FORM S-1 · REGISTRATION STATEMENT

NEW Focus Inc

IPO priced 2000-05-18 · $20.00 a share · NUFO



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 1, 2000

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

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

NEW FOCUS, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CALIFORNIA (PRIOR TO REINCORPORATION) DELAWARE (AFTER REINCORPORATION) (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	3674 (PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	33-0404910 (I.R.S. EMPLOYER IDENTIFICATION NUMBER)

2630 WALSH AVENUE SANTA CLARA, CALIFORNIA 95051-0905 (408) 980-8088 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) KENNETH E. WESTRICK PRESIDENT AND CHIEF EXECUTIVE OFFICER 2630 WALSH AVENUE SANTA CLARA, CALIFORNIA 95051-0905 (408) 980-8088 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

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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, 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, CHECK THE FOLLOWING BOX. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)(2)	AMOUNT OF REGISTRATION FEE
Common Stock, $0.001 par value.....	$86,250,000	$22,770.00

(1) INCLUDES SHARES WHICH THE UNDERWRITERS HAVE THE OPTION TO PURCHASE TO COVER OVER-ALLOTMENTS, IF ANY.

(2) ESTIMATED SOLELY FOR THE PURPOSE OF RULE 457(O) OF THE SECURITIES ACT OF 1933 SOLELY FOR THE PURPOSE OF COMPUTING THE AMOUNT OF THE REGISTRATION FEE.

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 HEREAFTER 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 SECURITIES AND EXCHANGE 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 IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED MARCH 1, 2000

SHARES

[NEW FOCUS LOGO]

NEW FOCUS, INC.

COMMON STOCK

PRIOR TO THIS OFFERING, THERE HAS BEEN NO PUBLIC MARKET FOR OUR COMMON STOCK. THE INITIAL PUBLIC OFFERING PRICE OF OUR COMMON STOCK IS EXPECTED TO BE BETWEEN $ AND $ PER SHARE. WE APPLIED TO HAVE OUR COMMON STOCK QUOTED ON THE NASDAQ STOCK MARKET'S NATIONAL MARKET UNDER THE SYMBOL "NUFO."

THE UNDERWRITERS HAVE AN OPTION TO PURCHASE A MAXIMUM OF ADDITIONAL SHARES TO COVER OVER-ALLOTMENTS OF SHARES.

Investing in Our Common Stock Involves Risks. See "Risk Factors" on Page 7.

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

Delivery of the shares of common stock will be made on or about , 2000.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

CREDIT SUISSE FIRST BOSTON CHASE H&Q DAIN RAUSCHER WESSELS U.S. BANCORP PIPER JAFFRAY

The Date of This Prospectus Is , 2000.

[Inside Front Cover]

The inside front cover page of the prospectus starts with the heading "Smart Optics for Networks." To the right of the heading is the New Focus logo with the name of the company next to it.

Underneath it is the text that reads "Fiber optic products that enable next-generation optical networks with:" below this text are 5 bullet points that read "Increased channel counts Higher data rates Longer reach lengths New services Cost-effectiveness" Under the bullet points is a diagram of a typical optical network containing DWDM terminals represented by blue boxes with text "DWDM Terminal" on them, routers represented by white cylinders with text "ROUTERS" on them and fiber amplifiers with text "Fiber Amplifiers" next to them represented by small rectangular green boxes. These elements in the network are connected by red and black lines representing fiber optic interconnections.

Underneath this diagram are 5 circles each containing a photograph of a New Focus product. Under the first circle is text "Fiber Amplifier Products", under the second "Wavelength Management Products", under the third "High-Speed Opto-Electronics", under the fourth "Tunable Laser Modules" and under the fifth "Advanced Photonic Tools". From each of these circles is a black dotted line that goes to the network element in which each of these products are used.

[Inside Back Cover]

The inside back cover page of the prospectus at the top has the New Focus logo with the name of the company next to it.

To the right of the entire page are 5 photographs of New Focus products. To the left of each of photograph is text describing the product.

The first product has the heading "Fiber Amplifier Products". Under this heading are 4 bullet points that read "For advanced fiber amplifiers Extended wavelength range for more channels Low loss and high pump power for longer reach Compact size" The second product has the heading "Wavelength Management Products". Under this heading are 4 bullet points that read "For management of many channels Efficient processing of densely packed channels Requires no active cooling Flexibility for enabling new services" The third product has the heading "High-Speed Opto-Electronics". Under this heading are 3 bullet points that read "For connecting network equipment within a site High data rate of 10 Gbps Compact, efficient and cost-effective" The fourth product has the heading "Tunable Laser Modules". Under this heading are 4 bullet points that read "For testing fiber optic products Rapid and precise for high throughput Rugged and reliable design" The fifth product has the heading "Advanced Photonic Tools". Under this heading is 1 bullet point that reads "Enables development and manufacturing of next-generation fiber optic products"

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT. THIS DOCUMENT MAY ONLY BE USED WHERE IT IS LEGAL TO SELL THESE SECURITIES. THE INFORMATION IN THIS DOCUMENT MAY ONLY BE ACCURATE ON THE DATE OF THIS DOCUMENT.

Dealer Prospectus Delivery Obligation

UNTIL , 2000 (25 DAYS AFTER THE COMMENCEMENT OF THIS OFFERING), ALL DEALERS THAT EFFECT TRANSACTIONS IN THESE SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE DEALER'S OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS AN UNDERWRITER AND WITH RESPECT TO UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

Prospectus Summary

The following summary highlights information we present more fully elsewhere in this prospectus. This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors described under the heading "Risk Factors" and elsewhere in this prospectus.

New Focus, Inc.

We design, manufacture and market innovative fiber optic products for next-generation optical networks under the Smart Optics for Networks brand. We leverage our ten years of experience in developing advanced photonics tools and opto-electronic products to enable networking solutions with increased channel counts, higher data rates, longer reach lengths and new services, and which reduce overall network cost of ownership. Our high performance products are compact, consume less power and are designed to be manufacturable in high volumes. Our products include fiber amplifier products, wavelength management products, high-speed opto-electronics, tunable laser modules and advanced photonics tools. We sell our products to over 50 customers including Alcatel USA, Avanex Corporation, Corning Incorporated, Corvis Corporation, Lucent Technologies, Nortel Networks Corporation and Qtera Corporation (a wholly-owned subsidiary of Nortel Networks).

The increase in data traffic, coupled with demand for enhanced services and improved connection times, has increased demand for high-bandwidth communications networks. Network service providers have had difficulty in meeting this increased demand due to significant constraints of the existing communications infrastructure, which was originally designed to carry only voice traffic. To alleviate this bottleneck, network service providers are increasingly deploying next-generation optical networks. Next-generation optical networks will depend on systems and components that enable extremely long reach, high data rates, increased channel counts and new services at a low network cost of ownership. The optical networking market is one of the fastest growing portions of the telecommunications market. Ryan, Hankin & Kent estimates that the market for fiber optic components was approximately $6.6 billion in 1999 and is expected to grow to over $22.5 billion by 2003.

Our Smart Optics for Networks products enable systems providers to meet the dynamic demands of next-generation optical networks. Our fiber amplifier products are widely deployed in dense wavelength division multiplexing, or DWDM, networks to enable the transmission of an increased amount of information at very high speeds over extended distances. Our wavelength management products enable network equipment providers to increase the number of channels transmitted and to accurately, efficiently and reliably manage a vast number of optical signals. We offer high-speed opto-electronic products that enable interconnections between equipment in a network service provider's site at 10 gigabits per second. Our high performance tunable laser modules enable rapid development,

manufacturing and testing of fiber optic components and systems. We also offer advanced photonics tools that enable network service and equipment providers to develop their next-generation products. These products leverage our core competencies for a variety of optical networking applications.

We are committed to designing and manufacturing high quality products that have been thoroughly tested for reliability and performance. We perform extensive in-house testing to industry accepted Telcordia, or Bellcore, standards and have also been recommended for ISO-9001 quality certification. Our in-house manufacturing capabilities include optical assembly, integration and testing of our fiber optic products and advanced photonics tools. To meet the growing demand for our products, we are continuing to expand our manufacturing capacity while leveraging our capabilities in rapid prototyping, automation, proprietary tools and processes.

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

- leveraging our position as a leading market innovator;

- focusing our research and development efforts on continuing to broaden our product offerings;

- collaborating with leading innovative systems companies;

- continuing to expand manufacturing capacity and improve process efficiency; and - pursuing strategic acquisitions.

We were incorporated in April 1990 in California. We intend to reincorporate in Delaware prior to the completion of this offering. Our principal executive offices are located at 2630 Walsh Avenue, Santa Clara, California 95051, and our telephone number is (408) 980-8088. Our web site is located at "www.newfocus.com." Information contained on our web site does not constitute a part of this prospectus.

"New Focus," our logo, and "Smart Optics for Networks" are some of the trademarks, trade names or service marks that we use. This prospectus contains other trademarks and trade names of our company and other entities.

The Offering

Common stock offered..... shares Common stock to be outstanding after this offering..... shares Use of proceeds..... General corporate purposes, including working capital, capital expenditures, and potential acquisitions.

Proposed Nasdaq National Market symbol..... NUFO The total number of outstanding shares of our common stock is as of December 31, 1999, and excludes:

- 9,239,000 shares issuable upon exercise of outstanding stock options as of December 31, 1999, with a weighted average exercise price of $0.41 per share;

- 5,882,000 shares reserved for future issuance under our stock option, executive option and employee stock purchase plans, including amounts authorized for issuance subsequent to December 31, 1999; and - 140,000 shares of common stock issuable upon exercise of an outstanding warrant at an exercise price of $1.00 per share.

Except as otherwise indicated, information in this prospectus:

- reflects the 2-for-1 stock split of our common and preferred stock in October 1999 and the 2-for-1 stock split of our common and preferred stock in February 2000 (all share and per share amounts have been restated to reflect the stock splits), see note 8 of notes to consolidated financial statements regarding these stock splits;

- assumes the exercise of warrants to purchase 121,140 shares of common stock at an exercise price of $1.20 per share prior to this offering;

- reflects the conversion of the 41,939,144 outstanding shares of our preferred stock into 41,939,144 shares of common stock immediately prior to the closing of this offering; and - assumes no exercise of the underwriters' over-allotment option.

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

You should be aware that we recently changed our fiscal year end to December 31. Our previous fiscal years ended March 31. Fiscal year 1999 refers to the twelve-month period ended March 31, 1999. Fiscal year 1998 refers to the twelve-month period ended March 31, 1998.

	FISCAL YEAR ENDED MARCH 31,				NINE-MONTH PERIOD ENDED DECEMBER 31,
	1996 (UNAUDITED)	1997	1998	1999	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Net revenues	$10,394	$10,543	$15,482	$17,285	$18,101
Cost of net revenues	5,095	5,946	8,186	9,225	12,525
Gross profit	5,299	4,597	7,296	8,060	5,576
Operating income (loss)	678	(1,449)	27	(4,666)	(7,594)
Net income (loss)	457	(1,661)	(286)	(4,971)	(7,677)
Historical net income (loss) per share:					
Basic(1)	$ 0.45	$ (1.52)	$ (0.25)	$ (2.18)	$ (3.11)
Diluted(1)	$ 0.02	$ (1.52)	$ (0.25)	$ (2.18)	$ (3.11)
Weighted average shares:					
Basic(1)	1,011	1,096	1,148	2,284	2,468
Diluted(1)	18,768	1,096	1,148	2,284	2,468
Pro forma net loss per share:					
Basic and diluted (1)					$ (0.24)
Weighted average shares(1)					32,223

DECEMBER 31, 1999 PRO FORMA ACTUAL AS ADJUSTED(2)

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CONSOLIDATED BALANCE SHEET DATA:
  Cash and cash equivalents.............................  $28,067       $
  Working capital.......................................   29,026
  Total assets..........................................   44,852
  Long term debt, less current portion..................      368
  Total stockholders' equity............................   35,013
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(1) See note 10 of notes to consolidated financial statements for an explanation of the determination of the number of shares used in completing per share data.

(2) The pro forma as adjusted amounts above give effect to the sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, less estimated underwriting discounts and commissions and estimated offering expenses.

Risk Factors

This offering and any investment in our common stock involves 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.

Risks Related to Our Financial Results

WE HAVE A HISTORY OF LOSSES AND EXPECT TO CONTINUE TO INCUR NET LOSSES FOR THE FORESEEABLE FUTURE.

We incurred net losses of $7.7 million for the nine-month period ended December 31, 1999, $5.0 million for our fiscal year ended March 31, 1999, and $286,000 for our fiscal year ended March 31, 1998. As of December 31, 1999, we had an accumulated deficit of $15.5 million. We may not be able to sustain the recent growth in our revenues, and we may not realize sufficient revenues to achieve or maintain profitability. We also expect to incur significant product development, sales and marketing and administrative expenses, and, as a result, we will need to generate increased revenues to achieve profitability. Even if we achieve profitability, given the competition in, and the evolving nature of, the optical networking market, we may not be able to sustain or increase profitability on a quarterly or annual basis. As a result, we will need to generate significantly higher revenues while containing costs and operating expenses if we are to achieve profitability.

WE HAVE A HISTORY OF QUARTERLY AND ANNUAL FLUCTUATIONS IN OUR NET REVENUES AND OPERATING RESULTS AND EXPECT THESE FLUCTUATIONS TO CONTINUE, WHICH MAY RESULT IN VOLATILITY IN OUR STOCK PRICE.

Our quarterly and annual net revenues and operating results have varied significantly in the past and are likely to vary significantly in the future. A number of factors, many of which are outside of our control, are likely to cause these variations, including:

- fluctuations in demand for, and sales of, our products;

- timing or cancellations of customer orders and shipment scheduling;

- the ability of our customers to sell their products that incorporate our products;

- our ability to significantly expand our manufacturing capacity, in particular our facility in Shenzhen, China, which is expected to commence operations during 2000;

- the ability of our suppliers and subcontractors to timely produce and deliver components and parts including sole or limited source components in the quantity and quality desired and at the prices we have budgeted;

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

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

- the rate of adoption of optical networks as an alternative to existing networking systems;

- our ability to control expenses;

- the potential obsolescence of our inventory; and - costs related to acquisitions of technology or businesses.

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 any quarter as an indication of our future performance. Our operating results in future quarters may be below public market analysts' or investors' expectations, which would likely cause the price of our common stock to fall.

WE HAVE ONLY RECENTLY BEGUN SELLING FIBER OPTIC PRODUCTS TO THE TELECOMMUNICATIONS INDUSTRY, AND WE MAY NOT ACCURATELY PREDICT OUR REVENUES FROM THESE PRODUCTS, WHICH COULD CAUSE QUARTERLY FLUCTUATIONS IN OUR NET REVENUES AND RESULTS OF OPERATIONS AND MAY RESULT IN VOLATILITY OR A DECLINE IN OUR STOCK PRICE.

We have only recently begun selling our fiber optic products to the telecommunications industry, and we have only begun to generate revenues associated from the sale of these products since March 1999. Because we have only recently begun to sell these products, we may be unable to accurately forecast our revenues from sales of these products, and we have limited meaningful historical financial data upon which to plan future operating expenses. Many of our expenses are fixed in the short term, and we may not be able to quickly reduce spending if our revenue is lower than we project. Major new product introductions will also result in increased operating expenses in advance of generating revenues, if any. Therefore, net losses in a given quarter could be greater than expected. We may not be able to address the risks associated with limited operating history in an emerging market and our business strategy may not be sustainable. Failure to accurately forecast our revenues and future operating expenses could seriously harm our business, financial condition and results of operations.

SALES TO ANY SINGLE CUSTOMER MAY VARY SIGNIFICANTLY FROM QUARTER TO QUARTER, WHICH MAY CAUSE OUR OPERATING RESULTS TO FLUCTUATE.

Customers in our industry tend to order large quantities of products on an irregular basis. 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 may result in significant quarterly fluctuations in our revenues and operating results.

If current customers do not continue to place significant orders, we may not be able to replace these orders with orders from new customers. None of our current customers have any minimum purchase obligations, and they may stop placing orders with us at any time, regardless of any forecast they may have previously provided. The loss of any of our key customers or a significant reduction in sales to those customers could significantly reduce our net revenues. Any downturn in the business of existing customers could significantly decrease sales of our products to these customers, which could seriously harm our revenues and results of operations.

Risks Related to the Optical Networking Industry

IF THE INTERNET DOES NOT CONTINUE TO EXPAND AND OPTICAL NETWORKS ARE NOT DEPLOYED TO SATISFY THE INCREASED BANDWIDTH REQUIREMENTS AS WE ANTICIPATE, THE DEMAND FOR OUR PRODUCTS MAY NOT INCREASE SUFFICIENTLY, AND OUR BUSINESS MAY SUFFER.

