02-04 · $36.00 a share · AVNX



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON DECEMBER 3, 1999

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

AVANEX CORPORATION (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	3674	94-3285348
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

40919 ENCYCLOPEDIA CIRCLE FREMONT, CALIFORNIA 94538 (510) 897-4188 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) WALTER ALESSANDRINI CHIEF EXECUTIVE OFFICER AVANEX CORPORATION 40919 ENCYCLOPEDIA CIRCLE FREMONT, CALIFORNIA 94538 (510) 897-4188 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX. [ ] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, PLEASE CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, PLEASE CHECK THE FOLLOWING BOX. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE (1)
Common stock, $.001 par value per share.....	$96,600,000	$25,502.40

(1) ESTIMATED SOLELY FOR THE PURPOSE OF COMPUTING THE AMOUNT OF THE REGISTRATION FEE PURSUANT TO RULE 457(O) PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SUCH SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS (SUBJECT TO COMPLETION) ISSUED DECEMBER 3, 1999 SHARES [LOGO] AVANEX CORPORATION

COMMON STOCK

AVANEX CORPORATION IS OFFERING SHARES OF ITS COMMON STOCK. THIS IS OUR INITIAL PUBLIC OFFERING AND NO PUBLIC MARKET CURRENTLY EXISTS FOR OUR SHARES. WE ANTICIPATE THAT THE INITIAL PUBLIC OFFERING PRICE WILL BE BETWEEN $ AND $ PER SHARE.

WE HAVE FILED AN APPLICATION FOR OUR COMMON STOCK TO BE QUOTED ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "AVNX."

Investing in Our Common Stock Involves Risks. See "Risk Factors" Beginning on Page 6.

Price $ a Share

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS	PROCEEDS TO AVANEX
Per Share	$	$	$
Total	$	$	$

Avanex has granted the underwriters the right to purchase up to an additional shares to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the shares to purchasers on , 2000.

MORGAN STANLEY DEAN WITTER LEHMAN BROTHERS ROBERTSON STEPHENS U.S. BANCORP PIPER JAFFRAY , 2000

[Inside Front Cover]

[The inside front cover page of the prospectus starts with the heading "Next-Generation Optical Network." Underneath it is a subheading that reads "The Avanex Solution . . ." followed by a large box. Inside the box is a diagram with four rectangles, one on top of the other, with a single line between each two adjacent rectangles. Inside the four rectangles are the following words:

"Communications Service Providers Optical Systems Providers [LOGO] Avanex(TM) Photonic Processors Optical Component Manufacturers" To the left of the rectangles are two ellipses, one on top of the other, containing the following words:

"Network System Expertise Optical Expertise" There is an arrow pointing from the Avanex rectangle to the bottom of the Optical Expertise ellipse, arrows from that ellipse pointing up to the Network System Expertise ellipse and pointing to the right between the Optical Systems Providers rectangle and the Avanex rectangle, and an arrow pointing from the Network System Expertise ellipse to the right between the Communications Service Providers rectangle and Optical Systems Providers rectangles.

Below the large box is the subheading ". . . Meeting Tomorrow's Network Requirements." Below the subheading are three rectangles side-by-side containing the words:

"Quality of Service Flexibility Scalability" Below the boxes is the following text:

"Avanex photonic processors optimize optical network performance, providing flexible, scalable and cost-effective optical transport solutions that facilitate the deployment of next-generation, all-optical network services."]

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We were incorporated in California in October 1997 and intend to reincorporate in Delaware in December 1999. Our principal executive offices are located at 40919 Encyclopedia Circle, Fremont, California 94538, and our telephone number is (510) 897-4188. Our web site address is www.avanex.com. The information on our web site is not incorporated by reference into this prospectus. Avanex, PowerFilter, PowerMux, PowerShaper and The Photonics Center are our trademarks. This prospectus also contains trademarks of other companies.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock.

UNTIL , 2000, ALL DEALERS THAT BUY, SELL OR TRADE OUR COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

For investors outside the United States: Neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

In this prospectus, "Avanex," "we," "us" and "our" refer to Avanex Corporation, a Delaware corporation, and our predecessor California corporation and not to the underwriters. Unless otherwise indicated, all information contained in this prospectus:

- assumes that the underwriters' over-allotment option is not exercised;

- except as noted in the financial statements, gives effect to the conversion of all shares of preferred stock outstanding as of October 1, 1999 into 22,460,968 shares of common stock effective upon the closing of this offering; and - reflects the exercise of warrants to purchase 225,000 shares of common stock prior to the closing of this offering.

Prospectus Summary

You should read the following summary together with the more detailed information regarding our company and the common stock being sold in this offering and our financial statements and notes appearing elsewhere in this prospectus.

Avanex designs, manufactures and markets fiber optic-based products, known as photonic processors, which are designed to increase the performance of optical networks. Our photonic processors offer communications service providers and optical systems manufacturers greater levels of performance and miniaturization, reduced complexity and increased cost-effectiveness as compared to current alternatives. We believe photonic processors will enable the next-generation, all-optical network, which is necessary to support the increasing demand for bandwidth.

The proliferation of the Internet and the increase in activities such as electronic commerce, the transmission of large data files, Internet-based businesses and telecommuting, have caused a significant increase in the volume of traffic across the communications infrastructure. According to Ryan, Hankin & Kent, a leading market research and consulting firm, Internet traffic will increase from 350,000 tera bytes per month, or TBpM, at the end of 1999 to over 15 million TBpM in 2003. This market research suggests that, at the end of 1999, the volume of Internet data traffic will have surpassed the volume of voice traffic. In an effort to increase network capacity and performance, the transport layer, or medium over which the data traffic is transmitted, is currently being upgraded from electrical to optical transmission. Despite the advances that have occurred in the existing communications infrastructure, there are still many challenges to deploying a next-generation, optical network, including:

- the need to prevent an optical signal from degrading by converting it into an electrical signal and back into an optical signal at frequent intervals across a network;

- the need to carry increased amounts of data in each wavelength of light;

- the high cost of the optical products needed for an optical network; and - the difficulty in deploying large pieces of optical equipment.

Our PowerFilter and PowerMux products are designed to overcome the technological challenges, such as chromatic dispersion and attenuation, and the cost and deployment challenges inherent in optical networks. Our products are designed to enable the transmission of more data in a wavelength of light, at higher speeds and across greater distances in a network, than currently available optical technologies. Our customers can also optimize the utilization of limited network space because we miniaturize our products and combine multiple components in a single package. We design our products to work within existing network deployments, as well as in future optical networks. We believe our photonic processors enable communications service providers and optical systems manufacturers to cost-effectively maximize the capacity, or bandwidth, of optical networks to facilitate next generation services and applications, such as virtual private networking, or VPN, and business-to-business, or B2B, electronic commerce.

Our objective is to be the leading provider of innovative, fiber optic-based solutions that enable our customers to deploy and optimize fiber optic networks. In order to achieve this objective, our strategy is to leverage our technology leadership and expertise to develop new products and expand customer relationships. We also intend to expand our manufacturing facilities, automate our manufacturing processes and extend awareness of our brand. Our marketing strategy is based on a push-pull approach. With our push approach, we target optical systems manufacturers that can buy our products and then resell them as part of their optical solutions. Using our pull approach, we target communications

service providers that can create demand for our products by directly purchasing, or requiring that their systems incorporate, our products. We believe this approach will drive demand for our products and help enable the transition to the next-generation, all-optical network.

THE OFFERING Common stock offered..... shares Common stock to be outstanding after this offering..... shares Use of proceeds..... We intend to use the net proceeds for general corporate purposes, including capital expenditures and working capital. See "Use of Proceeds."

Proposed Nasdaq National Market symbol..... AVNX The above information is based on the number of shares of common stock outstanding as of October 1, 1999 and excludes 799,400 shares of common stock issuable upon exercise of outstanding options with a weighted-average exercise price of $.11 per share, 19,565 shares of common stock issuable upon exercise of an outstanding warrant with an exercise price of $5.75 per share and 180,486 shares of common stock reserved for future awards under our stock plans.

Summary Financial Data (In Thousands, Except Per Share Data)

			QUARTER ENDED	
	OCTOBER 24, 1997 (INCEPTION) TO JUNE 30, 1998	YEAR ENDED JUNE 30, 1999	SEPTEMBER 30, 1998	OCTOBER 1, 1999
			(UNAUDITED)	
STATEMENT OF OPERATIONS DATA:				
Net revenue	$ --	$ 510	$ --	$ 4,417
Gross profit (loss)	--	(21)	--	986
Stock compensation expense	362	3,464	323	6,107
Total operating expenses	1,133	9,229	1,044	8,385
Loss from operations	(1,133)	(9,250)	(1,044)	(7,399)
Net loss	(1,137)	(9,221)	(1,037)	(7,470)
Net loss attributable to common stockholders	(1,137)	(9,221)	(1,037)	(22,431)
Pro forma basic and diluted net loss per common share (unaudited)		$ (.59)		$ (.92)
Weighted average shares used in computing pro forma basic and diluted net loss per common share (unaudited)		15,576		24,402

The following table presents our summary balance sheet data as of October 1, 1999. The pro forma as adjusted information reflects:

- the assumed exercise of warrants to purchase 225,000 shares of common stock at an exercise price of $6.00 per share prior to this offering and the subsequent conversion of all of our outstanding preferred stock as of October 1, 1999 into an aggregate of 22,460,968 shares of common stock upon completion of this offering; and

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- our sale of           shares of our common stock in this offering at an
  assumed initial public offering price of $     per share, after deducting
  estimated underwriting discounts and commissions and our estimated
  offering expenses.
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AS OF OCTOBER 1, 1999 PRO FORMA ACTUAL AS ADJUSTED (UNAUDITED)

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BALANCE SHEET DATA:
Cash, cash equivalents and short-term investments.....  $14,638       $
Working capital.....................................     14,174
Total assets........................................     25,068
Long-term obligations, excluding current portion.....     1,433          1,433
Redeemable convertible preferred stock..............     25,318
Total other stockholders' equity (deficit).........      (7,799)
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Risk Factors

This offering and any investment in our common stock involve a high degree of risk. You should carefully consider the risks described below and all of the information contained in this prospectus before deciding whether to purchase our common stock. If any of the following risks actually occur, our business, financial condition and results of operations could be harmed. The trading price of our common stock could decline, and you may lose all or part of your investment in our common stock.

Risks Related to Our Business

WE HAVE NEVER BEEN PROFITABLE AND OUR FAILURE TO INCREASE OUR REVENUES SIGNIFICANTLY WOULD PREVENT US FROM ACHIEVING AND MAINTAINING PROFITABILITY We have incurred significant losses since inception and expect to continue to incur losses in the future. We incurred net losses of $1.1 million in the period from our inception on October 24, 1997 through June 30, 1998, $9.2 million in the fiscal year ended June 30, 1999 and $7.5 million in the quarter ended October 1, 1999. As of October 1, 1999, we had an accumulated deficit of $32.8 million. To date, we have not achieved profitability on a quarterly or annual basis. Due to lack of cash generated from operations, we have funded our operations through the sale of equity securities, bank borrowings and equipment lease financing. We have a large amount of fixed expenses and we expect to continue to incur significant and increasing manufacturing, sales and marketing, product development and administrative expenses. As a result, we will need to generate significantly higher revenues while containing costs and operating expenses if we are ever to achieve profitability. Although our net revenue has grown from zero in the quarter ended March 31, 1999 to $4.4 million in the quarter ended October 1, 1999, we cannot be certain that our revenues will continue to grow, or that we will ever achieve sufficient revenue levels to achieve profitability.

BECAUSE WE HAVE A LIMITED OPERATING HISTORY AND ONLY RECENTLY BEGAN SHIPPING OUR PRODUCTS, IT IS DIFFICULT TO EVALUATE OUR BUSINESS AND TO FORECAST OUR PROSPECTS As a result of our limited operating history, particularly our short history of manufacturing products for sale, it is difficult to forecast our revenues accurately, and we have limited meaningful historical financial data upon which to plan future operating expenses. We began operations in October 1997. Until April 1999, we were a development stage company and our only activities were research and development. We began shipping our PowerFilter and PowerMux products to customers for evaluation in April 1999. Volume shipments did not commence until the quarter ended October 1, 1999. We face the risks and difficulties frequently encountered by early stage companies in a new and rapidly evolving market. The revenue and income potential of our products and business are, and the size of our market is, unproven. Our ability to sell products and achieve success will depend on, among other things, the level of demand for our products and our capacity to meet demand.

WE EXPECT OUR QUARTERLY REVENUES AND OPERATING RESULTS TO FLUCTUATE SIGNIFICANTLY AND THIS MAY CAUSE OUR STOCK PRICE TO DECLINE Our revenues and operating results are likely to vary significantly from quarter to quarter. A number of factors are likely to cause these variations, including:

- fluctuations in demand for and sales of our products;

- cancellations of orders and shipment rescheduling;

- our ability to significantly expand our manufacturing capacity at our new facility in Fremont, California, which commenced operations in November 1999;

- the ability of Concord Micro-Optics, Inc., or CMI, to timely produce and deliver subcomponents from its facility in China in the quantity and of the quality we require;

- the practice of companies in the communications industry to sporadically place large orders with short lead times;

- competitive factors, including introductions of new products and product enhancements by potential competitors, entry of new competitors into our market and pricing pressures;

- our ability to develop, introduce, manufacture and ship new and enhanced products in a timely manner without defects;

- our ability to control expenses;

- availability of components for our products and increases in the price of these components;

- mix of our products sold;

- costs related to acquisitions of technology or businesses; and - general economic conditions as well as those specific to the communications and related industries.

A high percentage of our expenses, including those related to manufacturing, engineering, sales and marketing, research and development and general and administrative functions, are essentially fixed in the short term. As a result, if we experience delays in generating and recognizing revenue, our quarterly operating results are likely to be seriously harmed. As we expand our manufacturing capacity, we will incur expenses in one quarter relating to the expansion and related yield issues that may not result in off-setting revenue until a subsequent quarter. New product introductions can also result in a mismatching of research and development expenses and sales and marketing expenses that are incurred in one quarter with revenues that are not received until a subsequent quarter when the new product is introduced. If growth in our revenues does not outpace the increase in our expenses, our results of operations could be seriously harmed.

Due to these and other factors, we believe that quarter-to-quarter comparisons of our operating results will not be meaningful. You should not rely on our results for one quarter as any indication of our future performance. It is likely that in future quarters our operating results may be below the expectations of public market analysts or investors. If this occurs, the price of our common stock would likely decrease.

OUR POWERFILTER PRODUCT CURRENTLY REPRESENTS NEARLY ALL OF OUR REVENUE AND A SIGNIFICANT PORTION OF OUR FUTURE REVENUE DEPENDS ON THE COMMERCIAL SUCCESS OF OUR POWERMUX PRODUCT We currently offer only two products, PowerFilter and PowerMux. Sales of our PowerFilter product accounted for 95% of our net revenue in the quarter ended June 30, 1999 and 99% of our net revenue in the quarter ended October 1, 1999. We substantially depend on this product for our near-term revenue. Most customers who have purchased PowerFilter products from us to date have purchased them for evaluation purposes only and may not choose to purchase any additional products for commercial use. Any decline in the price of, or demand for, our PowerFilter product, or its failure to achieve broad market acceptance, would seriously harm our business. In addition, we believe that our future growth and a significant portion of our future revenue will depend on the commercial success of our PowerMux product, which to date has only been shipped for evaluation. If our target customers do not widely adopt, purchase and successfully deploy our products, our revenues will not grow significantly and our business will be seriously harmed.

WE RELY ON A LIMITED NUMBER OF CUSTOMERS, AND ANY DECREASE IN REVENUES FROM, OR LOSS OF, THESE CUSTOMERS WITHOUT A CORRESPONDING INCREASE IN REVENUES FROM OTHER CUSTOMERS WOULD HARM OUR OPERATING RESULTS Our customer base is limited and highly concentrated. We began recognizing revenues from sales of our products in the quarter ended June 30, 1999. In our two quarters of product sales, three customers accounted for an aggregate of 94% of our net revenue in the quarter ended June 30, 1999 and an aggregate of 95% of our net revenue in the quarter ended October 1, 1999. MCI WorldCom accounted for 92% of our net revenue in the quarter ended October 1, 1999. We expect that the majority of our revenues will continue to depend on sales of our products to a small number of customers.

If current customers do not continue to place significant orders, we may not be able to replace these orders. In addition, any downturn in the business of existing customers could result in significantly decreased sales to these customers, which could seriously harm our revenues and results of operations.

Sales to any single customer may vary significantly from quarter to quarter. Customers in the communications industry tend to order large quantities of products on an irregular basis. They base these orders on a decision to deploy their system in a particular geographic area and may not order additional products until they make their next major deployment decision. This means that customers who account for a significant portion of our net revenue in one quarter may not place any orders in the succeeding quarter. These ordering patterns can result in significant quarterly fluctuations in our operating results.

WE MUST RAPIDLY EXPAND OUR MANUFACTURING CAPACITY OR WE WILL NOT BE ABLE TO DELIVER OUR PRODUCTS TO OUR CUSTOMERS IN A TIMELY MANNER We must devote significant resources in order to expand our manufacturing capacity. We have no experience in rapidly increasing our manufacturing capacity or in manufacturing products at high volumes, and we only commenced manufacturing operations in the quarter ended June 30, 1999. We will be required to hire, train and manage significant numbers of additional manufacturing personnel in order to increase our production capacity. We also intend to have some of our subcomponents and products manufactured by a third party contract manufacturer located in China. Expanding our manufacturing capacity at different facilities will be expensive and will require management's time. There are numerous risks associated with rapidly increasing capacity, including:

- the inability to procure and install the necessary equipment;

- lack of availability of manufacturing personnel;

- difficulties in achieving adequate yields from new manufacturing lines; and - the inability to match future order volumes with capacity.

If we are unable to expand our manufacturing capacity in a timely manner or if we do not accurately project demand, we will have excess capacity or insufficient capacity, either of which will seriously harm our business.

Our planned manufacturing expansion and related capital expenditures are being made in anticipation of a level of customer orders that may not be realized or, if realized, may not be sustained over multiple quarters. If anticipated levels of customer orders are not received, our gross margins will decline and we will not be able to reduce our operating expenses quickly enough to prevent a decline in our operating results.

BECAUSE WE EXPECT TO DEPEND ON A THIRD PARTY LOCATED IN CHINA TO MANUFACTURE SUBCOMPONENTS AND PRODUCTS FOR US, WE MAY ENCOUNTER DIFFICULTIES IN OBTAINING A SUFFICIENT AMOUNT OF HIGH QUALITY PRODUCTS We have entered into a five-year agreement with CMI, a California-based company, under which a subsidiary of CMI, located in Tianjin, China, manufactures optical subcomponents for us. CMI has a limited history of manufacturing optical subcomponents. As a result, CMI may not meet our

technological or delivery requirements. Any interruption in the operations of CMI could harm our ability to meet our scheduled product deliveries to our customers, which could cause the loss of existing or potential customers. In addition, the products that CMI builds for us may be insufficient in quality or in quantity to meet our needs. The inability of CMI to provide us with adequate supplies of high-quality products in the future could cause a delay in our ability to fulfill customer orders while we obtain a replacement manufacturer and could seriously harm our business.

CMI manufactures limited quantities of subcomponents for us at a small facility in Tianjin. We expect CMI to manufacture a significant portion of our subcomponents and products in the future. Although CMI is building a larger manufacturing facility in Tianjin, it will not be operational until at least the quarter ending September 29, 2000. If this larger facility is not completed on time, or at all, it may be more difficult to grow our business.

To successfully meet our overall production goals, we will also have to coordinate effectively our operations in California and CMI's operations in China. We have no experience in coordinating and managing production operations that are located on different continents or in the transfer of manufacturing operations from one facility to another. The geographic distance between our headquarters in California and CMI's 8 manufacturing facility in China will make it difficult for us to manage the relationship and oversee operations there to assure product quality and timely delivery. Our failure to successfully coordinate and manage multiple sites or to transfer our manufacturing operations could seriously harm our overall production.

Under the agreement with CMI, we have granted licenses to CMI to make in China and the United States, and to use and sell worldwide, the licensed subcomponents. We also granted them a license to use some of our technical information and manufacturing process know-how in China and the United States. These licenses are exclusive in China and non-exclusive elsewhere. As a result, CMI can manufacture and sell optical subcomponents based on our technology to third parties, including our potential competitors. Furthermore, unless the license is terminated, we cannot use an additional manufacturer for these subcomponents in China.

Because CMI's manufacturing facility is located in China, CMI will be subject to the risk of political instability in China and the possible imposition of restrictive trade regulations and tariffs. We will also be exposed to risks of foreign currency exchange rate fluctuations and lack of adequate protection of intellectual property under Chinese law.

BECAUSE WE DEPEND ON SINGLE OR LIMITED SOURCES OF SUPPLY WITH LONG LEAD TIMES FOR SOME OF THE KEY COMPONENTS IN OUR PRODUCTS, WE COULD ENCOUNTER DIFFICULTIES IN MEETING SCHEDULED PRODUCT DELIVERIES TO OUR CUSTOMERS We currently purchase several key components used in our products from single or limited sources of supply. These key components include filters, lenses and specialty glass. We have no guaranteed supply arrangement with any of these suppliers and we typically purchase our components through purchase orders. We may fail to obtain these supplies in a timely manner in the future. Any interruption or delay in the supply of any of these components, or the inability to obtain these components from alternate sources at acceptable prices and within a reasonable amount of time, would impair our ability to meet

scheduled product deliveries to our customers and could cause customers to cancel orders. Lead times for components vary significantly and depend on numerous factors, including the specific supplier, the size of the order, contract terms and market demand for a component at a given time. For substantial increases in production levels, suppliers may need longer-than-normal lead times and some may need at least six months.

Furthermore, financial or other difficulties faced by these suppliers, or significant changes in demand for these components, could limit the availability of these components. In addition, a third party could acquire control of one or more of our suppliers and cut off our access to raw materials or components. Obtaining components from alternate suppliers is difficult because we must qualify each new supplier, and this process is time-consuming and expensive.

OUR LENGTHY AND VARIABLE QUALIFICATION AND SALES CYCLE MAKES IT DIFFICULT TO PREDICT THE TIMING OF A SALE OR WHETHER A SALE WILL BE MADE Customers typically expend significant efforts in evaluating and qualifying our products and manufacturing process. This evaluation and qualification process frequently results in a lengthy sales cycle, typically ranging from three to nine months and sometimes longer. While our customers are evaluating our products and before they place an order with us, we may incur substantial sales and marketing and research and development expenses, expend significant management efforts, increase manufacturing capacity and order long-lead-time supplies prior to receiving an order. Even after this evaluation process, it is possible a potential customer will not purchase our products for deployment. In addition, product purchases are frequently subject to unplanned processing and other delays, particularly with respect to larger customers for which our products represent a very small percentage of their overall purchase activity.

If we increase capacity and order supplies in anticipation of an order that does not materialize, our gross margins will decline and we will have to carry or write off excess inventory. Even if we receive an order, the additional manufacturing capacity that we add to service the customer's requirements may be underutilized in a subsequent quarter. Either situation could cause our results of operations to be below the expectations of investors and public market analysts, which could, in turn, cause the price of our common stock to decline. 9 Our long sales cycles, as well as the practice of companies in the communications industry to sporadically place large orders with short lead times, may cause our revenues and operating results to vary significantly and unexpectedly from quarter to quarter.

IF WE FAIL TO PREDICT OUR MANUFACTURING REQUIREMENTS ACCURATELY, WE COULD INCUR ADDITIONAL COSTS OR EXPERIENCE MANUFACTURING DELAYS We currently use a rolling 12-month forecast based primarily on our anticipated product orders and our limited product order history to determine our requirements for components and materials. We provide these forecasts to CMI and use them internally as well. It is very important that we accurately predict both the demand for our products and the lead time required to obtain the necessary components and raw materials. Lead times for materials and components that we order vary significantly and depend on factors such as the specific supplier, the size of the order, contract terms and demand for each component at a given time. If we underestimate our requirements, both our company and CMI may have inadequate

manufacturing capacity or inventory, which could interrupt manufacturing of our products and result in delays in shipments and revenues. If we overestimate our requirements, we could have excess inventory of parts. We also may experience shortages of components from time to time, which also could delay the manufacturing of our products.

IF WE DO NOT ACHIEVE ACCEPTABLE MANUFACTURING YIELDS IN A COST-EFFECTIVE MANNER OR ACHIEVE SUFFICIENT PRODUCT RELIABILITY, OUR OPERATING RESULTS COULD SUFFER The manufacture of our products involves complex and precise processes. Changes in our manufacturing processes or those of our suppliers, or their inadvertent use of defective materials, could significantly reduce our manufacturing yields and product reliability. Because the majority of our manufacturing costs are relatively fixed, manufacturing yields are critical to our results of operations. Lower than expected production yields could delay product shipments and impair our gross margins. We may not obtain acceptable yields in the future.

In some cases, existing manufacturing techniques, which involve substantial manual labor, may not allow us to cost-effectively meet our production goals so that we maintain acceptable gross margins while meeting the cost targets of our customers. We will need to develop new manufacturing processes and techniques that will involve higher levels of automation to increase our gross margins and achieve the targeted cost levels of our customers. We may not achieve manufacturing cost levels that will fully satisfy customer demands.

Because we plan to introduce new products and product enhancements regularly, we must effectively transfer production information from our product development department to our manufacturing group and coordinate our efforts with those of our suppliers to rapidly achieve volume production. If we fail to effectively manage this process or if we experience delays, disruptions or quality control problems in our manufacturing operations, our shipments of products to our customers could be delayed.

IT IS CRITICAL TO OUR SUCCESS TO ACHIEVE DESIGN-IN WINS IN OUR CUSTOMERS' QUALIFICATION PROCESSES In the communications industry, service providers and optical systems manufacturers often undertake extensive qualification processes prior to placing orders for large quantities of products such as ours because these products must function as part of a larger system or network. Once they decide to use a particular supplier's product or component, these potential customers design the product into their system. Suppliers whose products or components are not "designed in" are unlikely to make sales to that company until at least the adoption of a future redesigned system. Even then, many companies may be reluctant to design entirely new products into their new systems, as it could involve significant additional redesign efforts. If we fail to achieve design-in wins in our potential customer's qualification process, we will lose the opportunity for significant sales to that customer for a lengthy period of time.

IN ORDER TO BE SUCCESSFUL, WE MUST BE ABLE TO COMMIT TO DELIVER SUFFICIENT QUANTITIES OF OUR PRODUCTS TO SATISFY MAJOR CUSTOMERS' NEEDS Communications service providers and optical systems manufacturers typically require that suppliers commit to provide specified quantities of products over a given period of time. If we are unable to commit to deliver

sufficient quantities of our products to satisfy a customer's anticipated needs, we will lose the order and the opportunity for significant sales to that customer for a lengthy period of time. We are just beginning to receive orders for significant quantities of products while simultaneously increasing our manufacturing capacity. We would be unable to pursue many large orders if we do not have sufficient manufacturing capacity to enable us to commit to provide customers with specified quantities of products.

IF OUR CUSTOMERS DO NOT QUALIFY OUR MANUFACTURING LINES FOR VOLUME SHIPMENTS, OUR OPERATING RESULTS COULD SUFFER Customers generally will not purchase any of our products, other than limited numbers of evaluation units, before they qualify our products, approve our manufacturing process and approve our quality system. Our existing manufacturing line, as well as each new manufacturing line, must pass through various levels of approval with our customers. Customers may require that we be registered under international quality standards, such as ISO 9001. Our products may also have to be qualified to specific customer requirements. This customer approval process determines whether the manufacturing line achieves the customers' quality, performance and reliability standards. In order for CMI to manufacture products or discrete components for us in the future, their manufacturing line would also need to be qualified by our customers. Delays in product qualification or ISO 9001 registration may cause a product to be dropped from a long-term supply program and result in significant lost revenue opportunity over the term of that program.