Our future success depends on the continued growth of the Internet as a widely-used medium for commerce and communications, the continuing increase in the amount of data transmitted over communications networks, or bandwidth, and the growth of optical networks to meet the increased demand for bandwidth. If the Internet does not continue to expand as a widespread communications medium and commercial marketplace, the need for significantly increased bandwidth across networks and the market for optical networking products may not continue to develop. Future demand for our products is uncertain and will depend to a great degree on the continued growth and upgrading of optical networks. If this growth does not continue, sales of our products may decline and our business and results of operations will be harmed.

THE OPTICAL NETWORKING MARKET IS NEW AND UNPREDICTABLE AND CHARACTERIZED BY RAPID TECHNOLOGICAL CHANGES AND EVOLVING STANDARDS, AND IF THIS MARKET DOES NOT DEVELOP AND EXPAND AS WE ANTICIPATE, OUR BUSINESS WILL SUFFER.

The optical networking market is new and characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. Because this market is new, it is difficult to predict its potential size or future growth rate. Widespread adoption of 8 optical networks is critical to our future success. Potential end-user customers who have invested substantial resources in their existing copper lines or other systems may be reluctant or slow to adopt a new approach, like optical networks. Our success in generating net revenues in this emerging market will depend on, among other things:

- maintaining and enhancing our relationships with our customers;

- the education of potential end-user customers and network service providers about the benefits of optical networks; and - our ability to accurately predict and develop our products to meet industry standards.

If we fail to address changing market conditions, our business and operating results will be harmed.

IF WE CANNOT INCREASE OUR SALES VOLUMES, REDUCE OUR COSTS OR INTRODUCE HIGHER MARGIN PRODUCTS TO OFFSET ANTICIPATED REDUCTIONS IN THE AVERAGE SELLING PRICE OF OUR PRODUCTS, OUR OPERATING RESULTS WILL SUFFER.

We have experienced decreases in the average selling prices of some of our products. We anticipate that as products in the optical networking market become more commoditized, the average selling price of our products may decrease in the future in response to competitive pricing pressures, new product introductions by us or our competitors or other factors. If we are unable to offset the anticipated decrease in our average selling prices by increasing our sales volumes or product mix, our net revenues and gross margins will decline. In addition, to maintain our gross margins, we must continue to reduce the manufacturing cost of our products. Further, as average selling prices of our current products decline, we must develop and introduce new products and product enhancements with higher margins. If we cannot maintain our gross margins, our business could be seriously harmed.

Risks Related to Our Business

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

Our ability to successfully offer our products and implement our business plan in a rapidly evolving market requires an effective planning and management process. We continue to expand the scope of our operations domestically and internationally and have increased the number of our employees substantially in the past year. At March 31, 1999, we had a total of 144 employees and at January 31, 2000, we had a total of 390 employees. In addition, we plan to hire a significant number of employees over the next few quarters. We currently operate facilities in Santa Clara, California and Madison, Wisconsin and are in the process of establishing additional manufacturing facilities in San Jose, California, Middleton, Wisconsin and Shenzhen, China. The growth in employee headcount 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 continue to expand, train and manage our work force worldwide. The failure to effectively manage our growth could harm our operating results.

OUR FUTURE SUCCESS DEPENDS ON OUR ABILITY TO DEVELOP AND SUCCESSFULLY INTRODUCE NEW AND ENHANCED PRODUCTS THAT MEET THE NEEDS OF OUR CUSTOMERS.

Our future success depends on our ability to anticipate our customers' needs and develop products that address those needs. Introduction of new products and product enhancements will require that we effectively transfer production processes from research and development to manufacturing and coordinate our efforts with those of our suppliers to rapidly achieve volume production. If we fail to effectively transfer production processes, develop product enhancements or introduce new products that meet the needs of our customers as scheduled, our net revenues may be reduced and our business may be harmed. Some of the risks associated with the development and sales of our products include:

- the evolving and unpredictable nature of the telecommunications industry;

- the uncertain rate of growth in usage and acceptance of optical networks;

- the uncertain demand for our new telecom products; and - increased competition in the fiber optic components market for optical networking systems.

COMPETITION MAY INCREASE, WHICH COULD CAUSE REDUCED SALES LEVELS AND RESULT IN REDUCED GROSS MARGINS OR LOSS OF MARKET SHARE.

Competition in the optical networking market in which we compete is intense. We face competition from public companies, such as, E-Tek Dynamics, JDS Uniphase Corporation, Lucent Technologies and Nortel Networks Corporation. Many of the large public companies with which we compete 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 than we can to the development, promotion, sale and support of their products. In addition, several of our competitors have large market capitalizations, or cash reserves, and 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, more extensive customer bases, better developed distribution channels and broader product offerings than we have. These companies can leverage their customer bases and broader product offerings and adopt aggressive pricing policies to gain market share. Additional competitors may enter the market, and we are likely to compete with new companies in the future. 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 of the foregoing factors, we expect that competitive pressures may result in price reductions, reduced margins and loss of market share. For a more detailed discussion of our competition, see "Business -- Competition."

WE HAVE LIMITED PRODUCT OFFERINGS, AND OUR BUSINESS MAY SUFFER IF DEMAND FOR THESE PRODUCTS DECLINES OR FAILS TO DEVELOP AS WE EXPECT.

We derive a substantial portion of our net revenues from a limited number of products. Specifically, in the nine-month period ended December 31, 1999, we derived more than 15% of our net revenues from our tunable laser module products. We expect that net revenues from these products will continue to account for a substantial portion of our total net revenues for the foreseeable future. Continued and widespread market acceptance of these products is critical to our future success. We cannot assure you that our current products will achieve market acceptance at the rate at which we expect, or at all, which could harm our business and financial results.

WE MUST EXPAND SUBSTANTIALLY OUR DIRECT AND INDIRECT SALES OPERATIONS IN ORDER TO INCREASE MARKET AWARENESS AND SALES OF OUR PRODUCTS.

Our products and services require a long, involved sales effort targeted at several key departments within our prospective customers' organizations. Therefore, our sales effort requires the prolonged efforts of executive personnel and specialized systems and applications engineers working together with a small number of dedicated salespersons. Currently, our sales and marketing organization is limited. We will need to grow our sales force in order to increase market awareness and sales of our products. Competition for these individuals is intense, and we might not be able to hire the kind and number of sales personnel and applications engineers we need. 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 would prevent us from increasing our revenues.

OUR PRODUCTS ARE COMPLEX AND MAY CONTAIN DEFECTS THAT ARE NOT DETECTED UNTIL FULL DEPLOYMENT OF THE CUSTOMER'S SYSTEM, WHICH COULD INCREASE OUR COSTS AND REDUCE OUR REVENUES.

Some of our products are designed to be deployed in large and complex optical networks. Because of the nature of these products, they can only be fully tested for reliability when deployed in networks for long periods of time. Our fiber optic products may contain undetected defects when first introduced or as new versions are released. Our customers may discover defects in our products after they have been fully deployed and operated under peak stress conditions. In addition, our products are combined with products from other vendors. As a result, should problems occur, it may be difficult to identify the source of the problem. If we are unable to fix defects or other problems, we could experience, among other things:

- loss of customers;

- damage to our brand reputation;

- failure to attract new customers or achieve market acceptance;

- diversion of development and engineering resources; and - legal actions by our customers.

The occurrence of any one or more of the foregoing factors could seriously harm our business, financial condition and results of operations.

THE LONG SALES CYCLES FOR OUR PRODUCTS MAY CAUSE REVENUES AND OPERATING RESULTS TO VARY FROM QUARTER TO QUARTER.

The timing of our revenue is difficult to predict because of the length and variability of the sales and implementation cycles for our products. We do not generally recognize revenue until a product has been shipped to a customer, all significant vendor obligations have been performed and collection is considered probable. Customers often view the purchase of our products as a significant and strategic decision. As a result, customers typically expend significant effort in evaluating, testing and qualifying our products and manufacturing process. This customer evaluation and qualification process frequently results in a lengthy initial sales cycle of up to one year or more. In addition, some of our customers require that our products be subjected to Telcordia, or Bellcore, qualification testing, which can take up to nine months or more. 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 to customize our products to the customer's needs. We may also expend significant management efforts, increase manufacturing capacity and order long lead time components or materials prior to receiving an order. Even after this evaluation process, a potential customer may not purchase our products. Because of the evolving nature of the optical networking market, we cannot predict the length of these sales and development cycles. As a result, these long sales cycles may cause our revenues and operating results to vary significantly and unexpectedly from quarter to quarter.

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 and other key engineering, sales, marketing, manufacturing and support personnel. None of our officers or key employees are bound by an employment agreement for any specific term and these individuals 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 2000, 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. Many of the members of our management team have only been with us for a relatively short period of time. For example, our chief 11 financial officer joined us in February 2000. Failure of the new management team to work effectively together could seriously harm our business.

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

We have in the past made strategic acquisitions of intellectual property and anticipate that in the future, as part of our business strategy, we will continue to make strategic acquisitions of complementary companies, products or technologies. In the event of any future acquisitions, we could:

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

- incur debt;

- assume liabilities; or - incur expenses related to in-process research and development, amortization of goodwill and other intangible assets.

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, which may harm our business.

WE FACE RISKS ASSOCIATED WITH OUR INTERNATIONAL SALES THAT COULD HARM OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

For the quarter ended December 31, 1999, 19% of our net revenues were from international sales. We plan to increase our international sales activities. Our international sales will be limited if we cannot establish relationships with international distributors, establish additional foreign operations, expand international sales channel management, hire additional personnel and develop relationships with international service providers. Even if we are able to successfully continue international operations, we may not be able to maintain or increase international market demand for our products. Our international operations are subject to a number of 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.

Risks Related to Manufacturing Our Products

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.

We currently manufacture substantially all of our products in our facilities located in Santa Clara, California. We plan to devote significant resources to expand our manufacturing capacity at this facility and initiate manufacturing at our facilities in San Jose, California, Middleton, Wisconsin and Shenzhen, China, which will be costly and will require management time. We could experience difficulties and disruptions in the manufacture of our products while we transition to these new facilities, which could prevent us from achieving timely delivery of products and could result in lost revenues. There are numerous risks associated with rapidly increasing capacity, including the inability to procure and install the necessary capital equipment, the shortage of raw materials we use in our products, the lack of availability of manufacturing personnel to work in our facility, the difficulties in achieving adequate yields from new manufacturing lines and the inability to predict future order volumes. We may experience delays, disruptions, capacity constraints or quality control problems in our manufacturing operations, and, as a result, product shipments to our customers could be delayed, which would negatively impact our revenues, competitive position and reputation. 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. For a more detailed discussion about our manufacturing, see "Business -- Manufacturing."

OUR PLANS TO BEGIN MANUFACTURING OPERATIONS IN CHINA SUBJECT US TO CERTAIN RISKS INHERENT IN DOING BUSINESS IN CHINA, WHICH MAY HARM OUR BUSINESS.

We have a manufacturing facility located in Shenzhen, China that we expect to become operational in 2000. This facility may be adversely affected by changes in the laws and regulations of the People's Republic of China, such as those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. Our manufacturing facility in Shenzhen, China is located in a premise, on land leased from China's government by a third party under land use certificates and agreements with terms of 50 years. We lease our manufacturing facility from this third party under a lease agreement that will expire in November 2002, subject to our option to renew for an additional three-year period. Our assets and facility located in China are subject to the laws and regulations of China and our results of operations in China are subject to the economic and political situation there.

We believe that our operations in Shenzhen, China are in compliance with China's applicable legal and regulatory requirements. However, there can be no assurance that China's central or local governments will not impose new, stricter regulations or interpretations of existing regulations which would require additional expenditures. China's economy differs from the economies of many countries in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, self-sufficiency, rate of inflation and balance of payments position, among others. In the past, China's economy has been primarily a planned economy subject to

state plans. Since 1978, China's government has been reforming its economic and political systems. Such reforms have resulted in significant economic growth and social change. We can not assure you that China's policies for economic reforms will be consistent or effective. Our results of operations and financial position may be harmed by changes in the political, economic or social conditions in China.

We plan to export substantially all the products manufactured at our facility in Shenzhen, China. Accordingly, upon application to and approval by the relevant government authorities, we will not be subject to certain of China's taxes and are exempt from customs duties on imported components or materials and exported products. We are also required to pay income tax in China, subject to certain tax holidays. We can not assure you that we will not become subject to other taxes in China or will not be required to pay customs duties in the future. In the event that we are required to pay taxes in China or customs duties, our results of operations could be materially and adversely affected.

To successfully meet our overall production goals, we will have to coordinate and manage effectively between our facilities in the United States and in China. We have no experience in coordinating and managing production facilities that are located on different continents or in the transfer of manufacturing operations from one facility to another. Our failure to successfully coordinate and manage multiple sites on different continents or to transfer our manufacturing operations could seriously harm overall production.

IF WE FAIL TO ACCURATELY FORECAST COMPONENT AND MATERIAL REQUIREMENTS FOR OUR MANUFACTURING FACILITIES, WE COULD INCUR ADDITIONAL COSTS OR EXPERIENCE MANUFACTURING DELAYS.

We use rolling forecasts based on anticipated product orders to determine our component requirements. It is very important that we accurately predict both the demand for our products and the lead times required to obtain the necessary components and materials. Lead times for components and materials that we order vary significantly and depend on factors such as specific supplier requirements, the size of the order, contract terms and current market demand for such components. Lead times vary significantly and depend on numerous factors, including the specific supplier, the size of the order, contract terms and market demand for components or materials at a given time. For substantial increases in production levels, some suppliers may need six months or more lead time. If we overestimate our component and material requirements, we may have excess inventory, which would increase our costs. If we underestimate our component and material requirements, we may have inadequate inventory, which could interrupt our manufacturing and delay delivery of our products to our customers. Any of these occurrences would negatively impact our business and operating results.

WE DEPEND ON SINGLE OR LIMITED SOURCE SUPPLIERS FOR SOME OF THE KEY COMPONENTS AND MATERIALS IN OUR PRODUCTS, WHICH MAKES US SUSCEPTIBLE TO SUPPLY SHORTAGES OR PRICE FLUCTUATIONS THAT COULD ADVERSELY AFFECT OUR OPERATING RESULTS.

We currently purchase several key components and materials used in the manufacture of our products from single or limited source suppliers. For example, we purchase a specialized type of garnet crystal from Mitsubishi, the world's only commercial supplier of this type of garnet crystal. In addition, Conet

is our sole supplier of critical components used in several of our products. We typically purchase our components and materials through purchase orders and we have no guaranteed supply arrangements with any of these suppliers. We may fail to obtain these supplies in a timely manner in the future. We may experience difficulty identifying alternative sources of supply for certain components used in our products. We would experience further delays from evaluating and testing the products of these potential alternative suppliers. Furthermore, financial or other difficulties faced by these suppliers or significant changes in demand for these components or materials could limit the availability. Any interruption or delay in the supply of any of these components or materials, or the inability to obtain these components and materials 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.

IF WE DO NOT ACHIEVE ACCEPTABLE MANUFACTURING YIELDS OR SUFFICIENT PRODUCT RELIABILITY, OUR ABILITY TO SHIP PRODUCTS TO OUR CUSTOMERS COULD BE DELAYED AND OUR REVENUES MAY SUFFER.

The manufacture of our products involves complex and precise processes. Changes in our manufacturing processes or those of our suppliers, or the use of defective components or materials, could significantly reduce our manufacturing yields and product reliability. Our manufacturing costs are relatively fixed, and, thus, manufacturing yields are critical to our results of operations. We have experienced problems related to product yields in the past, which resulted in delays of customer shipments and lost revenue. We may experience similar problems in the future, which could result in lower than expected production yields, delayed product shipments and impaired gross margins. In some cases, existing 14 manufacturing techniques involve substantial manual labor. In addition, we may experience manufacturing delays and reduced manufacturing yield upon introducing new products to our manufacturing lines. In order to maintain our gross margins, we may need to develop new, more cost-effective manufacturing processes and techniques, and if we fail to do so, our gross margins may be adversely affected.

IF OUR CUSTOMERS DO NOT QUALIFY OUR MANUFACTURING LINES FOR VOLUME SHIPMENTS, OUR OPERATING RESULTS COULD SUFFER.

Generally, customers do not purchase our products, other than limited numbers of evaluation units, prior to qualification of the manufacturing line for volume production. Our existing manufacturing lines, as well as each new manufacturing line, must pass through varying levels of qualification with our customers. Customers may require that we be registered under international quality standards, such as ISO 9001. This customer qualification process determines whether our manufacturing lines meet the customers' quality, performance and reliability standards. If there are delays in qualification of our products, our customers may drop the product from a long-term supply program, which would result in significant lost revenue opportunity over the term of that program.