OUR SUCCESS DEPENDS ON OUR ABILITY TO DEVELOP PRODUCTS AND PRODUCT ENHANCEMENTS THAT WILL ACHIEVE MARKET ACCEPTANCE Our future success depends on our ability to anticipate market needs and develop products that address those needs. Any failure to predict market needs accurately or to develop new products or product enhancements in a timely manner will substantially decrease market acceptance and sales of our products. In addition, our products could quickly become obsolete as new technologies are introduced and incorporated into new and improved products. In particular, we anticipate that our PowerMux product, which incorporates our PowerFilter product and additional functionality, will replace our PowerFilter product in most applications. We must continue to develop state-of-the-art products and introduce them in the commercial market quickly in order to be successful. We plan to introduce our PowerShaper product, which is currently in the beta testing stage, during the second half of the fiscal year ending June 30, 2000. If the development of any future products takes longer than we anticipate, or if we are unable to develop and introduce these products to the commercial market, our revenues could suffer and we will not gain market share. Even if we are able to develop and commercially introduce new products and enhancements, we cannot assure you that the new products or enhancements will achieve widespread market acceptance. Any failure of PowerMux, PowerShaper or our other future products to achieve market acceptance could significantly harm our business.

COMPETITION MAY INCREASE, WHICH COULD CAUSE REDUCED SALES LEVELS AND RESULT IN PRICE REDUCTIONS, REDUCED GROSS MARGINS OR LOSS OF MARKET SHARE The markets we are targeting are new and rapidly evolving, and we expect these markets to become highly competitive in the future. While we do not have any direct competitors in the photonic

processor market today, we anticipate that other companies will expand into our market in the future, and introduce competitive products. We also face indirect competition from public and private companies providing products that address the same optical network problems that our products address. The development of alternative solutions to optical transmission problems by competitors, particularly systems companies who also manufacture components, could significantly limit our growth.

Some companies in the optical systems and component industry may compete with us in the future, including Lucent Technologies, Nortel Networks, Alcatel, Fujitsu, JDS Uniphase and E-Tek Dynamics. These are large public companies that have longer operating histories and significantly greater financial, technical, marketing and other resources than we have. As a result, these competitors are able to devote greater resources to the development, promotion, sale and support of their products. In addition, our competitors that have large market capitalizations or cash reserves are much better positioned than we are to acquire other companies in order to gain new technologies or products that may displace our product lines. Any of these acquisitions could give our competitors a strategic advantage. Many of our potential competitors have significantly more established sales and customer support organizations than we do. In addition, many of our competitors have much greater name recognition and have more extensive customer bases, better developed distribution channels and broader product offerings than our company. These companies can use their customer bases and broader product offerings and adopt aggressive pricing policies to gain market share. We expect to encounter potential customers that, due to existing relationships with our competitors, are committed to the products offered by these competitors. As a result, these potential customers may not consider purchasing our products.

Existing and potential customers are also our potential competitors. These customers may develop or acquire additional competitive products or technologies in the future, which may cause them to reduce or cease their purchases from us. In addition, customers who are also competitors may unfairly disparage our products in order to gain a competitive advantage.

As a result of these factors, we expect that competitive pressures may result in price reductions, reduced margins and loss of market share.

IF WE DO NOT SUBSTANTIALLY EXPAND OUR DIRECT AND INDIRECT SALES OPERATIONS, WE MAY NOT BE ABLE TO INCREASE MARKET AWARENESS AND SALES OF OUR PRODUCTS Our products and services require a long, involved sales effort targeted at several departments within our prospective customers' organizations. Therefore, our sales effort requires the prolonged efforts of executive personnel and specialized system and application engineers working together with dedicated salespersons in making sales. Because we have a small number of dedicated salespersons, we need to hire additional qualified sales personnel and system and application engineers. Competition for these individuals is intense, and we might not be able to hire the type and number of sales personnel and system and application engineers we need.

In addition, we believe that our future success depends significantly on our ability to establish relationships successfully with a variety of distribution partners, such as original equipment manufacturers, value-added resellers and distributors, both domestically and internationally. To date, we have entered into agreements with two distributors in Japan. These distributors also sell products that compete with our products. We cannot be certain that we will be able to reach agreement with additional distribution partners on a timely basis or at all, or that our distribution partners will devote adequate resources to selling our products. Even if we enter into agreements with additional distribution partners, they may not result in increased product sales.

If we are unable to expand our direct and indirect sales operations, we may not be able to increase market awareness or sales of our products, which may prevent us from increasing our revenues.

THE SUCCESS OF OUR BUSINESS DEPENDS ON THE RAPID AND WIDESPREAD TRANSITION TO OPTICAL NETWORKS The market for our products is relatively new. Future demand for our products is uncertain and will depend to a great degree on the speed of the widespread adoption of optical networks. If the transition occurs too slowly, the market for our products and the growth of our business will be significantly limited.

IF THE INTERNET DOES NOT CONTINUE TO EXPAND AS A WIDESPREAD COMMUNICATION AND COMMERCE MEDIUM, DEMAND FOR OUR PRODUCTS MAY DECLINE SIGNIFICANTLY Our future success depends on the continued growth of the Internet as a widely-used medium for commerce and communication and the continuing demand for increased bandwidth over communications networks. If the Internet does not continue to expand as a widespread communication medium and commercial marketplace, the need for significantly increased bandwidth across networks and the market for optical transmission products may not develop. As a result, it would be unlikely that our products would achieve commercial success.

OUR MARKET IS NEW AND IS CHARACTERIZED BY RAPID TECHNOLOGICAL CHANGES AND EVOLVING STANDARDS, AND IF WE DO NOT RESPOND IN A TIMELY MANNER, OUR PRODUCTS COULD BECOME OBSOLETE The communications market is characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. In developing our products, we have made, and will continue to make, assumptions with respect to which standards will be adopted within our industry. If the standards that are actually adopted are different from those that we have chosen to support, our products may not achieve significant market acceptance. In addition, the introduction of products embodying new technologies and the emergence of new industry standards could render our existing products obsolete.

OUR PRODUCTS MAY HAVE DEFECTS THAT ARE NOT DETECTED UNTIL FULL DEPLOYMENT OF A CUSTOMER'S SYSTEM Our products are designed to be deployed in large and complex optical networks and must be compatible with other components of the system, both current and future. Our products can only be fully tested for reliability when deployed in networks for long periods of time. Our customers may discover errors, defects or incompatibilities in our products after

they have been fully deployed and operated under peak stress conditions. They may also have errors, defects or incompatibilities that we find only after a system upgrade is installed. If we are unable to fix errors or other problems, we could experience:

- loss of customers;

- loss of or delay in revenues;

- loss of market share;

- loss or damage to our brand and reputation;

- inability to attract new customers or achieve market acceptance;

- diversion of development resources;

- increased service and warranty costs;

- legal actions by our customers; and - increased insurance costs.

If We Fail to Manage Our Growth Effectively, Our Business May Not Succeed

We continue to expand the scope of our operations domestically and internationally and have increased the number of our employees substantially. We have grown from no revenue in the quarter ended March 31, 1999 to $4.4 million in the quarter ended October 1, 1999. At March 31, 1999, we had a total of 45 employees, and at October 1, 1999, we had a total of 132 employees. In addition, we plan to hire a significant number of employees over the next several quarters. We currently operate facilities in Fremont, California and in Richardson, Texas, and CMI has recently begun manufacturing subcomponents for us in China. The growth in employees and in revenue, combined with the challenges of managing geographically-dispersed operations, has placed, and our anticipated growth in future operations will continue to place, a significant strain on our management systems and resources. We expect that we will need to continue to improve our financial and managerial controls, reporting systems and procedures, and will need to continue to expand, train and manage our work force worldwide.

WE DEPEND ON A SINGLE APPLICATION SERVICE PROVIDER FOR INFORMATION SYSTEMS AND SERVICES, AND IF THERE IS A SERVICE INTERRUPTION, WE MAY HAVE DIFFICULTY IN MANAGING OUR BUSINESS We rely on a single application service provider to provide an Internet-based management information system and support for this system. This company recently began providing information systems and services to us on a regular basis and we are one of their few customers. All of our financial records and ordering and data tracking information are stored on the third party's computer system and are only accessible over the Internet. The Internet has suffered from delays and outages in the past, which could make it difficult for us to access our data. From time to time,

we have experienced difficulties and delays in accessing our data. Lack of direct control over our management information system and delays in obtaining information when needed could harm our business.

We do not have an agreement with this company requiring it to provide services to us for any specified period, and they could terminate their relationship with us on short notice. If we needed to qualify a new application service provider, we might be unable to do so on a timely basis, or at all. The services are provided on application and database servers located at offsite data facilities and accessed via communications links from our facility. We cannot be certain that the service provider will be able to manage a scalable and reliable information technology infrastructure to support the growth of our business. If they stop providing services to us or if there is a service interruption, our ability to process orders, manufacture products, ship products, prepare invoices and manage our day-to-day financial transactions would be harmed, and our results of operations would suffer.

WE DEPEND ON KEY PERSONNEL TO MANAGE OUR BUSINESS EFFECTIVELY IN A RAPIDLY CHANGING MARKET, AND IF WE ARE UNABLE TO HIRE ADDITIONAL PERSONNEL, OUR ABILITY TO SELL OUR PRODUCTS COULD BE HARMED Our future success depends upon the continued services of our executive officers, particularly Walter Alessandrini, our Chief Executive Officer, and Xiaofan (Simon) Cao, our Senior Vice President of Product Development, and other key engineering, sales, marketing, manufacturing and support personnel. None of our officers or key employees is bound by an employment agreement for any specific term and these personnel may terminate their employment at any time. In addition, we do not have "key person" life insurance policies covering any of our employees.

We must hire a significant number of additional employees in the near future, particularly engineering, sales and manufacturing personnel. Our ability to continue to attract and retain highly skilled personnel will be a critical factor in determining whether we will be successful in the future. Competition for highly skilled personnel is intense, especially in the San Francisco Bay Area. We may not be successful in attracting, assimilating or retaining qualified personnel to fulfill our current or future needs. Our planned growth will place a significant demand on our management and operational resources. Many of the members of our management team have only been with us for a relatively short period of time. For example, our Chief Executive Officer joined us in March 1999, and four of our eight current executive officers have joined us since then. Failure of the new management team to work effectively together could seriously harm our business.

IF WE BECOME SUBJECT TO UNFAIR HIRING CLAIMS, WE COULD INCUR SUBSTANTIAL COSTS IN DEFENDING OURSELVES Companies in our industry whose employees accept positions with competitors frequently claim that their competitors have engaged in unfair hiring practices. We have received claims of this kind in the past, and we cannot assure you that we will not receive claims of this kind in the future as we seek to hire qualified personnel or that those claims will not result in litigation. We could incur substantial costs in defending ourselves against these claims, regardless of their merits or outcomes. In addition, defending ourselves from these claims could divert the attention of our management away from our operations.

IF WE ARE UNABLE TO PROTECT OUR PROPRIETARY TECHNOLOGY, WE MAY ENCOUNTER DIFFICULTIES COMPETING IN OUR INDUSTRY We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We cannot assure you that the 25 U.S. patent applications and four foreign patent applications that we have filed will be approved, that any patents that may issue will protect our intellectual property or that any patents issued will not be challenged by third parties. Furthermore, other parties may independently develop similar or competing technology or design around any patents that may be issued to us. We use various methods to attempt to protect our intellectual property rights. However, we cannot be certain that the steps we have taken will prevent the misappropriation of our intellectual property, particularly in foreign countries, such as China, where the laws may not protect our proprietary rights as fully as in the United States.

IF NECESSARY LICENSES OF THIRD-PARTY TECHNOLOGY BECOME UNAVAILABLE TO US OR BECOME VERY EXPENSIVE, WE MAY BECOME UNABLE TO OPERATE OUR CURRENT BUSINESS From time to time we may be required to license technology from third parties to develop new products or product enhancements. We cannot assure you that third-party licenses will be available to us on commercially reasonable terms, if at all. The inability to obtain any third-party license required to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at greater cost, either of which could seriously harm our business, financial condition and results of operations.

We license technology from Fujitsu that is critical to our PowerShaper product. The license agreement is subject to termination upon the acquisition of more than a 50% interest in us by certain major communications system suppliers. Thus, if we are acquired by any of these specified companies, we will lose this license. The existence of this license termination provision may have an anti-takeover effect in that it would discourage those specified companies from making a bid to acquire us.

WE COULD BECOME SUBJECT TO LITIGATION REGARDING INTELLECTUAL PROPERTY RIGHTS, WHICH COULD CAUSE US TO INCUR SIGNIFICANT COSTS AND COULD SERIOUSLY HARM OUR BUSINESS In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. We may be a party to litigation in the future to protect our intellectual property or as a result of an alleged infringement of others' intellectual property. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and invalidation of our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling, incorporating or using our products that use the challenged intellectual property;

- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or - redesign the products that use the technology.

If we are forced to take any of these actions, our business may be seriously harmed. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed.

We may in the future initiate claims or litigation against third parties for infringement of our proprietary rights in order to determine the scope and validity of our proprietary rights or the proprietary rights of competitors. These claims could result in costly litigation and the diversion of our technical and management personnel.

Any Acquisitions We Make Could Disrupt Our Business and Harm Our Financial Condition

We anticipate that, in the future, we will make strategic acquisitions of complementary companies, products or technologies. While we have no current agreements to do so, we may acquire businesses, products or technologies in the future. In the event of any future acquisitions, we could:

- issue stock that would dilute our current stockholders' percentage ownership;

- incur debt;

- assume liabilities;

- incur expenses related to the amortization of goodwill and other intangible assets; or - incur large and immediate write-offs.

These acquisitions also involve numerous risks, including:

- problems combining the acquired operations, technologies or products;

- unanticipated costs or liabilities;

- diversion of management's attention from our core business;

- adverse effects on existing business relationships with suppliers and customers;

- risks associated with entering markets in which we have no or limited prior experience; and - potential loss of key employees, particularly those of the acquired organizations.

We cannot assure you that we will be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future.

WE FACE RISKS ASSOCIATED WITH OUR INTERNATIONAL OPERATIONS THAT COULD HARM OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS We intend to expand our international operations in the future, including having some of our subcomponents manufactured in China. This expansion will require significant management attention and financial resources to develop successfully direct and indirect international sales and support channels and manufacturing. We may not be able to establish or maintain international market demand for our products. We currently have little or no experience in manufacturing, marketing and distributing our products internationally.

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

- greater difficulty in accounts receivable collection and longer collection periods;

- difficulties and costs of staffing and managing foreign operations;

- the impact of recessions in economies outside the United States;

- unexpected changes in regulatory requirements;

- certification requirements;

- reduced protection for intellectual property rights in some countries;

- potentially adverse tax consequences; and - political and economic instability.

While we expect our international revenues and expenses to be denominated predominantly in U.S. dollars, a portion of our international revenues and expenses may be denominated in foreign currencies in the future. Accordingly, we could experience the risks of fluctuating currencies and could choose to engage in currency hedging activities.

IF WE ARE UNABLE TO RAISE ANY NEEDED ADDITIONAL CAPITAL, WE MAY NOT BE ABLE TO GROW OUR BUSINESS The development and marketing of new products and the expansion of our manufacturing facilities and associated support personnel will require a significant commitment of resources. In addition, if the market for photonic processors develops at a slower pace than we anticipate or if we fail to establish significant market share and achieve a significantly increased level of revenue, we may continue to incur significant operating losses and utilize significant amounts of capital. If cash from available sources is insufficient, or if cash is used for acquisitions or other unanticipated uses, we may need to raise additional capital. We cannot be certain that additional capital will be available to us at all, or that, if it is available, it will be on terms favorable to us. Any inability to raise additional capital when we require it would seriously harm our business. Any additional issuance of equity or equity-related securities will be dilutive to our stockholders.

WE FACE A NUMBER OF UNKNOWN RISKS ASSOCIATED WITH YEAR 2000 PROBLEMS THAT COULD RESULT IN CLAIMS AGAINST US OR IMPAIR THE USE OF OUR PRODUCTS BY OUR CUSTOMERS Our products are generally integrated into larger systems involving sophisticated hardware and software products supplied by other vendors. Our customers' systems involve different combinations of third party products. We cannot evaluate whether all of their products are year 2000 compliant. We may face claims based on year 2000 problems in other companies' products or based on issues arising from the integration of multiple products within the overall network. We may in the future be required to defend our products in legal proceedings, which could be expensive regardless of the merits of these claims.

If our suppliers, vendors, distributors, customers or service providers fail to correct their year 2000 problems, these failures could result in an interruption in, or a failure of, our normal business activities or operations. If a year 2000 problem occurs, it may be difficult to determine which party's products have caused the problem. These failures could interrupt our operations and damage our relationships

with our customers. Due to the general uncertainty inherent in the year 2000 problem resulting from the readiness of third party suppliers and vendors, we are unable to determine at this time whether year 2000 failures could harm our business.

Our customers' purchasing plans could be affected by year 2000 issues if they need to expend significant resources to fix their existing systems to become year 2000 compliant. This situation may reduce funds available to purchase our products. In addition, some customers may wait to consider purchasing our products until after the year 2000, which may reduce our revenue in the third and fourth quarters of the fiscal year ending June 30, 2000.

Risks Related to the Securities Markets and This Offering

THERE MAY BE SALES OF A SUBSTANTIAL AMOUNT OF OUR COMMON STOCK AS SOON AS 90 DAYS AFTER THIS OFFERING BY OUR STOCKHOLDERS, INCLUDING OUR EXECUTIVE OFFICERS AND DIRECTORS, AND THESE SALES COULD CAUSE OUR STOCK PRICE TO FALL Our current stockholders hold a substantial number of shares, which they will be able to sell in the public market in the near future.

As of December 2, 1999, our executive officers, directors and substantially all of our stockholders, who held an aggregate of 36,467,169 shares of our common stock, or over 99.4% of our total outstanding shares, had executed lock-up agreements that prevent them from selling or otherwise disposing of our common stock for a period of 180 days from the date of this prospectus, without the prior written approval of Morgan Stanley & Co. Incorporated. Assuming that this prospectus will be dated February 14, 2000, these lock-up agreements will expire on August 12, 2000, and an aggregate of 26,765,212 shares will be eligible for sale, in some cases subject only to the volume, manner of sale and notice requirements of Rule 144 under the Securities Act.

Notwithstanding the 180-day lock-up period, 25% of the shares, or 9,116,793 shares, subject to these lock-up restrictions, including 2,429,793 shares held by our executive officers and directors, may be released from these restrictions beginning 90 days from the assumed date of this prospectus, or May 14, 2000. This release will occur if the last reported sale price of our common stock is at least two times the initial public offering price per share for 20 of the 30 trading days preceding the 90th day after the date of this prospectus. Of these shares to be released on May 14, 2000, 7,543,963 will be eligible for sale, in some cases subject only to the volume, manner of sale and notice requirements of Rule 144.

Sales of a substantial number of shares of our common stock after this offering could cause our stock price to fall. In addition, the sale of these shares could impair our ability to raise capital through the sale of additional stock.

MANAGEMENT MAY APPLY THE PROCEEDS OF THIS OFFERING TO USES THAT DO NOT INCREASE OUR PROFITS OR MARKET VALUE Our management will have considerable discretion in the application of the net proceeds of this offering, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. The net

proceeds may be used for corporate purposes that do not increase our profitability or our market value. Pending application of the proceeds, they may be placed in investments that do not produce income or that lose value.

THERE HAS BEEN NO PRIOR MARKET FOR OUR COMMON STOCK AND A PUBLIC MARKET FOR OUR SECURITIES MAY NOT DEVELOP OR BE SUSTAINED Prior to this offering, you could not buy or sell our common stock publicly. An active public market for our common stock may not develop or be sustained after this offering, and the market price might fall below the initial public offering price. The initial public offering price may bear no relationship to the price at which the common stock will trade subsequent to the completion of this offering. The initial public offering price will be determined based on negotiations between us and the representatives of the underwriters, based on factors that may not be indicative of future market performance.

INSIDERS WILL CONTINUE TO HAVE SUBSTANTIAL CONTROL OVER US AFTER THIS OFFERING AND COULD DELAY OR PREVENT A CHANGE IN OUR CORPORATE CONTROL We anticipate that our executive officers, directors and entities affiliated with them will, in the aggregate, beneficially own approximately % of our outstanding common stock following the completion of this offering. These stockholders, if acting together, would be able to influence significantly all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions.

Investors Will Experience Immediate Dilution

The initial public offering price of our common stock is expected to be substantially higher than the book value per share of our outstanding common stock immediately after the offering. Accordingly, if you purchase our common stock in this offering, you will incur immediate dilution of approximately $ in the book value per share of our common stock from the price you pay for our common stock. This calculation assumes that you purchased our common stock for $ per share.

PROVISIONS OF OUR CHARTER DOCUMENTS, DELAWARE LAW AND LICENSES MAY HAVE ANTI-TAKEOVER EFFECTS THAT COULD PREVENT A CHANGE IN CONTROL Provisions of Delaware law and of our amended and restated certificate of incorporation and bylaws could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. For a further description of these provisions, see "Description of Capital Stock -- Delaware Law and Certain Provisions of Our Certificate of Incorporation and Bylaws." In addition, if we are acquired by certain specified companies, our license from Fujitsu would be subject to termination, which could discourage those companies from making a bid to acquire us.

WE EXPECT TO EXPERIENCE VOLATILITY IN OUR SHARE PRICE, WHICH COULD NEGATIVELY AFFECT YOUR INVESTMENT The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control, including:

- quarterly variations in operating results;

- changes in financial estimates by securities analysts;

- changes in market valuations of Internet-related companies;

- announcements by us or our competitors of new products or of significant acquisitions, strategic partnerships or joint ventures;

- any loss of a major customer;

- additions or departures of key personnel;

- any deviations in net revenues or in losses from levels expected by securities analysts;

- future sales of common stock; and - volume fluctuations, which are particularly common among highly volatile securities of Internet-related companies.

Special Note Regarding Forward-looking Statements

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus constitute forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these terms or other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these statements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

Use of Proceeds

We estimate that our net proceeds from the sale of the shares of common stock we are offering will be approximately $ million, or $ million if the underwriters exercise their over-allotment option in full, after deducting estimated underwriting discounts and commissions and after deducting estimated offering expenses. The primary purposes of this offering are to obtain additional equity capital, create a public market for our common stock and facilitate future access to public markets.

We intend to use the net proceeds we receive from the offering for general corporate purposes, including capital expenditures and working capital. Although we may use a portion of the net proceeds to acquire technology or businesses that are complementary to our business, there are no current plans

in this regard. Pending their use, we plan to invest the net proceeds in short-term, interest-bearing, investment grade securities.

Dividend Policy

We have not paid any cash dividends since our inception and do not intend to pay any cash dividends in the foreseeable future. Our credit agreements prohibit the payment of dividends without prior approval of the lenders.

Capitalization

The following table sets forth our capitalization as of October 1, 1999. The pro forma information reflects (1) the conversion of all shares of preferred stock outstanding as of October 1, 1999 into 22,460,968 shares of common stock on completion of this offering and (2) the exercise of warrants to purchase 225,000 shares of common stock at an exercise price of $6.00. The pro forma as adjusted information also reflects our receipt of the net proceeds from the sale of the shares of common stock in this offering, after deducting the estimated underwriting discounts and commissions and estimated offering expenses.

The outstanding share information excludes:

- 799,400 shares of common stock issuable on exercise of outstanding options as of October 1, 1999 with a weighted average exercise price of $.11 per share;

- 19,565 shares of common stock issuable upon exercise of an outstanding warrant with an exercise price of $5.75 per share;

- 180,486 shares of stock available for issuance under our 1998 Stock Plan as of October 1, 1999 and 7,000,000 shares of stock reserved for issuance under our 1998 Stock Plan subsequent to October 1, 1999; and - 550,000 shares of stock to be reserved for issuance under stock plans that will become effective upon the closing of this offering.

You should read this table with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and the related notes. See "Management -- Employee and Director Benefit Plans."

OCTOBER 1, 1999 PRO FORMA ACTUAL PRO FORMA AS ADJUSTED (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA) (UNAUDITED)

Long-term obligations, excluding current portion.....	$ 1,433	$ 1,433	$ 1,433
Redeemable convertible preferred stock, $.001 par value per share, 25,400,000 shares authorized, 22,460,968 shares issued and outstanding, actual; no shares issued and outstanding, pro forma and pro forma as adjusted.....	25,318	--	--
Other stockholders' equity (deficit):			
Common stock, $.001 par value per share, 50,000,000 shares authorized, 13,720,114 shares issued and outstanding, actual; 50,000,000 shares authorized,			

36,406,082 shares issued and outstanding, pro forma; 300,000,000 shares authorized, shares issued and outstanding, pro forma as adjusted.....	14	36	
Additional paid-in capital.....	39,739	66,385	
Shares to be repurchased for current terminations, 1,743,750 shares at October 1, 1999.....	(35)	(35)	(35)
Notes receivable from stockholders.....	(579)	(579)	(579)
Deferred stock compensation.....	(14,149)	(14,149)	(14,149)
Accumulated deficit.....	(32,789)	(32,789)	(32,789)
Total other stockholders' equity (deficit).....	(7,799)	18,869	
Total capitalization.....	$ 18,952	$ 20,302	$

Dilution

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after this offering. We calculate pro forma net tangible book value per share by dividing the net tangible book value, tangible assets less total liabilities, by the number of outstanding shares of common stock.

Our pro forma net tangible book value at October 1, 1999, was $18.9 million, or $.52 per share, based on 36,406,082 shares of our common stock outstanding after giving effect to the conversion of all outstanding shares of our preferred stock into common stock upon the closing of this offering and the exercise of warrants to purchase 225,000 shares of common stock at an exercise price of $6.00 per share prior to this offering.

After giving effect to the sale of the shares of common stock by us at an assumed initial public offering price of $ per share, less the estimated underwriting discounts and commissions and our estimated offering expenses, our pro forma net tangible book value at October 1, 1999, would be $, or $ per share. This represents an immediate increase in the pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors, or approximately of the assumed initial public offering price of $ per share. The following table illustrates this per share dilution:

Assumed initial public offering price per share..... $ Pro forma net tangible book value per share at October 1, 1999..... $ .52 Increase per share attributable to new investors..... Pro forma net tangible book value per share after this offering..... Dilution per share to new investors in this offering..... $ The following table shows on a pro forma basis at October 1, 1999, after giving effect to the conversion of all outstanding shares of our preferred stock into an aggregate of 22,460,968 shares of common stock upon the closing of this offering and the exercise of warrants to purchase 225,000 shares of common stock at an exercise price of $6.00 per share prior to this offering, the number of shares of common stock purchased from us, the total consideration paid to us and the average price paid per share by existing stockholders and by new investors purchasing common stock in this offering:

SHARES PURCHASED		TOTAL CONSIDERATION		
NUMBER	PERCENT	AMOUNT	PERCENT	AVERAGE PRICE PER SHARE

Existing stockholders.....	36,406,082	%	$27,305,000	%	$.75
New investors.....					
Total.....		100.0%	$	$100.0%	

The above information is based on shares outstanding as of October 1, 1999. It excludes 799,400 shares of common stock reserved for issuance upon exercise of outstanding options at October 1, 1999 with a weighted average exercise price of $.11 per share, 19,565 shares of common stock issuable upon exercise of outstanding an outstanding warrant with an exercise price of $5.75 per share; and 730,486 shares available for issuance under our 1998 Stock Plan, 1999 Employee Stock Purchase Plan and 1999 Director Stock Option Plan.

Selected Financial Data

The following selected financial data should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes included elsewhere in this prospectus. The statement of operations data set forth below for the period from October 24, 1997 (inception) to June 30, 1998, and for the year ended June 30, 1999, and the balance sheet data as of June 30, 1998 and June 30, 1999 have been derived from our financial statements included elsewhere in this prospectus, which have been audited by Ernst & Young LLP, independent auditors. The statement of operations data for the quarters ended September 30, 1998 and October 1, 1999 and the balance sheet data at October 1, 1999 are derived from unaudited financial statements included elsewhere in this prospectus. In our opinion, all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the unaudited results when read in conjunction with the audited financial statements and the related notes appearing elsewhere in this prospectus. The historical results are not necessarily indicative of results to be expected for any future period. For an explanation of the determination of the shares used to compute net loss per share, see note 2 of notes to financial statements.

	PERIOD FROM OCTOBER 24, 1997 (INCEPTION) TO JUNE 30, 1998	YEAR ENDED JUNE 30, 1999	QUARTER ENDED SEPTEMBER 30, 1998	QUARTER ENDED OCTOBER 1, 1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
STATEMENT OF OPERATIONS DATA:				
Net revenue.....	$ --	$ 510	$ --	$ 4,417
Cost of revenue.....	--	531	--	3,431
Gross profit (loss).....	--	(21)	--	986
Operating expenses:				
Research and development.....	515	4,086	473	950
Sales and marketing.....	125	956	116	714
General and administrative.....	131	723	132	614
Stock compensation.....	362	3,464	323	6,107

Total operating expenses.....	1,133	9,229	1,044	8,385
Loss from operations.....	(1,133)	(9,250)	(1,044)	(7,399)
Other income (expense), net.....	(4)	29	7	(71)
Net loss.....	(1,137)	(9,221)	(1,037)	(7,470)
Preferred stock accretion.....	--	--	--	(14,961)
Net loss attributable to common stockholders.....	$(1,137)	$ (9,221)	$ (1,037)	$ (22,431)
Basic and diluted net loss per common share.....	$ --	$ (8.68)	$ (6.36)	$ (6.06)
Weighted-average shares used in computing basic and diluted net loss per common share.....	--	1,062	163	3,704
Pro forma basic and diluted net loss per common share (unaudited).....		$ (.59)		$ (.92)
Weighted-average shares used in computing pro forma basic and diluted net loss per common share (unaudited).....		15,576		24,402

	AS OF JUNE 30,		AS OF OCTOBER 1,
	1998	1999	1999
		(IN THOUSANDS)	
BALANCE SHEET DATA:			
Cash, cash equivalents and short-term investments....	$2,874	$ 3,724	$14,638
Working capital.....	2,637	2,660	14,174
Total assets.....	3,339	6,816	25,068
Long-term obligations, excluding current portion.....	341	563	1,433
Redeemable convertible preferred stock.....	3,529	10,357	25,318
Total other stockholders' equity (deficit).....	(805)	(6,534)	(7,799)

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with "Selected Financial Data" and our financial statements and related notes appearing elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those presented under "Risk Factors" and elsewhere in this prospectus.

Overview

Avanex designs, manufactures and markets fiber optic-based products, known as photonic processors, which are designed to increase the performance of optical networks. We were founded in October 1997, and through April 1999, we were primarily engaged in research and development activities and in hiring additional employees. A substantial portion of our operating expenses during this period was related to the design and development of our photonic processors and the testing of prototype designs. We began making volume shipments of our products during the quarter ended October 1, 1999.

Our revenues currently are derived from sales of two products, PowerFilter and PowerMux. We commenced shipments of our PowerFilter in April 1999. To date, we have generated nearly all of our limited product revenues from sales of PowerFilter to a limited number of customers. Sales of PowerFilter accounted for 95% of our net revenue in the quarter ended June 30, 1999 and 99% of our net revenue in the quarter ended October 1, 1999. We first shipped PowerMux in April 1999. In September 1999, we began shipping beta test units of our PowerShaper product.

To date, we have generated a substantial portion of our revenues from a limited number of customers. We have focused our initial sales and marketing efforts primarily on large communications service providers and optical systems manufacturers. In the fiscal quarter ended June 30, 1999, Osicom accounted for 33% of our net revenue, MCI Telecommunications accounted for 32% of net revenue and Hitachi accounted for 29% of net revenue. Sales to MCI WorldCom accounted for 92% of our total net revenue for the quarter ended October 1, 1999. While we are seeking to diversify our customer base, we anticipate that our operating results for any given period will continue to depend on a small number of customers.

The market for photonic processors is new and evolving and the volume and timing of orders are difficult to predict. A customer's decision to purchase our products typically involves a commitment of its resources and a lengthy evaluation and product qualification process. This initial evaluation and product qualification process typically takes several months and includes technical evaluation, integration, testing, planning and implementation into the equipment design. Long sales and implementation cycles for our products, as well as the practice of customers in the communications industry to sporadically place large orders with short lead times, may cause our revenues, gross margins and operating results to vary significantly and unexpectedly from quarter to quarter.

We market and sell our products primarily through our direct sales and marketing organization. To date, most of our direct sales have been in North America. However, we have recently launched sales and marketing efforts internationally through an independent sales representative in Italy and two distributors in Japan.

We are engaged in continuing efforts to expand our manufacturing capabilities. In November 1999, we moved from an approximately 14,000 square foot facility to an approximately 54,000 square foot facility in Fremont, California. We increased the number of our manufacturing employees from 36 as of June 30, 1999 to 88 as of October 1, 1999. In addition, we have entered into a contract manufacturing relationship with CMI to manufacture and supply fiber optic subcomponents from its

manufacturing facility in China. Currently, we perform manufacturing, final assembly, testing, quality assurance, manufacturing engineering, documentation control and repairs of our products at our Fremont facility. In the quarter ending December 31, 1999, we expect to begin transitioning some subcomponent assembly and testing functions from our Fremont facility to CMI's facility in China. While we expect to realize lower costs as a result of this transition, these cost reductions may not occur or CMI may not adequately fulfill its obligations. The failure to obtain cost reductions or CMI's failure to meet its obligations could harm our gross margins and operating results.

We generally recognize revenue when we ship products to our customers and there are no significant uncertainties with respect to customer acceptance. We accrue for estimated warranty costs at the time related revenue is recognized. Currently, all of our product sales provide for pricing and payment in U.S. dollars.

Our cost of revenue consists of raw material, direct labor and manufacturing overhead. In addition, we rely on a single or limited source of suppliers to manufacture some key components used in our products and, in the past, the outsourcing of some subassemblies. A significant portion of our cost of revenue is related to these temporary outsourcing arrangements.

Our gross margins will primarily be affected by the following factors:

- changes in our pricing policies and those of our competitors;

- mix of products sold;

- mix of sales channels through which our products are sold;

- mix of domestic and international sales;

- costs incurred in establishing additional manufacturing lines and facilities; and - changes in manufacturing volume.

We expect cost of revenue, as a percentage of revenue, to fluctuate from period to period.

Research and development expenses consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers, non-recurring engineering charges and prototype costs related to the design, development, testing, pre-manufacturing and enhancement of our products. We expense our research and development costs as they are incurred. We believe that research and development is critical to our strategic product development objectives. We further believe that, in order to meet the changing requirements of our customers, we will need to fund investments in several development projects in parallel. As a result, we expect our research and development expenses to increase in dollar amount in the future.

Sales and marketing expenses consist primarily of marketing, sales, customer service and application engineering support, as well as costs associated with promotional and other marketing expenses. We intend to expand our direct and indirect sales operations substantially, both domestically and internationally, in order to increase market awareness of our products. We expect that sales and marketing expenses will increase substantially in dollar amount over the next year as we hire additional

sales and marketing personnel, initiate additional marketing programs to support our products and establish sales offices in additional domestic and international locations. We also expect to significantly expand our customer service and support organization.

General and administrative expenses consist primarily of salaries and related expenses for executive, finance, accounting, and human resources personnel, allocated facilities, recruiting expenses, professional fees and other corporate expenses. We expect general and administrative expenses to increase in dollar amount as we add personnel and incur additional costs related to the growth of our business and our operation as a public company.

Stock compensation expense is a result of us selling restricted common stock or granting stock options to our employees or consultants with purchase or exercise prices per share subsequently determined to be below the deemed fair values per share of our common stock for accounting purposes at the dates of purchase or grant. We are amortizing deferred stock compensation over the period in which our right to repurchase restricted stock lapses or the vesting period of the applicable options, which, in each case, is generally a maximum of four years. As a result of options we have granted subsequent to October 1, 1999, we expect to record a substantial amount of additional deferred stock compensation in the quarter ending December 31, 1999.

In connection with the sale of Series D preferred stock in September and October 1999 to existing preferred stockholders, we recorded a non-cash charge of $15.0 million in the quarter ended October 1, 1999 and will record an additional $5.1 million in the quarter ending December 31, 1999 to accrete the value of the Series D preferred stock to its fair value under applicable accounting rules. This non-cash charge was recorded as an increase in accumulated deficit with a corresponding credit to additional paid-in capital and was recognized at the date of issuance, which was the period in which the shares became eligible for conversion. We do not anticipate incurring any additional preferred stock accretion charges in the future.

Despite growing revenue, we have not been profitable for any quarter since October 24, 1997 (inception). As of October 1, 1999, we had an accumulated deficit of $32.8 million. These losses have resulted primarily from our activities to develop our products, to increase manufacturing capacity, to promote brand recognition, to develop our sales channels and to establish our management team. As of June 30, 1999, we had net operating loss carryforwards for federal income tax purposes of approximately $5.8 million, which expire in years 2013 through 2019.

Quarterly Results of Operations

The following table presents our operating results for the quarters ended September 30, 1998, December 31, 1998, March 31, 1999, June 30, 1999 and October 1, 1999. The information for each of these quarters is unaudited but has been prepared on the same basis as the audited financial statements appearing elsewhere in this prospectus. In the opinion of management, all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the unaudited

quarterly results when read in conjunction with the audited financial statements and the related notes appearing elsewhere in this prospectus. These operating results are not necessarily indicative of the results of any future period.

	QUARTER ENDED				
	SEPTEMBER 30, 1998	DECEMBER 31, 1998	MARCH 31, 1999	JUNE 30, 1999	OCTOBER 1, 1999
			(UNAUDITED) (IN THOUSANDS)		
Net revenue	$ --	$ --	$ --	$ 510	$ 4,417
Cost of revenue	--	--	--	531	3,431
Gross profit (loss)	--	--	--	(21)	986
Operating expenses:					
Research and development	473	954	1,432	1,227	950
Sales and marketing	116	149	203	488	714
General and administrative	132	112	150	329	614
Stock compensation	323	350	746	2,045	6,107
Total operating expenses	1,044	1,565	2,531	4,089	8,385
Loss from operations	(1,044)	(1,565)	(2,531)	(4,110)	(7,399)
Other income (expense), net	7	(5)	21	6	(71)
Net loss	(1,037)	(1,570)	(2,510)	(4,104)	(7,470)
Preferred stock accretion	--	--	--	--	(14,961)
Net loss attributable to common stockholders	$(1,037)	$(1,570)	$(2,510)	$(4,104)	$(22,431)

Net Revenue. Our first volume shipments of product began in the quarter ended October 1, 1999. Net revenue for the quarter ended June 30, 1999 was $510,000 and for the quarter ended October 1, 1999 was $4.4 million. Net revenue increased primarily due to the sales of the PowerFilter product to MCI WorldCom for deployment in its network. We shipped products and evaluation units to five customers in the quarter ended June 30, 1999 and nine customers in the quarter ended October 1, 1999.

Cost of Revenue. Cost of revenue for the quarter ended June 30, 1999 was $531,000 and for the quarter ended October 1, 1999 was $3.4 million. As a percentage of net revenue, cost of revenue for the quarter ended June 30, 1999 was 104%, compared to 78% for the quarter ended October 1, 1999. This decrease in the percentage of cost of revenue over net revenue was primarily attributable to fixed manufacturing costs being allocated over a larger revenue base.

Research and Development. Research and development expenses fluctuated from $473,000 for the quarter ended September 30, 1998, to $954,000 for the quarter ended December 31, 1998, $1.4 million for the quarter ended March 31, 1999, $1.2 million for the quarter ended June 30, 1999 and $950,000 for the quarter ended October 1, 1999. In each of the quarters ended September 30, 1998,

December 31, 1998 and March 31, 1999, research and development expenses increased in dollar amount primarily due to the increase in personnel and related costs, prototype expenses for our PowerMux and PowerShaper products and process development for our PowerFilter product. In each of the quarters ended June 30, 1999 and October 1, 1999, research and development expenses decreased in dollar amount due to the completion of a network testing model and lower process development and prototyping costs for our PowerFilter and PowerMux products as these two products were gradually transitioned to manufacturing.

Sales and Marketing. Sales and marketing expenses increased in each of the five quarters ended October 1, 1999. These increases were primarily due to an increase in the number of sales and marketing personnel, sales commissions, marketing expenses and other customer-related costs.

General and Administrative. General and administrative expenses have generally increased over the five quarters ended October 1, 1999. General and administrative expenses increased in the quarters ended June 30, 1999 and October 1, 1999 primarily due to an increase in the number of general and administrative personnel and increased legal, accounting, recruiting and facility costs incurred in connection with our growing business activities.

Our revenues and operating results are likely to vary significantly from quarter to quarter. A number of factors are likely to cause these variations, including:

- fluctuations in demand for and sales of our products;

- cancellations of orders and shipment rescheduling;

- our ability to significantly expand our manufacturing capacity at our new facility in Fremont, California, which commenced operations in November 1999;

- the ability of CMI to timely produce and deliver subcomponents from its facility in China in the quantity and of the quality we require;

- the practice of companies in the communications industry to sporadically place large orders with short lead times;

- competitive factors, including introductions of new products and product enhancements by potential competitors, entry of new competitors into our market and pricing pressures;

- our ability to develop, introduce, manufacture and ship new and enhanced products in a timely manner without defects;

- our ability to control expenses;

- availability of components for our products and increases in the price of these components;

- mix of our products sold;

- costs related to acquisitions of technology or businesses; and - general economic conditions, as well as those specific to the communications and related industries.

A high percentage of our expenses, including those related to manufacturing, engineering, sales and marketing, research and development and general and administrative functions, are essentially fixed in the short term. As a result, if we experience delays in generating and recognizing revenue, our quarterly operating results are likely to be seriously harmed. As we expand our manufacturing capacity, we will incur expenses in one quarter relating to the expansion and related yield issues that may not result in off-setting revenue until a subsequent quarter. New product introductions can also result in a mismatching of research and development expenses and sales and marketing expenses that are incurred in one quarter with revenues that are not received until a subsequent quarter when the new product is introduced. If growth in our revenues does not outpace the increase in our expenses, our results of operations could be seriously harmed.

Due to these and other factors, we believe that quarter-to-quarter comparisons of our operating results will not be meaningful. You should not rely on our results for one quarter as any indication of our future performance.

Results of Operations

Because we first began shipping our products in April 1999, we believe our results of operations for the periods prior to that time are not meaningful, as we were a development stage company. Our results of operations for these periods primarily reflect research and development of our products.

For ease of reference, we refer to the period from October 24, 1997 (inception) through June 30, 1998 as fiscal 1998 and to the fiscal year ended June 30, 1999 as fiscal 1999.

Net Revenue. We did not recognize any revenue until the quarter ended June 30, 1999. Net revenue for fiscal 1999 was $510,000 and for the quarter ended October 1, 1999 was $4.4 million. In fiscal 1999, Oscicom accounted for 33% of net revenue, MCI Telecommunications accounted for 32% of net revenue and Hitachi accounted for 29% of net revenue. One customer, MCI WorldCom, accounted for 92% of net revenue in the quarter ended October 1, 1999.

Cost of Revenue. Cost of revenue for fiscal 1999 was $531,000 and for the quarter ended October 1, 1999 was $3.4 million. Cost of revenue for fiscal 1999 included higher component and manufacturing costs associated with the lower initial production volume, as well as overhead costs that were spread over a relatively low number of units produced. In the quarter ended October 1, 1999, cost of revenue increased in dollar amount due to a significant increase in production volume, the costs of building our manufacturing organization and the additional cost of outsourcing certain subassemblies. As a percentage of revenue, cost of revenue for fiscal 1999 was 104% of net revenue and for the quarter ended October 1, 1999 was 78% of net revenue.

Research and Development. Research and development expenses for fiscal 1998 were $515,000, or 45% of total operating expenses. Research and development expenses for fiscal 1999 were $4.1 million, or 44% of total operating expenses. Research and development expenses for the quarter ended October 1, 1999 were $950,000, an increase of $477,000 or 101% over the comparable quarter ended September 30, 1998. The increase in dollar amount in fiscal 1999 over fiscal 1998 was primarily due to

the significant increase in personnel and related costs, prototype expenses for PowerMux, PowerShaper and a network testing model and process development for PowerFilter. The increase in dollar amount in the quarter ended October 1, 1999 over the comparable quarter ended September 30, 1998 was due to an increase in personnel and related costs to support the completion of the PowerMux development, the beta test phase of PowerShaper and increasing the number of other development projects.

Sales and Marketing. Sales and marketing expenses for fiscal 1998 were $125,000, or 11% of total operating expenses. Sales and marketing expenses for fiscal 1999 were $956,000, or 10% of total operating expenses. Sales and marketing expenses for the quarter ended October 1, 1999 were $714,000, an increase of $598,000 or 516% over the comparable quarter ended September 30, 1998. These increases in dollar amount were primarily due to an increase in the number of sales and marketing personnel, sales commissions, increased marketing expenses and other customer-related costs.

General and Administrative. General and administrative expenses for fiscal 1998 were $131,000, or 12% of total operating expenses. General and administrative expenses for fiscal 1999 were $723,000, or 8% of total operating expenses. General and administrative expenses for the quarter ended October 1, 1999 were $614,000, an increase of $482,000 or 365% over the comparable quarter ended September 30, 1998. These increases were primarily due to an increase in the number of general and administrative personnel and increased legal, accounting, recruiting and facility cost incurred in connection with our growing business activities. 29 Stock Compensation. Stock compensation expense for fiscal 1998 was $362,000, or 32% of total operating expenses. Stock compensation expense for fiscal 1999 was $3.5 million, or 38% of total operating expenses. Stock compensation expense for the quarter ended October 1, 1999 was $6.1 million, an increase of $5.8 million over the comparable quarter ended September 30, 1998. Through the quarter ended October 1, 1999, we have recorded a total of $9.9 million of stock compensation expense, with an unamortized balance of $14.1 million on our October 1, 1999 balance sheet.

Other Income (Expense), Net. Other income (expense), net, consists primarily of interest on our cash investments and interest expense related to our financing obligations. Other income (expense) for fiscal 1998 was $(4,000), for fiscal 1999 was $29,000 and for the quarter ended October 1, 1999 was $(71,000), an increase in expense of $78,000 over the quarter ended September 30, 1998. This increase in expense was generated by larger interest charges on capital lease obligations and bank debt in addition to an increase in interest income on larger cash balances due to the proceeds from the sale of our preferred stock in private financings.

Liquidity and Capital Resources

From inception on October 24, 1997 through October 1, 1999, we have financed our operations primarily through private sales of approximately $25.3 million of our convertible preferred stock. We have also financed our operations through bank borrowings as well as through equipment lease financing.

We had cash, cash equivalents and short-term investments of $3.7 million at June 30, 1999, up from $2.9 million at June 30, 1998. Most of the increase came from financing activities, offset by cash used in operations and, to a lesser extent, the purchase of equipment. At October 1, 1999, we had cash, cash equivalents and short-term investments of $14.6 million. The increase from June 30, 1999 was primarily due to the receipt of $15.0 million in proceeds from the sale of preferred stock in September 1999.

We used $590,000 in cash for operations for fiscal 1998 and $5.4 million in fiscal 1999. The increase was primarily due to an increase in our net loss from $1.1 million in fiscal 1998 to $9.2 million in fiscal 1999, and, to a lesser extent, inventory purchases and increased accounts receivable. This was offset in part by increased accounts payable and non-cash charges in fiscal 1999. We used $4.5 million in cash for operations in the quarter ended October 1, 1999, primarily as a result of a proportionate increase in our net loss and an increase in accounts receivable.

We used $301,000 in cash for investing activities in fiscal 1998, specifically for the purchase of research and development equipment. In fiscal 1999, we used $2.8 million in cash for investing activities, reflecting an investment in marketable securities and in production equipment, research and development equipment, computers and facilities to support the expansion of our operations. For the quarter ended October 1, 1999, we used $6.8 million in cash for investing activities, which was primarily used for manufacturing expansion and the purchase of marketable securities.

We generated $3.8 million in cash from financing activities in fiscal 1998, $7.1 million in fiscal 1999 and $16.2 million in the quarter ended October 1, 1999, primarily from private sales of convertible preferred stock. In July 1999, we obtained a revolving credit line from a financial institution, which allows for maximum borrowings up to $3.8 million at an interest rate equal to the prime rate plus .75%. During the quarter ended October 1, 1999, we drew down $2.1 million under this facility to pay off a previous $735,000 outstanding bank debt in full and for working capital needs. This line of credit requires that we comply with specified covenants. As of October 1, 1999, we were in compliance with all of these covenants. We financed capital purchases primarily through leases or equipment credit lines. In addition, at June 30, 1998 we had $123,000 in capitalized lease obligations outstanding, $768,000 at June 30, 1999 and $1.9 million at October 1, 1999.

As of October 1, 1999, we did not have any material commitments for capital expenditures. However, we expect to incur capital expenditures as we expand our manufacturing operations in the near future. Our capital requirements also depend on market acceptance of our products, the timing and extent of new product introductions and delivery, and the need for us to develop, market, sell and support our products on a worldwide basis. From time to time, we may also consider the acquisition of, or evaluate investments in, products and businesses complementary to our business. Any acquisition or investment may require additional capital. Although we believe that the net proceeds from this offering, together with our current cash balances, will be sufficient to fund our operations for at least the next 12 months, we cannot assure you that we will not seek additional funds through public or private equity financing or from other sources within this time frame or that additional funding, if needed, will be available on terms acceptable to us, or at all.

Year 2000 Compliance

Impact of the Year 2000 Computer Problem. The year 2000 computer problem refers to the potential for system and processing failures of date-related data as a result of computer-controlled systems using two digits rather than four to define the applicable year. For example, computer programs that have date-sensitive software may recognize a date represented as "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculation causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities.

State of Readiness of Our Products. The year 2000 problem does not directly affect our passive optical products. However, our products are generally integrated into larger networks involving sophisticated hardware and software products supplied by other vendors. Each of our customers' networks involves different combinations of third party products. We cannot evaluate whether all of their products are year 2000 compliant. We may face disruption in our business based on year 2000 problems in other companies' products or based on issues arising from the integration of multiple products within the overall network.

State of Readiness of Our Internal Systems. Our business may be affected by year 2000 issues related to non-compliant internal systems developed by us or by third-party vendors. We are in the process of implementing new enterprise resource planning software, which we believe is year 2000 compliant. Although we have not surveyed our third party vendors, we are not currently aware of any year 2000 problem relating to any of our material internal systems. We have not tested and do not plan to test our systems for year 2000 compliance. We do not believe that we have any significant systems that contain embedded chips that are not year 2000 compliant.

Our internal operations and business are also dependent upon the computer-controlled systems of suppliers, customers, service providers and third parties, including our Internet-based management information system. We believe that, absent a systemic failure outside our control, such as a prolonged loss of electrical or telephone service, year 2000 problems at these third parties will not have a material impact on our operations.

If our suppliers, vendors, distributors, customers and service providers fail to correct their year 2000 problems, these failures could result in an interruption in, or a failure of, our normal business activities or operations. If a year 2000 problem occurs, it may be difficult to determine which party's products have caused the problem. These failures could interrupt our operations and damage our relationships with our customers. Due to the general uncertainty inherent in the year 2000 problem resulting from the readiness of third-party suppliers and vendors, we are unable to determine at this time whether year 2000 failures could harm our business and our financial results.

Year 2000 issues could affect our customers' purchasing plans if they need to expend significant resources to fix their existing systems to become year 2000 compliant. This situation may reduce funds available to purchase our products. In addition, some customers may wait to purchase our products until after the year 2000, which may reduce our revenue in the quarter ending December 31, 1999.

Cost. We do not anticipate that costs associated with remediating our internal systems will be significant.

Risks. Failures of our internal systems to be year 2000 compliant could temporarily prevent us from processing orders, issuing invoices and developing products and could require us to devote significant resources to correcting these problems. Due to the general uncertainty inherent in the year 2000 computer problem, resulting from the uncertainty of the year 2000 readiness of third-party suppliers and vendors, we are unable to determine at this time whether the consequences of year 2000 failures will have a material impact on our business, results of operations or financial condition.

Contingency Plans. We have not yet developed a contingency plan to address any situation that may result if we are unable to solve our year 2000 issues, and we do not anticipate the need to do so. If we are forced to use a contingency plan, the failure to have one could harm our business.

Disclaimer. The discussion of our expectations relating to year 2000 compliance are forward-looking statements. Our ability to achieve year 2000 compliance and the level of associated incremental costs could be adversely affected by, among other things, availability and cost of programming and testing resources, third party suppliers' ability to modify software and other unanticipated problems.

Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards, or SFAS, No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments, as well as other hedging activities. Because we do not currently hold any derivative instruments and does not engage in hedging activities, we expect the adoption of SFAS No. 133 will not have a material impact on our financial position, results of operations or cash flows. We will be required to adopt SFAS No. 133 in fiscal 2001.

Quantitative and Qualitative Disclosures About Market Risk

Our exposure to financial market risk, including changes in interest rates and marketable equity security prices, relates primarily to our investment portfolio and outstanding debt obligations. We typically do not attempt to reduce or eliminate our market exposure on our investment securities because a substantial majority of our investments are in fixed-rate short-term securities. We do not have any derivative financial instruments. Due to the short-term nature of our investments, we believe that there is no material risk. In addition, substantially all of our outstanding indebtedness is either fixed-rate debt or short-term variable-rate debt. Therefore, no quantitative tabular disclosures are required.

Business

Overview

Avanex designs, manufactures and markets fiber optic-based products, known as photonic processors, which are micro-optic devices that perform optical signal processing and are designed to increase the performance of optical networks. Our photonic processors offer communications service providers and optical systems manufacturers greater levels of performance and miniaturization, reduced complexity and increased cost-effectiveness as compared to current alternatives. We believe photonic processors will enable the next generation, all-optical network, which is necessary to support the increasing demand for bandwidth. Our photonic processors enable communications service providers and optical systems manufacturers to cost-effectively maximize the capacity of optical networks. Our products are designed to optimize optical network performance, provide a flexible, scalable and cost-effective optical transport solution, and facilitate the deployment of next generation service and applications such as VPN and B2B electronic commerce.

Our objective is to be the leading provider of innovative fiber optic-based solutions that enable our customers to deploy and optimize fiber optic networks. In order to achieve this objective, our strategy is to leverage our technology leadership and expertise to develop new products and expand customer relationships. We also intend to expand our manufacturing facilities, automate our manufacturing processes and extend awareness of our brand. Our marketing strategy is currently based on a push-pull approach in which we target optical systems manufacturers and communications service providers. We believe this approach will drive demand for our products and help enable the transition to the next-generation, all-optical network.

Industry Background

Increase in Bandwidth Demand

The proliferation of the Internet and the increase in activities such as electronic commerce, the transmission of large data files, Internet-based businesses and telecommuting have caused a significant increase in the volume of traffic across the communications infrastructure. According to Ryan, Hankin & Kent, a leading market research and consulting firm, Internet traffic will increase from 350,000 tera bytes per month, or TBpM, at the end of 1999 to over 15 million TBpM in 2003. This market research suggests that, at the end of 1999, the volume of Internet data traffic will have surpassed the volume of voice traffic. With this increase in traffic, communications vendors have focused on delivering improvements that provide more network bandwidth and increased transmission speed. Consequently, the increase in performance of communications networks, including the Internet, has attracted new users, more applications and a greater demand for bandwidth. Thus, the need for additional network

capacity and performance has created a business environment in which network improvements and increases in available bandwidth are constantly matched by advances in the applications and services generating this demand.

Evolution of the Optical Network

The communications infrastructure was originally built for voice traffic. This voice network was designed using circuit-switched technology that provides each data stream, such as a telephone call between two points, with a dedicated channel, or circuit, for the duration of the call. This approach is efficient for voice communications, which are low bit, or data, rate transmission among fixed geographic locations, and symmetrical, or involving the exchange of relatively equal amounts of information between parties. The circuit-switched network approach, however, is inefficient for pure data transmissions, which are characterized by large bursts of data traffic followed by long periods of silence. This inefficiency is heightened by the fact that data traffic is often asymmetrical and among multiple geographic locations.