Risks Related to Our Intellectual Property

WE MAY NOT BE ABLE TO PROTECT OUR PROPRIETARY TECHNOLOGY, WHICH WOULD SERIOUSLY HARM OUR ABILITY TO USE OUR PROPRIETARY TECHNOLOGY TO GENERATE REVENUE.

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 our patent applications will be approved, that any patents that may issue will protect our intellectual property or that any issued patents will not be challenged by third parties. Other parties may independently develop similar or competing technology or design around any patents that may be issued to us. We cannot be certain that the steps we have taken will prevent the misappropriation of our intellectual property, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. For a more detailed discussion about our intellectual property, see "Business -- Intellectual Property."

WE ARE CURRENTLY DEFENDING A CLAIM THAT WE HAVE INFRINGED KAIFA'S INTELLECTUAL PROPERTY RIGHTS, AND IF WE ARE UNSUCCESSFUL IN DEFENDING THIS CLAIM, WE MAY HAVE TO EXPEND A SUBSTANTIAL AMOUNT OF RESOURCES TO MAKE OUR PRODUCTS NON-INFRINGING AND MAY HAVE TO PAY A SUBSTANTIAL AMOUNT IN DAMAGES.

Kaifa Technology, Inc., recently acquired by E-Tek Dynamics, Inc., filed a complaint against us in December 1999 in the United States District Court, alleging, among other things, that we have infringed some of their intellectual property rights. We cannot be certain that we will be successful in our defense. If we are unsuccessful in defending this action, any remedies awarded to Kaifa may harm our business. Furthermore, defending this action will be costly and divert management's attention regardless of whether we successfully defend the action. On February 23, 2000, we filed a motion to dismiss Kaifa's complaint and joined one of our employees named in the complaint in filing another motion to dismiss Kaifa's complaint. On the same date, certain of our employees named in the complaint also filed a motion to dismiss Kaifa's complaint. These motions are scheduled to be heard on March 31, 2000. For more information about current legal proceedings, see "Business -- Legal Proceedings."

WE COULD BECOME SUBJECT TO LITIGATION REGARDING INTELLECTUAL PROPERTY RIGHTS, WHICH 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 are currently defending a claim alleging that we are violating a third party's intellectual property rights. In the future, we may be a party to litigation 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 to protect these rights or 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. For more information about current legal proceedings, see "Business -- Legal Proceedings."

NECESSARY LICENSES OF THIRD-PARTY TECHNOLOGY MAY NOT BE AVAILABLE TO US OR MAY BE VERY EXPENSIVE.

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.

RESIDUAL YEAR 2000 ISSUES MAY DISRUPT OUR OPERATIONS, SUBJECT US TO LIABILITIES AND COSTS AND AFFECT THE TIMING OF OUR REVENUES.

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, software programs that have time-sensitive components may recognize a date represented as "00" as the year 1900 rather than the year 2000. In addition, programs may fail to recognize February 29, 2000, as a leap year date as a result of an exception to the calculation of leap years that will occur in the year 2000 and otherwise occurs only once every 400 years. This problem could result in miscalculations, data corruption, system failures or disruptions of operations.

Because our components are used in connection with products designed and manufactured by others, residual Year 2000 problems affecting these products could cause our products to fail. If residual Year 2000 problems cause the failure of any of the technology, software or systems used with our products, we could lose customers, suffer significant disruptions in our business, lose revenues and incur

substantial liabilities and expenses. We could also become involved in costly litigation resulting from Year 2000 problems. This could seriously harm our business, financial condition and results of operations.

Risks Related to This Offering

WE MAY NEED ADDITIONAL CAPITAL, WHICH MAY NOT BE AVAILABLE, AND OUR ABILITY TO GROW MAY BE LIMITED AS A RESULT.

We believe that the net proceeds of this offering, together with our existing cash balances, credit facilities and cash flow expected to be generated from future operations, will be sufficient to meet our capital requirements at least through the next 12 months. However, we may be required, or could elect, to seek additional funding prior to that time. The development and marketing of new products and the 16 expansion of our manufacturing facilities and associated support personnel and our sales and marketing organizations will require a significant commitment of resources. In addition, if the market for our products develops at a slower pace than anticipated, or if we fail to establish significant market share and achieve a meaningful 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 additional capital. In the event we are required to raise additional funds, we may not be able to do so on favorable terms, or at all. Further, if we issue new equity securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. Any inability to raise additional capital when we require it would seriously harm our business.

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 upon 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.

Upon completion of this offering, our executive officers, directors and principal stockholders who hold 5% or more of the outstanding common stock and their affiliates will beneficially own, in the aggregate, approximately % of our outstanding common stock. As a result, these stockholders will be able to exercise significant control over all matters requiring stockholder approval, including the election of

directors and approval of significant corporate transactions, which could delay or prevent an outside party from acquiring or merging with us. For a full presentation of the equity ownership of these stockholders, see "Principal Stockholders."

Investors in Our Common Stock Will Experience Immediate and Substantial 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. For additional information on this calculation, see "Dilution."

PROVISIONS OF OUR CHARTER DOCUMENTS, DELAWARE LAW AND CHANGE OF CONTROL AGREEMENTS MAY HAVE ANTI-TAKEOVER EFFECTS THAT COULD PREVENT A CHANGE IN CONTROL.

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable. These provisions include:

- authorizing our board of directors to issue preferred stock without stockholder approval;

- providing for a classified board of directors with staggered, three-year terms;

- prohibiting cumulative voting in the election of directors;

- requiring super-majority voting to effect significant amendments to our certificate of incorporation and bylaws; 17 - eliminating the ability of stockholders to call special meetings;

- prohibiting stockholder actions by written consent; and - establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

Certain provisions of Delaware law also may discourage, delay or prevent someone from acquiring or merging with us, which may cause the market price of our common stock to decline. See "Description of Capital Stock -- Delaware Law and Certain Provisions of Our Certificate of Incorporation and Bylaws." In addition, we have a change of control agreement with one of our officers and option agreements with certain officers which have change of control provisions, which may discourage, delay or prevent someone from acquiring or merging with us. For more information about the change of control agreement, see "Management -- Employment and Change of Control Agreements."

THERE MAY BE SALES OF A SUBSTANTIAL AMOUNT OF OUR COMMON STOCK AFTER THIS OFFERING THAT 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. 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. You should read "Shares Eligible for Future Sale" for a full discussion of the shares that may be sold in the public market in the future.

WE EXPECT TO EXPERIENCE VOLATILITY IN OUR SHARE PRICE, WHICH COULD NEGATIVELY AFFECT YOUR INVESTMENT, AND YOU MAY NOT BE ABLE TO RESELL YOUR SHARES AT OR ABOVE THE INITIAL PUBLIC OFFERING PRICE.

This initial public offering price may vary from the market price of our common stock after the offering. If you purchase shares of common stock, you may not be able to resell those shares at or above the initial public offering price. 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 other optical networking companies;

- announcements by us or our competitors of new products or of significant technical innovations, contracts, 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; and - future sales of common stock or other securities.

In addition, the stock market has experienced extreme volatility that has often been unrelated to the performance of particular companies. These market fluctuations may cause our stock price to fall regardless of our performance.

Special Note Regarding Forward-looking Statements

This prospectus, including the sections entitled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," contains forward-looking statements within the meaning of the federal securities laws that relate to future events or our future financial performance. 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 the forward-looking statements. These risks and other factors include those listed under "Risk Factors" and elsewhere in this prospectus. 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. In addition, these forward-looking statements include, but are not limited to, statements regarding the following:

- anticipated development and release of new products;

- anticipated sources of future revenues;

- the expansion of our manufacturing capacity;

- anticipated expenditures for research and development, sales and marketing and general and administrative expenses; and - the adequacy of our capital resources to fund our operations.

These statements are only predictions. In evaluating these statements, you should specifically consider various factors, including the risks outlined under "Risk Factors."

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.

Use of Proceeds

We expect to receive net proceeds of approximately $ million from the sale of the shares of common stock or approximately $ million if the underwriters' over-allotment option is exercised in full, at an assumed initial public offering price of $ per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering primarily for general corporate purposes, including working capital and capital expenditures. The amounts we actually expend for working capital and other purposes may vary significantly and will depend on a number of factors, including the amount of our future revenues and other factors described under "Risk Factors." Accordingly, our management will retain broad discretion in the allocation of the net proceeds of this offering. We may also use a portion of the net proceeds to acquire products, technologies or businesses that are complementary to our current and future business and product lines. From time to time, we engage in discussions with companies regarding potential acquisitions; however we currently have no material commitments or agreements with respect to any acquisition. Pending use of the net proceeds of this offering, we intend to invest the net proceeds in interest-bearing, investment-grade securities.

Dividend Policy

We have never declared or paid any dividends on our capital stock. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

Capitalization

The following table sets forth our actual capitalization as of December 31, 1999:

- on an actual basis;

- on a pro forma basis to give effect to the conversion of 41,939,144 shares of preferred stock into 41,939,144 shares of common stock automatically upon completion of this offering; and - on pro forma as adjusted basis to give effect to the sale of shares of common stock at an assumed initial public offering price of $ per share (less underwriting discounts and commissions and estimated offering expenses payable by us), the conversion of 41,939,144 shares of preferred stock into 41,939,144 shares of common stock automatically upon completion of this offering and assumes the exercise of warrants to purchase 121,140 shares of common stock at an exercise price of $1.20 per share prior to this offering.

You should read this table in conjunction with our consolidated financial statements and the accompanying notes to our consolidated financial statements, Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

DECEMBER 31, 1999 PRO FORMA ACTUAL PRO FORMA AS ADJUSTED (IN THOUSANDS)

Long-term debt, less current portion	$ 368	$ 368	$
Stockholders' equity:			
Preferred stock, $0.001 par value: 44,083,326 authorized, 41,939,144 issued and outstanding (actual); 44,083,326 authorized, no shares issued and outstanding (pro forma); 10,000,000 authorized, no shares issued and outstanding (pro forma as adjusted)	42	--	
Common stock, $0.001 par value: 80,000,000 authorized, 2,578,824 issued and outstanding (actual); 80,000,000 authorized, 44,517,968 issued and outstanding (pro forma); 250,000,000 authorized, shares issued and outstanding (pro forma as adjusted)	2	44	
Additional paid-in capital	51,168	51,168	
Deferred compensation	(689)	(689)	
Accumulated deficit	(15,510)	(15,510)	
Total stockholders' equity	35,013	35,013	
Total capitalization	$ 35,381	$ 35,381	$

The total number of outstanding shares of our common stock is as of December 31, 1999, and excludes:

- 9,239,000 shares issuable upon exercise of outstanding stock options as of December 31, 1999, with a weighted average exercise price of $0.41 per share;

- 5,882,000 shares reserved for future issuance under our stock option, executive option and employee stock purchase plans, including amounts authorized for issuance subsequent to December 31, 1999; and - 140,000 shares of common stock issuable upon exercise of an outstanding warrant at an exercise price of $1.00 per share.

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 common stock after this offering. Our pro forma net tangible book value as of December 31, 1999, including proceeds of $145,000 from the assumed exercise of warrants to purchase 121,140 shares of common stock prior to this offering, was $35,082,000 or $0.79 per share of common stock. Pro forma net tangible book value per share was calculated by dividing the sum of total assets less liabilities, less intangible assets by the total number of common shares outstanding at December 31, 1999, and the assumed conversion of 41,939,144 shares of preferred stock into 41,939,144 shares of common stock and the issuance of 121,140 shares of common stock from the assumed exercise of warrants prior to this offering. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the net tangible book value per share of common stock immediately after the completion of this offering. After giving effect to the sale of the shares of common stock offered hereby at an assumed initial public offering price of $ per share less underwriting discounts and commissions and estimated offering expenses, our pro forma net tangible book value as of December 31, 1999, would have been $ or approximately $ per share. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution in net tangible book value of $ per share to new investors, or approximately % of the 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 December 31, 1999..... $ 0.78 Increase in net tangible book value per share attributable to this offering..... Pro forma net tangible book value per share after this offering..... Dilution in net tangible book value per share to new investors..... $ The following table shows on a pro forma basis after giving effect to this offering, based on an assumed initial public offering price of $ per share, as of December 31, 1999, the differences between the existing holders of common stock and the new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid, before deducting the underwriting discounts and commissions and estimated offering expenses:

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing stockholders.....		%	$	%	$
New investors.....					
Total.....		100.0%	$	100.0%	

The foregoing discussion and table are based on the number of shares of common stock outstanding after this offering and excludes the following:

- 9,239,000 shares issuable upon exercise of outstanding stock options as of December 31, 1999, with a weighted average exercise price of $0.41 per share;

- 5,882,000 shares reserved for issuance under our stock option plan, executive option plan and employee stock purchase plan including amounts authorized for issuance subsequent to December 31, 1999; and - 140,000 shares of common stock issuable upon exercise of an outstanding warrant at an exercise price of $1.00 per share.

New investors will suffer additional dilution upon exercise of outstanding options. At December 31, 1999, assuming exercise and payment of all outstanding options, net tangible book value per share would be $ representing dilution of $ per share to new investors. See "Capitalization," "Management -- Stock Plans," "Description of Capital Stock" and note 8 of notes to consolidated financial statements for more information about dilution.

Selected Consolidated Financial Data

You should read the selected consolidated financial data set forth below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus. The statement of operations data for the fiscal years ended March 31, 1998 and 1999, and the nine-month period ended December 31, 1999, and the consolidated balance sheet data at March 31, 1999, and December 31, 1999, are derived from, and are qualified by reference to, our audited consolidated financial statements and notes thereto included elsewhere in this prospectus. The statement of operations data for the years ended March 31, 1996 and 1997, and the consolidated balance sheet data as of March 31, 1996, 1997 and 1998, are derived from, and are qualified by reference to, consolidated financial statements not appearing in this prospectus. Historical results are not necessarily indicative of results that may be expected for any future period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	FISCAL YEAR ENDED MARCH 31,				NINE-MONTH PERIOD ENDED DECEMBER 31,
	1996	1997	1998	1999	1999
	(UNAUDITED)				
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Net revenues	$10,394	$10,543	$15,482	$17,285	$18,101
Cost of net revenues	5,095	5,946	8,186	9,225	12,525
Gross profit	5,299	4,597	7,296	8,060	5,576
Operating expenses:					
Research and development	1,724	3,115	3,721	7,379	

7,352					
Sales and marketing	1,289	1,662	2,193	2,987	
2,982					
General and administrative	1,608	1,269	1,355	2,360	
2,704					
Deferred compensation	--	--	--	--	
132					
Total operating expenses	4,621	6,046	7,269	12,726	
13,170					
Operating income (loss)	678	(1,449)	27	(4,666)	
(7,594)					
Interest expense and other income, net	(200)	(210)	(303)	(303)	
(81)					
Income (loss) before provision for income taxes	478	(1,659)	(276)	(4,969)	
(7,675)					
Provision for income taxes	21	2	10	2	
2					
Net income (loss)	$ 457	$(1,661)	$ (286)	$(4,971)	
$(7,677)					
Historical net income (loss) per share:					
Basic	$ 0.45	$ (1.52)	$ (0.25)	$ (2.18)	$
(3.11)					
Diluted	$ 0.02	$ (1.52)	$ (0.25)	$ (2.18)	$
(3.11)					
Weighted average shares:					
Basic	1,011	1,096	1,148	2,284	
2,468					
Diluted	18,768	1,096	1,148	2,284	
2,468					
Pro forma net loss per share:					
Basic and diluted					$
(0.24)					
Weighted average shares					
32,223					

	MARCH 31,				
DECEMBER 31,					
	1996	1997	1998	1999	
1999					
			(IN THOUSANDS)		
CONSOLIDATED BALANCE SHEET DATA:					
Cash and cash equivalents	$ 376	$ 250	$ 196	$ 51	
$28,067					
Working capital	2,066	616	(1,166)	479	
29,026					
Total assets	5,186	5,564	8,197	8,240	
44,852					
Long-term debt, less current portion	60	129	79	588	
368					
Total stockholders' equity (net capital deficiency)	1,229	(431)	(702)	(1,183)	
35,013					

See note 10 of notes to consolidated financial statements for an explanation of the determination of the weighted average common and common equivalent shares used to compute net loss per share.

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

You should read the following discussion in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this prospectus. The results described below are not necessarily indicative of the results to be expected in any future period. This discussion and analysis contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions. See "Special Note Regarding Forward-Looking Statements."

Overview

We design, manufacture and market innovative fiber optic products for next-generation optical networks under the Smart Optics for Networks brand. We were founded in April, 1990 and initially developed and offered advanced photonics tools and opto-electronic products principally for research and commercial applications. In January 1997, we began development of a high performance tunable laser module for test and measurement in the manufacturing and development of optical networking products. In May 1998, we began leveraging our extensive experience in developing advanced photonics tools and opto-electronic products to enable networking solutions with increased channel counts, higher data rates, longer reach lengths and new services, and which reduce overall network cost of ownership. Our high-performance products are compact, consume less power and are designed to be manufacturable in high volumes.

We currently derive revenues from the sales of two groups of products, telecom products and commercial photonics products. Through fiscal 1999, comprised of the twelve-month period ended March 31, 1999, substantially all of our revenues were generated from sales of commercial photonics products. Our commercial photonics products include advanced photonics tools, which are primarily used for commercial and research applications in a wide variety of industries. Beginning in 1999, we began to derive an increasing amount of our revenues from sales of telecom products. Our telecom products include fiber amplifier products, wavelength management products, high-speed opto-electronics and tunable laser modules. We sell these products primarily to manufacturers of networking and test equipment in the optical telecommunications market. For the nine-month period ended December 31, 1999, sales of our telecom products accounted for 27.6% of overall net revenues, and are expected to continue to increase as a percentage of our overall net revenues. We sell our products to over 50 customers including Alcatel USA, Avanex Corporation, Corning Incorporated, Corvis Corporation, Lucent Technologies, Nortel Networks Corporation and Qtera Corporation (a wholly owned subsidiary of Nortel Networks). In the nine-month period ended December 31, 1999, none of our customers accounted for more than 10% of our net revenues.

We market and sell our telecom products predominantly through our direct sales force. To date, most of our direct sales have been in North America, however, we recently began marketing and selling our telecom products internationally. We market and sell our commercial photonics products through a combination of catalog sales, international distributors and direct sales. We recognize revenue on all of our products on shipment, provided there are no remaining obligations and collectability is probable. We accrue reserves for product returns and potential warranty expenses at the time revenue is recognized.

Our cost of net revenues consists of raw materials, direct labor and manufacturing overhead, which includes, among other costs, production start-up and prototype costs. In addition, we rely on contract manufacturers for some of our key components, which are included in our cost of net revenues. As we expand our manufacturing capacity to meet demand and introduce new products, we expect our cost of net revenues as a percentage of net revenues to increase in the near term.

Research and development expenses consist primarily of salaries and related personnel expenses, fees paid to consultants and outside service providers, materials costs and test units and other expenses related to the design, development, testing and enhancements of our products. We expense our research and development costs as they are incurred. In addition, from time to time, we receive funding for research 24 and development projects. For fiscal years 1998 and 1999 and the nine-month period ended December 31, 1999, we received an aggregate of $5.2 million for research and development activities, which was used to offset research and development costs. We believe that a significant level of investment for product research and development is required to remain competitive. Accordingly, we expect to continue to devote substantial resources to product research and development, and we expect our research and development expenses to continue to increase in absolute dollars.

Sales and marketing expenses consist primarily of salaries, commissions and related expenses for personnel engaged in marketing, sales and customer engineering support functions, as well as costs associated with trade shows, promotional activities and travel expenses. We intend to expand our sales and marketing operations and efforts substantially for our telecom products, both domestically and internationally, in order to increase market awareness and to generate sales of our products. However, we cannot be certain that any increased expenditures will result in higher net revenues. In addition, we believe our future success depends upon establishing successful relationships with a variety of key customers. We believe that continued investment in sales and marketing is critical to our success and expect these expenses to increase in absolute dollars in the future.

General and administrative expenses consist primarily of salaries and related expenses for executive, finance, accounting, information technology, facilities and human resources personnel, recruiting expenses, professional fees and costs associated with expanding our information systems. We expect these expenses to increase in absolute dollars as we continue to add personnel and incur additional costs related to the growth of our business and our operations as a public company.

In connection with the grant of stock options to our employees, we recorded deferred compensation of approximately $821,000 through December 31, 1999, representing the difference between the estimated fair market value of the common stock for accounting purposes and the option exercise price

of these options at the date of grant. These amounts are being amortized using the attribution vesting method over the vesting period of the stock options, which for us is generally five years from the date of grant. In addition, we have issued stock options during the first quarter of fiscal 2000 at prices below deemed fair market value, which will result in additional deferred compensation.

Results of Operations

You should be aware that we recently changed our fiscal year end to December 31. Our previous fiscal years ended March 31. Fiscal year 1999 refers to the twelve-month period ended on March 31, 1999. Fiscal year 1998 refers to the twelve-month period ended on March 31, 1998.

	FISCAL YEAR ENDED MARCH 31, 1998	FISCAL YEAR ENDED MARCH 31, 1999	NINE-MONTH PERIOD ENDED DECEMBER 31, 1999
SUMMARY OF OPERATIONS DATA:			
Net revenues	100.0%	100.0%	100.0%
Cost of net revenues	52.9	53.4	69.2
Gross profit	47.1	46.6	30.8
Operating expenses:			
Research and development	24.0	42.7	40.6
Sales and marketing	14.2	17.3	16.5
General and administrative	8.8	13.6	14.9
Deferred compensation	--	--	0.7
Total operating expenses	47.0	73.6	72.7
Operating income (loss)	0.1	(27.0)	(41.9)
Interest expense and other income, net	(2.0)	(1.8)	(0.5)
Net loss	(1.9)%	(28.8)%	(42.4)%

FISCAL YEARS ENDED MARCH 31, 1998 AND 1999 AND THE NINE-MONTH PERIOD ENDED DECEMBER 31, 1999 Net Revenues Net revenues of $15.5 million in fiscal 1998 and $17.3 million in fiscal 1999 were generated from sales of our commercial photonics products. We began shipping our telecom products in March 1999. Total net revenues for the nine-month period ended December 31, 1999, were $18.1 million, of which $5.0 million, or 27.6% of total net revenues, were from sales of our telecom products.

Gross Margins

Gross margin decreased from 47.1% in fiscal 1998 to 46.6% in fiscal 1999. The absolute dollar amount of manufacturing costs increased by $1.0 million from fiscal 1998 to fiscal 1999, due primarily to an increase in net revenues. Gross margin decreased to 30.8% for the nine-month period ended December 31, 1999. The decrease in gross margin from fiscal 1999 to the nine-month period ended December 31, 1999, was primarily due to the costs related to the expansion of our manufacturing facilities for our telecom products. Increases in manufacturing overhead costs from fiscal 1999 to the nine-month period ended December 31, 1999, included increases in payroll costs for additional manufacturing personnel, higher materials costs for manufacturing prototyping, and higher depreciation costs related to increased investment in plant and equipment. As we introduce additional new products and expand our manufacturing capacity to meet anticipated demand, we expect our gross margin to decrease in the near term.

Research and Development Expenses Research and development expenses increased from 24.0% of net revenues, or $3.7 million, in fiscal 1998 to 42.7% of net revenues, or $7.4 million, in fiscal 1999. This increase was primarily due to the costs related to the development of our telecom products. Research and development expenses were 40.6% of net revenues, or $7.4 million, for the nine-month period ended December 31, 1999. These expenses were incurred primarily in connection with the continued development of existing telecom products, as well as for new telecom products.

Sales and Marketing Expenses Sales and marketing expenses increased from 14.2% of net revenues, or $2.2 million, in fiscal 1998 to 17.3% of net revenues, or $3.0 million, in fiscal 1999. Sales and marketing expenses were 16.5% of net revenues, or $3.0 million, for the nine-month period ended December 31, 1999. The expenses in each of these periods were primarily due to the hiring of additional sales and marketing personnel and to the expansion of our sales and marketing efforts.

General and Administrative Expenses General and administrative expenses increased from 8.8% of net revenues, or $1.4 million, in fiscal 1998 to 13.6% of net revenues, or $2.4 million, in fiscal 1999. General and administrative expenses increased to 14.9% of net revenues, or $2.7 million, for the nine-month period ended December 31, 1999. The increase over these periods was primarily due to increased staffing and associated expenses necessary to manage and support our increased scale of operations. In addition, the increase in general and administrative costs for the nine-month period ended December 31, 1999, was also attributable to hiring and recruiting expenses for personnel associated with our telecom products.

Amortization of Deferred Compensation We recorded amortization of deferred compensation of $132,000 during the nine-month period ended December 31, 1999, leaving an unamortized balance of $689,000 on our December 31, 1999 consolidated balance sheet. The amortization expense relates to options awarded to employees in all operating expense categories.

Interest Expense and Other Income, Net Interest expense and other income, net totalled $303,000 in 1998 and 1999 and $81,000 for the nine-month period ended December 31, 1999. Interest expense was the largest component of these amounts aggregating to $328,000, $327,000 and $176,000 for fiscal 1998, 1999 and the nine-month period ended December 31, 1999, respectively. The interest expense for these periods consisted of interest on debt and capital lease obligations.

Income Taxes

The provision for income taxes of approximately $2,000 for the nine-month period ended December 31, 1999 and fiscal 1999 consists of current state minimum taxes. The provision for income taxes of $10,000 for fiscal 1998, reflects federal alternative minimum taxes and state minimum taxes.

As of December 31, 1999, we had approximately $12 million of federal and $400,000 of state net operating loss carryforwards for tax purposes and $900,000 and $700,000 of federal and state research and development tax credit carryforwards available to offset future taxable income. The net operating loss and tax credit carryforwards will expire at various dates beginning in 2004 through 2019, if not utilized. We have not recognized any benefit from the future use of loss carryforwards for these periods or for any other periods since inception.

Financial Accounting Standards Board Statement No. 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon the weight of available evidence, which included our historical operating performance and the reported cumulative net losses in all prior years, we have provided a full valuation allowance against our net deferred tax assets.

Quarterly Results of Operations

The following table sets forth, for the periods presented, certain data from our consolidated statement of operations and such data as a percentage of net revenues. The consolidated statement of operations data have been derived from our unaudited consolidated financial statements. In the opinion of management, these statements have been prepared on substantially the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial information for the periods presented. This information should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this prospectus.

	QUARTER ENDED							
	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998	MARCH 31, 1999	JUNE 30, 1999	SEPT. 30, 1999	DEC. 31, 1999
				(IN THOUSANDS)			
STATEMENT OF OPERATIONS DATA:							
Net revenues	$3,918	$4,251	$ 4,375	$ 4,741	$ 4,581	$ 6,675	$ 6,845
Cost of net revenues	2,097	2,181	2,347	2,600	2,821	4,367	5,337
Gross profit	1,821	2,070	2,028	2,141	1,760	2,308	1,508
Operating expenses:							
Research and development	1,233	1,633	2,384	2,129	1,592	2,259	3,501
Sales and marketing	683	732	698	874	926	930	1,126
General and administrative	569	605	550	636	605	940	1,159
Deferred compensation	--	--	--	--	9	29	94
Total operating expenses	2,485	2,970	3,632	3,639	3,132	4,158	5,880
Operating income (loss)	(664)	(900)	(1,604)	(1,498)	(1,372)	(1,850)	(4,372)
Interest expense and other income, net	(92)	(70)	(45)	(96)	(95)	33	(19)
Loss before provision for income taxes	(756)	(970)	(1,649)	(1,594)	(1,467)	(1,817)	(4,391)
Provision for income taxes	--	--	--	2	--	--	2
Net loss	$ (765)	$ (970)	$(1,649)	$(1,596)	$(1,467)	$(1,817)	$(4,393)

Statement of Operations Data:

	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998	MARCH 31, 1999	JUNE 30, 1999	SEPT. 30, 1999	DEC. 31, 1999
				(IN THOUSANDS)			
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of net revenues	53.5	51.3	53.6	54.8	61.6	65.4	78.0
Gross profit	46.5	48.7	46.4	45.2	38.4	34.6	22.0
Operating expenses:							
Research and development	31.5	38.4	54.5	44.9	34.8	33.8	51.1
Sales and marketing	17.4	17.2	16.0	18.4	20.2	13.9	16.4
General and administrative	14.5	14.2	12.6	13.4	13.2	14.1	16.9
Deferred compensation	--	--	--	--	0.2	0.4	1.4
Total operating expenses	63.4	69.8	83.1	76.7	68.4	62.2	85.8
Operating income (loss)	(16.9)	(21.1)	(36.7)	(31.5)	(30.0)	(27.6)	(63.8)
Interest expense and other income, net	(2.2)	(1.7)	(1.0)	(2.1)	(2.0)	0.4	(0.3)
Loss before provision for income taxes	(19.3)	(22.8)	(37.7)	(33.6)	(32.2)	(27.2)	(64.1)
Provision for income taxes	--	--	--	(0.1)	--	--	(0.1)
Net loss	(19.3)%	(22.8)%	(37.7)%	(33.7)%	(32.0)%	(27.2)%	(64.2)%

We believe that quarter-to-quarter comparisons of our operating results will not be meaningful. You should not rely on our results for any quarter as an indication of our future performance. Our operating results in future quarters may be below public market analysts' or investors' expectations, which would likely cause the price of our common stock to fall. The following discussion highlights significant events that have impacted our net revenues and financial results for the seven quarters ended December 31, 1999.

Net revenues increased in each of the previous seven quarters, with the exception of a decrease in the quarter ended June 30, 1999. In that quarter, we experienced component supply and integration issues related to new versions of some of our commercial photonics products, which affected our ability to meet demand for these products. These issues were addressed in the following quarter as we refined and improved our manufacturing processes.

Increased demand for our telecom products resulted in significant revenue increases from these products in our two most recent quarters. Net revenues from our telecom products were $449,500, or 9.8% of net revenues, for the quarter ended June 30, 1999, $2.0 million, or 30.3% of net revenues, for the quarter ended September 30, 1999, and $2.5 million, or 36.9% of net revenues, for the quarter

ended December 31, 1999. We expect quarterly revenues from our telecom products to continue to increase. Sales of our commercial photonics products have fluctuated between $3.9 million and $4.7 million over the last seven quarters.

Gross margins as a percentage of net revenues decreased in each of the previous seven quarters, with the exception of an increase in the quarter ended September 30, 1998. There has been a significant decrease in gross margins during the most recent three quarters, which is due principally to the expansion of our manufacturing facilities and operations for our telecom products. Manufacturing overhead spending for telecom products increased during each of the three quarters from the quarter ended March 31, 1999, to the quarter ended December 31, 1999, as we added manufacturing employees, expanded production facilities and invested in additional manufacturing equipment. We expect the gross margin percentage to continue to decrease in the near term as we continue to transfer new products from development to manufacturing and expand our manufacturing capacity.

Research and development expenses increased in each of the previous seven quarters, with the exception of a decrease in the quarter ended March 31, 1999, and the quarter ended June 30, 1999. These increases were primarily due to the addition of personnel, development prototyping costs, depreciation expense related to increased investment in development equipment, consulting charges and other costs incurred for the development of our telecom products. We have also incurred significant expenses related to the expansion of our patent portfolio for our telecom products. We expect research and development costs to continue to increase for our telecom products.

Sales and marketing expenses increased in each of the previous seven quarters, with the exception of a small decrease in the quarter ended December 31, 1998. The increased sales and marketing expenses were primarily due to an increase in the number of sales and marketing personnel, sales commissions, marketing expenses and other customer-related costs. We expect sales and marketing costs to continue to increase in absolute dollars as we build our sales and marketing organization.

General and administrative expenses increased in each of the previous seven quarters, with the exception of the quarters ended December 31, 1998, and June 30, 1999. During the quarters ended September 30, 1999, and December 31, 1999, we experienced a substantial increase in general and administrative costs due to an increase in the number of personnel and additional costs related to building an infrastructure for a public company, which includes increased legal, accounting, recruiting and information systems costs. We expect general and administrative expenses to continue to increase in absolute dollars.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through private sales of convertible preferred stock, bank debt and loans from a shareholder.

Our cash and cash equivalents increased from $51,000 as of March 31, 1999, to $28.1 million as of December 31, 1999. The increase was primarily due to cash generated by financing activities, including the receipt of an aggregate of $43.7 million from the sales of convertible preferred stock during the

nine- month period ended December 31, 1999, partially offset by cash used in operations and the purchase of equipment. Net working capital increased by $1.6 million for fiscal 1999 and increased by $28.5 million in the nine-month period ended December 31, 1999.

Cash used in operating activities was $583,000 in fiscal 1998, $3.9 million in fiscal 1999 and $5.7 million in the nine-month period ended December 31, 1999. Cash used in operating activities in fiscal 1998 was primarily due to our net loss of $286,000, increases in inventory balances of $1.5 million, increases in accounts receivable balances of $1.2 million, partially offset by non-cash charges of $700,000 and increases in accounts payable of $1.1 million. Cash used in operating activities in fiscal 1999 was primarily due to our net loss of $5.0 million, decreases in accounts payable of $884,000, partially offset by non-cash charges of $598,000 and increases in accrued expenses of $697,000. Cash used in operating activities in the nine-month period ended December 31, 1999, was primarily due to our net loss of $7.7 million, increases in inventory balances of $2.6 million and the accounts receivable balance of $1.0 million, partially offset by non-cash charges of $872,000 and increases in accounts payable of $3.9 million.