In an effort to overcome the limitations of circuit-switched networks, service providers have implemented various enhancements such as advanced switching technology and equipment. In addition, the transport layer is being upgraded from electrical to optical transmission. In contrast to electrical transmission over copper wires, optical transmission technology transfers data in the form of pulses of light along optical fibers, which are bundled together in fiber optic cable. Optical transmission provides significantly greater quality and capacity than electrical transmission.

Meeting the demand for bandwidth by deploying additional fiber optic cable is both costly and complicated. Furthermore, the costs associated with laying the cable underground and the purchasing of rights-of-way increase significantly when the fiber optic cable is deployed in metropolitan areas. Therefore, additional enhancements to the communications infrastructure have been developed, including dense wavelength division multiplexing, or DWDM, which greatly increases the capacity of the existing fiber optic infrastructure. DWDM allows as many as 160 light signals, or wavelength channels, to travel down a single optical fiber as a composite optical signal.

Despite the improvements in the existing communications infrastructure, we believe a transition to a next-generation, all-optical network must occur in order to support increasing bandwidth demand.

Technological Challenges of the Transition to an All-optical Network

High Cost and Under-utilization of Available Bandwidth. In order to optimize their investments in the existing fiber optic infrastructure, service providers require a low-cost solution that allows a large number of wavelength channels carrying data to travel simultaneously over the same optical fiber. Although DWDM technology provides a partial solution, this technology is expensive and the number of wavelength channels that can be transmitted simultaneously is relatively low. Additionally, current

DWDM technology requires that wavelength channels be transmitted with a large space between each channel. Therefore, as depicted in the diagram below, bandwidth is under-utilized because wavelength channels are not densely packed.

Optical Signal

Total Available Bandwidth [Optical Signal Diagram] [At the top of the diagram is the caption "Optical Signal". Across the top of the diagram is a horizontal line with arrows at each end. The label above the line is "Total Available Bandwidth." Beneath this line are three vertical boxes, each bearing the label "Wavelength Channel," with an arch over each box. Beneath these boxes is a horizontal line with the label "Bandwidth" beneath each "Wavelength Channel" box and the label "Unused Bandwidth" beneath the space between the "Wave Channel" boxes, which are under the arches.]

By utilizing a greater portion of the available bandwidth for data transmission, communications service providers can increase the efficiency of their optical networks.

The Necessity of Opto-electrical Conversion. Another technological limitation of the current optical transmission system is the pervasiveness of the process known as opto-electrical conversion. Opto-electrical conversion is the conversion of the incoming optical signal into an electrical signal and back into an outgoing 34 optical signal. This conversion is required in order to regenerate the signal to overcome the limitations of dispersion and attenuation and in order to drop data from or add data to the composite optical signal.

- Chromatic dispersion. Chromatic dispersion occurs because different wavelengths of optical signals transmitted over a single optical fiber travel at different speeds. Because these wavelengths travel at different speeds, the resulting wavelength delays distort the signal quality. This signal distortion can only be avoided by regenerating the signal after it has travelled a short distance.

- Attenuation. As optical signals travel over fiber, the signals degenerate and are eventually lost due to a phenomenon known as attenuation. As communications service providers attempt to send signals over even longer distances, the attenuation worsens, and the signal is lost. Therefore, the signal requires regeneration after traveling a short distance.

- Adding or Dropping of Data. As composite optical signals are transmitted across the network, it is often necessary to have some data dropped off from or added to this signal at a given location. This process is known as add/drop multiplexing and is required because composite optical signals contains data with different destinations. In order to remove data from or add data to a composite optical signal, that signal must be converted to an electrical signal and then reconverted back to a composite optical signal, even if that signal does not otherwise require regeneration at that location.

Opto-electrical conversion currently occurs at multiple points in the network, and in different types of network equipment. This process is costly for the following reasons:

- The equipment is specific to a particular bit rate, protocol and signal format and therefore is neither scalable nor flexible enough to handle other transmission speeds, protocols or signal formats.

- It requires expensive equipment throughout the network.

- The equipment occupies valuable space.

- The equipment consumes significant electrical power and generates excess heat.

These costs increase as more wavelength channels are added to a single optical fiber in DWDM systems because each channel of a DWDM system must undergo this conversion process. Thus, opto-electrical conversion presents one of the most significant technological challenges of the current communications infrastructure.

Cost Challenges of the Transition to an All-optical Network

Deploying an all-optical network is costly because optical products are more expensive to manufacture and deploy than electrical equipment. The cost of developing optical technology and products is high due to the infancy of the technology and its related industry. Because of the emerging nature of the industry, manufacturing yields are low, which also results in additional costs. Furthermore, once a product is developed and manufactured, it is often too bulky, complex and inflexible to be cost-effective.

Deployment Challenges of the Transition to an All-optical Network

Users of optical systems require miniaturized products because their systems are often deployed in locations where space is limited. Few optical product manufacturers have the ability to manufacture miniaturized products that consistently meet standard specifications. In order to develop an all-optical network, an optical solutions provider must understand not only the optical systems, but also the network in which these optical systems are to be deployed. Traditionally, the optical component manufacturers have focused on developing optical packaging expertise while systems manufacturers and service providers have focused on developing network deployment and optical design expertise.

Despite the advances in optical technology, several challenges still exist, which prevent the widespread deployment of existing optical solutions. As a result of these limitations, the current network is a patchwork of various solutions placed throughout the network operating on multiple protocols over multiple layers on both optical and electrical signals. 35

The Avanex Solution

Avanex designs, manufactures and markets fiber optic-based products, known as photonic processors, which are designed to deliver increased performance, miniaturization, scalability, reduced complexity and lower cost as compared to current alternatives. Our solutions bring photonic processing capabilities to the transport layer of the network and significantly reduce the need for opto-electrical

conversion. Unlike existing component technologies, our photonic processors perform optical signal processing, or change the signal according to predetermined algorithms. Our photonic processors also differ from conventional optical systems in that they do not require software and electronics. We believe our photonic processors enable service providers and optical systems manufacturers to cost-effectively maximize the bandwidth of optical networks. Our solutions provide the following key benefits:

Optimize Optical Network Performance. Our photonic processors are designed to maximize the capacity of optical fiber and the efficiency and reliability of optical transmission. Our photonic processors are designed to enable the transmission of data at smaller spacings between wavelength channels, at higher bit rates and across greater distances than currently available solutions. These design features enable the use of greater fiber optic bandwidth for the transport of data than can be delivered with alternative DWDM solutions available today. We also enable variable chromatic dispersion compensation, which minimizes transmission errors and increases the distance an optical signal can travel before being regenerated.

Provide a Flexible and Scalable Solution. Applying our expertise in networking design, we have developed solutions that are flexible, modular and designed to be easily deployed into existing and future networks. Our solution is scalable because our photonic processors are designed to work equally well in small and large optical networks, as well as facilitate easy upgrading of an optical system to a higher number of channels. Our photonic processors provide functionality that accommodates existing protocols, including SONET, IP and ATM. Our photonic processors are designed to meet the demands placed on today's network, but can be easily expanded to meet future demand.

Provide a Cost-Effective Optical Transport Solution. Our solutions are designed to enable the transition to the next-generation, all-optical network without the large capital investments or complex system design challenges typically encountered in network deployment. The optical signal processing capabilities of our photonic processors allow us to offer lower cost solutions than those currently available. Through our micro-optic packaging, or miniaturization, and integration, or the combination of multiple optical components in a single package, our customers can use our products to optimize the utilization of limited networking equipment space. Our photonic processors also reduce the need for expensive opto-electrical conversion at numerous points along the transmission path. In addition, our products are designed to be used within the existing communications infrastructure as well as in the next-generation, all-optical network, which protects existing infrastructure investments and facilitates network development efforts.

Facilitate the Deployment of Next-Generation Services and Applications. Our solutions bring processing capabilities for the first time to the transport layer of the network. We believe these capabilities will enable our customers to offer a new set of services and applications, including voice over IP, VPN and B2B e-commerce. These new offerings could provide our customers with potential new revenue streams and opportunities for further competitive differentiation.

The Avanex Strategy

Our objective is to be the leading provider of innovative, fiber optic-based solutions that enable our customers to deploy and optimize fiber optic networks. Key elements of our strategy include:

Leverage Technology Leadership and Expertise. We believe that we have a unique combination of superior network design and system architecture knowledge as well as advanced optical packaging technologies. We have filed 25 patent applications in the United States and four patent applications internationally. We intend to continue to focus our product development efforts on providing fiber optic-based solutions that address the need for an unlimited number of low-cost wavelengths, transported at very high data rates and at very long distances. In developing new products, we intend to leverage our expertise in designing solutions that are cost-effective, scalable and flexible. We plan to increase our research and development efforts, including the expansion of The Photonics Center in Richardson, Texas, as well as to evaluate externally-developed technology opportunities as they become available.

Expand Existing and Develop New Customer Relationships. We currently provide our photonic processors to customers in the communications industry, including communications service providers such as MCI WorldCom and optical systems manufacturers such as Hitachi, Osicom and Cerent, which recently agreed to be acquired by Cisco Systems. We intend to leverage our existing relationships with these and other existing customers and develop new relationships with potential customers in the service providers and optical systems manufacturers markets. We also intend to provide a range of optical solutions that meet the demands of our target markets.

Expand Sales and Marketing Efforts. Our marketing strategy is based on a push-pull approach. With our pull approach, we target communications service providers who can create demand for our products by purchasing our products directly or by requiring that the systems they purchase incorporate our products. With our push approach, we target optical systems providers who can buy our products and then resell them as a part of their optical solutions. We plan to expand our North American direct sales team, which will include customer representatives, a technical sales force and application engineers. We intend to expand our international presence by increasing both our direct sales force and establishing relationships with international distributors.

Expand Manufacturing Capabilities. We intend to continue to develop our manufacturing and packaging expertise to enable us to consistently design, develop and manufacture miniaturized, reliable and cost-effective products. We intend to continue to invest in our manufacturing capabilities, as well as expand our manufacturing facilities so that we can meet the needs of our target markets. Our manufacturing is cell-based, or partitioned according to similarities in responsibilities. We believe this type of manufacturing organization allows us to expand our facilities more efficiently, both in terms of cost and time. We are automating our testing process and plan to extend this automation to other parts of the manufacturing process.

Enhance the Avanex Brand. We plan to enhance the Avanex brand throughout the communications industry by engaging in a range of marketing programs to position us as the leading provider of fiber optic-based solutions that power the next generation, all-optical network. These activities will include participation in industry conferences and trade shows, advertisements in print publications, direct marketing and Internet-based marketing. We also plan to build awareness through product demonstrations and customer education and training at The Photonics Center.

Technology

Our optical signal processing technology is designed to solve the inherent complexity of, and limitations on, bandwidth, speed and distance in conventional network and long-haul optical transmission systems. Our products incorporate several core optical technologies that we believe will enable the next-generation, all-optical network. These include:

Integrated/Tuned Dielectric Filter. Integrated/tuned dielectric filter technology allows certain wavelength channels, or optical signals, to pass through multiple filters while reflecting unwanted optical signals. These filters are used in DWDM systems to separate, or demultiplex, incoming optical signals and combine, or multiplex, outgoing optical signals. These filters can be tuned, or adjusted, to different frequencies, reducing the number of types of filters needed in a DWDM system. This technology enables the placement of multiple filters in a single package, reducing the size of the DWDM system and signal loss.

Spectral Segmentation Technology. Traditional DWDM technology multiplexes and demultiplexes wavelength channels individually. Our proprietary spectral segmentation technology enables the multiplexing and demultiplexing of wavelength channels in groups. This allows for more efficient and flexible packaging and less degradation of the optical signal due to the need for fewer subcomponents in the DWDM system. Our PowerMux product incorporates this technology in the dense multiplexing and demultiplexing of wavelength channels in a DWDM system.

Variable Chromatic Dispersion Compensation Technology. Chromatic dispersion occurs because different wavelengths of optical signals transmitted over a single optical fiber travel at different speeds. Chromatic dispersion deteriorates the quality of optical signals in high bit rate transmission systems. The farther the optical signal travels, the more it gets distorted. Our dispersion compensation technology, utilized in our PowerShaper product, corrects for chromatic dispersion by compensating for the differences in wavelength speed. Our technology allows one single product to function across multiple wavelength channels and can compensate, or correct for, different levels of chromatic dispersion.

Products

Our photonic processors are designed to increase the performance of optical networks. We believe our photonic processors represent a new category of optical equipment in that they are neither components nor systems. Additionally, our photonic processors differ from full optical systems in that they are micro-optics-based devices that do not require software and electronics.

Our current product line consists of the PowerFilter, the PowerMux and the PowerShaper. The following table sets forth these products as well as some of our products in development and their capabilities:

Product Description Benefit Status

PowerFilter Integrated tunable wavelength - Reduced signal loss Shipping filter multiplexer and demultiplexer - Fewer types of filters needed PowerMux High density wavelength - Accommodates large number of Shipping division multiplexer processor wavelength channels - More efficient use of bandwidth for data transmission - Low cost per wavelength channel PowerShaper Fixed and variable chromatic - Compact packaging Beta Testing dispersion compensator - Broadband chromatic dispersion compensation - Optimizes chromatic dispersion compensation

PowerExchange	Reconfigurable optical add-drop multiplexer	- Real time configuration of optical add-drop multiplexing	Beta Testing
SuperPowerShaper	Variable chromatic slope dispersion compensator	- Extends the wavelength channels of high bit-rate transmissions	Beta Testing

PowerFilter. One of the limitations of current optical filters is that too much of the incoming optical signal is lost during the sequential filtering process, a phenomenon known as insertion loss. Our PowerFilter technology is designed to correct much of this inefficiency, increasing transmission distance and improving system performance. The central piece of the filter technology is a thin film dielectric filter-based device, which offers wavelength-tuning capabilities. Wavelength tuning allows a single filter to filter multiple wavelength channels. Our proprietary packaging schemes also consolidate filter types and parts. This, in turn, provides an added advantage of cost savings on materials.

PowerMux. PowerMux is a next generation DWDM product. It is capable of multiplexing optical signals at smaller spacings between wavelength channels, at higher bit rates and across greater distances than currently available solutions. The PowerMux allows DWDM multiplexing and demultiplexing of optical signals at the origin and destination of a transmission path, in addition to offering optical add-drop multiplexing, known as OADM, at any point in the transmission path. We believe this product allows our customers to use more fiber optic bandwidth for the transport of data than can be delivered with alternative DWDM equipment available today.

PowerShaper. PowerShaper, currently in the beta testing stage, is a broadband chromatic dispersion compensation processor and is specifically designed to correct the inherent bandwidth and distance limitations in optical transmission systems resulting from chromatic dispersion. The PowerShaper can act as a fixed or variable dispersion compensator, which will permit system providers to optimize their network for improved network performance. PowerShaper is designed to correct for chromatic dispersion by reshaping the individual optical signals at the receiving end of the optical fiber and preventing them from mixing and corrupting the transmission data.

We cannot assure you that we will be able to successfully introduce or market products that are currently in the beta testing stage. We also cannot assure you that these products will achieve market acceptance. Please see "Risk Factors -- Our Success Depends Upon Our Ability to Develop Products and Product Enhancements That Will Achieve Market Acceptance."

Customers

Our target customer base includes communications service providers and optical systems manufacturers. Customers who have placed orders for commercial shipment include MCI WorldCom, Hitachi, Osicom, Lucent and Cerent, which recently agreed to be acquired by Cisco Systems.

We began recognizing revenues from sales of our photonic processors in the quarter ended June 30, 1999. In the fiscal year ended June 30, 1999, sales to Osicom, MCI Telecommunications and Hitachi accounted for 33%, 32%, and 29% of net revenue, respectively. In the quarter ended October 1, 1999, sales to MCI WorldCom accounted for 92% of net revenue. We expect that the majority of our revenues will continue to depend on sales of our photonic processors to a small number of customers.

Marketing, Sales and Customer Support

We are implementing a marketing strategy that is based on a push-pull approach. Using the pull approach, we target communications service providers, who can create demand for our products by purchasing our products directly or by requiring that their systems incorporate our products. Using the push approach, we target optical systems providers, who can buy our products and then resell them as a part of their optical solutions. Our marketing efforts are centered around demonstration and education of our products' performance at trade shows and The Photonics Center, continued publicity through paid advertising and direct mail and Internet-based communication and promotion.

We sell and market our products through a combination of direct sales and country-specific distributors. As of December 1, 1999, our direct sales organization consisted of one sales representative operating in the United States, one manufacturer's representative in Italy and two distributors in Japan. The sales organization is supported by three customer service representatives and one sales analyst.

We focus our direct sales efforts on service providers and optical systems manufacturers. The direct sales account managers cover the market on an assigned account basis and work as a team with account-oriented systems engineers. We also have application engineers that provide our customers with assistance on the evolution of their networks as it relates to the deployment of our products. These engineers help in defining the features that are required for our products to be successful in specific applications.

In order to further our international sales objectives, we have established relationships with two distributors in Japan. These distributors have expertise in deploying complex telecommunications equipment in their markets and provide basic support required by our international customers.

We believe that support services are essential to the successful installation and ongoing support of our products. We deliver these services directly to major customers and indirectly through our international distributors. As of October 1, 1999, we had two people in customer service and support, located in our Fremont, California corporate headquarters.

The Photonics Center

To help market our technology and product performance and enable our push-pull marketing strategy, we operate The Photonics Center, which is a 6,000 square foot facility located in Richardson, Texas. The Photonics Center is a leading-edge customer testing, demonstration and training facility that enables deployment of our products in a simulated network. As a result, we benefit from immediate feedback from our current and potential customers about our photonic processors. The Photonics Center also provides testing capabilities for the development of products and prototypes. In addition, we believe that The Photonics Center shortens our products' evaluation cycle with potential customers because they receive initial evaluation information on our products before these products are shipped to the customer location for full testing and evaluation. This initial information gives the potential customer a better understanding of the product before delivery to their location, which we believe gives us an advantage in the sales process.

Manufacturing

We currently manufacture all of our products in our Fremont, California facility. We intend to devote significant resources to expanding our manufacturing capacity and expect to continue to hire significant numbers of new manufacturing employees.

The manufacturing of photonic processors requires the use of a highly skilled manual workforce performing critical functions such as optical assembly, optical alignment, soldering and component integration. We invest significant resources in training and maintaining the quality of our manufacturing work force. Furthermore, we developed proprietary automated testing equipment for consistency in testing results and for efficiency. We also have grouped our manufacturing operations

into several product-specific or customer-specific cells. We believe this provides a highly flexible and efficient operating capability, and is designed to meet customer expectations for high volume capacity, high quality and on-time delivery.

If we are unable to expand our manufacturing capacity on a timely basis to meet demand or if we do not accurately project demand, we will have excess capacity or insufficient capacity, either of which will seriously harm our business.

We emphasize quality assurance throughout the entire supply-chain and manufacturing processes. We also install stringent quality control processes and procedures, including incoming material inspection, in-process testing and outgoing inspection.

We have entered into a five-year agreement with CMI under which a subsidiary of CMI, organized under the laws of the People's Republic of China, manufactures optical subcomponents for us in limited quantities at a small facility in Tianjin, China. They are building a new, larger manufacturing facility in Tianjin, which will not be operational until at least the quarter ending September 29, 2000. We cannot assure you that this larger facility will be completed on time or at all. Under the agreement with CMI, we have granted licenses to CMI to make in China and the United States, and to use and sell worldwide, the licensed components. We also granted them a license to use some of our technical information and manufacturing process know-how in China and the United States. These licenses are exclusive in China and non-exclusive elsewhere. As a result, CMI can manufacture and sell optical components based on our technology to third parties, including our potential competitors.

We expect CMI to build a significant portion of our subcomponents and products in the future. These activities will extend to full production and include activities such as material procurement, assembly, test and 40 control. We will design, specify and monitor all of the tests that are required to meet our quality standards. We believe this arrangement with CMI will allow us to operate without dedicating additional space to these manufacturing operations and will conserve the working capital that would otherwise be required for funding additional inventory. See "Risk Factors -- Because We Expect to Depend on a Third Party Located in China to Manufacture Subcomponents and Products for Us, We May Encounter Difficulties in Obtaining a Sufficient Amount of High Quality Products."

We currently purchase several key components used in our photonic processors from single or limited sources of supply. These key components include filters, lenses and specialty glass. We have no guaranteed supply arrangement with these suppliers. The inability to obtain sufficient quantities of these components may result in delays or reductions in product shipments, which would harm our business.

Quality

We have established a quality assurance plan to improve our company-wide quality system to ensure that our customers' requirements are consistently met. This system is based on the international standard ISO 9001. While we are not currently registered as ISO 9001 compliant, we are currently

working toward obtaining ISO 9001 registration, which we believe will provide a further competitive strength.

Product Development

We have assembled a team of engineers and prototype production operators with significant experience in optics, data networking and communications. We believe our engineering team possesses expertise in the areas of optics, micro-optic design, network system design and system-level software design. Our product development efforts focus on enhancing our first generation of photonic processors, developing additional optical network products and continuing to develop next generation technology to support the growth in network bandwidth requirements.

As of October 1, 1999, we had 26 people in our product development group. We have made, and will continue to make, a substantial investment in research and development. Our research and development expenses totaled $515,000 for the period from October 24, 1997 (inception) through June 30, 1998, $4.1 million for the fiscal year ended June 30, 1999 and $950,000 for the quarter ended October 1, 1999.

Our industry is characterized by very rapid technological change, frequent new product introductions and enhancements, changes in customer demands and evolving industry standards. While we have developed, and expect to continue to develop, most new products and enhancements to existing products internally, from time to time we may be required to license technology from third parties to develop new products or product enhancements. These licenses may not be available to us on commercially reasonable terms.

Competition

The markets we are targeting are new and rapidly evolving, and we expect these markets to become highly competitive in the future. While we do not have any direct competitors in the photonic processor market today, we anticipate that other companies will in the future expand into our markets and introduce competitive products. We also face indirect competition from public and private companies providing products that address the same fiber optic network problems that our products address. The development of alternative solutions to optical transmission problems by competitors, particularly systems companies who also manufacture components, could significantly limit our growth.

Some companies in the optical systems and component industry may compete with us in the future, including Lucent Technologies, Nortel Networks, Alcatel, Fujitsu, JDS Uniphase and E-Tek Dynamics. These are large public companies that have longer operating histories and significantly greater financial, technical, marketing and other resources than we have. As a result, these competitors are able to devote greater resources to the development, promotion, sale and support of their products. In

addition, our competitors that have large market capitalizations or cash reserves are much better positioned than we are to acquire other companies in order to gain new technologies or products that may displace our product lines.

Any of these acquisitions could give our competitors a strategic advantage. Many of our potential competitors have significantly more established sales and customer support organizations than we do. In addition, many of our competitors have much greater name recognition and have more extensive customer bases, better developed distribution channels and broader product offerings than our company. These companies can leverage their customer bases and broader product offerings and adopt aggressive pricing policies to gain market share. We expect to encounter potential customers that, due to existing relationships with our competitors, are committed to the products offered by these competitors. As a result, these potential customers may not consider purchasing our products.

Existing and potential customers are also our potential competitors. These customers may develop or acquire additional competitive products or technologies in the future, which may cause them to reduce or cease their purchases from us. In addition, customers who are also competitors may unfairly disparage our products in order to gain a competitive advantage.

As a result of these factors, we expect that competitive pressures may result in price reductions, reduced margins and loss of market share.

Intellectual Property

Our success and ability to compete depend substantially upon our internally developed technology. We have filed 25 U.S. patent applications and four foreign patent applications. Our engineering teams have significant expertise in photonic, micro-optic and systems-level design.

While we rely on patent, copyright, trade secret and trademark law to protect our technology, we also believe that factors such as the technological and creative skills of our personnel, new product developments, frequent product enhancements and reliable product maintenance are essential to establishing and maintaining a technology leadership position. We cannot assure you that others will not develop technologies that are similar or superior to our technology.

We license technology from Fujitsu that is critical to our PowerShaper product, which we expect to introduce in the second half of the fiscal year ending June 30, 2000. The license agreement is subject to termination upon the acquisition of more than a 50% interest in us by certain major communications system suppliers. Thus, if we are acquired by any of these specified companies, we will lose this important license. The existence of this license termination provision may have an anti-takeover effect in that it would discourage those specified companies from making a bid to acquire us.

We generally enter into confidentiality or license agreements with our employees, consultants and corporate partners, and generally control access to and distribution of our proprietary information. Despite these efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Policing unauthorized use of our products is

difficult, and there can be no assurance that the steps taken by us will prevent misappropriation of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as do the laws of the United States.

Substantial litigation regarding intellectual property rights exists in the networking industry, and we expect that optical communications products may be increasingly subject to third-party infringement claims as the number of competitors in our industry segments grows and the functionality of products in different industry segments overlaps. In addition, we believe that many of our competitors in the communications business have filed or intend to file patent applications covering aspects of their technology on which they may claim our technology infringes. We can not make any assurances that other third parties will not claim infringement by us with respect to our products and our associated technology. Any such claims, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention and resources, cause product shipment delays or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all. A successful claim of product infringement against us and failure or inability by us to license the infringed or similar technology could seriously harm our business. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed.

Employees

As of October 1, 1999, we had 132 full-time employees, 26 of whom were engaged in product development, 88 in manufacturing, six in quality, six in sales, marketing, application support and customer service, and six in finance, administration and operations. None of our employees are represented by a labor union. We have not experienced any work stoppages and we consider our relations with our employees to be good.

Our future performance depends in significant part upon the continued service of our key technical, sales and senior management personnel, none of whom is bound by an employment agreement requiring service for any defined period of time. The loss of the services of one or more of our key employees could have a material adverse effect on our business, financial condition and results of operations. Our future success also depends on our continuing ability to attract, train and retain highly qualified technical, sales and managerial personnel. Competition for these personnel is intense, particularly in the San Francisco Bay Area where our headquarters are located, and we can not make any assurances that we can retain our key personnel in the future.

Facilities

In September 1999, we leased one building in Fremont, California for our corporate headquarters, totaling approximately 54,000 square feet, which includes sales and marketing, research and development, administration and manufacturing. This lease will expire in October 2009. Under the same lease, we were granted a right of first refusal, which expires in April 2000, to lease an adjacent

building, approximately 91,000 square feet, at a predetermined rate. We also lease approximately 6,000 square feet of office space in Richardson, Texas for sales and the operation of The Photonics Center. This lease expires in February 2006.

Legal Proceedings

We are not currently subject to any material legal proceedings.

Management

Executive Officers and Directors

Our executive officers and directors as of November 1, 1999, are as follows:

Name Age Position

Walter Alessandrini.....	52	President, Chief Executive Officer and Director
Xiaofan (Simon) Cao.....	36	Senior Vice President, Product Development and Director
Paul Jiang.....	41	Vice President, Manufacturing and Vendor Management
Jessy Chao.....	32	Vice President, Finance, and Chief Financial Officer
Anthony Florence.....	57	Vice President, Corporate Marketing and Investor Relations
Peter Maguire.....	49	Vice President, Worldwide Sales
James Pickering.....	48	Vice President, Quality
Margaret Quinn.....	46	Vice President, Human Resources and Administration
Todd Brooks.....	39	Director
Michael Goguen.....	35	Director
Seth Neiman.....	45	Director

Walter Alessandrini has served as one of our directors and as our President and Chief Executive Officer since March 1999. Dr. Alessandrini was President and Chief Executive Officer of Pirelli Cables and Systems North America LLC, a manufacturer of cables and communications systems, from November 1996 to March 1999. From November 1990 to November 1996, he was President and Chief Executive Officer of Union Switch & Signal Inc., a manufacturer of rail transportation signaling and control systems. Dr. Alessandrini received a doctorate degree in Mechanical Engineering from the University of Genoa, Italy.

Xiaofan (Simon) Cao, one of our co-founders, has served as one of our directors since October 1997 and as our Senior Vice President, Product Development since June 1998. He was our President and Chief Executive Officer from October 1997 to June 1998. From October 1996 to October 1997, Dr. Cao served as Vice President, Sales and Marketing of Oplink Communications, Inc., a producer of components and modules for fiber optic networks. From May 1992 to September 1996, Dr. Cao was a Senior Technical Service Manager for E-Tek Dynamics, Inc., a producer of components and modules for fiber optic networks. Dr. Cao received a B.S. degree in Physics from Zhongshan University, China, M.S. degrees in Physics and Electrical Engineering from the University of Southern California and Ph.D. degrees in Physics and Electrical Engineering from the University of Southern California.