Cash used in investing activities was $379,000 in fiscal 1998, $1.4 million in fiscal 1999 and $5.7 million in the nine-month period ended December 31, 1999. In all three periods cash was used to acquire property and equipment.

Cash generated by financing activities was $908,000 in fiscal 1998, $5.1 million in fiscal 1999 and $39.5 million in the nine-month period ended December 31, 1999. Cash generated by financing activities in fiscal 1998 was primarily due to net borrowings of $567,000 under our bank lending facilities and proceeds of $400,000 from promissory notes issued. Cash generated by financing activities in fiscal 1999 was primarily due to proceeds of $4.2 million from the sale of convertible preferred stock and net borrowings of $750,000 under an equipment loan. Cash generated by financing activities in the nine-month period ended December 31, 1999, was primarily due to proceeds of $43.7 million from the sales of convertible preferred stock and $1.2 million under our bank lending facilities, partially offset by $5.3 million of repayments of our bank lending facilities and promissory notes.

We believe that the net proceeds from this offering, together with our current cash, cash equivalents and borrowings under our current credit facility, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for the next twelve months. If cash generated from operations is insufficient to satisfy our long-term liquidity requirements, we may seek to sell additional equity or debt securities or to obtain additional credit facilities. If additional funds are raised through the issuance of debt securities, these securities could have rights, preferences and privileges senior to holders of common stock, and the terms of any debt facility could impose restrictions on our operations. The sale of additional equity or debt securities could result in additional dilution to our stockholders, and additional financing may not be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain this additional financing, we may be required to reduce the scope of our planned product development and marketing efforts, which could harm our business, financial condition and operating results.

Qualitative and Quantitative Disclosures About Market Risk

Interest Rate Sensitivity We maintain our cash and cash equivalents primarily in money market funds. We do not have any derivative financial instruments. As of December 31, 1999, all of our investments mature in less than three months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

Exchange Rate Sensitivity We operate primarily in the United States, and all sales to date have been made in U.S. dollars. Accordingly, we currently have no material exposure to foreign currency rate fluctuations.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133). SFAS 133 provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. In June 1999, the Board issued SFAS 137, Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133, which deferred the effective date of SFAS 133 until fiscal years beginning after June 15, 2000. We will become subject to SFAS No. 133 on January 1, 2001. Because we do not currently hold any derivative instruments and do not engage in hedging activities, we do not believe that the adoption of SFAS No. 133 will have a material impact on our financial position or results of operations.

Year 2000 Issues

Prior to January 1, 2000, there was a great deal of concern regarding the ability of computers to adequately recognize 21st century dates from 20th century dates due to the two-digit date fields used by many systems. Most reports to date, however, are that computer systems are functioning normally and the compliance and remediation work accomplished leading up to 2000 was effective to prevent any problems. Computer experts have warned that there may still be residual consequences of the change in centuries. For example, programs may fail to recognize February 29, 2000, as a leap year date as a result of an exception to the calculation of leap years that will occur in the year 2000 and otherwise occurs only once every 400 years. This problem could result in miscalculations, data corruption, system failures or disruptions of operations. Any such difficulties could result in a decrease in sales of our products, an increase in allocation of resources to address Year 2000 problems of our customers without additional revenue commensurate with such dedication of resources, or an increase in litigation costs relating to losses suffered by our customers due to such Year 2000 problems.

Because our internal systems utilize third party hardware and software, residual Year 2000 problems affecting third parties' hardware and software could cause our internal systems to fail. If residual Year 2000 problems cause the failure of any of the technology, software or systems necessary to use our products or operate our business, we could lose customers, suffer significant disruptions in our

business, lose revenues and incur substantial liabilities and expenses. We could also become involved in costly litigation resulting from Year 2000 problems. This could harm our business, financial condition and results of operations.

Business

Overview

We design, manufacture and market innovative fiber optic products for next-generation optical networks under the Smart Optics for Networks brand. We leverage our ten years of experience in developing advanced photonics tools and opto-electronic products, to enable networking solutions with increased channel counts, higher data rates, longer reach lengths and new services, and which reduce overall network cost of ownership. Our high-performance products are compact, consume less power and are designed to be manufacturable in high volumes. Our products include fiber amplifier products, wavelength management products, high-speed opto-electronics, tunable laser modules and advanced photonics tools.

Industry Background

Dramatic Increases in the Volume of Data Traffic The Internet has become an essential communications and transaction medium. The volume of high-speed data traffic over communications networks continues to grow dramatically, outpacing that of traditional voice traffic. According to International Data Corporation, a leading market research company, the number of Internet users worldwide reached approximately 142 million in 1998 and is forecasted to grow to approximately 502 million users by the end of 2003. According to Ryan, Hankin & Kent, or RHK, a leading market research and consulting firm, Internet and other data traffic is expected to increase 8,100% between 1999 and 2003. This growth is primarily attributable to the increasing use of the Internet among consumer and business users, easier and cheaper access to the Internet and the large and growing number of personal computers in the home and the workplace. E-commerce in particular is generating enormous data traffic over communications networks as it becomes a critical strategic element of many businesses.

Evolution of the Optical Network The increase in data traffic, coupled with demand for enhanced services and improved connection times, has increased demand for high capacity, or high bandwidth, communications networks. Network service providers have had difficulty in meeting this increased demand due to significant constraints of the existing communications infrastructure, which was originally designed to carry only voice traffic. Such constraints have caused network congestion, decreased reliability and made it difficult for network service providers to upgrade networks effectively. To alleviate this bottleneck, network service providers are increasingly deploying next-generation optical networks that address the demand for high-speed communications.

Optical networks transmit data by pulses of light through an optical fiber. Light in a glass medium can carry more information over longer distances than electrical signals over a copper medium. Optical signals are generated through the use of lasers that produce light at specific colors, or wavelengths. In addition to lasers, a variety of other fiber optic components are used to create, combine, isolate, amplify, split, channel and perform various other functions on these optical signals. Fiber optic components are split into two broad categories: actives, or opto-electronics, which process both optical and electrical signals and passives, which process only optical signals. Innovations at the fiber optic component level have historically enabled a number of major advances in optical networking systems.

Traditionally, optical signals at only a single wavelength, or channel, were used to carry information in optical networks. With the invention of innovative components capable of separating light into different specified wavelengths for transmission in an optical fiber, network systems vendors began developing enhanced equipment, including wavelength division multiplexing, or WDM, systems, which greatly increased network capacity based on these new components. WDM solutions increase network capacity by transmitting data simultaneously on a number of different wavelengths along the same optical fiber. At the destination, these wavelengths are separated and the data extracted. Therefore, WDM technology increases the bandwidth of an optical network proportional to the number of different wavelengths that are transmitted.

In addition to increasing the number of channels, component innovation has also resulted in an increase in the amount of data which can be transmitted per channel, or data rate. Network service providers have been continually upgrading the data rates of their optical networks, for example, from OC-3, or 155.5 megabits per second, to OC-48, or 2.5 gigabits per second. Service providers today are beginning to deploy OC-192, or 10 gigabits per second, equipment throughout their networks and are in the early stages of developing and testing equipment with OC-768, or 40 gigabits per second, capability, creating a need for innovative components in optical testing equipment capable of operating at these high speeds. With increased data rates and number of channels, the amount of data processed by network equipment has increased dramatically. As the data rate and bandwidth between network equipment sites has expanded, the data rate between the equipment within these sites has not kept pace. As a result, there is increasingly a need for high data rate, or high-speed, connections to link the equipment within a network service provider's site.

Component innovations have also led to the development of the fiber amplifier, which resulted in a dramatic increase in the distance over which optical signals can be transmitted without regeneration, which is the process of converting the signals from optical to electrical and back to optical to restore signal quality and strength. Regeneration requires large, expensive equipment, often in remote locations, which can be costly to deploy, operate and maintain. Fiber amplifiers restore the signal strength without regeneration and result in significantly lower equipment, operations and maintenance costs. Prior to the development of fiber amplifiers, signal attenuation, or loss, limited the distance over which an optical signal could be transmitted without regeneration, or reach, to approximately 70 kilometers. With fiber amplifiers, the reach of optical networks has increased to thousands of kilometers. With improvements in fiber amplifiers, network equipment manufacturers are continuing

to develop longer reach capability that has led to, among other things, all-optical networks that operate without any regeneration. These all-optical networks depend on advanced fiber optic components that enable extremely long reach.

Requirements of Optical Communications Systems The increasing need for bandwidth has resulted in strong demand for optical networking systems and a proliferation of new development efforts by traditional and emerging network equipment providers. These providers are seeking to develop next-generation optical networking systems, which require:

Increased channel counts. Service providers are demanding optical networks with higher channel counts to increase bandwidth. However, with current WDM technology, the number of wavelengths that can be transmitted, or channel count, is limited. Current WDM technology requires that data be transmitted within a defined range of wavelengths and with a large space between each channel. These limitations constrain the channel count and the overall bandwidth. Network equipment providers can increase the channel count by extending the range of wavelengths over which data can be transmitted. At the same time, the channel count can also be increased by reducing the spacing between channels with dense wavelength division multiplexing, or DWDM. According to RHK, the market for DWDM optical components is expected to grow at a compound annual growth rate of 51% from 1999 to 2003. As wavelength range and channel counts increase, service and network equipment providers will also need to effectively manage the increasingly complex flow of high speed optical signals in a vast number of wavelengths.

Higher data rates. Future systems will continue to require higher data rates to handle the rapid growth in data traffic. Next-generation optical networks are being developed with data rates of OC-192. As higher speed optical networking systems are being developed, service and equipment providers will need test and measurement equipment that is faster than the products being measured in order to ensure accurate testing of the equipment. In addition to increasing data rates between network equipment sites, network service providers are demanding an increase in data rates between network equipment, such as between routers, switches and DWDM terminals and other equipment, within a site. As a result, service and network equipment providers are demanding a large number of short-reach, high data rate interconnections.

Longer reach. The varied and unpredictable geographical pattern of Internet data traffic requires longer reach networks. Regeneration stations are expensive and are costly to deploy, operate and maintain. As a result, service providers are demanding optical networks with longer reach between regeneration stations. Very long reach is ultimately needed for all-optical networks that do not require regeneration.

Enabling new services. Competition among service providers is driving the need to provide differentiated services. Similar to the introduction of systems that increased the bandwidth and reach of current networks, there is a need for network equipment capable of managing and flexibly delivering this bandwidth at the fiber optic component level. Traditional methods of managing

bandwidth by converting optical signals to electrical signals for processing are limited to a specific protocol and data rate. When processing is performed entirely in optics without the conversion to electronics, the processing is independent of the protocol and data rate.

Cost-effectiveness. Growth in data traffic and price competition in the telecommunications market increasingly requires service providers to seek solutions that reduce their overall network cost of ownership. In addition to the basic cost of equipment, service providers incur substantial costs in terms of space required to deploy the equipment, power consumption and on-going operations and maintenance. In order to continue to grow and upgrade their networks to meet higher traffic demands in a cost-effective manner, service providers need compact, low-power consuming equipment.

The New Focus Opportunity

In order to address the growing requirements of communications networks, there is a demand for the introduction of increasingly sophisticated systems at a rapid rate. To meet this performance and functionality requirement, equipment providers must utilize increasingly sophisticated components. The fiber optic components market, including actives and passives, is one of the fastest growing portions of the telecommunications market. RHK estimates that the market for fiber optic components was approximately $6.6 billion in 1999 and is expected to grow to over $22.5 billion by 2003. As a result of the rapid pace of new product introductions and the difficulty of designing and producing the requisite components, equipment providers are increasingly turning to suppliers of fiber optic products. These suppliers must offer high performance products that are compact, consume less power and are designed to be manufacturable in high volumes. These new innovative fiber optic products enable systems companies to offer solutions with increased channel counts, higher data rates, longer reach lengths and new services, and which reduce overall network cost of ownership.

The New Focus Solution

We design, manufacture and market innovative fiber optic products for next-generation optical networks under the Smart Optics for Networks brand. We enable networking solutions with increased channel counts, higher data rates, longer reach lengths and new services, and which reduce overall network cost of ownership. Our high-performance products are compact, consume less power and are designed to be manufacturable in high volumes. We believe our Smart Optics for Networks products provide our customers the following key benefits:

Increased channel counts. Our wavelength management products and fiber amplifier products enable systems with extended fiber bandwidth, thereby increasing the efficiency of optical networks by transmitting a greater number of wavelengths in a single optical fiber. Our wavelength management products also enable network DWDM systems to accurately, efficiently and reliably manage the vast number of optical signals by separating these signals into different paths that can be processed individually. Our interleavers are designed to effectively double the capacity of DWDM systems by doubling the number of channels operating on a single fiber. Our WDM couplers are used to split

optical signals on a single fiber into two different wavelengths on two fibers, enabling them to be processed on an individual basis. Our optical circulators are used for directing optical signals into the appropriate sections of a fiber 34 amplifier and offer wide wavelength operation to accommodate many optical channels. These circulators enable advanced next-generation fiber amplifiers that amplify signals at multiple wavelength bands and signals travelling in both directions along a fiber.

Higher data rates. Our high-speed opto-electronics enable our customers to solve the bandwidth bottleneck between equipment within a network service provider's site. To address this problem we offer our 10 gigabits per second, or Gbps, transceivers which are designed to be low cost, small sized and low-power consuming solutions. Our advanced photonics tools enable network service and equipment providers to develop and test their next-generation offerings, including OC-768 products.

Longer reach. Our fiber amplifier products enable the transmission of information at very high speeds over extended distances. We reduce the expense associated with amplification and regeneration equipment by extending the distances over which an optical signal can be transmitted. We offer products with wide wavelength range and low loss that enable the high power amplification needed to drive optical signals for very long distances often associated with next-generation all-optical networks.

Enabling new services. Our products enable network equipment manufacturers and service providers to offer products capable of managing and flexibly delivering bandwidth at the fiber optic component level. Our optical circulators enable equipment capable of delivering or dynamically adding and dropping a single wavelength at any point in the network. Our tunable lasers are being developed to enable flexible networks that can be reconfigured to address changing data traffic patterns.

Cost-effectiveness. Our products enable network solutions with reduced overall network cost of ownership. Our products are designed with compact form factor and low power consumption to reduce system space and power requirements. We design our products for high volume manufacturing and offer several different products utilizing the same or similar fiber optic packaging, thereby decreasing cost. Our fiber amplifier products increase the reach and number of channels within a DWDM network, reducing the expense of signal amplification and regeneration.

The New Focus Strategy

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

Leverage our position as a leading market innovator. We believe that we have a unique combination of component design and systems architecture knowledge, an extensive intellectual property portfolio, as well as strong management experience in the optical networking industry. Since our founding in 1990, we have focused exclusively on developing optical products and have formed close relationships with leading research and development organizations in addition to optical networking companies. We intend to leverage our reputation in the industry to obtain new customers, partners and employees.

Focus our research and development efforts on continuing to broaden our product offerings. We believe that the breadth and depth of our product line, including both actives and passives, differentiates us from many of our competitors. We will continue to expand the breadth of our product line by developing and offering best-in-class Smart Optics for Networks products. We believe we can accomplish this goal by continuing to aggressively invest in product development and leverage our existing technological capabilities, including the intellectual property and optical expertise gained through the development of our position as a leading innovator of advanced photonics tools. For example, we are presently leveraging our expertise in tunable lasers for test and measurement to develop advanced tunable transmitters as solutions to replace existing fixed wavelength lasers.

Collaborate with leading innovative systems companies. We believe that we are integral to the development efforts of our customers, which provides us with unique insight into the requirements of next-generation optical networks. Regular contact with key decision-makers in both service and equipment providers' organizations provides us with great opportunities to collaborate with these companies to provide the required products, solve implementation problems and aid in the design of future systems architecture. In addition, our ability to design and offer our customers innovative fiber optic products for their system 35 solutions gives us a strategic advantage over our competitors with respect to system design wins. We intend to continue to target our development efforts to both the current systems manufacturers as well as emerging optical systems companies, whose innovative designs we believe, will drive the next-generation optical network.

Continue to expand manufacturing capacity and improve process efficiency. We intend to continue to expand our manufacturing capacity and improve process efficiency. We expect to commence operations in our Shenzhen, China facility in 2000 and will continue to expand our capacity within our current facilities. We will also look for additional sites for future expansion. We will continue to invest in improving our processing efficiencies through the use of automation, proprietary tools and processes.