Paul Jiang, one of our co-founders, has served as our Vice President, Manufacturing and Vendor Management since February 1998. Mr. Jiang was a Senior Manager at E-Tek Dynamics, Inc. from January 1994 to January 1998. Mr. Jiang received a B.S. degree in Optics from University of La Verne.

Jessy Chao, one of our co-founders, has served as our Vice President, Finance and Chief Financial Officer since October 1999. He was our Director of Finance and Business Operations from February 1998 to October 1999. Mr. Chao was the Accounting and Finance Manager for E-Tek Dynamics, Inc. from September 1992 to January 1998. Mr. Chao received a B.S. degree in Accounting from San Jose State University.

Anthony Florence has served as our Vice President, Corporate Marketing and Investor Relations since November 1999. Mr. Florence was Vice President, Corporate and Investor Relations, and Office of the Chairman at Ansaldo Signal N.V., a company involved in the global signaling, automation and control systems industry, from November 1996 to November 1999. From November 1993 to November 1996, Mr. Florence served as Vice President, Corporate Planning, Marketing and Investor Relations for Union Switch & Signal Inc. Mr. Florence received a B.A. degree in English from Wheeling College and an M.A. degree in English from the University of Dayton.

Peter Maguire has served as our Vice President, Worldwide Sales since June 1999. Mr. Maguire was the Vice President, Sales for the IXC Market at Fujitsu Network Communications, Inc., a manufacturer of fiber optic communication equipment, from May 1999 to June 1999. From July 1992 to May 1999, he was Vice President, Sales for Pirelli Cables and Systems North America LLC. Mr. Maguire received a B.S. degree in Business Administration and an M.B.A. degree from American States University.

James Pickering has served as our Vice President, Quality since September 1999. Mr. Pickering was Vice President, Quality at Etec Systems, Inc., a manufacturer of semiconductor mask-making equipment, from March 1997 to September 1999. From December 1989 to March 1997, he was Vice President, Customer Satisfaction at Union Switch & Signal Inc. Mr. Pickering received a B.S. degree in Industrial Technology from Northeastern University and an M.B.A. degree from Babson College.

Margaret Quinn has served as our Vice President, Human Resources and Administration since October 1999. Ms. Quinn was a principal at HRMQ, a human resources consulting company, from January 1999 to October 1999. From August 1997 to January 1999, she was Director of International Customer Support at Nellcor Puritan Bennett Incorporated, a manufacturer of respiratory monitoring systems. Ms. Quinn served as a human resources consultant at Nellcor Puritan Bennett from October 1996 to August 1997. Prior to that, Ms. Quinn served as the Director of Human Resources for Cyrix Corporation, a manufacturer of microprocessors, from April 1992 to May 1996. Ms. Quinn received a B.A. degree in Spanish Literature from Mills College.

Todd Brooks has served on our board of directors since February 1998. Mr. Brooks has been a general partner at the Mayfield Fund, a venture capital firm, since February 1999. From April 1995 to January 1999, Mr. Brooks served as a managing principal with JAFCO America Ventures, a venture capital firm. Mr. Brooks also served as an equity research analyst for Franklin-Templeton Funds, an investment corporation, from August 1993 to April 1995. Mr. Brooks currently serves as a director of several

private companies. Mr. Brooks received a B.S. degree from Texas A&M University, M.S. degrees in Electrical Engineering and Chemical Engineering from the University of California at Berkeley and an M.B.A. degree from the Harvard Business School.

Michael Goguen has served on our board of directors since February 1998. He has held various positions at Sequoia Capital, a venture capital firm, since July 1996 and has been a general partner since July 1997. From May 1995 to July 1996, Mr. Goguen was a Director of Software at Bay Networks, Inc., a computer network system provider. Prior to that, Mr. Goguen was a Director of Software at Centillion Network Inc. a network equipment manufacturing company, from August 1994 to May 1995. Mr. Goguen currently serves as a director of several private companies. Mr. Goguen received a B.S. degree in Electrical Engineering from Cornell University and an M.S. degree in Electrical Engineering from Stanford University.

Seth Neiman has served on our board of directors since February 1998. Since August 1994, he has held various positions at Crosspoint Venture Partners, a venture capital firm, and has been a general partner of Crosspoint since January 1996. Mr. Neiman is also a director of Brocade Communications Systems, Inc., Foundry Networks, Inc., and several private companies. Mr. Neiman received a B.A. degree in Philosophy from Ohio State University.

Board of Directors

Our board of directors currently consists of five members. Upon completion of this offering, our certificate of incorporation will provide for a classified board of directors consisting of three classes of directors, each serving staggered three-year terms. As a result, a portion of our board of directors will be elected each year. To implement the classified structure, before the consummation of the offering, two of the nominees to the board of directors will be elected to a one-year term, two will be elected to two-year terms and one will be elected to a three-year term. After that, directors will be elected for three-year terms. Dr. Alessandrini and Mr. Goguen have been designated Class I Directors, whose terms expire at the 2000 annual meeting of stockholders. Messrs. Neiman and Brooks have been designated Class II Directors, whose terms expire at the 2001 annual meeting of stockholders. Dr. Cao has been designated the Class III Director, whose term expires at the 2002 annual meeting of stockholders. This classification of the board of directors may delay or prevent a change in control of our company or in our management. See "Description of Capital Stock -- Delaware Law and Certain Provisions of Our Certificate of Incorporation and Bylaws."

Our board of directors appoints our executive officers on an annual basis to serve until their successors have been elected and qualified. There are no family relationships among any of our directors or officers.

Board Committees

Compensation Committee. We established a compensation committee in April 1999. The compensation committee currently consists of Messrs. Goguen and Neiman. The compensation committee reviews and recommends to the board of directors the compensation of all of our officers and directors, including stock compensation and loans, and establishes and reviews general policies relating to the compensation and benefits of our employees.

Audit Committee. We established an audit committee in December 1999. The audit committee currently consists of Messrs. Brooks and Goguen. The audit committee reviews our internal accounting procedures and consults with and reviews the services provided by our independent accountants.

Compensation Committee Interlocks and Insider Participation

Our compensation committee currently consists of Messrs. Goguen and Neiman. In December 1999, Dr. Alessandrini, our President and Chief Executive Officer, resigned from the compensation committee. Other than Dr. Alessandrini, none of the members of our compensation committee is currently or has been, at any time since the time of our formation, one of our officers or employees. None of our executive officers currently serves or in the past has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board or compensation committee. Mr. Goguen is a general partner of Sequoia Capital, a holder of approximately 18.5% of our outstanding stock that has purchased shares of our Series A preferred stock, Series B preferred stock, Series C preferred stock and Series D preferred stock. Mr. Neiman is a partner of Crosspoint Venture Partners, a holder of approximately 18.5% of our outstanding stock that has purchased shares of our Series A preferred stock, Series B preferred stock, Series C preferred stock and Series D preferred stock. See "Certain Transactions." Prior to the formation of the compensation committee, compensation decisions were made by our entire board of directors. Dr. Alessandrini did not participate in decisions with respect to his compensation.

Director Compensation

We do not currently compensate our directors in cash for their service as members of the board of directors, although if expenses are incurred in connection with attending board of directors and committee meetings these expenses are reimbursed. Our 1999 Director Option Plan provides for the automatic grant of non-statutory stock options to nonemployee directors. For further information regarding the provisions of the 1999 Director Option Plan, see "-- Employee and Director Benefit Plans."

Limitations on Directors' Liability and Indemnification

Our certificate of incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for:

- any breach of their duty of loyalty to the corporation or its stockholders;

- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;

- unlawful payments of dividends or unlawful stock repurchases or redemptions; or - any transaction from which the director derived an improper personal benefit.

The limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our certificate of incorporation and bylaws provide that we will indemnify our directors and officers and may indemnify our employees and other agents to the fullest extent permitted by law. We believe that indemnification under our bylaws covers at least negligence on the part of indemnified parties. Our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in their capacity as an officer, director, employee or other agent, regardless of whether the bylaws would permit indemnification.

We have entered into agreements to indemnify our directors and executive officers, in addition to the indemnification provided for in our bylaws. These agreements, among other things, provide for indemnification for judgments, fines, settlement amounts and expenses, including attorneys' fees incurred by the director, or executive officer in any action or proceeding, including any action by or in our right, arising out of the person's services as a director or executive officer, any of our subsidiaries or any other company or enterprise to which the person provides services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

The limitation on liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty and may reduce the likelihood of derivative litigation against our directors and officers, even though a derivative action, if successful, might otherwise benefit us and our stockholders. A stockholder's investment in us may be adversely affected to the extent we pay the costs of settlement or damage awards against our directors and officers under these indemnification provisions.

At present, there is no pending litigation or proceeding involving any of our directors, officers or employees in which indemnification is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

Executive Compensation

The following table presents the compensation earned, awarded or paid for services rendered to us in all capacities for the fiscal year ended June 30, 1999 by our Chief Executive Officer, our former acting Chief Executive Officer and our three other most highly compensated executive officers who earned more than $100,000 in salary and bonus during the fiscal year ended June 30, 1999. No other executive officer earned more than $100,000 in salary and bonus during the fiscal year ended June 30, 1999.

Summary Compensation Table

				LONG-TERM COMPENSATION	
				AWARDS	
	ANNUAL COMPENSATION				
NAME AND PRINCIPAL POSITIONS	SALARY	BONUS	OTHER ANNUAL COMPENSATION	RESTRICTED STOCK AWARDS	SECURITIES UNDERLYING OPTIONS
Walter Alessandrini.....	$ 74,038(1)	$37,500(1)	$ 26,604(2)	$ --(3)	--
President and Chief Executive Officer Simon Cao.....	138,544	--	--	--(4)	--
Senior Vice President, Product Development Paul Jiang.....	125,381	--	--	--(5)	--
Vice President, Manufacturing and Vendor Management Peter Maguire.....	--(6)	100,000(6)	--	--	--
Vice President, Worldwide Sales William Lanfri.....	--	--	--	--(7)	75,000

Former Acting Chief Executive Officer (1) Dr. Alessandrini joined us in March 1999. He is currently compensated at an annual salary of $275,000 with an annual performance-based bonus of $150,000.

(2) Represents relocation expenses paid to Dr. Alessandrini through June 30, 1999.

(3) In April 1999, Dr. Alessandrini purchased 3,477,059 shares of restricted stock at $.08 per share through June 30, 1999. These shares are subject to our right of repurchase that lapses over four years and lapses as to one-fourth of his shares on March 22, 2000, with the repurchase right lapsing ratably monthly after that date. As of June 30, 1999, Dr. Alessandrini held 3,477,059 shares of restricted common stock, which had an aggregate fair market value of $521,559. Dividends, if any, paid on this stock will be subject to the same escrow restrictions as the underlying shares.

(4) In January 1998, Dr. Cao purchased 1,800,000 shares of restricted stock at $.001 per share. These shares are subject to our right of repurchase that lapses over four years and lapsed as to one-fourth of his shares having vested on January 13, 1999, with the repurchase right lapsing ratably monthly after that date. As of June 30, 1999, Dr. Cao held 1,800,000 shares of restricted common stock, which had an aggregate fair market value of $270,000. Dividends, if any, paid on this stock will be subject to the same escrow restrictions as the underlying shares.

(5) In February 1998, Mr. Jiang exercised an option to purchase 1,200,000 shares of stock at $.001 per share, subject to our right to repurchase any unvested shares in the event of the termination of his employment. These shares vest over four years with one-fourth of his shares having vested on February 3, 1999 and the remaining shares vesting ratably monthly thereafter. As of June 30, 1999, Mr. Jiang held 1,500,000 shares of restricted common stock, which had an aggregate fair market value of $225,000. Dividends, if any, paid on this stock will be subject to the same escrow restrictions as the underlying shares.

(6) Mr. Maguire joined us in June 1999. He is currently compensated at an annual salary of $165,000. In connection with the start of his employment with us, he received a $100,000 bonus. If he terminates his employment or if we terminate his employment for cause, he must repay this bonus. However, the amount of the bonus that must be repaid is reduced by $8,333 per full month that he remains employed by us.

(7) In August 1998, Mr. Lanfri exercised an option to purchase 227,401 shares of our common stock at an exercise price of $.02 per share, but the unvested shares remained subject to our right of repurchase in the event of the termination of his employment. In March 1999, Mr. Lanfri exercised an option to purchase 75,000 shares of our common stock at an exercise price of $.04 per share. As of June 30, 1999, and in connection with Mr. Lanfri's resignation as our acting Chief Executive Officer in March 1999, Mr. Lanfri held 277,135 shares of fully vested common stock, which had an aggregate fair market value of $41,570. Dividends, if any, paid on this vested stock will go to Mr. Lanfri. The remaining 25,266 shares of common stock subject to repurchase have been repurchased by us at their original exercise price.

Option Grants in Last Fiscal Year

The following table shows information regarding stock options granted during the fiscal year ended June 30, 1999 to our Chief Executive Officer, former acting Chief Executive Officer and three other most highly compensated executive officers. Options were granted with an exercise price per share equal to the fair market value of our common stock on the date of grant, as determined by our board of directors. In determining the fair market value on the date of each grant, our board of directors considered a number of factors, including our operating results and financial condition as of the date of grant, key developments affecting our business and, where relevant, the most recent price at which we sold our preferred stock in financing transactions with independent investors.

The potential realizable value is based on the assumption that our common stock appreciates at the annual rate shown, compounded annually, from the date of grant until the expiration of the ten-year term. These numbers are calculated based on Securities and Exchange Commission requirements and do not reflect projections or estimates of future stock price growth. Potential realizable values are computed by:

- multiplying the number of shares of common stock underlying each option by $ per share, the assumed initial public offering price per share;

- assuming that the total stock value derived from that calculation compounds at the annual 5% or 10% rate shown in the table for the entire ten-year term of the option; and - subtracting from that result the total option exercise price.

Actual gains, if any, on stock option exercises will be dependent on the future performance of the common stock.

The percentage of total options granted is based on an aggregate of 712,700 options granted by us during the fiscal year ended June 30, 1999, to our employees, including the executive officers listed in the table below. In addition to the options granted during the fiscal year ended June 30, 1999, we sold 6,804,460 shares of our common stock under restricted stock purchase agreements during the fiscal year ended June 30, 1999. None of the executive officers listed in the table below, other than William Lanfri, were issued options to purchase our common stock in the fiscal year ended June 30, 1999. Dr. Alessandrini purchased restricted shares of our common stock under the 1998 Stock Plan in the fiscal year ended June 30, 1999.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK APPRECIATION FOR OPTION TERM	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES DURING PERIOD	EXERCISE PRICE PER SHARE	EXPIRATION DATE	5%	10%
Walter Alessandrini...	--	--	$ --	--	$ --	$ --
Simon Cao.....	--	--	--	--	--	--
Paul Jiang.....	--	--	--	--	--	--
Peter Maguire.....	--	--	--	--	--	--
William Lanfri.....	75,000	10.49%	.04	12/07/08		

In December 1998, we granted Mr. Lanfri an option to purchase 75,000 shares of our common stock. This option vested ratably over three months beginning on January 1, 1999. In March 1999, this option fully vested and Mr. Lanfri exercised this option.

Aggregate Option Exercises During Last Fiscal Year

The following table presents information concerning option exercises by our Chief Executive Officer, former acting Chief Executive Officer and three other most highly compensated executive officers for the fiscal year ended June 30, 1999. None of the executive officers listed in the table below held unexercised options at June 30, 1999. For a list of purchases of restricted shares of our common stock by the executive officers listed in the table below, please see "Certain Transactions."

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED
Walter Alessandrini	--	$ --
Simon Cao	--	--
Paul Jiang	--	--
Peter Maguire	--	--
William Lanfri	277,135	4,043

In June 1998, we granted Mr. Lanfri an option to purchase 227,401 shares of our common stock. Of the shares subject to this option, 151,601 shares vested ratably over six months beginning on August 1, 1998. The remaining 75,800 shares subject to this option were designated by our board of directors as "bonus shares." The bonus shares either were to vest in one lump sum on July 1, 2004 or were to vest earlier at the sole discretion of our board of directors. In August 1998, Mr. Lanfri exercised this option to purchase 227,401 shares of our common stock, but the unvested shares remained subject to our right of repurchase. Upon Mr. Lanfri's resignation as our acting Chief Executive Officer in March 1999, our board of directors accelerated the lapsing of our right of repurchase as to 50,534 shares of Mr. Lanfri's bonus shares and we repurchased from him, at the original exercise price, the 25,266 shares that remained subject to repurchase. See "-- Employment Agreements and Change-of-Control Arrangements" for a description of Mr. Lanfri's employment agreement with us.

Employee and Director Benefit Plans

1998 Stock Plan

Our 1998 Stock Plan provides for the grant of incentive stock options to employees, including officers and employee directors, and for the grant of nonstatutory stock options and stock purchase rights to employees, directors and consultants. The 1998 Stock Plan was adopted by our board of directors and approved by our stockholders in January 1998. Our board of directors and stockholders approved amendments to the 1998 Stock Plan to increase the number of shares reserved under the 1998 Stock Plan in March 1999, July 1999, October 1999 and December 1999.

As of December 2, 1999, a total of 6,685,846 shares of our common stock were available for future grant under the 1998 Stock Plan. This amount includes amounts returned to the 1998 Stock Plan, and annual increases which will be added to the 1998 Stock Plan, beginning on July 1, 2000, equal to the lesser of 4,000,000 shares, 4.9% of our outstanding shares or a lesser amount determined by our board. The 1998 Stock Plan has 19,700,000 shares of our common stock reserved for issuance, of which options to acquire 1,689,600 shares have been issued and are outstanding as of December 2, 1999 and a total of 11,524,554 shares have been issued and are outstanding pursuant to the exercise of options and stock purchase rights granted under the 1998 Stock Plan.

Administration. Our board of directors or a committee of our board of directors administers the 1998 Stock Plan. The administrator of our 1998 Stock Plan has the power to determine, among other things:

- the terms of the options or stock purchase rights granted, including the exercise price of the option or stock purchase right;

- the number of shares subject to each option or stock purchase right;

- the exercisability of each option or stock purchase right; and - the form of consideration payable upon the exercise of each option or stock purchase right.

Options. The exercise price of all incentive stock options granted under the 1998 Stock Plan must be at least equal to the fair market value of the common stock on the date of grant. The exercise price of nonstatutory stock options and stock purchase rights granted under the 1998 Stock Plan is determined by the administrator, but with respect to nonstatutory stock options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code, the exercise price must be at least equal to the fair market value of our common stock on the date of grant. With respect to any participant who owns stock representing more than 10% of the voting power of all classes of our outstanding capital stock, the exercise price of any incentive stock option granted must be at least equal 110% of the fair market value on the grant date and the term of the incentive stock option must not exceed five years. The term of all other options granted under the 1998 Stock Plan may not exceed 10 years.

During any fiscal year, each optionee may be granted options to purchase a maximum of 1,000,000 shares. In addition, in connection with an optionee's initial employment with us, the optionee may be granted an option covering an additional 3,000,000 shares.

Options granted under the 1998 Stock Plan must generally be exercised within three months after the end of the optionee's status as an employee, director or consultant of ours, or within 12 months after the optionee's termination by death or disability, but in no event later than the expiration of the option's term.

Transferability of Options. Options and stock purchase rights granted under the 1998 Stock Plan are generally not transferable by the optionee, and each option and stock purchase right is exercisable during the lifetime of the optionee only by the optionee.

Stock Purchase Rights. In the case of stock purchase rights, unless the administrator determines otherwise, the restricted stock purchase agreement shall grant us a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment or consulting relationship with us for any reason, including death or disability. The purchase price for shares repurchased under the restricted stock purchase agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to us. The repurchase option shall lapse at a rate determined by the administrator.

Adjustments upon Merger or Asset Sale. The 1998 Stock Plan provides that in the event of our merger with or into another corporation, or a sale of substantially all of our assets, each option and stock purchase right shall be assumed or an equivalent option substituted for by the successor corporation. If the outstanding options and stock purchase rights are not assumed or substituted for by the successor corporation, the optionees will become fully vested in and have the right to exercise the options or

stock purchase rights. If an option or stock purchase right becomes fully vested and exercisable in the event of a merger or sale of assets, the administrator must notify the optionee that the option or stock purchase right is fully exercisable for a period of 15 days from the date of the notice, and the option or stock purchase right will terminate upon the expiration of the 15-day period.

Amendment and Termination of the 1998 Stock Plan. The administrator will have the authority to amend, suspend or terminate the 1998 Stock Plan, as long as this action does not affect any shares of common stock previously issued and sold or any option previously granted under the 1998 Stock Plan. Unless earlier terminated, the 1998 Stock Plan will terminate automatically 10 years from the date of obtaining stockholder approval of the amended plan in December 1999.

1999 Employee Stock Purchase Plan

Our 1999 Employee Stock Purchase Plan was adopted by our board of directors and approved by our stockholders in December 1999. A total of 350,000 shares of our common stock has been reserved for issuance under the 1999 Employee Stock Purchase Plan, plus automatic annual increases beginning on July 1, 2000 equal to the lesser of 500,000 shares, 1% of the outstanding shares on that date or an amount determined by our board of directors. As of the date of this prospectus, no shares have been issued under the 1999 Employee Stock Purchase Plan.

Structure of the 1999 Employee Stock Purchase Plan. The 1999 Employee Stock Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code, contains consecutive, six-month offering periods. The offering periods generally start on the first trading day on or after February 1st and August 1st of each year, except for the first offering period, which commences on the first trading day on or after the effective date of this offering and ends on the last trading day on or before July 31, 2000.

Eligibility. Employees are eligible to participate if they are customarily employed by us or any of our participating subsidiaries for at least 20 hours per week and more than five months in any calendar year. However, employees may not be granted an option to purchase stock under the 1999 Employee Stock Purchase Plan if they either:

- immediately after grant, own stock representing 5% or more of the total combined voting power or value of all classes of our capital stock; or - hold rights to purchase stock under our employee stock purchase plans which accrue at a rate which exceeds $25,000 worth of stock for each calendar year.

Purchases. The 1999 Employee Stock Purchase Plan permits participants to purchase our common stock through payroll deductions of up to 10% of the participant's "compensation." Compensation is defined as the participant's base straight time gross earnings and commissions, exclusive of payments for shift premium, bonuses, incentive compensation, incentive payments and other compensation. The maximum number of shares a participant may purchase during each offering period is 2,000 shares.

Amounts deducted and accumulated by the participant are used to purchase shares of common stock at the end of each offering period. The price of stock purchased under the 1999 Employee Stock Purchase Plan is generally 85% of the lower of the fair market value of the common stock either:

- at the beginning of the offering period; or - at the end of the offering period.

Participants may end their participation at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with us.

Transferability of Rights. Rights granted under the 1999 Employee Stock Purchase Plan are not transferable by a participant other than by will, the laws of descent and distribution or as otherwise provided under the 1999 Employee Stock Purchase Plan.

Merger or Asset Sale. The 1999 Employee Stock Purchase Plan provides that, in the event we merge with or into another corporation or if there is a sale of substantially all of our assets, each outstanding option may be assumed or substituted for by the successor corporation. If the successor corporation refuses to assume or substitute for the outstanding options, the offering period then in progress will be shortened and a new exercise date will be set.

Amendment and Termination of the 1999 Employee Stock Purchase Plan. The 1999 Employee Stock Purchase Plan will terminate in 2009. Our board of directors has the authority to amend or terminate the 1999 Employee Stock Purchase Plan, except that no action may impair any outstanding rights to purchase stock under the 1999 Employee Stock Purchase Plan.

1999 Director Option Plan

Non-employee directors are entitled to participate in our 1999 Director Option Plan. The 1999 Director Option Plan was adopted by our board of directors and approved by our stockholders in December 1999, but it will not become effective until the date of this offering. The 1999 Director Option Plan has a term of 10 years, unless terminated sooner by our board of directors. A total of 200,000 shares of our common stock have been reserved for issuance under the 1999 Director Option Plan, plus automatic annual increases beginning on January 1, 2001 equal to the lesser of 100,000 shares, .25% of the outstanding shares on that date or an amount determined by our board of directors.

Option Grants. The 1999 Director Option Plan generally provides for an automatic initial grant of an option to purchase 26,667 shares of our common stock to each non-employee director on the date which the later of the following events occur:

- the effective date of the 1999 Director Option Plan; or - the date when a person first becomes a non-employee director.

A non-employee director who owns, either directly or indirectly, our securities representing 1% or more of our total voting power will not receive an initial grant under the 1999 Director Option Plan and will only be eligible for a subsequent grant when his or her ownership percentage drops below 1% of our

total voting power.

After the initial grant, each non-employee director will automatically be granted subsequent options to purchase 6,667 shares of our common stock each year on the date of our annual stockholders' meeting, if on such date he or she has served on our board of directors for at least six months. Each initial option grant and each subsequent option grant shall have a term of 10 years. Each initial option grant will vest as to 25% of the shares subject to the option on each anniversary of its date of grant. Each subsequent option grant will fully vest on the anniversary of its date of grant. The exercise price of all options will be 100% of the fair market value per share of our common stock on the date of grant.

Options granted under the 1999 Director Option Plan must be exercised within three months of the end of the optionee's tenure as a director of the Company, or within 12 months after such director's termination by death or disability, but in no event later than the expiration of the option's 10 year term.

Transferability of Options. No option granted under the 1999 Director Option Plan is transferable by the optionee other than by will or the laws of descent and distribution, and each option is exercisable, during the lifetime of the optionee, only by the optionee.

Merger, Asset Sale and Change of Control. The 1999 Director Option Plan provides that in the event of our merger with or into another corporation, or a sale of substantially all of our assets, the successor corporation shall assume each option or substitute an equivalent option. If outstanding options are not assumed or substituted for by the successor corporation, each option will become fully exercisable for a period of thirty days from the date our board of directors notifies the optionee of the option's full exercisability, after which period the option shall terminate. In the event of a change of control each outstanding option will become fully vested and exercisable.

Amendment and Termination of the 1999 Director Option Plan. The administrator will have the authority to amend, suspend or terminate the 1999 Director Option Plan, so long as no action affects any shares of common stock previously issued and sold or any option previously granted under the 1999 Director Option Plan. Unless terminated sooner, the 1999 Director Option Plan will terminate automatically 10 years from the effective date of the plan.

401(K) Plan

In November 1998, we adopted the Avanex Corporation 401(k) Profit Sharing Plan, or our 401(k) Plan, which covers all of our eligible employees who have completed three months of service and have attained age 21. The 401(k) Plan excludes from participation all collectively bargained and non-resident alien employees. The 401(k) Plan is intended to qualify under Section 401(a) of the Internal Revenue Code of 1986 and the 401(k) Plan trust is intended to qualify under Section 501(a) of the Internal Revenue Code. All contributions to the 401(k) Plan by eligible employees or by us, and the investment earnings thereon are not taxable to such employees until withdrawn, and any contributions we may make are expected to be deductible by us when made. Our eligible employees may elect to reduce their eligible compensation by up to 15%, subject to statutorily prescribed limits, and to have

such compensation reductions contributed on their behalf to the 401(k) Plan. The 401(k) Plan permits, but does not require, us to make matching contributions to the 401(k) Plan. To date, we have not made any matching contributions.

Employment Agreements and Change-of-control Arrangements

From time to time, we have entered into employment agreements with our executive officers, including the executive officers listed in the "Summary Compensation Table."

Walter Alessandrini. In March 1999, Walter Alessandrini accepted our offer of employment. The offer letter provides that Dr. Alessandrini is entitled to receive an annual salary of $275,000 and a bonus of $150,000 during his first year of employment, to be paid based on the achievement of performance-based milestones. His employment with us is on an at-will basis. In connection with this offer letter, in April 1999, Dr. Alessandrini purchased, at a price of $.08 per share, 3,477,059 shares of our common stock, under a restricted stock purchase agreement. These shares are subject to a right of repurchase that lapses over a four-year period and as to one-fourth of these shares on March 22, 2000, with the repurchase right lapsing ratably monthly after that date. Any shares as to which the repurchase right has not lapsed are subject to repurchase by us in the event of the termination of his employment.

The offer letter also provided that we would loan Dr. Alessandrini up to $300,000 in connection with the purchase of a home. For further discussion of this loan, please see "Certain Transactions -- Loans to Executive Officers." The offer letter also provides that if we terminate his employment with us without cause then he will receive six months of salary and bonus and our right to repurchase his shares under this offer letter will lapse as to a number of shares equal to the greater of:

- one-fourth of these shares, if he is terminated before March 22, 2000; or - an additional one-eighth of these shares if he is terminated on or after March 22, 2000.

In addition, the offer letter provides that if he cannot serve as our Chief Executive Officer for any period of time due to a legal restraint or litigation in connection with a Confidentiality and Non-Competition Agreement that he entered into with his previous employer, Pirelli Cables and Systems North America, LLC, then we shall pay him up to $100,000 in salary in monthly installments for up to six months during the period that he is not serving as our Chief Executive Officer.

In October 1999, Dr. Alessandrini purchased 347,706 shares of our common stock, at a price of $.58 per share, under a restricted stock purchase agreement. These shares are subject to a right of repurchase that lapses over a four-year period and as to one-fourth of his shares on March 22, 2000 with the repurchase right lapsing ratably monthly after that date. Each of the restricted stock purchase agreements relating to these purchases provides that, upon a change of control, the lapsing of our right of repurchase will be accelerated so that at least 50% of the common stock purchased under each restricted stock purchase agreement will not be subject to our right of repurchase. In addition, upon an

involuntary termination of his employment without cause, upon or within 12 months of a change of control, our right of repurchase will lapse as to all of the common stock subject to repurchase under each of his restricted stock purchase agreements.

Simon Cao. On January 2, 1998, Simon Cao accepted our offer of employment. Initially, Dr. Cao was entitled to receive an annual salary of $125,000. On September 8, 1998, Dr. Cao agreed to amend his initial offer letter to increase his annual salary to $140,000. In August 1999, our board of directors increased his annual salary to $180,024. His employment with us is on an at-will basis. In connection with this offer letter, in January 1998, Dr. Cao purchased, at a price of $.001 per share, 1,800,000 shares of our common stock, under a restricted stock purchase agreement. These shares are subject to a right of repurchase that lapses over a four-year period and lapsed as to one-fourth of these shares on January 13, 1999 with the repurchase right lapsing ratably monthly after that date.

In August 1999, Dr. Cao purchased, at a price of $.15 per share, 600,000 shares of our common stock and in October 1999 purchased, at a price of $.58 per share, 680,484 shares of our common stock, in each case under a restricted stock purchase agreement. These shares are subject to a right of repurchase that lapses over a four-year period and lapses as to one-fourth of the shares purchased in August 1999, on June 17, 2000 and as to one-fourth the shares purchased in October 1999, on October 8, 2000. The repurchase right lapses ratably monthly after these dates. Each of the restricted stock purchase agreements relating to these purchases provide that, upon a change of control, the lapsing of our repurchase right will be accelerated so that at least 50% of the common stock purchased under each restricted stock purchase agreement will not be subject to our right of repurchase. In addition, upon an involuntary termination of his employment without cause, upon or within 12 months of a change of control, our right of repurchase will lapse as to all of the common stock subject to repurchase under each of his restricted stock purchase agreements.

Paul Jiang. In January 1998, Paul Jiang accepted our offer of employment. His offer letter provided that he was entitled to receive an annual salary of $115,000. On September 8, 1998, Mr. Jiang agreed to amend his initial offer letter to increase his annual salary to $126,500. In August 1999, our board of directors increased his annual salary to $140,000. His employment with us is on an at-will basis. In connection with this offer letter, in January 1998, Mr. Jiang was granted an option to purchase 1,200,000 shares of our common stock, at an exercise price of $.001 per share, which he exercised in February 1998 under a restricted stock purchase agreement. These shares are subject to a right of repurchase that lapses over a four-year period and lapsed as to one-fourth of these shares on February 3, 1999 with the purchase right lapsing ratably monthly after that date.

In July 1999, Mr. Jiang purchased 300,000 shares of our common stock, at a price of $.04 per share, under a restricted stock purchase agreement. These shares are subject to a right of repurchase that lapses over a four year period and lapsed as to one-fourth of the shares purchased on February 8, 1999 with the purchase right lapsing ratably monthly after that date. In November 1999, Mr. Jiang purchased 100,000 shares of our common stock, at a price of $4.00 per share, under a restricted stock agreement. These shares are subject to a right of repurchase that lapses over a four-year period and as to one-fourth of his shares on November 22, 2000 with the repurchase right lapsing monthly after that

date. Each of the restricted stock purchase agreements relating to these purchases provide that, upon a change of control, the lapsing of our repurchase right will be accelerated so that at least 50% of the common stock purchased under each restricted stock purchase agreement will not be subject to our right of repurchase. In addition, upon an involuntary termination of his employment without cause, upon or within 12 months of a change of control, our right of repurchase will lapse as to all of the common stock subject to repurchase under each of his restricted stock purchase agreements.

Peter Maguire. In June 1999, Peter Maguire accepted our offer of employment. His offer letter provided that he is entitled to receive an annual salary of $165,000 and a bonus of $100,000 during his first year of employment. If he terminates his employment or if we terminate his employment for cause, he must repay this bonus. However, the amount of the bonus that must be repaid is reduced by $8,333 per full month that he remains employed by us. His offer letter provided that he receives a sales commission, to be negotiated annually, equal to .5% of our sales made by June 30, 2000. This commission will be paid upon the collection of the sales and on a quarterly basis. His employment with us is on an at-will basis.

In connection with this offer letter, in July 1999, Mr. Maguire purchased at a price of $.15 per share, 550,000 shares of our common stock, under a restricted stock purchase agreement. These shares are subject to a right of repurchase that lapses over a four-year period and lapses as to one-fourth of the shares on June 28, 2000 with the repurchase right lapsing ratably monthly after this date. The restricted stock purchase agreement relating to this purchase provides that, upon a change of control, the lapsing of our repurchase right will be accelerated so that at least 50% of the common stock purchased under this restricted stock purchase agreement will not be subject to our right of repurchase. In addition, upon an involuntary termination of his employment without cause, upon or within 12 months of a change of control, our right of repurchase will lapse as to all of the common stock subject to repurchase under his restricted stock purchase agreement.

William Lanfri. In June 1998, William Lanfri entered into an employment agreement with us to serve as our acting Chief Executive Officer. As consideration for his services, Mr. Lanfri was granted an option to purchase 75,000 shares of our common stock, at a price of $.04 per share. These shares vested ratably over a three-month period beginning on January 1, 1999. In March 1999, this option was fully vested and he purchased 75,000 shares of our common stock.

In June 1998, Mr. Lanfri was granted an additional option to purchase 227,401 shares of our common stock. Of the shares subject to this option, 151,601 shares vested ratably over a six-month period beginning in August 1998. The remaining 75,800 shares subject to this option were designated by our board of directors as "bonus shares." The bonus shares either were to vest in one lump sum on July 1, 2004 or were to vest earlier at the sole discretion of our board of directors. Our board of directors intended to vest these bonus shares if Mr. Lanfri met certain performance milestones. In August 1998, Mr. Lanfri exercised this option to purchase 227,401 shares of our common stock, but unvested shares remained subject to our right of repurchase upon termination of his employment. Upon Mr. Lanfri's

resignation as our acting Chief Executive Officer in March 1999, our board of directors accelerated the lapsing of our repurchase right as to 50,534 shares of Mr. Lanfri's bonus shares and we repurchased from him the remaining 25,266 shares of common stock that remained subject to repurchase.

Certain Transactions

Since our inception in October 1997, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are to be a party in which the amount involved exceeds $60,000, and in which any director, executive officer, holder of more than 5% of our common stock or any member of the immediate family of any of these people had or will have a direct or indirect material interest other than compensation agreements and other arrangements, which are described where required in "Management," and the transactions described below.

Sales of Our Common Stock and Preferred Stock

Common Stock. The following table summarizes the private placement transactions in which we sold common stock to our directors, executive officers, 5% stockholders and persons and entities affiliated with them.

PURCHASER	DATES OF PURCHASE	PRICE PER SHARE	SHARES OF COMMON STOCK
Walter Alessandrini	4/30/99*	$ .08	3,477,059
	10/8/99*	.58	347,706
Simon Cao	1/13/98	.001	1,800,000
	8/4/99*	.15	600,000
	10/12/99	.58	680,484
Paul Jiang	2/4/98	.001	1,200,000
	7/22/99*	.04	300,000
	11/26/99*	4.00	100,000
Peter Maguire	8/4/99*	.15	550,000
William Lanfri	8/31/98	.02	227,401
	3/31/99	.04	75,000
Jessy Chao	2/5/98	.001	900,000
	11/26/99*	4.00	100,000
James Pickering	10/1/99*	.58	175,920
Anthony Florence	11/19/99*	3.50	130,000

* The purchaser signed a secured full recourse promissory note as consideration for this purchase. For a description of these promissory notes, please see "-- Loans to Executive Officers."

Series A Preferred Stock. On February 10, 1998, we sold our Series A preferred stock at a price of $.223 per share. Each share of Series A preferred stock is convertible into one share of common stock. Purchasers included the following directors, 5% stockholders and persons and entities affiliated with them:

Shares of Series a Purchaser Preferred Stock

Entities affiliated with Crosspoint Venture Partners.....	1,500,000
Entities affiliated with Sequoia Capital.....	1,500,000
Entities affiliated with JAFCO America Ventures, Inc.	1,500,000

Crosspoint Venture Partners is a holder of more than 5% of our stock. Seth Neiman, one of our directors, is a partner of Crosspoint Venture Partners. Sequoia Capital is a holder of more than 5% of our stock. Michael Goguen, one of our directors, is a general partner of Sequoia Capital. JAFCO America Ventures, Inc. is a holder of more than 5% of our stock.

Series B Preferred Stock. On June 29, 1998, we sold Series B preferred stock at a price of $.40 per share. Each share of Series B preferred stock is convertible into one share of common stock. Purchasers included the following directors, 5% stockholders and persons and entities affiliated with them:

Shares of Series B Purchaser Preferred Stock

Entities affiliated with Crosspoint Venture Partners.....	2,085,000
Entities affiliated with Sequoia Capital.....	2,085,000
Entities affiliated with JAFCO America Ventures, Inc.....	2,085,000

Series C Preferred Stock. On February 19, 1999 and March 25, 1999, we sold our Series C preferred stock, at a price of $.756 per share. Each share of Series C preferred stock is convertible into one share of common stock. Purchasers included the following officers, directors, 5% stockholders and persons and entities affiliated with them:

PURCHASER	DATES OF PURCHASE	SHARES OF SERIES C PREFERRED STOCK
Entities affiliated with Crosspoint Venture Partners.....	2/19/99	2,116,402
Entities affiliated with Sequoia Capital.....	2/19/99	2,116,402
Entities affiliated with JAFCO America Ventures, Inc.	2/19/99	1,322,751
Entities affiliated with the Mayfield Fund.....	3/25/99	2,976,190
William Lanfri.....	2/19/99	264,550

The Mayfield Fund is a holder of more than 5% of our stock. Todd Brooks, one of our directors, is a general partner of the Mayfield Fund. William Lanfri was our former acting Chief Executive Officer.

Series D Preferred Stock. On September 14, 1999 and October 15, 1999, we sold our Series D preferred stock, at a price of $5.75 per share. Each share of Series D preferred stock is convertible into one share of common stock. Purchasers included the following officers, directors, 5% stockholders and persons and entities affiliated with them:

PURCHASER	DATES OF PURCHASE	SHARES OF SERIES D PREFERRED STOCK
Entities affiliated with Crosspoint Venture Partners.....	9/14/99	1,028,258

Entities affiliated with Sequoia Capital.....	9/14/99	1,028,258
Entities affiliated with JAFCO America Ventures, Inc.	10/15/99	885,122
Entities affiliated with the Mayfield Fund.....	9/14/99	536,761

Employment Agreements with Founders

We were founded in October 1997 by Simon Cao, Paul Jiang and Jessy Chao.

Jessy Chao. In February 1998, Jessy Chao accepted our offer of employment. His offer letter provided that he was entitled to receive an annual salary of $90,000. In September 1998, Mr. Chao agreed to amend his initial offer letter to increase his annual salary to $99,000. His employment with us is on an at-will basis. In connection with this offer letter, in February 1998, Mr. Chao was granted an option to purchase 900,000 shares of our common stock, at an exercise price of $.001 per share, which he exercised in February 1998 under a restricted stock purchase agreement. These shares are subject to a right of repurchase that lapses over a four-year period and lapsed as to one-fourth of these shares on February 3, 1999 with the repurchase right lapsing ratably monthly after that date.

In November 1999, Mr. Chao purchased 100,000 shares of our common stock, at a price of $4.00 per share, under a restricted stock purchase agreement. These shares are subject to a right of repurchase that lapses over a four-year period and as to one-fourth of his shares on November 22, 1999 with the repurchase right lapsing ratably monthly after that date. Each of the restricted stock purchase agreements relating to these purchases provide that, upon a change of control, the lapsing of our right of repurchase will be accelerated so that at least 50% of the common stock purchased under each restricted stock purchase agreement will not be subject to our right of repurchase. In addition, upon an involuntary termination of his employment without cause, upon or within 12 months of a change of control our right of repurchase will lapse as to all of the common stock subject to repurchase under his restricted stock purchase agreements.

For a description of our employment agreements with Dr. Cao and Mr. Jiang, please see "Employment Agreements and Change-of-Control Arrangements."

Loans to Executive Officers

Walter Alessandrini. In April 1999, in connection with Walter Alessandrini's purchase of 3,477,059 shares of our common stock, we loaned Dr. Alessandrini $278,165 under a secured full recourse promissory note with an annual interest rate of 4.99% compounded semi-annually. Principal and interest on the note become due and payable on April 30, 2003. The note also provides that we may accelerate payment of the amounts outstanding under the loan in the event he ceases to be an employee or consultant of ours.

In April 1999, in connection with his purchase of a home, we loaned Dr. Alessandrini $300,000 under a secured full recourse loan with an annual interest rate of 4.9%. Principal and interest on this note become due and payable on the earlier of six months from that date on which he can sell shares of our

common stock for an amount equal to the principal and interest owed on the note, or the termination of his employment with us.

In October 1999, in connection with Dr. Alessandrini's purchase of 347,706 shares of our common stock, we loaned Dr. Alessandrini $201,669 pursuant to a secured full recourse promissory note which has an annual interest rate of 6.02% compounded semi-annually. Principal and interest on the note become due and payable on October 31, 2003. The note also provides that we may accelerate payment of the amounts outstanding under the loan in the event he ceases to be an employee or consultant of ours. The largest principal amount outstanding on Dr. Alessandri's loans during the fiscal year ended June 30, 1999 was $578,165 and the principal amount outstanding on October 1, 1999 was $578,165.

Simon Cao. In August 1999, in connection with Simon Cao's purchase of 600,000 shares of our common stock, we loaned Dr. Cao $90,000 under a secured full recourse promissory note with an annual interest rate of 5.96% compounded semi-annually. Principal and interest on the note were to become due and payable on August 4, 2003. The note also provides that we may accelerate payment of the amounts outstanding under the loan in the event he ceases to be an employee or consultant of ours. In August 1999, in consideration for his continued employment with us, we agreed to forgive 25% of the principal and accrued interest under the note on each one-year anniversary of August 4, 1999 for so long as Dr. Cao remains our employee as of each anniversary.

In October 1999, in connection with Dr. Cao's purchase of 680,484 shares of our common stock, we loaned Dr. Cao $394,681 under a secured full recourse promissory note with an annual interest rate of 6.02% compounded semi-annually. Principal and interest on the note become due and payable on October 12, 2003. The note also provides that we may accelerate payment of the amounts outstanding under the loan in the event he ceases to be an employee or consultant of ours. No principal amounts were outstanding under Dr. Cao's loans during fiscal year ended June 30, 1999 nor were any principal amounts outstanding under his loans on October 1, 1999.

Paul Jiang. In July 1999, in connection with Paul Jiang's purchase of 300,000 shares of our common stock, we loaned Mr. Jiang $11,700 under a secured full recourse promissory note with an annual interest rate of 5.69% compounded semi-annually. Principal and interest on the note were to become due and payable on July 22, 2003. The note also provides that we may accelerate payment of the amounts outstanding under the loan in the event he ceases to be an employee or consultant of ours. In July 1999, in consideration for his continued employment with us, we agreed to forgive 25% of the principal and accrued interest under the note on each one-year anniversary of July 22, 1999 for so long as Mr. Jiang remains our employee as of each anniversary.

In November 1999, in connection with Mr. Jiang's purchase of 100,000 shares of our common stock, we loaned Mr. Jiang $400,000 under a secured full recourse promissory note with an annual interest rate of 6.2% compounded semi-annually. Principal and interest on the note become due and payable on November 22, 2004. The note also provides that we may accelerate payment of the amounts outstanding under the loan in the event he ceases to be an employee or consultant of ours. No principal amounts were outstanding under Mr. Jiang's loans during fiscal year ended June 30, 1999. The principal amount outstanding under his loans on October 1, 1999 was $11,700.

Peter Maguire. In August 1999, in connection with Peter Maguire's purchase of 550,000 shares of our common stock, we loaned him $82,500 under a secured full recourse promissory note with an annual interest rate of 5.96% compounded semi-annually. Principal and interest on the note become due and payable on August 4, 2003. The note also provides that we may accelerate payment of the amounts outstanding under the loan in the event he ceases to be an employee or consultant of ours. No principal amounts were outstanding under Mr. Maguire's loan during fiscal year ended June 30, 1999, nor were any principal amounts outstanding under his loan on October 1, 1999.

Jessy Chao. In November 1999, in connection with Jessy Chao's purchase of 100,000 shares of our common stock, we loaned Mr. Chao $400,000 under a secured full recourse promissory note with an annual interest rate of 6.2% compounded semi-annually. Principal and interest on the note become due and payable on November 22, 2004. The note also provides that we may accelerate payment of the amounts outstanding under the loan in the event he ceases to be an employee or consultant of ours. No principal amounts were outstanding under Mr. Chao's loan during fiscal year ended June 30, 1999, nor were any principal amounts outstanding under his loan on October 1, 1999.

James Pickering. In October 1999, in connection with James Pickering's purchase of 175,920 shares of our common stock, we loaned him $102,034 under a secured full recourse promissory note with an annual interest rate of 5.54% compounded semi-annually. Principal and interest on the note become due and payable on October 1, 2004. The note also provides that we may accelerate payment of the amounts outstanding under the loan in the event he ceases to be an employee or consultant of ours. No principal amounts were outstanding under Mr. Pickering's loan during fiscal year ended June 30, 1999, nor were any principal amounts outstanding under his loan on October 1, 1999.

Anthony Florence. In November 1999, in connection with Anthony Florence's purchase of 130,000 shares of our common stock, we loaned him $455,000 under a secured full recourse promissory note with an annual interest rate of 5.99% compounded semi-annually. Principal and interest on the note become due and payable on November 19, 2004. The note also provides that we may accelerate payment of the amounts outstanding under the loan in the event he ceases to be an employee or consultant of ours.

In November 1999, in connection with Mr. Florence's employment offer, we loaned Mr. Florence $125,000 under an unsecured full recourse promissory note with an annual interest rate of 5.57%. Principal and interest on the note become due and payable on the earliest of six months from that date on which he can sell shares of our common stock for an amount equal to the principal and interest owed on the note, or May 19, 2001, or the termination of Mr. Florence's employment with us. No principal amounts were outstanding under Mr. Florence's loans during fiscal year ended June 30, 1999, nor were any principal amounts outstanding under his loans on October 1, 1999.

Other Transactions

In June 1999, in connection with Peter Maguire beginning his employment with us, we paid him a bonus of $100,000. This bonus must be repaid if he voluntarily terminates his employment with us or we terminate his employment for cause. The amount of the bonus that must be repaid in this event is reduced by $8,333 per full month that he remains employed with us.

Indemnification

We have entered into indemnification agreements with each of our directors and officers. These indemnification agreements and our certificate of incorporation and bylaws require us to indemnify our directors and officers to the fullest extent permitted by Delaware law. Please see "Management -- Limitations on Directors' Liability and Indemnification."

Conflict of Interest Policy

We believe that all transactions with affiliates described above were made on terms no less favorable to us than could have been obtained from unaffiliated third parties. Our policy is to require that a majority of the independent and disinterested outside directors on our board of directors approve all future transactions between us and our officers, directors, principal stockholders and their affiliates. These transactions will continue to be on terms no less favorable to us than we could obtain from unaffiliated third parties.

Principal Stockholders

The following table sets forth information regarding the beneficial ownership of our common stock as of October 1, 1999, and as adjusted to reflect the sale of common stock offered by this prospectus, by:

- each of the individuals listed in the "Summary Compensation Table;"

- each of our directors;

- each person, or group of affiliated persons, who is known by us to own beneficially 5% or more of our common stock; and - all current directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. As of October 1, 1999, no individual listed in the table below owned any options or warrants to purchase any of our common or preferred stock. Some of the shares held by our executive officers are subject to our right of repurchase. For a description of this repurchase right, please see "Management -- Employment Agreements and Change-of-Control Arrangements" and "Certain Transactions."

Except as indicated in the footnotes to this table and pursuant to applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares shown as beneficially owned by them. This table also includes shares owned by a spouse as community property. Percentage of ownership is based on 36,406,082 shares of common stock outstanding on October 1, 1999 and shares of common stock outstanding after completion of this offering. This table assumes no exercise of the underwriters' over-allotment option, gives effect to the conversion of all outstanding shares of preferred stock and reflects the exercise of warrants to purchase 225,000 shares of common stock prior to the closing of this offering. Unless otherwise indicated, the address of each of the individuals named below is 40919 Encyclopedia Circle, Fremont, California 94538.

		PERCENTAGE OF SHARES BENEFICIALLY OWNED	
NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	BEFORE OFFERING	AFTER OFFERING
5% STOCKHOLDERS Entities affiliated with Crosspoint Venture Partners(1).....	6,729,660	18.5%	%
2925 Woodside Road Woodside, CA 94062 Entities affiliated with Sequoia Capital(2).....	6,729,660	18.5	
3000 Sand Hill Road, Bldg. 4, Suite 280, Menlo Park, CA 94025 Entities affiliated with JAFCO America Ventures, Inc.(3).....	4,907,751	13.5	
505 Hamilton Avenue, Suite 310 Palo Alto, CA 94301 Entities affiliated with the Mayfield Fund(4).....	3,512,951	9.7	
2800 Sand Hill Road, Suite 250 Menlo Park, CA 94025			

		PERCENTAGE OF SHARES BENEFICIALLY OWNED	
NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	BEFORE OFFERING	AFTER OFFERING
DIRECTORS AND EXECUTIVE OFFICERS Walter Alessandrini.....	3,477,059	9.6%	%
Simon Cao.....	2,400,000	6.7	
Paul Jiang.....	1,500,000	4.1	
Peter Maguire.....	550,000	1.5	
William Lanfri.....	669,135	1.8	
Todd Brooks(4).....	3,512,951	9.7	
c/o the Mayfield Fund 2800 Sand Hill Road, Suite 250 Menlo Park, CA 94025 Michael Goguen(2).....	6,729,660	18.5	
c/o Sequoia Capital 3000 Sand Hill Road, Bldg. 4, Suite 280 Menlo Park, CA 94025 Seth Neiman(1).....	6,729,660	18.5	
c/o Crosspoint Venture Partners 2925 Woodside Road Woodside, CA 94062 All directors and executive officers as a group (11 persons).....	25,975,250	71.4	

(1) Represents 5,701,402 shares held by Crosspoint Venture Partners 1997 and 1,028,258 shares held by Crosspoint Venture Partners LS 1999. Mr. Neiman is one of our directors and is a general partner of Crosspoint Venture Partners. Mr. Neiman disclaims beneficial ownership of the shares held by Crosspoint Venture Partners 1997 and Crosspoint Venture Partners LS 1999, except to the extent of his pecuniary interest in these shares.

(2) Represents 5,738,461 shares held by Sequoia Capital VII; 412,306 shares held by Sequoia Capital Franchise Fund; 250,862 shares held by Sequoia Technology Partners VII, a California Limited Partnership; 116,400 shares held by SQP 1997; 100,345 shares held by Sequoia International Partners; 65,474 shares held by Sequoia 1997 LLC and 45,812 shares held by Sequoia Capital Franchise Partners. Mr. Goguen is one of our directors and is a general partner of Sequoia Capital. Mr.

Goguen disclaims beneficial ownership of the shares held by Sequoia Capital VII, Sequoia Capital Franchise Fund, Sequoia Technology Partners VII, Sequoia 1997 LLC and Sequoia Capital Franchise Partners, except to the extent of his pecuniary interest in these shares.

(3) Represents 3,925,756 shares held by U.S. Information Technology No. 2 Investment Enterprise Partnership, 408,039 shares held by JAFCO Co., Ltd., 143,489 shares held by JAFCO G6-(A) Investment Enterprise Partnership, 143,489 shares held by JAFCO G6-(B) Investment Enterprise Partnership, 143,489 shares held by JAFCO JS-3 Investment Enterprise Partnership and 143,489 held by JAFCO R-3 Investment Enterprise Partnership.

(4) Represents 3,337,304 shares held by Mayfield IX and 175,647 shares held by Mayfield Associates Fund IV. Todd Brooks is one of our directors and is a general partner of the Mayfield Fund. Mr. Brooks disclaims beneficial ownership of the shares held by Mayfield IX and Mayfield Associates Fund IV, except to the extent of his pecuniary interest in these shares.

Description of Capital Stock

Upon the closing of this offering, we will be authorized to issue 300,000,000 shares of common stock, $.001 par value per share, and 10,000,000 shares of undesignated preferred stock, $.001 par value per share. The following description of our capital stock does not purport to be complete and is subject to and qualified by our certificate of incorporation and bylaws, which are included as exhibits to the Registration Statement of which this prospectus forms a part, and by the provisions of applicable Delaware law.

Common Stock

As of October 1, 1999, there were 36,406,082 shares of common stock outstanding, assuming the conversion of all outstanding shares of preferred stock into common stock, which were held of record by approximately 43 stockholders, and assuming the exercise of warrants to purchase 225,000 shares of common stock prior to the closing of this offering.

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive ratably dividends, if any, as may be declared from time to time by the board of directors out of funds legally available for that purpose. See "Dividend Policy." In the event of our liquidation, dissolution or winding up of Avanex, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable, and the shares of common stock to be issued upon the closing of this offering will be fully paid and nonassessable.

Preferred Stock

The board of directors has the authority, without action by our stockholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences and privileges of each series, any or all of which may be greater than the rights of the common stock. The effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock might include, among other things, restricting dividends on the common stock, diluting the voting power of the common stock, impairing the liquidation rights of the common stock and delaying or preventing a change in control of Avanex without further action by the stockholders. We have no present plans to issue any shares of preferred stock.

Warrants

At October 1, 1999, there were warrants outstanding to purchase a total of 225,000 shares of common stock and a warrant outstanding to purchase a total of 19,565 shares of Series D preferred stock. The warrant to purchase 19,565 shares of Series D preferred stock will remain outstanding after the completion of this offering and will become exercisable to purchase an aggregate of 19,565 shares of common stock. It will expire on July 8, 2004, unless earlier exercised.