Pursue strategic acquisitions. We believe that we have a strong reputation for technical innovation combined with a willingness to collaborate with the leading technologists in the optical, or photonics, industry. We are regularly approached by photonic technologists looking to commercialize their intellectual property. We have integrated the intellectual property from several of these technologists into our existing business, resulting in several new product introductions. We intend to continue to leverage our reputation to aggressively pursue strategic acquisitions that can provide us with key intellectual property, strategic products and highly-qualified engineering personnel to rapidly increase our technological expertise and expand the breadth of our product portfolio.

Products

Our Smart Optics for Networks products enable systems providers to meet the dynamic demands of next-generation optical networks. Our product offerings include fiber amplifier products, wavelength management products, high-speed opto-electronics, tunable laser modules and advanced photonics

tools. We categorize our products by stage of development, such as shipping to customers, beta testing, which refers to products in advanced customer testing, and alpha testing, which refers to products in the early stages of customer and industry testing.

Fiber Amplifier Products

Fiber amplifiers are widely deployed in DWDM and other networks to amplify optical signals at periodic intervals along a fiber optic link. Our fiber amplifier products enable systems with increased channel counts and longer reach lengths at a lower overall network cost of ownership.

PRODUCTS	COMPETITIVE FEATURES	BENEFITS	STAGE
Optical Circulators (C-Band)	- Wide wavelength range - Low loss	- Increased channel counts - Longer reach	Shipping
Optical Circulators (L-Band)	- Wide wavelength range - Low loss	- Increased channel counts - Longer reach	Beta testing
Polarization Beam Combiners	- Low loss - Efficient polarization control - Compact	- Longer reach - Cost-effectiveness	Shipping
Isolator Arrays	- Low loss - Reduced part count, lower cost per port	- Longer reach - Cost-effectiveness	Beta testing

- Optical circulators. Optical circulators are used for directing optical signals into the appropriate sections of a fiber amplifier. Current optical circulators are inadequate for the next generation of fiber amplifiers because of their limited wavelength range and relatively high losses. Our optical circulators have fewer parts than available alternatives, resulting in wide wavelength operation and very low losses to accommodate many optical channels. The wide wavelength range enables next- generation fiber amplifiers to amplify signals at multiple wavelength bands and signals travelling in both directions along a fiber. Our optical circulators operate in the two standard wavelength bands, the C-Band and the L-Band.

- Polarization beam combiners. Polarization beam combiners are used to combine the optical power from two pump lasers operating at the same wavelength into a single fiber, thereby effectively doubling the amount of power in the fiber amplifier. Additional pump power is essential to support the increased number of channels in the next-generation DWDM systems. However, current solutions are bulky and do not efficiently combine optical power of the same wavelength in order to increase pump power. Our polarization beam combiners are compact components which efficiently combine the optical power of the same wavelength with minimal loss, thereby enabling efficient pumping of these high power amplifiers.

- Isolator arrays. As the functionality and performance of fiber amplifiers increase, the number of components within each amplifier increases greatly and the size of each component becomes a significant factor. Our two-in-one isolator arrays offer very low loss and the same functionality as traditional isolators in half of the space, thus providing significant cost and space savings.

Wavelength Management Products

As the number of channels in DWDM systems increases, advances in products to manage optical signals on different wavelengths are increasingly critical. Our wavelength management products enable DWDM systems to accurately, efficiently and reliably manage the vast number of optical signals.

PRODUCTS	COMPETITIVE FEATURES	BENEFITS	STAGE
DWDM Interleavers	- Dense channel spacing - Compact - Requires no active cooling	- Increased channel counts - Cost-effectiveness	Alpha testing
WDM Couplers	- Low loss - Cost-effective all-fiber product	- Longer reach - Cost-effectiveness - Enables new services	Beta testing
Optical Circulators	- Wide wavelength range - Low loss	- Increased channel counts - Enables new services	Shipping and Beta testing

- DWDM interleavers. DWDM interleavers effectively double the capacity of DWDM systems by doubling the number of channels transmitted on a single fiber. DWDM interleavers accomplish this by combining signals from two fibers onto a single fiber in the same wavelength range, thus, effectively doubling the capacity of that fiber. Current interleavers are bulky, expensive and require active cooling, or separately powered temperature control, which significantly increases system complexity. Our DWDM interleaver design does not require active cooling and is considerably smaller and less expensive than current solutions.

- WDM couplers. WDM couplers are used to split optical signals on a single fiber into two different wavelength ranges on two fibers so that they can be processed separately. Our WDM couplers have low loss and are designed for robust operation under difficult environmental conditions, such as vibration, mechanical shock or humidity, over a long period of time.

- Optical circulators. Our optical circulators, as described above, are also used in wavelength management applications to direct optical signals to the appropriate sections of the system. These circulators enable new services such as adding or dropping individual channels at defined points in the network.

High-speed Opto-electronics

Our high-speed, high data rate opto-electronic products are focused on compact, low power consuming, low cost solutions for short-range interconnections at 10 Gbps and above.

Products Competitive Features Benefits Stage

10 Gbps VCSEL-based transceivers	- Compact - Low power consumption - Requires no active cooling	- Cost-effectiveness - Higher data rates	Alpha testing

- 10 Gbps Vertical Cavity Surface Emitting Lasers, or VCSEL-based transceivers. Transceivers convert optical signals to electronic signals and vice versa and are an essential component of optical networks. Current solutions for service providers are expensive, large and power consuming transmitters and receivers. In contrast, our 10 Gbps transceivers are designed around VCSEL technology, which does not require external modulation or active cooling and is low cost to manufacture. In addition, our transceivers are designed to consume little power and to be compact, making them an attractive solution for short-range, high data rate interconnections.

Tunable Laser Modules

Our high performance tunable laser modules are used for testing and measuring fiber optic components and systems in manufacturing, development and research environments. We are also developing a tunable laser module for replacement of conventional fixed wavelength lasers in telecommunications networks.

Products Competitive Features Benefits Stage

Swept-wavelength lasers	- Rapid, precise wavelength scanning	- Reduced development and manufacturing time	Shipping
Test and measurement lasers	- Wide wavelength range	- Enables development of systems with increased channel counts systems	Shipping
Tunable transmitters	- High output power - Wide wavelength range	- Cost-effectiveness - Enables new services	Alpha testing

- Swept-wavelength lasers. Our swept-wavelength lasers provide rapid wavelength scanning for precise measurement of network components and systems, reducing development time for new products and reducing manufacturing bottlenecks.

- Test and measurement tunable lasers. Our high precision tunable lasers are used for test and measurement in the manufacturing and development of optical network products. Our test and measurement tunable laser modules operate across a wide tuning range for thorough testing and provide high output power for improved accuracy. These laser modules are designed and tested to withstand harsh environmental conditions without degradation of performance.

- Tunable transmitters. As DWDM systems rapidly grow in channel count, the number of wavelength-specific parts has grown proportionally. Current fixed wavelength laser solutions result in deployment, inventory and maintenance problems for network service and equipment providers. We are presently developing advanced tunable transmitters as solutions to replace existing fixed wavelength lasers. Our tunable transmitters are designed for high output power over a very wide wavelength range to meet the requirements of existing transmitters while providing a high degree of flexibility. These tunable transmitters are designed to enable reconfigurable, flexible networks.

Advanced Photonics Tools

We offer a wide range of photonics tools for advanced research, development and manufacturing. These products leverage our core competencies in optics for a number of applications including telecommunications research and product development. For example, our precision opto-mechanics and picomotor products are used for advanced manufacturing of fiber optic components and for research and development of high-speed network products. As another example, photodetectors that are faster than the products being measured are needed to accurately characterize the optical performance of the tested device, and our high-speed photodetectors are being used to develop OC-768 products.

Products Competitive Features Benefits Stage

Precision opto-mechanics	- Precise positioning	- Enables automated fiber optic manufacturing	Shipping
Picomotors	- Precise positioning	- Enables development of next-generation products	Shipping
Photodetectors	- High speeds	- Enables development of high data rate products	Shipping

Technology

Our technical capabilities span several key areas that we believe will result in rapid development and deployment of our Smart Optics for Networks products.

Wideband passives technology. As more channels are needed in DWDM networks to handle more data traffic, the fiber optic elements within the network need to accommodate more wavelengths and hence more channels. Our wideband passives technology enables us to develop advanced fiber amplifier and WDM products that have a wide wavelength operating range with low cost by design. Our wideband passives technology is based on a patent pending design that eliminates unnecessary parts that are wavelength sensitive, thereby resulting in wide wavelength operation for high channel count. Our wideband passives technology is used in our rapidly growing optical circulator products.

Wavelength management technology. The growing number of wavelengths or channels in DWDM systems has caused these systems to become increasingly complex and difficult to handle. Our wavelength management technology enables efficient management of numerous signals by separating them into different paths that can be treated individually. This technology includes capabilities in advanced micro-optic design for products with novel crystals, geometries and functionality, and in fused-fiber design, development and manufacturing for all-fiber based products. Our wavelength management technology is used in our wavelength management products.

Advanced fiber optic packaging. Our advanced fiber optic packaging technology enables us to develop components with compact size, high reliability and improved temperature sensitivity. This technology also enables a common platform across many products, resulting in economies of scale and significantly reducing design, development and test time. Our packaging meets Telcordia, or Bellcore, industry standards for reliability and is qualified by many key network equipment providers. This technology is based on our design capabilities in micro-optic and fused-fiber packaging and our advanced testing facilities and expertise. Our advanced fiber optic packaging technology is used in our fiber amplifier and wavelength management products.

Tunable laser technology. Traditional laser transmitters operate at only a single wavelength, corresponding to a single channel. Our tunable laser technology allows us to create transmitters that have a tunable, or adjustable, wavelength so that each laser can operate on any number of the required channels. Our capabilities and intellectual property in this area include advanced laser design, development and manufacturing, advanced laser packaging for high robustness and reliability, dynamic filter technology to adjust the laser wavelength to any desired channel, and integrated wavelength locking technology that 39 results in minimal error in the laser wavelength from the desired channel. These capabilities have resulted in tunable laser products with high output power and wide wavelength coverage.

High-speed opto-electronics technology. Our high-speed opto-electronics capabilities include analog chip design, photo detector design and advanced manufacturing, packaging and assembly. This capability has resulted in our 60 gigahertz photodetector product and electronic amplifier products at speeds greater than 15 gigahertz, while allowing us to develop transmitters, modulators and receivers that operate at data rates of OC-192 or OC-768.

Advanced thin films. Specialized precision thin film coatings result in extremely low optical reflections and are a critical part of many optical devices. When applied to our tunable lasers, the low reflections result in high optical power output and wide wavelength tunability, or range, of over 50 nanometers. Our advanced thin film capability includes advanced thin film design, ion assisted deposition processes, equipment and facilities for depositing the specialized coatings and thin film monitoring capability for precision control of the thin film properties. This capability has resulted in high performance active devices such as our tunable lasers modules.

Customers

We sell our fiber optic products to network equipment providers and our advanced photonics tools to suppliers of components, systems and services-related products in the optical networking industry. We have sold our products to over 50 customers, and no single customer accounted for more than 10% of our revenues for the nine-month period ended December 31, 1999.

The following is a list of our top customers based on our net revenues in each of our two product groups during the nine-month period ended December 31, 1999:

Telecom Products:

Agilent Technologies

Alcatel USA

Avanex Corporation

Corning Incorporated

Corvis Corporation

JDS Uniphase Corporation Lucent Technologies Nortel Networks Corporation Optical Products Pirelli (recently acquired by Cisco Systems) Qtera Corporation (a wholly owned subsidiary of Nortel Networks) 3M Company

Commercial Photonics Products:

BFI Optilas

Corning Incorporated

ERIM International

GSI Lumonics

Indeco

Jet Propulsion Laboratory KLA-Tencor Corporation Molecular Dynamics Optima Research Positive Light Sandia National Laboratories Schlumberger Technology Corporation

Agilent Technologies

Agilent Technologies is a global, diversified technology company focusing on high-growth markets in the communications, electronics, life sciences and healthcare industries. In 1996, Agilent found that they required a low-cost tunable laser for testing long-range optical equipment. In that year, we began collaborating with Agilent for the development of a low-cost tunable laser product. From 1996 to 1999, we developed a low-cost tunable laser according to Agilent's needs. In addition to funding a portion of this project, Agilent agreed to begin commercial purchase of our low-cost tunable laser product. We delivered the first product, a tunable laser module along with the associated control electronics, in the second half of 1999. To date, we have experienced a great deal of success with our tunable laser modules as well as with the development of advanced tunable laser products. By incorporating our products, Agilent has been able to offer a broader line of tunable lasers for their customers at more competitive prices than previous solutions.

Alcatel

Alcatel is a premier provider of optical networking equipment for the telecommunications industry. In order to meet the need for next-generation systems, Alcatel's systems require a number of optical circulators. In 1998, we first developed the intellectual property for design and production of a circulator that allows wider wavelength range, lower loss, and more compact size than previously available products. In early 1999, Alcatel took delivery of a beta test version of this product, concluding a number of very successful tests. Alcatel presently deploys our circulator products to enhance the performance of their systems.

Avanex

Avanex is a provider of photonics processors for optical networks. Avanex requires highly reliable tunable lasers to use as an integral part of their manufacturing process. Our products address these needs in two areas. First, we supply the tunable test lasers that are incorporated into Avanex's standard production line. Our tunable test lasers have allowed Avanex to decrease the calibration time required at each station. Second, our swept wavelength lasers are being incorporated into production lines for Avanex's next-generation high performance devices. Our technology allows faster optimization for the device in production.

Corning

Corning is a premier provider of optical fiber, cable and photonic products for the telecommunications industry. In order to meet the need for higher power amplifiers driven by increasing channel counts in WDM networks, Corning developed a complex, high-end fiber amplifier product that required a number of circulators. In 1998, we first developed the intellectual property for design and production of a circulator that allows higher channel counts than previously available products. In early 1999, Corning took delivery of a beta test version of this product concluding a number of successful tests. Corning presently deploys our circulator products to enhance the performance of their fiber amplifier products and to allow for more complex fiber amplifier architectures demanded by Corning's customers.

Qtera

Qtera Corporation (a wholly owned subsidiary of Nortel Networks) is a provider of extremely long reach, high power network solutions. In developing these solutions, Qtera had a need for a packaging solution for one of the key components used in their system. This package was required to pass rigid Telcordia testing. We used our existing intellectual property and developed new intellectual property that solves the packaging problem and addresses Qtera's needs. We consider this technology to be a core competency. In addition to enhancing Qtera's product offerings, we have leveraged this technology

to supply solutions to other systems vendors. Qtera's deployment of this technology will provide carriers with increased power and signal transmission distance, reducing the number of regeneration points in a network.

Sales, Marketing and Customer Support

We sell and market our fiber optic products primarily through direct sales. We sell and market our photonics tools primarily through a combination of direct sales, catalog sales and distributors. We focus our direct sales efforts on service providers and optical network equipment manufacturers. Our direct sales account managers cover the market on an assigned account basis. We believe that support services are essential to the successful installation and ongoing support of our products. 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.

Manufacturing

We manufacture the majority of our products internally. We do, however, outsource, on a limited basis, manufacturing of selected subcomponents, primarily for our commercial photonics products. Our manufacturing operations are presently centered at our facility in Santa Clara, California. We are currently establishing a facility in Shenzhen, China. In Middleton, Wisconsin, we intend to install a pilot production facility, which we anticipate occupying in the near term. We are also expanding our operations in California to a second facility in San Jose.

We are committed to designing and manufacturing high quality products that have been thoroughly tested for reliability and performance. Our manufacturing processes utilize stringent quality controls, including incoming material inspection, in-process testing and final test. We perform extensive in-house thermal, shock and environmental testing, including testing to industry accepted Telcordia standards. Our commitment to manufacturing high quality products is evidenced by our being recommended for ISO-9001 quality certification.

We will also continue to leverage our competencies in rapid prototyping, automation and proprietary tools and processes to improve our manufacturing abilities.

Rapid prototyping. As advances in optical network technologies accelerate, the time required to introduce new products into the market needs to be minimized. Our capabilities include precision machining and advanced tooling design for quick turn implementation of new designs into product prototypes. These capabilities result in reduced development times for new products and support yields and capacity improvement efforts within manufacturing.

Automation and proprietary tools and processes. Traditional manufacturing processes for fiber optic components and modules are highly manual, yet require high precision and high yields. Our proprietary tools and processes include automated precision processes, technology and equipment that

result in increased capacity and yields. For example, our robotics technology has pick-and-place capability at the one micro-meter level, the precision required in the assembly of our products. We have developed intellectual property in this area and have applied it to products that are presently in production as well as those that are in development.

Research and Development

We have assembled a team of engineers, technicians and operators with significant experience in the optical networking industry, highly specialized manufacturing industries such as semiconductor capital equipment and optical storage, and the communications industry. Our team has expertise in optics, fiber optic package design, opto-electronics and systems architecture. Our product development efforts focus on high-speed opto-electronics, innovative fiber optic products and advanced automation techniques, which will enable us to offer next-generation products in volume.

We have made, and will continue to make, a substantial investment in research and development. Our research and development expenses totaled $6.2 million for our fiscal year ended March 31, 1998, $9.1 million for our fiscal year ended March 31, 1999, and $8.4 million for the nine-month period ended December 31, 1999.

Competition

Competition in the optical networking market in which we provide products is intense. We face competition from companies, such as E-Tek Dynamics, JDS Uniphase Corporation, Lucent Technologies and Nortel Networks Corporation.

Many of 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 than we can to the development, promotion, sale and support of their products. In addition, our competitors have large market capitalizations or cash reserves and 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, more extensive customer bases, better developed distribution channels, broader product offerings and greater manufacturing capacity than we have. These companies can leverage their customer bases and broader product offerings and adopt aggressive pricing policies to gain market share. Additional competitors may enter the market and we are likely to compete with new companies in the future. We expect to encounter potential customers that, due to existing relationships with our competitors, are committed to the products offered by these competitors.

The principal factors upon which we compete are:

- the innovative nature and features of fiber optic component products;

- ability to rapidly develop and introduce new products;

- responsive customer service and support; and - price.

We believe we compete favorably on each of these factors.

Intellectual Property

Our success and ability to compete depend substantially upon our technology. We pursue patent protection in the United States and abroad, and we have been granted 25 U.S. patents and one European patent. We currently have 30 U.S. utility filings, of which four have been allowed by the U.S. Patent and Trademark Office, 10 U.S. provisional filings and nine overseas filings in various stages of prosecution, and we continue to file new patent applications in the United States and overseas.

While we rely on patent, copyright, trade secret and trademark law to protect our technology, we also believe that factors such as our existing contracts with equipment manufacturers, our licensing agreements with companies and universities, 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 technologies.

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 each of the market segments in which we participate. We expect that the optical networking industry may be increasingly subject to third-party infringement claims as the number of competitors grows and the functionality of products in different industry segments overlaps. In addition, we believe that many of our competitors have filed or intend to file patent applications covering aspects of their technology on which they may claim our technology infringes. We are currently defending a claim brought against us by Kaifa Technology, Inc., which was recently acquired by E-Tek Dynamics, Inc., alleging, among other things, that we have infringed some of their intellectual property rights. We cannot make any assurances that additional third parties in the future will not claim infringement by us with respect to our products and our associated technology. The Kaifa claim and other such claims in the future, 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 43 against us and failure or inability by us to license the

infringed or similar technology could 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

At January 31, 2000, we had a total of 390 employees located in both the United States and the People's Republic of China. Of the total, 71 were in research and development, 27 were engaged in sales and marketing, 292 were in administration, finance and operations. None of our employees are subject to a collective bargaining agreement and we believe that our relations with our employees are good.

Facilities

Our corporate headquarters facility, of approximately 55,000 square feet, is located in Santa Clara, California. We lease our corporate headquarters facility pursuant to a lease agreement that expires in April 2005.

We also have facilities in Wisconsin. We lease approximately 2,000 square feet of space in Madison, Wisconsin under a lease agreement that expires December 2000. We are also leasing approximately 2,500 square feet in Middleton, Wisconsin, pursuant to a lease agreement that expires November 2000 or, upon our occupation of a 14,000 square foot facility, pursuant to a new lease agreement that expires in 2007.

Our manufacturing facility in Shenzhen, China is located in a premise on land leased from China's government by a third party under land use certificates and agreements with terms of 50 years. We lease our manufacturing facility from this third party under a lease agreement that will expire in November 2002, subject to our option to renew for an additional three-year period. The size of our facility in Shenzhen, China is approximately 20,000 square feet.

Effective trademark, tradename or servicemark protection may not be available in every country in which our products and services are distributed or made available.

Legal Proceedings

On December 8, 1999, Kaifa Technology, Inc., or Kaifa, recently acquired by E-Tek Dynamics, Inc., filed a complaint against us for patent infringement in the United States District Court, Northern District of California. In addition to maintaining its original claim of patent infringement against us, Kaifa has asserted claims against us of intentional and negligent interference with contract, trade secret misappropriation, unfair competition and breach of contract. Kaifa is seeking a declaratory judgment, damages, injunctive relief and attorneys' fees. Discovery has not begun and we intend to defend the action vigorously. On February 23, 2000, we filed a motion to dismiss Kaifa's complaint and joined one

of our employees named in the complaint in filing another motion to dismiss Kaifa's complaint. On the same date, certain of our employees named in the complaint also filed a motion to dismiss Kaifa's complaint. These motions are scheduled to be heard on March 31, 2000. If we are unsuccessful in defending this action, any remedies awarded to Kaifa may harm our business. Furthermore, defending this action will be costly and divert management's attention regardless of whether we successfully defend the action.

Management

Executive Officers and Directors

The following table sets forth certain information with respect to our executive officers and directors as of March 1, 2000.

Name Age Position

Kenneth E. Westrick	42	President and Chief Executive Officer, Director
William L. Potts, Jr.	53	Chief Financial Officer
Dr. Timothy Day	36	Chief Technical Officer and Vice President, Engineering, Telecom
Paul G. Smith	41	Vice President, General Manager, Telecom
Dr. Bao-Tong Ma	50	Vice President, General Manager, New Focus Pacific Co.
Dr. Robert A. Marsland	36	Vice President, Focused Research, Inc.
George Yule	61	Vice President, Operations
Dr. Milton Chang(2)	57	Chairman of the Board of Directors
Charles Boppell	57	Director
John Dexheimer	45	Director
Dr. Winston S. Fu(1)	34	Director
R. Clark Harris(1)	62	Director
Robert D. Pavey(2)	57	Director

(1) Member of the audit committee.

(2) Member of the compensation committee.

Kenneth E. Westrick has served as our President, Chief Executive Officer and director since November 1997. Prior to joining us, Mr. Westrick spent nine years at Cornerstone Imaging, Inc. where he held positions such as Senior Vice President, General Manager Display Division and Managing Director Europe. Mr. Westrick has nearly 20 years experience managing different aspects of technology start-up companies, generally in the computer industry. Mr. Westrick holds a B.S. in economics from Northwestern University and an M.B.A. from Stanford University.

William L. Potts, Jr. has served as our Chief Financial Officer since February 2000. Prior to joining us, Mr. Potts worked at Komag, Incorporated from July 1987 to February 2000. For ten years he served as Komag's chief financial officer and most recently held the position of Executive Vice President, Chief Financial Officer and Secretary. Prior to joining Komag in 1987, Mr. Potts held financial management

positions in the computer, medical and entertainment industries. Early in his career he served on the consulting staff of Arthur Andersen & Co. Mr. Potts holds a B.S. in industrial engineering from Lehigh University and an M.B.A. from Stanford University.

Dr. Timothy Day is one of our co-founders and has served as our Chief Technical Officer since July 1990 and as our acting Vice President of Engineering, Telecom since November 1998. Since our founding, Dr. Day has served us in various other positions, including acting General Manager, acting Vice President, Operations and as the former Vice President, Focused Research. Dr. Day received both a B.S. and an M.S. in physics from San Diego State University and a Ph.D. in electrical engineering from Stanford University. Dr. Day is a member of IEEE Lasers and Electro-Optics Society, Optical Society of America and the Society of Photo-Instrumentation Engineers.

Paul G. Smith joined us in May 1998 as Vice President, General Manager, Telecom. From April 1997 to May 1998, Mr. Smith was Senior Vice President of Marketing and Sales and from May 1995 to April 1997 he was Vice President of Marketing at Asante Technologies, Inc. From May 1994 to May 1995, Mr. Smith was CEO of Holosoft, Inc. Mr. Smith received a B.S. in engineering from the University of Alabama and a M.S.E.E. from Purdue University.

Dr. Bao-Tong Ma joined us in November 1999 as Vice President, General Manager, New Focus Pacific Co. From November 1990 to November 1999, Dr. Ma was employed by IBM's Microelectronics Division. From 1993 to 1999, Dr. Ma was involved in setting up and running an IBM subsidiary in China, holding various positions, including Vice General Manager and Deputy General Manager. Dr. Ma holds a B.S. in metallurgy from Shanghai Metallurgy Institute and a Ph.D. in materials science from University of Pennsylvania.

Dr. Robert A. Marsland is one of our co-founders and has served as our Vice President, Focused Research, since July 1997. From July 1994 to July 1997, Dr. Marsland was employed as a Senior Scientist at Focused Research, Inc. Dr. Marsland received his B.S. in electrical engineering from Arizona State University and studied at Stanford University on an Office of Naval Research fellowship. Dr. Marsland received a Ph.D. in engineering from Stanford. Dr. Marsland is a member of IEEE Microwave Theory and Techniques Society, the Lasers and Electro-optics Society and the Optical Society of America.

George Yule joined us in January 1998 as our Vice President, Operations. From October 1997 to January 1998, he served as Vice President and General Manager of the Display Division of Cornerstone Imaging, Inc. and from February 1993 to October 1997 as its Vice President, Operations. Mr. Yule received a B.S. in electronic engineering from Worcester Polytechnic Institute and an M.B.A. from Stanford University.

Dr. Milton Chang is one of our co-founders and has served as one of our directors since our inception in April 1990. Dr. Chang has also served as the chairman of our board of directors since May 1996. From 1990 to 1997, Dr. Chang served as our President and Chief Executive Officer and continues to perform research and marketing activities for us. From 1996 to 1998, Dr. Chang served on the Visiting Committee for Advanced Technology of the National Institute of Standards and Technology. He has also served in various positions at Newport Corporation, including as its President and Chief Executive

Officer. Currently, Mr. Chang is a member of the board of directors for Euphonix, Inc., IRIDEX Corporation and Gadzoox Networks, Inc., as well as on the board of several private companies. Dr. Chang holds a B.S. in electrical engineering from the University of Illinois and a M.S. and Ph.D. both in electrical engineering from the California Institute of Technology.

Charles Boppell has served as one of our directors since April 1990. Since March 1999, Mr. Boppell has served as the President, Chief Executive Officer and Director of Sizzler International, Inc., a restaurant operator and franchiser corporation. From November 1993 to March 1999, Mr. Boppell served as the President and Chief Executive Officer of La Salsa Holding Co., an operator of restaurants throughout the United States. He serves on the boards of directors of Sizzler International, Inc. and Fresh Choice Restaurants, Inc., as well as chairman of the board of his alma mater, Whitworth College. Mr. Boppell holds a B.A. in business and economics from Whitworth College.

John Dexheimer has served as one of our directors since July 1998. Since January 1999, he has served as President of LightWave Advisors, Inc., a venture capital and business development advisor to firms in optical communications, software and Internet companies. From March 1990 through December 1998, Mr. Dexheimer was a managing director and partner at C.E. Unterberg Towbin, an investment banking and venture capital firm, and its predecessor, Unterberg Harris. Mr. Dexheimer holds a B.S. from the University of Minnesota Institute of Technology and an M.B.A. from Harvard University.

Dr. Winston S. Fu has served as one of our directors since June 1999. Dr. Fu is an associate at U.S. Venture Partners, a venture capital firm. Prior to joining U.S. Venture Partners in August 1997, Dr. Fu was enrolled in the MBA program at Northwestern University. Dr. Fu holds a B.S. in physics from Massachusetts Institute of Technology, an M.B.A. from Northwestern University and a Ph.D. in applied physics from Stanford University.

R. Clark Harris has served as one of our directors since December 1998. Mr. Harris is a partner in NorthEast Ventures, a venture capital firm. Prior to joining NorthEast Ventures in June 1998, Mr. Harris served as the president of a major division of Uniphase, now JDS Uniphase, from May 1995 to May 1998. Before joining JDS Uniphase in 1995, Mr. Harris spent 19 years at United Technologies Corporation in various operating positions, including Senior Vice President of Sikorsky Aircraft Division. Mr. Harris received a B.A. in engineering from Georgia Tech and holds an M.B.A. from Massachusetts Institute of Technology.

Robert D. Pavey has served as one of our directors since June 1999. Mr. Pavey is a partner at Morgenthaler Venture Partners, a venture capital firm, which he joined in 1969. Mr. Pavey also sits on the board of directors of BlueGill Technologies, Inc., Endgate Corporation, LightChip, Inc., Lightwave Microsystems Corporation, and Think & Do Software, Inc. Mr. Pavey is also a Trustee of the Commonfund, a leading educational firm for non-profit endowments. Mr. Pavey holds a B.S. in physics from The College of William & Mary, an M.S. in metallurgy from Columbia University, and an M.B.A. from Harvard University.

Board of Directors

Our board of directors currently consists of seven authorized 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. 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.

Committees

Our board of directors has an audit committee and a compensation committee. The audit committee consists of Messrs. Fu and Harris. The audit committee reviews our internal accounting procedures, consults with and reviews the services provided by our independent accountants and makes recommendations to the board of directors regarding the selection of independent accountants. The compensation committee consists of Messrs. Chang and Pavey. The compensation committee reviews and recommends to the board of directors the salaries, incentive compensation and benefits of our officers and employees other than our chief executive officer, and administers our stock plans and employee benefit plans.

Compensation Committee Interlocks and Insider Participation With the exception of Milton Chang, who served as our President and Chief Executive Officer from 1990 to 1997, and continues to perform research and marketing activities for us, none of the members of the compensation committee is currently, or has ever been at any time since our formation, one of our officers or employees. No member of the compensation committee serves as a member of the board of directors or compensation committee of any entity that has one or more officers serving as a member of our board of directors or compensation committee.

Compensation

Our non-employee directors are reimbursed for expenses incurred in connection with attending board and committee meetings but are not compensated for their services as board or committee members. We have in the past granted non-employee directors options to purchase our common stock pursuant to the terms of our 1990 Incentive Stock Option Plan and 1998 Stock Plan. We may also grant non-employee directors options to purchase our common stock pursuant to the terms of our 2000 Director Option Plan. See "-- Stock Plans."

Executive Officers

Our executive officers are appointed by our board of directors and serve until their successors are elected or appointed.

Compensation

The following table sets forth all compensation paid or accrued during our nine-month period ended December 31, 1999, to our President and Chief Executive Officer and each of our four next most highly compensated officers whose compensation exceeded $100,000 for the same period. In accordance with the rules of the Securities and Exchange Commission, the compensation described in this table does not include perquisites and other personal benefits received by the executive officers named in the table below which do not exceed the lesser of $50,000 or 10% of the total salary and bonus reported for these officers.

	ANNUAL COMPENSATION FOR NINE-MONTH PERIOD ENDED DECEMBER 31, 1999			LONG TERM COMPENSATION		
NAME AND PRINCIPAL POSITIONS	SALARY	BONUS	ALL OTHER COMPENSATION	RESTRICTED STOCK AWARDS	SECURITIES UNDER-LYING OPTIONS	ALL OTHER COMPENSATION
Kenneth E. Westrick.....	$144,127(1)	$15,600	--	--	--	--
President and Chief Executive Officer						
George Yule.....	$135,852(2)	$18,307	--	--	--	--
Vice President, Operations						
Paul Smith.....	$133,693(3)	$22,917	--	--	--	--
Vice President, General Manager, Telecom						
Laurie Conner(4).....	$119,231(5)	$	--	--	--	--
Dr. Timothy Day.....	$111,623(6)	$18,499	--	--	--	--
Chief Technical Officer, Vice President, Engineering, Telecom						

(1) Kenneth Westrick's annual compensation for the twelve months ended December 31, 1999, was $227,093.69.

(2) George Yule's annual compensation for the twelve months ended December 31, 1999, was $182,055.53.

(3) Paul Smith's annual compensation for the twelve months ended December 31, 1999, was $192,758.16.

(4) Laurie Conner's employment relationship with us terminated on February 15, 2000. Under the severance package accepted by Laurie Conner, Ms. Conner continued to receive salary until February 15, 2000.

(5) Laurie Conner's annual compensation for the twelve months ended December 31, 1999, was $144,224.72.

(6) Dr. Day's annual compensation for the twelve months ended December 31, 1999, was $163,173.71.

Option grants in the nine-month period ended December 31, 1999 There were no grants of stock options to any of the executive officers named in the table above during the nine-month period ended December 31, 1999.

Aggregate option exercises in the nine-month period ended December 31, 1999, and values at December 31, 1999 The following table sets forth information concerning exercisable and unexercisable stock options held by the executive officers named in the summary compensation table at December 31, 1999. The value of unexercised in-the-money options is based on an assumed initial offering price of $ per share minus the actual exercise prices. All options were granted under our 1990 Incentive Stock Option Plan, as amended, or our 1999 Stock Plan. These options vest over five years and otherwise generally conform to the terms of our 1990 Incentive Stock Option Plan and our 1999 Stock Plan.