Registration Rights

The holders of 23,346,090 shares of common stock, as converted, and the holder of a warrant to purchase 19,565 shares of common stock, as converted, or their permitted transferees are entitled to certain rights with respect to registration of the shares under the Securities Act at any time after 180 days following the closing of this offering. Under the terms of the agreements between us and the holders of the registrable securities, by written consent of more than 50% of the registrable securities then outstanding, the holders may require on two occasions that we, at our expense, file a registration statement under the Securities Act, with respect to the registrable securities, provided that at least 30% of the registrable securities would be included in the proposed registration or the anticipated public offering price of the proposed registration would be at least $15.0 million. In addition, the holders of at least 30% of the registrable securities then outstanding, at any time 12 months after the closing of this offering and at our expense, may require that we register their shares for 63 public resale on Form S-3 or similar short-form registration, provided that we are eligible to use Form S-3 or similar short-form registration, and provided further that the value of the securities to be registered is at least $1.0 million. Furthermore, in the event we elect to register any of our shares of common stock after this offering for purposes of effecting any public offering, the holders of registrable securities are entitled, at our expense, to include their shares of common stock in the registration, subject to the right of the underwriter to reduce the number of shares proposed to be registered in view of market conditions.

Delaware Law and Certain Provisions of Our Certificate of Incorporation and Bylaws

Certain provisions of Delaware law and our certificate of incorporation and bylaws could make it more difficult to acquire us by means of a tender offer, a proxy contest or otherwise and the removal of incumbent officers and directors. These provisions, summarized below, are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to first negotiate with us. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

We are subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date the person became an interested stockholder, unless, with exceptions, the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an interested stockholder is a person who, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status, did own, 15% or more of a corporation's voting stock. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Our certificate of incorporation and bylaws require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of the stockholders and may not be effected by a consent in writing. In addition, special meetings of our stockholders may be called only by the board of directors or certain of our officers. Our certificate of incorporation and bylaws also provide that, beginning upon the closing of this offering, our board of directors will be divided into three classes, with each class serving staggered three-year terms, and that certain amendments of the certificate of incorporation and of the bylaws require the approval of holders of at least 66.7% of the voting power of all outstanding stock. These provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of Avanex.

Transfer Agent and Registrar

The transfer agent and registrar for the common stock is Boston EquiServe, LLP.

Shares Eligible for Future Sale

Immediately prior to this offering, there was no public market for our common stock. Future sales of substantial amounts of common stock in the public market could adversely affect the market price of the common stock.

Upon completion of this offering, we will have outstanding shares of common stock, assuming the issuance of shares of common stock offered by us and no exercise of options after , and assuming no exercise of the underwriters' over-allotment option. All of the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act. If shares are purchased by our "affiliates" as that term is defined in Rule 144 under the Securities Act, their sales of shares would be subject to the limitations and restrictions that are described below.

As of December 2, 1999, the remaining 36,680,644 shares of common stock held by existing stockholders were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act. Of these shares, 36,467,169 shares will be subject to lock-up agreements, described below, on the date of this prospectus. On the date of this prospectus, shares not subject to the lock-up agreements described below may be eligible for sale pursuant to Rules 144, 144(k) or 701. In addition, holders of stock options could exercise such options and sell certain of the shares issued upon exercise as described below.

APPROXIMATE SHARES ELIGIBLE	RELEVANT DATES FOR FUTURE SALE	COMMENT
On the date of this prospectus.....		Freely tradable shares sold in this offering
180 days after the date of this prospectus (assuming this prospectus will be dated February 14, 2000).....	26,765,212	All shares subject to lock-up released; shares salable under Rules 144, 144(k) and 701

Some of the shares in the table above, including shares held by executive officers and directors, listed as not being salable until 180 days after the date of this prospectus may become salable as soon as the 90th day after the date of this prospectus as described under "-- Lock-up Agreements" below.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year would be entitled to sell, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately shares immediately after this offering; or - the average weekly trading volume of the common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are also subject to other requirements regarding the manner of sale, notice filing and the availability of current public information about us.

Rule 144(K)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an affiliate, is entitled to sell such shares without complying with the manner of sale, notice filing, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of this offering.

Rule 701

In general, under Rule 701, any of our employees, directors, officers, consultants or advisors who purchases shares from us in connection with a compensatory stock or option plan or other written agreement before the effective date of this offering is entitled to resell such shares 90 days after the effective date of this offering in reliance on Rule 144, without having to comply with the holding period requirements or other restrictions contained in Rule 701.

The Securities and Exchange Commission has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Securities Exchange Act, along with the shares acquired upon exercise of such options, including exercises after the date of this prospectus. Securities issued in reliance on Rule 701 are restricted securities and, subject to the contractual restrictions described above, beginning 90 days after the date of this prospectus, may be sold by persons other than "affiliates," as defined in Rule 144, subject only to the manner of sale provisions of Rule 144 and by "affiliates" under Rule 144 without compliance with its one-year minimum holding period requirement.

Stock Options

As of December 2, 1999, there were a total of 1,689,600 shares of common stock subject to outstanding options under our 1998 Stock Plan, 147,146 of which were vested, and all of which are subject to lock-up agreements. Immediately after the completion of the offering, we intend to file registration statements on Form S-8 under the Securities Act to register all of the shares of common stock issued or reserved for future issuance under our 1998 Stock Plan, as amended, our 1999 Director Stock Option Plan and our 1999 Employee Stock Purchase Plan. On the date 180 days after the effective date of the offering, a total of 378,910 shares of common stock subject to outstanding options will be vested. After the effective dates of these registration statements, shares purchased upon exercise of options granted under the 1998 Stock Plan, as amended, 1999 Director Stock Plan and 1999 Employee Stock Purchase Plan and would be available for resale in the public market.

Lock-up Agreements

Our officers, directors and substantially all of our stockholders, who hold an aggregate of approximately 36,467,169 shares of our common stock, have agreed, subject to limited exceptions, not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock for a period of 180 days after the date of this prospectus, without the prior written consent of Morgan Stanley & Co. Incorporated.

If the reported last sale price of the common stock on the Nasdaq National Market is at least twice the initial public offering price per share for 20 of the 30 trading days ending on the last trading day preceding the 90th day after the date of this prospectus, 25% of the shares of our common stock, or 9,116,793 shares, subject to the 180-day restriction described above will be released from these restrictions. The release of these shares will occur on the later to occur of:

- the 90th day after the date of this prospectus if we make our first post-offering public release of our quarterly or annual earnings results during the period beginning on the eleventh trading day after the date of this prospectus and ending on the day prior to the 90th day after the date of this prospectus, or
- on the second trading day following the first public release of our quarterly or annual results occurring on or after the 90th day after the date of this prospectus, if we do not make our first post-offering public release as described in the preceding clause.

Morgan Stanley & Co. Incorporated may in its sole discretion choose to release any or all of these shares from these restrictions prior to the expiration of either the 90- or 180-day period.

Underwriters

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. Incorporated, Lehman Brothers Inc., BancBoston Robertson Stephens Inc. and U.S. Bancorp Piper Jaffray Inc. are acting as representatives, have severally agreed to purchase, and we have agreed to sell to them, severally the number of shares indicated below:

Number of Name Shares

Morgan Stanley & Co. Incorporated..... Lehman Brothers Inc. .....
BancBoston Robertson Stephens Inc. ..... U.S. Bancorp Piper Jaffray Inc. .....
Total.....

The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus, if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the initial public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of $ a share under the initial public offering price. Any underwriter may allow, and such dealers may reallow, a concession not in excess of $ a share to other underwriters or to certain dealers. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives of the underwriters.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of additional shares of common stock at the initial public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent this option is exercised, each underwriter will become obligated, subject to limited conditions, to purchase approximately the same percentage of additional shares of common stock as the number listed next to the underwriter's name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table. If the underwriters' option is exercised in full, the total price to the public would be $, the total underwriters' discounts and commissions would be $ and total proceeds to us would be $.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed five percent of the total number of shares of common stock offered by them.

We have filed an application for our common stock to be quoted on the Nasdaq National Market under the symbol "AVNX."

Avanex and our directors, executive officers and substantially all of our stockholders have agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, it will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock, whether these shares or any such securities are then owned by the person or are thereafter acquired, directly from us; or - enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of common stock, whether any transaction described above is to be settled by delivery of common stock or such

other securities, in cash or otherwise. This lock-up restriction is subject, in specified circumstances, to earlier release. For a description of the circumstances leading to this earlier release, please see "Shares Eligible for Future Sale -- Lock-up Agreements."

The restrictions described in this paragraph do not apply to:

- the sale of shares to the underwriters;

- transactions by any person other than us relating to shares of common stock or other securities acquired in open market transactions after the completion of the offering of the shares.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may over-allot in connection with the offering, creating a short position in the common stock for their own account. In addition, to cover over-allotments or to stabilize the price of the common stock, the underwriters may bid for, and purchase, shares of common stock in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the common stock in the offering if the syndicate repurchases previously distributed shares of common stock in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the common stock above independent market levels. The underwriters are not required to engage in these activities and may end any of these activities at any time.

We and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

At our request, the underwriters have reserved for sale, at the initial public offering price, up to approximately shares of common stock offered by this prospectus to our directors, officers, employees, customers and other business associates. There can be no assurance that any of the reserved shares will be purchased. The number of shares of common stock available for sale to the general public will be reduced to the extent these parties purchase the reserved shares. Any reserved shares that are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered by this prospectus.

Pricing of the Offering

Prior to this offering, there has been no public market for the shares of common stock. The initial public offering price for the shares of common stock offered by this prospectus will be determined by negotiations between us and the representatives of the underwriters. Among the factors to be considered in determining the initial public offering price will be:

- our record of operations, our current financial position and future prospects;

- the experience of our management;

- sales, earnings and certain of our other financial and operating information in recent periods; and - the price-earnings ratios, price-sales ratios, market prices of securities and financial and operating information of companies engaged in activities similar to ours.

The estimated initial public offering price range set forth on the cover page of this preliminary prospectus is subject to change as a result of market conditions and other factors.

Legal Matters

The validity of the common stock offered by this prospectus will be passed upon for us by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California. Certain legal matters will be passed upon for the underwriters by Fenwick & West LLP, Palo Alto, California. As of the date of this prospectus, an investment partnership composed of certain current and former members of and persons associated with Wilson Sonsini Goodrich & Rosati, Professional Corporation, in addition to certain current individual members of Wilson Sonsini Goodrich & Rosati, Professional Corporation, beneficially own an aggregate of 278,946 shares of Avanex common stock.

Experts

Ernst & Young LLP, independent auditors, have audited our financial statements at June 30, 1998 and June 30, 1999, for the period from October 24, 1997 (inception) to June 30, 1998, and for the year ended June 30, 1999, as set forth in their reports. We have included our financial statements in the prospectus and elsewhere in the registration statement in reliance on their reports given upon the authority of such firm as experts in accounting and auditing.

Additional Information

We filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act for the shares of common stock in this offering. This prospectus does not contain all of the information in the registration statement and the exhibits and schedule that were filed with the registration statement. For further information with respect to us and our common stock, we refer you to the registration statement and the exhibits and schedule that were filed with the registration statement. Statements contained in this prospectus about the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and we refer you to the full text of the contract or other document filed as an exhibit to the registration statement. A copy of the registration statement and the exhibits and schedule that were filed with the registration statement may be inspected without charge at the public reference facilities maintained by the Securities and Exchange Commission in Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and copies of all or any part of the registration statement may be obtained from the SEC upon payment of the prescribed fee. The Securities and Exchange Commission maintains a web site that

contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The address of the site is http://www.sec.gov.

Upon completion of this offering, we will become subject to the information and periodic reporting requirements of the Securities Exchange Act and, in accordance with the requirements of the Securities Exchange Act will file periodic reports, proxy statements and other information with the Securities and Exchange Commission. These periodic reports, proxy statements and other information will be available for inspection and copying at the regional offices, public reference facilities and web site of the Securities and Exchange Commission referred to above.

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Avanex Corporation

FOR THE PERIOD FROM OCTOBER 24, 1997 (INCEPTION) TO JUNE 30, 1998 AND FOR THE YEAR ENDED JUNE 30, 1999

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Report of Independent Auditors

The Board of Directors Avanex Corporation We have audited the accompanying balance sheets of Avanex Corporation as of June 30, 1998 and 1999, and the related statements of operations, other stockholders' equity (deficit), and cash flows for the period from October 24, 1997 (inception) to June 30, 1998 and the year ended June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing

the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Avanex Corporation at June 30, 1998 and 1999, and the results of its operations and its cash flows for the period from October 24, 1997 (inception) to June 30, 1998 and the year ended June 30, 1999, in conformity with generally accepted accounting principles.

Ernst & Young LLP August 2, 1999 San Jose, California

Avanex Corporation

Balance Sheets (In Thousands, Except Share and Per Share Data)

Assets

	JUNE 30,		PRO FORMA STOCKHOLDERS' EQUITY AT OCTOBER 1,
	1998	1999	1999 (UNAUDITED)
Current assets:			
Cash and cash equivalents	$ 2,874	$ 1,756	$ 6,632
Short-term investments	--	1,968	8,006
Accounts receivable (net of allowance for doubtful accounts of $30 at June 30, 1999 and $345 at October 1, 1999)	--	272	3,109
Inventory	--	626	1,261
Employee receivables and other current assets	37	468	1,282
Total current assets	2,911	5,090	20,290
Property and equipment, net	408	1,671	3,359
Other assets	20	55	1,419
Total assets	$ 3,339	$ 6,816	$ 25,068
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Short-term borrowings	$ --	$ 735	$ 2,088
Accounts payable	97	990	2,274
Accrued compensation and related expenses	66	242	278
Other accrued expenses	44	258	872
Deferred revenue	--	--	163
Current portion of capital lease obligations	67	205	441
Total current liabilities	274	2,430	6,116
Capital lease obligations	56	563	1,433

Long-term debt	285	--	--	
Commitments				
Redeemable convertible preferred stock, $0.001 par value, 21,800,000 shares authorized at June 30, 1998 and 1999 and 25,400,000 authorized at October 1, 1999, issuable in series (stated at liquidation preference):				
Series A, 4,600,000 shares designated, 4,530,080 shares issued and outstanding at June 30, 1998 and 1999 and October 1, 1999 (none pro forma)	1,010	1,010	1,010	$ --
Series B, 6,350,000 shares designated, 6,296,744 shares issued and outstanding at June 30, 1998 and 1999 and October 1, 1999 (none pro forma)	2,519	2,519	2,519	--
Series C, 10,850,000 shares designated, no shares issued and outstanding at June 30, 1998; 9,032,169 shares issued and outstanding at June 30 and October 1, 1999 (none pro forma)	--	6,828	6,828	--
Series D, 3,600,000 shares designated, no shares issued and outstanding at June 30, 1998 and 1999; 2,601,975 shares issued and outstanding at October 1, 1999 (none pro forma)	--	--	14,961	--
Total redeemable convertible preferred stock	3,529	10,357	25,318	--
Other stockholders' equity (deficit):				
Common stock, $0.001 par value, 50,000,000 shares authorized (50,000,000 shares pro forma); 4,700,000 shares issued and outstanding at June 30, 1998; 12,094,194 shares issued and outstanding at June 30, 1999 and 13,720,114 shares issued and outstanding at October 1, 1999 (36,181,082 shares pro forma)	5	12	14	36
Additional paid-in capital	2,107	13,232	39,739	65,035
Shares to be repurchased for current terminations, 1,743,750 shares at October 1, 1999	--	--	(35)	(35)
Notes receivable from stockholders	(6)	(326)	(579)	(579)
Deferred compensation	(1,774)	(9,094)	(14,149)	(14,149)
Accumulated deficit	(1,137)	(10,358)	(32,789)	(32,789)
Total other stockholders' equity (deficit)	(805)	(6,534)	(7,799)	$ 17,519
Total liabilities and stockholders' equity (deficit)	$ 3,339	$ 6,816	$ 25,068	

The accompanying notes are an integral part of these financial statements. F-3

Avanex Corporation

Statements of Operations (In Thousands, Except Share and Per Share Data)

	PERIOD FROM OCTOBER 24, 1997 (INCEPTION) TO JUNE 30, 1998	YEAR ENDED JUNE 30, 1999	QUARTER ENDED SEPTEMBER 30, 1998 (UNAUDITED)	QUARTER ENDED OCTOBER 1, 1999 (UNAUDITED)
Net revenue	$ --	$ 510	$ --	$ 4,417
Cost of revenue	--	531	--	3,431
Gross profit (loss)	--	(21)	--	986
Operating expenses:				
Research and development	515	4,086	473	950
Sales and marketing	125	956	116	714
General and administrative	131	723	132	614
Stock compensation	362	3,464	323	6,107
Total operating expenses	1,133	9,229	1,044	8,385
Loss from operations	(1,133)	(9,250)	(1,044)	(7,399)
Other income (expense), net	(4)	29	7	(71)
Net loss	(1,137)	(9,221)	(1,037)	(7,470)
Preferred stock accretion	--	--	--	(14,961)
Net loss attributable to common stockholders	$ (1,137)	$ (9,221)	$ (1,037)	$ (22,431)
Basic and diluted net loss per common share	$ --	$ (8.68)	$ (6.36)	$ (6.06)
Weighted-average shares used in computing basic and diluted net loss per common share	--	1,062,097	163,036	3,704,042
Pro forma basic and diluted net loss per common share (unaudited)		$ (0.59)		$ (0.92)
Weighted-average shares used in computing pro forma basic and diluted net loss per common share (unaudited)		15,576,026		24,402,382

The accompanying notes are an integral part of these financial statements. F-4

Avanex Corporation

STATEMENT OF OTHER STOCKHOLDERS' EQUITY (DEFICIT) FOR THE PERIOD FROM OCTOBER 24, 1997 (INCEPTION) TO OCTOBER 1, 1999 (IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	SHARES TO BE REPURCHASED FOR CURRENT TERMINATIONS	NOTES RECEIVABLE FROM SHAREHOLDERS	DEFERRED COMPENSATION	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)

Issuance of 1,800,000 shares of common stock to founder..... $ 2 $ -- $-- $-- $ -- $ -- $ 2 Issuance of 2,700,000 shares of common stock upon exercise of stock options..... 3 6 -- (6) -- -- 3 Issuance of 200,000 shares of common stock..... -- 1 -- -- -- -- 1 Issuance costs associated with issuance of preferred shares..... -- (36) -- -- -- -- (36) Deferred compensation..... -- 2,136 -- -- (2,136) -- -- Amortization of deferred compensation..... -- -- -- -- 362 -- 362 Net loss..... -- -- -- -- -- (1,137) (1,137) Balance at June 30, 1998..... 5 2,107 -- (6) (1,774) (1,137) (805) Issuance of 7,419,460 shares of common stock upon exercise of stock options... 7 354 -- (342) -- -- 19 Issuance costs associated with issuance of preferred shares..... -- (13) -- -- -- -- (13) Repurchase of 25,266 shares of common stock..... -- -- -- -- -- -- -- Forgiveness of stockholders' notes receivable..... -- -- -- 22 -- -- 22 Issuance of common stock options to consultants..... -- 539 -- -- -- -- 539 Deferred compensation..... -- 10,245 -- -- (10,245) -- -- Amortization of deferred compensation..... -- -- -- -- 2,925 -- 2,925 Net loss..... -- -- -- -- -- (9,221) (9,221) Balance at June 30, 1999..... 12 13,232 -- (326) (9,094) (10,358) (6,534) Issuance costs associated with issuance of preferred shares (unaudited)..... -- (18) -- -- -- -- (18) Issuance of 1,625,920 shares of common stock upon exercise of stock options (unaudited)..... 2 284 -- (286) -- -- -- Shares to be repurchased for current terminations, 1,743,750 shares (unaudited)..... -- -- (35) 33 -- -- (2) Issuance of warrants (unaudited)..... -- 118 -- -- -- -- 118 Preferred stock accretion (unaudited)..... -- 14,961 -- -- -- (14,961) -- Deferred compensation (unaudited)..... -- 11,162 -- -- (11,162) -- -- Amortization of deferred compensation (unaudited).... -- -- -- -- 6,107 -- 6,107 Net loss (unaudited)..... -- -- -- -- -- (7,470) (7,470) Balance at October 1, 1999 (unaudited)..... $14 $39,739 $(35) $(579) $(14,149) $(32,789) $ (7,799) The accompanying notes are an integral part of these financial statements.

Avanex Corporation

Statements of Cash Flows (In Thousands, Except Per Share Data)

	PERIOD FROM OCTOBER 24, 1997 (INCEPTION) TO	YEAR ENDED	QUARTER ENDED	
	JUNE 30,	JUNE 30,	SEPTEMBER 30,	OCTOBER 1,
	1998	1999	1998	1999
			(UNAUDITED)	
OPERATING ACTIVITIES				
Net loss	$(1,137)	$(9,221)	$(1,037)	$(7,470)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	33	380	49	275
Non-cash charges, primarily stock compensation expense	364	3,464	323	6,131
Forgiveness of stockholders' notes receivable	--	22	--	--

Changes in operating assets and liabilities:				
Accounts receivable	--	(272)	--	(2,837)
Inventory	--	(626)	(175)	(635)
Employee receivables and other current assets	(37)	(431)	1	(814)
Other assets	(20)	(35)	(12)	(1,270)
Accounts payable	97	893	139	1,284
Accrued compensation and related expenses	66	176	(3)	36
Other accrued expenses and deferred revenue	44	214	65	777
Net cash used in operating activities	(590)	(5,436)	(650)	(4,523)
INVESTING ACTIVITIES				
Purchases of short-term investments	--	(3,968)	--	(8,038)
Maturities of short-term investments	--	2,000	--	2,000
Purchases of property and equipment	(301)	(863)	(79)	(747)
Net cash used for investing activities	(301)	(2,831)	(79)	(6,785)
FINANCING ACTIVITIES				
Payments on debt and capital lease obligations	(17)	(135)	(16)	(907)
Proceeds from issuance of convertible notes payable	50	--	--	--
Proceeds from short-term and long-term debt	285	450	34	2,150
Proceeds from issuance of common stock, net of repurchases	4	19	--	(2)
Net proceeds from issuance of preferred stock	3,443	6,815	--	14,943
Net cash provided by financing activities	3,765	7,149	18	16,184
Net increase (decrease) in cash and cash equivalents	2,874	(1,118)	(711)	4,876
Cash and cash equivalents at beginning of period	--	2,874	2,874	1,756
Cash and cash equivalents at end of period	$ 2,874	$ 1,756	$(2,163)	$ 6,632
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS				
Equipment acquired under capital leases	$ 140	$ 780	$ --	$ 1,216
Conversion of notes payable to convertible preferred stock	$ 50	$ --	$ --	$ --
Common stock issued for notes receivable	$ 6	$ 343	$ --	$ 286
Preferred stock accretion	$ --	$ --	$ --	$14,961
Warrants issued in connection with securing a line of credit	$ --	$ --	$ --	$ 118
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Interest paid	$ 2	$ 117	$ 11	$ 101

The accompanying notes are an integral part of these financial statements. F-6

Avanex Corporation

NOTES TO FINANCIAL STATEMENTS (INFORMATION FOR THE QUARTERS ENDED SEPTEMBER 30, 1998 AND OCTOBER 1, 1999 IS UNAUDITED)

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

Avanex Corporation (the "Company") was incorporated on October 24, 1997 in the state of California. The Company manufactures and markets fiber optic-based products, known as photonic processors, which are designed to increase the performance of optical networks.

Unaudited Interim Financial Information

The accompanying financial statements and related notes as of October 1, 1999 and for the quarters ended September 30, 1998 and October 1, 1999 are unaudited, but include all adjustments, consisting only of normal recurring adjustments, that the Company considers necessary for a fair presentation of its financial position, operating results, and cash flows for the interim date and periods presented. Results for the quarter ended October 1, 1999 are not necessarily indicative of results for the entire fiscal year or future periods.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

Cash, Cash Equivalents and Short-term Investments

The Company classifies investments at the date of acquisition as available-for-sale and considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. The Company also considers all highly liquid investments with original maturities greater than three months but less than one year when purchased to be short-term investments. As of June 30, 1999, there are no investments with maturities greater than 12 months. Cash equivalents at June 30, 1998 and 1999 consisted primarily of money market funds. Short-term investments at June 30, 1999 consisted of commercial paper. Short-term investments are carried at cost, which approximates fair value.

Both gross unrealized gains and losses as of June 30, 1999 and realized gains and losses on sales of securities for the year ended June 30, 1999 were not significant.

Concentration of Credit Risk

Financial instruments, which subject the Company to potential credit risk, consist of demand deposit accounts, money market accounts, short-term investments and trade receivables. The Company maintains its demand deposit accounts, money market accounts and short-term investments primarily with one financial institution. The Company invests its excess cash principally in debt securities. To date, the Company has not incurred losses related to these investments. Management believes the financial risks associated with these financial instruments are minimal.

For the year ended June 30, 1999, three customers each individually accounted for over 10% of net revenue, for an aggregate of approximately 94% of net revenue. One customer, representing 29% of revenue for the year ended June 30, 1999, is located in Japan. Outstanding receivables from these customers approximated 98% of total gross accounts receivable at June 30, 1999. For the quarter ended October 1, 1999, one customer individually accounted for over 92% of net revenue. The outstanding receivable from this customer approximated 84% of total gross receivables at October 1, 1999. International revenue was not significant for the quarter ended October 1, 1999.

Avanex Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION FOR THE QUARTERS ENDED SEPTEMBER 30, 1998 AND OCTOBER 1, 1999 IS UNAUDITED)

Revenue Recognition

The Company generally recognizes product revenue when the product has been shipped and there are no significant uncertainties with respect to customer acceptance. The Company accrues for warranty costs at the time revenue is recognized.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided on the straight-line method over the useful lives of the assets, generally two to five years.

Equipment Under Capital Leases

The Company leases certain of its equipment and other fixed assets under capital lease agreements. The assets and liabilities under capital leases are recorded at the lesser of the present value of aggregate future minimum lease payments, including estimated bargain purchase options, or the fair value of the assets under lease. Assets under capital leases are amortized over the shorter of the lease term or useful life of the assets.

Research and Development Costs

Research and development costs are expensed as incurred.

Stock-based Compensation

Effective in the period ended June 30, 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). In accordance with the provisions of FAS 123, the Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25") and related interpretations in accounting for its stock option grants to employees. Accordingly, deferred compensation is recognized for the difference between the option price at the date of grant and the deemed fair value of the Company's common shares at that date when the option exercise price is less than the fair value of the common shares. Such deferred compensation is amortized over the vesting period of each option, generally a maximum of four years. Option grants to all others are accounted for under the fair value method prescribed by FAS 123.

Inventory

Inventory consists of raw materials, work-in-process and finished goods and is stated at the lower of cost or market. Cost is computed on a currently adjusted standard basis (which approximates actual costs on a first-in, first-out basis).

Income Taxes

The Company uses the liability method to account for income taxes as required by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Comprehensive Income

The Company reports comprehensive income (loss) in accordance with the FASB's Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." The comprehensive net loss

Avanex Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION FOR THE QUARTERS ENDED SEPTEMBER 30, 1998 AND OCTOBER 1, 1999 IS UNAUDITED) for the period ended June 30, 1998, the year ended June 30, 1999 and the quarter ended October 1, 1999 does not differ from the reported net loss.

Concentrations of Supply

The Company currently purchases several key parts and components used in manufacture of its products from limited sources of supply.

Concentrations of Sales

The Company's PowerFilter product has accounted for substantially all of the Company's net revenue for the year ended June 30, 1999 and the quarter ended October 1, 1999.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expenses for the period ended June 30, 1998, the year ended June 30, 1999 and the quarter ended October 1, 1999 were none, $76,000 and $181,000, respectively, and are included in sales and marketing expenses.

Fair Value of Financial Instruments

The fair value of long-term debt obligations are estimated based on current interest rates available to the Company for debt instruments with similar terms, degrees of risk, and remaining maturities. The carrying values of these obligations approximate their fair values.

Unaudited Pro Forma Stockholders' Equity (Deficit)

If the offering contemplated by this prospectus is consummated, all of the preferred stock outstanding will automatically be converted into common stock. Unaudited pro forma stockholders' equity (deficit) at October 1, 1999, as adjusted for the assumed conversion of preferred stock based on the shares of

preferred stock outstanding at October 1, 1999, is set forth on the balance sheet.

Segment Information

The Company has adopted the FASB's Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information." The Company operates in one segment, to manufacture and market photonic processors.

Recent Accounting Pronouncements

In June 1998, the FASB issued FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), which will be effective for the Company's fiscal year ending June 30, 2001. This statement establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. The Company has not evaluated the impact of FAS 133; however, it believes the adoption of FAS 133 will not have a material effect on the financial position, results of operations, or cash flows as the Company has not entered into any derivative contracts.

Avanex Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION FOR THE QUARTERS ENDED SEPTEMBER 30, 1998 AND OCTOBER 1, 1999 IS UNAUDITED)

2. Net Loss Per Share

Basic and diluted net loss per common share has been computed using the weighted-average number of shares of common stock outstanding during the period, less the weighted-average number of shares of common stock that are subject to repurchase. Pro forma basic and diluted net loss per common share, as presented in the statements of operations, have been computed as described above and also give effect, to the conversion of the convertible preferred stock (using the if-converted method) from the original date of issuance. To date, the Company has not had any issuances of shares or option grants for nominal consideration as that term is used in the Securities and Exchange Commission's Staff Accounting Bulletin No. 98.

The following table presents the calculation of basic and diluted net loss per common share and pro forma basic and diluted net loss per common share (in thousands, except share and per share amounts):

PERIOD FROM OCTOBER 24, 1997 (INCEPTION) TO JUNE 30, 1998	YEAR ENDED JUNE 30, 1999	QUARTER ENDED	
		SEPTEMBER 30, 1998	OCTOBER 1, 1999

Net loss attributable to common stockholders..... $ (1,137) $ (9,221) $ (1,037) $ (22,431) Basic and diluted: Weighted-average shares of common stock outstanding.... 2,884,739 8,567,081 6,995,892 12,025,790 Less: weighted-average shares subject to repurchase..... (2,884,739) (7,504,984) (6,832,856) (8,321,748) Weighted-average shares used in computing basic and diluted net loss per common share..... -- 1,062,097 163,036 3,704,042 Basic and diluted net loss per common share..... $ -- $ (8.68) $ (6.36) $ (6.06) Pro forma unaudited: Shares used above..... 1,062,097 3,704,042 Pro forma adjustment to reflect weighted effect of the assumed conversion of preferred stock..... 14,513,929 20,698,340 Weighted-average shares used in computing pro forma basic and diluted net loss per common share..... 15,576,026 24,402,382 Pro forma basic and diluted net loss per common share..... $ (0.59) $ (0.92)

Avanex Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION FOR THE QUARTERS ENDED SEPTEMBER 30, 1998 AND OCTOBER 1, 1999 IS UNAUDITED)

3. Balance Sheet Details

Inventory

Inventory consists of the following (in thousands):

	JUNE 30,		OCTOBER 1,
	1998	1999	1999
Raw materials	$--	$364	$ 353
Work-in-process	--	219	908
Finished goods	--	43	--
	$--	$626	$1,261

Property and Equipment Property and equipment consist of the following (in thousands):

	JUNE 30,		OCTOBER 1,
	1998	1999	1999
Software and computer equipment	$ 34	$ 211	$ 258
Equipment and machinery	344	1,713	3,543
Furniture and fixtures	63	160	246
	441	2,084	4,047
Accumulated depreciation	(33)	(413)	(688)
	$408	$1,671	$3,359

4. Related Party Transactions

On May 20, 1999, the Company loaned $300,000 to an employee for the purchase of a home. The promissory note, which bears interest at 4.9% per annum, and accrued interest are payable in full to the Company on the earliest of the close of the sale of the employee's home, a liquidity event of the

Company, or the termination of employment with the Company.

5. Commitments

The Company leases equipment under capital leases. The Company also leases its office facility under an operating lease expiring on July 31, 2002, which requires the Company to pay a portion of operating costs, including property taxes, insurance, and maintenance. Payments due under capital leases and future minimum

Avanex Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION FOR THE QUARTERS ENDED SEPTEMBER 30, 1998 AND OCTOBER 1, 1999 IS UNAUDITED) lease payments under noncancelable operating leases having initial terms in excess of one year as of June 30, 1999 are as follows (in thousands):

	CAPITAL LEASES	OPERATING LEASES
Year ending June 30,		
2000	$ 335	$470
2001	269	382
2002	318	21
2003	122	--
Total minimum lease payments	1,044	873
Amount representing interest	(276)	--
Present value of net minimum lease payments	768	$873
Less current portion	205	
Long-term portion	$ 563	

At June 30, 1998 and 1999, equipment amounting to approximately $140,000 and $920,000, respectively, was capitalized under capital leases. Related accumulated amortization at June 30, 1998 and 1999 amounted to approximately $12,000 and $290,000, respectively. The lease agreements are payable in monthly installments through April 2000, bearing interest at 12% per annum, and are fully secured by the related equipment.

The Company's rental expense under operating leases was approximately $97,000 for the period from inception (October 24, 1997) through June 30, 1998 and $346,000 for the year ended June 30, 1999.

In May 1999, the Company entered into an equipment lease facility which made available to the Company up to $500,000 of equipment lease financing at an interest rate of 14.9% per annum. As of June 30, 1999, the Company had no outstanding obligations under this facility. In July 1999, the maximum amount was increased to $1,500,000. As of October 1, 1999, the Company had $1,216,000 in outstanding obligations under this facility.

In September 1999, the Company entered into a lease, effective in September 1999, for a new corporate headquarters and manufacturing facility which will increase rental expense by approximately $920,000 per year through October 2009.

6. Financing Arrangements

In July 1999, the Company secured a revolving line of credit from a financial institution, which allows maximum borrowings up to $3,750,000. The revolving credit agreement terminates October 1, 2000, at which time all outstanding principal and interest are due. The line bears interest at the prime rate plus 0.75%. At October 1, 1999, the Company had borrowings of $2,088,000 against this line. This line of credit requires the Company to comply with specified covenants. As of October 1, 1999, the Company was in compliance with all of these covenants.

In connection with this line of credit, the Company issued a warrant agreement to the financial institution, which entitles the holder to purchase 19,565 shares of the Company's common stock with an aggregate purchase price equal to $112,000, or approximately $5.75 per share. The warrants are exercisable at anytime, and will expire upon the earlier of (i) the closing of any acquisition of the Company or (ii) their expiration on July 8, 2004. The value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions: weighted-average risk-free interest rate of 5.5%, contractual life of 5

Avanex Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION FOR THE QUARTERS ENDED SEPTEMBER 30, 1998 AND OCTOBER 1, 1999 IS UNAUDITED) years, volatility of 0.75 and no dividend yield. The Company calculated a value of $118,000 and this amount is recorded as deferred interest and is being amortized to interest expense over the term of the agreement.

This line of credit replaced a previous line of credit with another financial institution under which the Company had borrowings outstanding as of June 30, 1998 and 1999 of $285,000 and $735,000.

7. Redeemable Convertible Preferred Stock

Series A, B, and C preferred stock have a liquidation preference of $0.223, $0.40, and $0.756 per share, respectively, plus all declared but unpaid dividends. Series A, B, and C preferred shareholders are entitled to noncumulative dividends at the rate of $0.017, $0.032, and $0.06 per share, per annum, respectively, when and if declared by the Board of Directors and in preference and priority to common stock dividends. No dividends have been declared or paid by the Company.

The holders of each share of Series A, B, and C preferred stock are entitled to one vote for each share of common stock into which such share may be converted. Currently, the preferred shareholders, voting as a separate class, are entitled to elect three directors. The holders of Series A, B, and C preferred stock have the right, at the option of the holder, at any time to convert their shares into common stock on a one-for-one basis, subject to adjustments for future dilution. Series A, B, and C preferred stock automatically convert into common stock, at the then applicable conversion rate, upon a public

offering of the Company's common stock at a per share price of not less than $4.00, with aggregate proceeds in excess of $10 million, or upon the consent of the holders of a majority of the then outstanding shares of preferred stock.

On December 31 of each year beginning December 31, 2004, at the option of a majority of the preferred shareholders, a portion of the preferred stock must be redeemed at the original purchase price. Additionally, in certain circumstances upon the subsequent issuance of preferred stock, the Company may be required to redeem a certain number of the preferred shares outstanding.

In September 1999, the Company issued 2,601,975 shares of Series D redeemable convertible preferred stock ("Series D stock") at $5.75 per share resulting in gross proceeds of approximately $15.0 million. The terms of the Series D stock are substantially similar to those of the earlier series of preferred stock, except that the liquidation preference is $5.75 per share and the non-cumulative dividend rate is $0.288 per share, per annum, when and if declared by the Board of Directors. In connection with this transaction, the Company recorded a non-cash charge of $15.0 million to accrete the value of the preferred stock to its fair value. This non-cash charge was recorded as an increase in accumulated deficit with a corresponding credit to additional paid-in capital and was recognized at the date of issuance which was the period in which the shares became eligible for conversion.

In October 1999, the Company issued 885,122 shares of Series D redeemable convertible preferred stock at $5.75 per share resulting in gross proceeds of approximately $5.1 million. In connection with this transaction, the Company will record a non-cash charge of $5.1 million to accrete the value of the preferred stock to its fair value. This non-cash charge will be recorded as an increase in accumulated deficit with a corresponding credit to additional paid-in capital and will be recognized at the date of issuance which is the same period in which the shares became eligible for conversion.

8. Stockholders' Equity

Stock Option/Rights Plan The Company adopted the 1998 Stock Plan (the "Plan"), under which officers, employees, directors, and consultants may be granted Incentive Stock Options ("ISOs") and Nonstatutory Stock Options ("NSOs") to purchase shares of the Company's common stock. Stock purchase rights may also be granted under the Plan.

Avanex Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION FOR THE QUARTERS ENDED SEPTEMBER 30, 1998 AND OCTOBER 1, 1999 IS UNAUDITED) The Plan permits ISOs and NSOs to be granted at an exercise price of not less than 100% and 85%, respectively, of the fair value on the date of grant as determined by the Board of Directors. Options that expire (generally ten years from the grant date) or are canceled are returned to the Plan. The term of the Plan is ten years. Options granted under the Plan are immediately exercisable and are subject to repurchase by the

Company until vested. Options may be granted with different vesting terms as determined by the Board of Directors. The options generally vest 25% upon completion of one year of service and 1/48 per month thereafter.

Stock option activity under the Plan is as follows:

		OUTSTANDING OPTIONS	
	SHARES AVAILABLE FOR GRANT	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Balance at inception (October 24, 1997).....	10,200,000	--	--
Options granted.....	(6,462,401)	6,462,401	$0.013
Options exercised.....	--	(2,700,000)	0.010
Options canceled.....	--	--	--
Balance at June 30, 1998.....	3,737,599	3,762,401	0.020
Additional shares authorized.....	1,500,000	--	--
Options granted.....	(5,241,759)	5,241,759	0.081
Options exercised.....	--	(7,419,460)	0.048
Options canceled.....	50,766	(25,500)	0.066
Balance at June 30, 1999.....	46,606	1,559,200	0.077
Additional shares authorized.....	1,000,000	--	--
Options granted.....	(878,520)	878,520	0.302
Options exercised.....	--	(1,625,920)	0.176
Options canceled.....	1,756,150	(12,400)	0.374
	1,924,236	799,400	$0.107
Shares to be repurchased for current terminations...	(1,743,750)	--	
Balance at October 1, 1999.....	180,486	799,400	

Generally, options are exercisable upon grant. However, shares issued upon exercise are subject to repurchase by the Company at the original grant price upon termination of employment. Such repurchase rights expire over a vesting period, generally four years. Shares subject to repurchase were 4,700,000 shares as of June 30, 1998, 8,874,814 shares as of June 30, 1999 and 7,875,429 shares as of October 1, 1999.

The weighted-average contractual life of options outstanding at June 30, 1999 was 9.6 years. The weighted-average estimated fair value of stock options granted during 1998 and 1999 was $0.29 and $2.26, respectively. At October 1, 1999, the weighted-average estimated fair value of stock options granted from July 1, 1999 through October 1, 1999 was $7.33.

For the period October 24, 1997 to June 30, 1998, the year ended June 30, 1999 and the quarter ended October 1, 1999, the Company recorded deferred stock compensation of $2,136,000, $10,245,000 and $11,162,000, respectively, representing the difference between the exercise price and the deemed fair value for accounting purposes of the Company's common stock on the date such stock options were granted. For the period October 24, 1997 to June 30, 1998, the year ended June 30, 1999 and the quarter ended October 1,

Avanex Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION FOR THE QUARTERS ENDED SEPTEMBER 30, 1998 AND OCTOBER 1, 1999 IS UNAUDITED) 1999, the Company recorded amortization of deferred stock compensation of $362,000, $2,925,000 and $6,107,000, respectively. At October 1, 1999, the Company had $14,149,000 of remaining unamortized deferred compensation. Such amount is included as a reduction of stockholders' equity (deficit) and is being amortized over the vesting period of each respective option.

For the year ended June 30, 1999, the Company recorded stock compensation cost of $539,000 related to common stock options granted to consultants. The value of the options was estimated using the Black-Scholes option pricing model with the following assumptions: weighted-average risk free interest rate of 5.75%, contractual life of ten years, volatility of 0.75 and no dividend yield.

Pro Forma Disclosures of the Effect of Stock-Based Compensation Pro forma information regarding results of operations and net loss per share is required by FAS 123, which also requires that the information be determined as if the Company had accounted for its employee stock options under the fair value method of FAS 123. The fair value of these options was estimated at the date of grant using the minimum value method with the following weighted-average assumptions:

	JUNE 30,		OCTOBER 1,
	1998	1999	1999
Risk-free interest rate	5.5%	5.5%	5.5%
Dividend yield	--	--	--
Weighted-average expected life	5 years	5 years	5 years

The option valuation models were developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected life of the option. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. For the period from October 24, 1997 (inception) to June 30, 1998, the year ended June 30, 1999, and the quarter ended October 1, 1999, the pro forma net loss was $(1,039,000), $(8,618,000) and $(21,779,000), respectivley, and the pro forma net loss per common share was $0.00, $(8.11) and $(5.88), respectively.

The pro forma impact of options on the net loss for the period from October 24, 1997 (inception) to June 30, 1998 and the year ended June 30, 1999 is not representative of the effects on net income (loss) for future years, as future years will include the effects of additional stock option grants.

Warrants

In December 1998, the Company issued warrants to three individuals in connection with founding the Company. Each warrant agreement entitles the holder to purchase 75,000 shares of the Company's common stock with an aggregate purchase price equal to $1,350,000. The warrants are exercisable at any time, and the warrants will expire upon the earlier of (i) the closing of any acquisition of the Company or initial public offering or (ii) their expiration on December 31, 2003. The Company has reserved 225,000 shares of common stock in the event of the exercise of these warrants.

Avanex Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION FOR THE QUARTERS ENDED SEPTEMBER 30, 1998 AND OCTOBER 1, 1999 IS UNAUDITED) Shares Reserved Common stock reserved for future issuance is as follows:

October 1, 1999

Stock option plan (the "1998 Plan"):	
Outstanding	799,400
Reserved for future grants	1,924,236
	2,723,636
Reserved for warrants	244,565
Conversion of preferred stock	22,460,968
Total common stock reserved for future issuance	25,429,169

9. Income Taxes

There has been no provision for U.S. federal, U.S. state or foreign income taxes for any period as the Company has incurred operating losses since inception for all jurisdictions.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows (in thousands):

June 30, 1998 1999

Deferred tax assets:		
Net operating loss carryforwards	$ 288	$ 2,330
Other	32	480
Total	320	2,810
Valuation allowance	(320)	(2,810)
Net deferred tax assets	$ --	$ --

Realization of the deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by $320,000 and $2,490,000 in the period ended June 30, 1998 and the year ended June 30, 1999.

As of June 30, 1999, the Company has net operating loss carryforwards for federal income tax purposes of approximately $5,828,000, which expire in years 2013 through 2019. The Company also had net operating loss carryforwards for state income tax purposes of approximately $5,805,000 expiring in the year 2006. Utilization of the Company's net operating loss may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss before utilization.

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[Inside Back Cover]

[The inside back cover starts with the heading "Avanex Photonic Processors" followed by the Avanex logo and the word "Avanex(TM)." Down the left hand side of the page are photographs of a PowerFilter, a PowerMux and a PowerShaper. To the right of the corresponding photograph of the product is the following text:

"PowerFilter(TM) Optical Multiplexer/Demultiplexer Features:

o Wavelength-tuning capabilities o Improved system performance o Reduced signal loss o Fewer types of filters needed PowerMux(TM) High Density Wavelength Division Multiplexer Processors Features:

o Accommodates large number of wavelength channels o High bandwidth utilization o Low cost per wavelength channel PowerShaper(TM) Chromatic Dispersion Compensation Processor (In beta test) Features:

o Fixed or tunable dispersion compensation o Compact packaging o Broadband dispersion compensation" There follows the subheading "The Photonics Center(TM)," with a photograph of a person in front of a rack of optical equipment. To the right of the photograph is the following text:

"The Photonics Center(TM) at Avanex provides:

o A leading-edge customer demonstration and training center o A simulated optical network that demonstrates deployment of Avanex optical process technology o Testing capabilities for development of products or prototypes o Application training for customers"] [Inside Back Cover Art]

[Logo] Avanex

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by Avanex Corporation in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee and the NASD filing fee.

SEC registration fee	$25,502.40
NASD filing fee	$10,160.00
Nasdaq National Market listing fee	*
Printing and engraving costs	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue Sky fees and expenses	*
Directors and Officers Insurance	*
Transfer Agent and Registrar fees	*
Miscellaneous expenses	*
Total	*

* To be filed by amendment.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law permits a corporation to include in its charter documents, and in agreements between the corporation and its directors and officers, provisions expanding the scope of indemnification beyond that specifically provided by the current law.

Article VIII of our amended and restated certificate of incorporation provides for the indemnification of directors and officers to the fullest extent permissible under Delaware law.

Article VI of our bylaws provides for the indemnification of officers, directors and third parties acting on behalf of Avanex if such person acted in good faith and in a manner reasonably believed to be in and not opposed to our best interest, and, with respect to any criminal action or proceeding, the indemnified party had no reason to believe his or her conduct was unlawful.

We have entered into indemnification agreements with our directors and executive officers, in addition to indemnification provided for in our bylaws, and intend to enter into indemnification agreements with any new directors and executive officers in the future. The indemnification agreements may require us, among other things, to indemnify our directors and officers against certain liability that may arise by reason of their status or service as directors and officers (other than liabilities arising from

willful misconduct of a culpable nature), to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified, and to obtain directors and officers' insurance, if available on reasonable terms.

Reference is also made to Section 7 of the form of Underwriting Agreement contained in Exhibit 1.1 hereto, indemnifying officers and directors of Avanex against certain liabilities.

Item 15. Recent Sales of Unregistered Securities

Since inception, we have issued unregistered securities to a limited number of persons, as described below. None of these transactions involved any underwriters, underwriting discounts or commissions, or any public offering, and we believe that each transaction was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) thereof, Regulation D promulgated thereunder or Rule 701 pursuant to compensatory benefit plans and contracts relating to compensation as provided under such Rule 701. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in such transactions. All recipients had adequate access, through their relationships with us, to information about us.

(1) From inception through October 1, 1999, (the most recent practicable date) we granted stock options and restricted stock purchase rights to acquire an aggregate of 12,582,680 shares of our common stock at prices ranging from $0.001 to $0.58 to employees, consultants and directors pursuant to our 1998 Stock Plan, as amended.

(2) From inception through October 1, 1999, we issued an aggregate of 11,745,380 shares of our common stock to employees, consultants and directors pursuant to the exercise of options and restricted stock purchase rights granted under our 1998 Stock Plan, as amended, for aggregate consideration of $650,326.34.

(3) On January 13, 1998, we sold 1,800,000 shares of common stock to an employee in exchange for $1,000.00 in cash and $800.00 in transferred technology.

(4) On February 10, 1998, we sold 4,530,080 shares of Series A Preferred Stock for $0.223 per share to a group of private investors for an aggregate purchase price of $1,010,208.

(5) On February 19, 1998, we granted a right to purchase an aggregate of 200,000 shares of common stock to a consultant in consideration for past services rendered for an aggregate value of $1,000.00.

(6) On June 29, 1998, we sold 6,296,744 shares of Series B Preferred Stock for $0.40 per share to a group of private investors for an aggregate purchase price of $2,518,698.

(7) On December 31, 1998, we issued warrants to purchase 75,000 shares of our common stock at an exercise price of $6.00 a share to each of Simon Cao, Haiguang Lu, and Lee Wang.

(8) On February 19, 1999 and March 25, 1999, we sold 9,032,169 shares of Series C Preferred Stock for $0.756 per share to a group of private investors for an aggregate purchase price of $6,828,320.

(9) On July 8, 1999, in connection with a Revolving Credit and Security Agreement, we issued a warrant to purchase 19,565 shares of Series D Preferred Stock at an exercise price of $5.75 to Comerica Bank -- California.

(10) On September 14 and October 15, 1999, we sold 3,487,097 shares of Series D Preferred Stock for $5.75 per share to a group of private investors for an aggregate purchase price of $20,050,807.75.

For additional information concerning these equity investment transactions, reference is made to the information contained under the caption "Certain Transactions" in the form of prospectus included herein.

Item 16. Exhibits and Financial Statement Schedules

(A) Exhibits

1.1 Form of Underwriting Agreement 2.1+ Agreement and Plan of Merger of Avanex Corporation (a Delaware Corporation) and Avanex Corporation (a California Corporation) 3.1+ Amended and Restated Certificate of Incorporation to be filed after effectiveness of this Registration Statement filed , 19 3.2 Amended and Restated Bylaws of the Registrant 4.1+ Specimen Common Stock Certificate 4.3 Warrant to Purchase the Stock of the Registrant held by Comerica Bank-California 4.4 Warrants to Purchase the Stock of the Registrant held by Lee Wang, Haiguang Lu, and Simin Cai 5.1+ Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation 10.1 Form of Indemnification Agreement between Registrant and each of its directors and officers 10.2 1998 Stock Plan, as amended, and forms of agreement thereunder 10.3 1999 Employee Stock Purchase Plan 10.4 1999 Director Option Plan 10.5 Founder's Stock Purchase Agreement between the Registrant and Simon Xiaofan Cao dated January 13, 1998 10.6 Restricted Stock Purchase Agreement, including Security Agreement and Promissory Note, between the Registrant and Walter Alessandrini dated October 8, 1999 10.7 Restricted Stock Purchase Agreement between the Registrant and Walter Alessandrini dated March 26, 1999 10.7.1+ Security Agreement and Promissory Note between the Registrant and Walter Alessandrini dated March 26, 1999 10.8 Form of Restricted Stock Purchase Agreement, including Security Agreement and Promissory Note 10.8.1+ Schedule of Purchasers to form of Restricted Stock Purchase Agreement 10.9 Series A Preferred, Series B Preferred and Series C Preferred Stock Purchase Agreement dated February 10, 1998 10.10 First Amended and Restated Series A Preferred, Series B Preferred, and Series C Preferred Stock Purchase Agreement dated February 1999 10.11 Series D Preferred Stock Purchase Agreement dated September 14, 1999 10.12 Second Amended and Restated Co-Sale Agreement dated September 14, 1999 10.12.1 Second Amended and Restated Voting Agreement dated September 14, 1999 10.12.2 Second Amended and Restated Shareholder Rights Agreement dated September 14, 1999 10.13 Revolving Credit and Security Agreement between Comerica Bank-California and the Registrant dated July 8, 1999 10.14 Quick Start Loan and Security

Agreement between Silicon Valley Bank and the Registrant dated February 17, 1998 10.15 Senior Loan and Security Agreement No. 053-6193 between Phoenix Leasing Incorporated and the Registrant dated November 5, 1998 10.16 Master Lease No. S7280 dated June 2, 1999, between Finova Capital Corporation and the Registrant 10.17 Security Agreement dated September 16, 1999 between Comerica Bank-California and the Registrant 10.18 Employment Letter between the Registrant and Walter Alessandrini dated March 2, 1999 10.19+ Secured Promissory Note held by the Registrant for Walter Alessandrini dated March 2, 1999 10.20 Employment Letter between the Registrant and Simon Cao dated January 2, 1998 10.21 Employment Letter between the Registrant and Paul Jiang dated September 8, 1998 10.22 Employment Agreement between the Registrant and William Lanfri dated July 1, 1998 10.23+ Employment Letter between the Registrant and Peter Maguire dated June 18, 1999 10.24+* Patent License Agreement between Fujitsu Limited and the Registrant dated July 15, 1998 10.25 Lease between the Registrant and Stevenson Business Park LLC for Building B of 40915 Encyclopedia Circle, Fremont, California dated September 8, 1999 10.26+ Assignment of Sublease between Registrant and Pathnet for 405 International Parkway, Richardson, Texas dated September 17, 1998 10.27 Amendment to Sublease for 405 International Parkway, Richardson, Texas dated January 1998 10.28 Master Lease for 405 International Parkway, Richardson, Texas dated January 1, 1990 10.29+ Intellectual Property Security Agreement between Registrant and Comerica Bank-California dated July 8, 1999 10.30+* License and Supply Agreement between Registrant and Concord Micro-Optics, Inc. dated May 24, 1999 10.31+ International Distributor Agreement between the Registrant and Hakuto Co., Ltd. dated November 1999 10.32+ Professional Services Agreement between the Registrant and AristaSoft Corporation dated July 7, 1999 21.1+ List of subsidiaries of the Registrant 23.1 Consent of Ernst & Young LLP, Independent Auditors 23.2+ Consent of Counsel (See Exhibit 5.1) 24.1 Power of Attorney (See page II-6) 27.1 Financial Data Schedule for quarter ended October 1, 1999 27.2 Financial Data Schedule for the year ended June 30, 1999 27.3 Financial Data Schedule for the period from October 24, 1997 (inception) to June 30, 1998 + To be filed by amendment.

* Confidential treatment requested.

(B) Financial Statement Schedules

The following financial statement schedule of Avanex Corporation is filed as part of this Report and should be read in conjunction with the Financial Statements of Avanex Corporation.

Schedule Description

II Valuation and Qualifying Accounts Schedules not listed above have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

Item 17. Undertakings

We hereby undertake to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification by the Registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions referenced in Item 14 of this Registration Statement or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by director, officer or controlling person in connection with the securities being registered hereunder, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

We hereby undertake that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of Prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Fremont, State of California, on the 3rd day of December, 1999.

Avanex Corporation

By: /s/ WALTER ALESSANDRINI Walter Alessandrini, President and Chief Executive Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jessy Chao and Brian Kinard and each of them, his attorneys-in-fact, each with the power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to sign any registration statement for the same offering covered by this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, as amended, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature Title Date

/s/ WALTER ALESSANDRINI - ---------- Walter Alessandrini	President and Chief Executive Officer (Principal Executive Officer) and Director	December 3, 1999
/s/ JESSY CHAO - ---------- Jessy Chao	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	December 3, 1999
/s/ XIAOFAN CAO - ---------- Xiaofan Cao	Senior Vice President, Product Development and Director	December 3, 1999

/s/ TODD BROOKS Director December 3, 1999 Todd Brooks /s/ MICHAEL GOGUEN Director December 3, 1999 Michael Goguen /s/ SETH NEIMAN Director December 3, 1999 Seth Neiman

Schedule Ii

Avanex Corporation

VALUATION AND QUALIFYING ACCOUNTS PERIOD FROM OCTOBER 24, 1997 (INCEPTION) TO JUNE 30, 1998, YEAR ENDED JUNE 30, 1999 AND QUARTER ENDED OCTOBER 1, 1999

Allowance for Doubtful Accounts Receivable

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS-CHARGED TO COSTS AND EXPENSES	DEDUCTIONS-WRITE-OFFS	BALANCE AT END OF PERIOD
October 24, 1997 (inception) to June 30, 1998	$ --	$ --	$ --	$ --
Year ended June 30, 1999	--	30,000	--	30,000
Quarter ended October 1, 1999 (unaudited)	30,000	315,000	--	345,000

Exhibit Index

Number Description

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4.1+	Specimen Common Stock Certificate
4.3	Warrant to Purchase the Stock of the Registrant held by Comerica Bank-California
4.4	Warrants to Purchase the Stock of the Registrant held by Lee Wang, Haiguang Lu, and Simin Cai
5.1+	Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation
10.1	Form of Indemnification Agreement between Registrant and each of its directors and officers
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