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1999		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1999	
	EXERCISABLE(1)	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Kenneth E. Westrick	833,334	1,166,666		
George Yule	103,334	196,666		
Paul G. Smith	133,334	266,666		
Laurie Conner	85,000	215,000		
Dr. Timothy Day	527,334	162,666		

(1) The options vest according to the following vesting schedule: one-fifth of the shares subject to the option vest twelve months after the vesting commencement date and one-sixtieth of the shares subject to the option vest each month thereafter. Pursuant to an amendment to the 1990 Incentive Stock Option Plan and the 1999 Stock Plan, our executives may, at any time, exercise options which are unvested, subject to our right of repurchase which lapses on the same vesting schedule.

Limitations on Directors' and Officers' Liability and Indemnification

Our amended and restated certificate of incorporation to be filed upon completion of this offering limits the liability of our 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 associated with any of the following:

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

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

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

The limitation of our directors' 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 amended and restated certificate of incorporation and bylaws also provide that we shall indemnify our directors and executive officers and may indemnify our other officers and employees and other agents to the fullest extent permitted by law. We believe that indemnification under our bylaws covers at least negligence and gross 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 such capacity, regardless of whether our bylaws would permit indemnification.

We are entering into indemnification agreements with each of our officers and directors containing provisions that require us to, among other things, indemnify such officers and directors against liabilities that may arise by reason of their status or service as directors or 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 cover our directors and officers under any of our liability insurance policies applicable to our directors and officers. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

Stock Plans

1990 Incentive Stock Option Plan Our 1990 Incentive Stock Option Plan was adopted by our board of directors in July 1990 and our stockholders initially approved the plan in July 1990. Our 1990 Incentive Stock Option Plan provides for the grant of incentive stock options, which may provide for preferential tax treatment, to our employees, and for the grant of nonstatutory stock options and stock purchase rights to our employees, directors and consultants. All of the grants under the Plan have been for the grant of nonstatutory stock options.

We have reserved an aggregate of 9,900,000 shares of our common stock for issuance under this plan. As of January 31, 2000, 6,151,312 shares had been issued pursuant to the exercise of options, options to purchase 3,703,504 shares of common stock were outstanding and 45,184 shares were available for future grant. The 1990 Incentive Stock Option Plan expires in July 2000. We will not grant any additional stock options under our 1990 Incentive Stock Option Plan following the completion of this offering. Any shares reserved for issuance under the 1990 Incentive Stock Option Plan and any shares returned to the plan shall be reserved for issuance under the 2000 Stock Plan following the completion of this offering.

The 1990 Incentive Stock Option Plan provides that in the event of a change of control, each outstanding option will be assumed or an equivalent option will be granted in its place by the successor corporation. If the successor corporation refuses to assume or substitute for the options, the options will terminate as of the closing of the merger or sale of assets.

1998 Stock Plan

Our 1998 Stock Plan was adopted by our board of directors in December 1998, and our stockholders initially approved the plan in June 1999. Our 1998 Stock Plan provides for the grant of incentive stock options, which may provide for preferential tax treatment, to our employees, and for the grant of nonstatutory stock options and stock purchase rights to our employees, directors and consultants.

We have reserved an aggregate of 800,000 shares of our common stock for issuance under this plan. As of January 31, 2000, 4,000 shares had been issued pursuant to the exercise of options, options to purchase 359,600 shares of common stock were outstanding and 436,400 shares were available for future grant. We will not grant any additional stock options under our 1998 Stock Plan following the completion of this offering. Any shares reserved for issuance under the 1998 Stock Plan and any shares returned to the plan shall be reserved for issuance under the 2000 Stock Plan following the completion of this offering.

The 1998 Stock Plan provides that in the event of a change in control, each outstanding option will be assumed or an equivalent option will be granted in its place by the successor corporation. If the successor corporation refuses to assume or substitute for the options, the options will terminate as of the closing of the merger or sale of assets.

1999 Stock Plan

Our 1999 Stock Plan was adopted by our board of directors in December 1999, and our stockholders initially approved the plan in February 2000. Our 1999 Stock Plan provides for the grant of incentive stock options, which may provide for preferential tax treatment, to our employees, and for the grant of nonstatutory stock options and stock purchase rights to our employees, directors and consultants.

We have reserved an aggregate of 5,400,000 shares of our common stock for issuance under this plan. As of January 31, 2000, 1,200,000 shares had been issued pursuant to the exercise of options and stock purchase rights, options to purchase 829,200 shares of common stock were outstanding and 3,370,800 shares were available for future grant. We will not grant any additional stock options under our 1999 Stock Plan following the completion of this offering. Any shares reserved for issuance under the 1999 Stock Plan and any shares returned to the 1999 Stock Plan shall be reserved for issuance under the 2000 Stock Plan following the completion of this offering.

The 1999 Stock Plan provides that in the event of a change in control, each outstanding option will be assumed or an equivalent option will be granted in its place by the successor corporation. If the successor corporation refuses to assume or substitute for the options, the options become fully vested and exercisable.

2000 Stock Plan

Our 2000 Stock Plan was adopted by our board of directors in January 2000, and our stockholders are expected to approve the plan in March 2000. This plan provides for the grant of incentive stock options to our employees and nonstatutory stock options and stock purchase rights to our employees, directors and consultants. As of February 25, 2000, a total of 1,000,000 shares of our common stock were reserved for issuance pursuant to our 2000 Stock Plan, plus any shares reserved for issuance under the 1998 and 1999 Stock Plans and any shares returned to the 1998 and 1999 Stock Plans.

No options have yet been issued pursuant to the 2000 Stock Plan. The number of shares reserved for issuance under our 2000 Stock Plan will increase annually on the first day of our fiscal year beginning in 2001 by an amount equal to the lesser of six percent of the outstanding shares of our common stock on the first day of the year, 9,000,000 shares or such lesser amount as our board of directors may determine.

Our board of directors or a committee of our board administers the 2000 Stock Plan. The committee may consist of two or more outside directors to satisfy certain tax and securities requirements. The administrator has the power to determine the terms of the options or stock purchase rights granted, including the exercise price, the number of shares subject to each option or stock purchase right, the exercisability of the options and the form of consideration payable upon exercise. The administrator determines the exercise price of options granted under our stock option plan, but with respect to incentive stock options, the exercise price must at least be equal to the fair market value of our common stock on the date of grant. Additionally, the term of an incentive stock option may not exceed ten years. The administrator determines the term of all other options. No optionee may be granted an option to purchase more than 1,000,000 shares in any fiscal year. In connection with his or her initial service, an optionee may be granted an additional option to purchase up to 1,000,000 shares of our common stock. After termination of one of our employees, directors or consultants, he or she may exercise his or her option for the period of time stated in the option agreement. If termination is due to death or disability, the option will generally remain exercisable for 12 months following such termination. In all other cases, the option will generally remain exercisable for three months. However, an option may never be exercised later than the expiration of its term.

The administrator determines the exercise price of stock purchase rights granted under our 2000 Stock Plan. Unless the administrator determines otherwise, the restricted stock purchase agreement will grant us a repurchase option that we may exercise upon the voluntary or involuntary termination of the purchaser's service with us for any reason (including death or disability). The purchase price for shares we repurchase will generally be the original price paid by the purchaser. The administrator determines the rate at which our repurchase option will lapse. Our stock option plan generally does not allow for the transfer of options or stock purchase rights and only the optionee may exercise an option and stock purchase right during his or her lifetime.

Our 2000 Stock 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 will assume each option or stock purchase right or substitute equivalent securities. If the outstanding options or stock purchase rights are not assumed or substituted for, all outstanding options and stock purchase rights become fully vested and exercisable. The plan will automatically terminate in 2010, unless we terminate it sooner. In addition, our board of directors has the authority to amend, suspend or terminate the plan provided that any option previously granted under the plan is not adversely affected.

2000 Employee Stock Purchase Plan Concurrently with this offering, we intend to establish an employee stock purchase plan. A total of 1,000,000 shares of our common stock will be reserved for issuance. In addition, our plan provides for 51 annual increases in the number of shares reserved for

issuance under the 2000 Employee Stock Purchase Plan on the first day of our fiscal year beginning in 2001 in an amount equal to the lesser of 1.25% of the outstanding shares of our common stock on the first day of the calendar year, 1,000,000 shares, or such other lesser amount as may be determined by our board of directors. Our board of directors or a committee of our board administers the plan. Our board of directors or its committee has full and exclusive authority to interpret the terms of the plan and determine eligibility. All of our employees except those employed by New Focus Pacific Co. are eligible to participate if they are customarily employed by us or any participating subsidiary for at least 20 hours per week and more than five months in any calendar year. However, no employee shall be granted an option to purchase stock under the plan if such employee:

- immediately after the grant of the option owns stock possessing five percent or more of the total combined voting power or value of all classes of our capital stock, or - whose rights to purchase stock under all of our employee stock purchase plans accrues at a rate that exceeds $25,000 worth of stock for each calendar year.

Our plan is intended to qualify for preferential tax treatment and contains consecutive, overlapping 24-month offering periods. Each offering period includes four 6-month purchase periods. The offering periods generally start on the first trading day on or after January 31 and July 31 of each year, except for the first such offering period which will commence on the first trading day on or after the effective date of this offering and will end on the last trading day on or before July 30, 2002.

The plan permits participants to purchase common stock through payroll deductions of up to 15% of their eligible compensation, which includes all cash compensation, except signing bonus, if any, a participant's base straight time gross earnings and commissions, but excludes all other compensation paid to our employees. A participant may purchase no more than 5,000 shares during any six-month purchase period.

Amounts deducted and accumulated by the participant are used to purchase shares of our common stock at the end of each 6-month purchase period. The price is 85% of the lower of the fair market value of our common stock at the beginning of an offering period or at the end of a purchase period. If the fair market value at the end of a purchase period is less than the fair market value at the beginning of the offering period, participants will be withdrawn from the current offering period following their purchase of shares on the purchase date and will be automatically re-enrolled in a new offering period. Participants may end their participation at any time during an offering period, and will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with us.

A participant may not transfer rights granted under our 2000 Employee Stock Purchase Plan other than by will, the laws of descent and distribution or as otherwise provided under the plan.

In the event of our merger with or into another corporation or a sale of all or substantially all of our assets, a successor corporation may assume or substitute each outstanding option. 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.

Our plan will terminate in 2010. However, our board of directors has the authority to amend or terminate our plan, except that, subject to certain exceptions described in the plan, no such action may adversely affect any outstanding rights to purchase stock under our plan.

2000 Director Option Plan Our board of directors adopted the 2000 Director Option Plan in February 2000 and our stockholders are expected to initially approved the plan in March 2000. The 2000 Director Option Plan provides for the periodic grant of nonstatutory stock options to our non-employee directors. As of February 25, 2000, a total of 200,000 shares were reserved for issuance under the plan, of which no options were issued and outstanding as of this date.

All grants of options to our non-employee directors under the 2000 Director Option Plan are automatic. We will grant to each individual who first become a non-employee director on or after the completion of this offering, an option to purchase 25,000 shares when such person first becomes a non-employee director (except for those directors who become non-employee directors by ceasing to be employee directors). Twenty percent (20%) of the shares subject to the option become exercisable on each anniversary of the date of grant provided the individual remains an outside director on such dates.

Each outside director shall automatically be granted an option to purchase 5,000 shares on each annual meeting of our stockholders occurring after the end of our fiscal year 2000, if immediately after such meeting, he or she shall continue to serve on the board and has been a director for at least 6 months prior to the annual shareholders meeting. 100% of the shares subject to the annual options vest on the one year anniversary from the date of grant, provided the individual remains our outside director on such dates.

All options granted under our 2000 Director Option Plan have a term of ten years and an exercise price equal to fair market value on the date of grant. After termination as a non-employee director with us, an optionee must exercise an option at the time set forth in his or her option agreement. If termination is due to death or disability, the option will remain exercisable for 12 months. In all other cases, the option will remain exercisable for a period of three months. However, an option may never be exercised later than the expiration of its term. A non-employee director may not transfer options granted under our 2000 Director Option Plan other than by will or the laws of descent and distribution. Only the non-employee director may exercise the option during his or her lifetime.

In the event of a change of control, all of the outstanding options become fully vested and exercisable.

Unless terminated sooner, our 2000 Director Option Plan will automatically terminate in 2010. Our board of directors has the authority to amend, alter, suspend, or discontinue the plan, but no such action may adversely affect any grant made under the plan.

401(K) Plan

In April, 1993, we adopted a 401(k) Profit Sharing Plan and Trust covering our employees who (a) are age 21 as of the 401(k) Profit Sharing Plan and Trust effective date, and/or (b) have at 1,000 hours of service credited as of their anniversary hire date with us and for every plan year thereafter. The 401(k) Profit Sharing Plan and Trust excludes nonresident alien employees. Our 401(k) Profit Sharing Plan and Trust is intended to qualify under Section 401(k) of the United States tax code, so that contributions to the 401(k) Profit Sharing Plan and Trust by employees or by us and the investment earnings thereon are not taxable to the employees until withdrawn. If our 401(k) Profit Sharing Plan and Trust qualifies under Section 401(k) of the United States tax code, our contributions will be deductible by us when made. Our employees may elect to reduce their current compensation by up to the statutorily prescribed annual limit of $10,500 in 2000 and to have those funds contributed to the 401(k) Profit Sharing Plan and Trust. The 401(k) Profit Sharing Plan and Trust permits us, but does not require us, to make additional matching contributions on behalf of all participants. To date, we have not made any contributions to the 401(k) Profit Sharing Plan and Trust.

Employment and Change-of-control Agreements

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

Laurie Conner. In June 1998, Laurie Conner accepted our offer of employment. The terms of Ms. Conner's employment with us provided that if her employment with us were to be terminated as a result of a change of control, Ms. Conner would continue to receive her salary for the earlier of three months or attaining subsequent employment. On December 16, 1999, we entered into a separation and general release agreement with Laurie Conner under which Laurie Conner's employment relationship with us terminated as of February 15, 2000, at which time Ms. Conner's salary and benefits terminated and her unvested options ceased to vest.

Bao-Tong Ma. In October 1999, Bao-Tong Ma accepted our offer of employment. The terms of Mr. Ma's employment provide that if we terminate his employment without cause prior to the first anniversary of employment, Mr. Ma would receive his salary until the earlier of 24 months or new employment. Mr. Ma's stock options would cease to vest upon termination. If Mr. Ma's employment is terminated after the first anniversary of employment, but prior to the second anniversary, Mr. Ma would continue to receive his salary for 12 months. If Mr. Ma's employment is terminated after the second anniversary, but prior to the third anniversary, Mr. Ma would receive his salary six months. If Mr. Ma's employment is terminated following the third anniversary of employment, he will not receive any severance.

Charles Boppell. In January 1998, we entered into a change of control agreement with Charles Boppell under which any unvested non-statutory stock options granted to Mr. Boppell on July 29, 1990, March 1, 1992 and January 17, 1996, each vesting over five years at the rate of one-fifth after the first year and one-sixtieth per month thereafter, will vest immediately upon a change of control.

In January 2000, we amended our stock option agreements with Kenneth E. Westrick, George Yule, Paul Smith and Dr. Timothy Day to give these officers the right to purchase both vested and unvested shares and to pay for the shares with a promissory note. In addition, we amended the stock option agreements to provide that if the employment or consulting relationship of these officers is terminated involuntarily within 18 months of a change in control then 50% of their unvested options shall vest.

Certain Transactions

Other than compensation agreements and other arrangements, which are described as required in "Management," and the transactions described below, for the last three years, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party:

- in which the amount involved exceeded or will exceed $60,000, and - in which any director, executive officer, holder of more than 5% of our common stock on an as-converted basis or any member of their immediate family had or will have a direct or indirect material interest.

We believe that each of the transactions described below were on terms no less favorable than could have been obtained from unaffiliated third parties. All future transactions between us and any director or executive officer will be subject to approval by a majority of the disinterested members of our board of directors.

Series D Preferred Stock.

On July 31, 1998, and August 6, 1998, we sold 3,977,000 shares of our Series D preferred stock at a price of $1.00 per share. The purchasers of the Series D preferred stock included, among others:

PURCHASER	SHARES OF SERIES D STOCK	AS CONVERTED SHARES OF COMMON STOCK
George Yule	44,000	44,000
John Dexheimer	125,000	125,000

Series E Preferred Stock.

On June 14, 1999, we sold 10,857,616 shares of our Series E preferred stock at a price of $1.20 per share. The purchasers of the Series E preferred stock included, among others:

PURCHASER	SHARES OF SERIES E STOCK	AS CONVERTED SHARES OF COMMON STOCK
Kenneth E. Westrick	416,668	416,668
Morgenthaler Venture Partners V, L.P.	5,000,000	5,000,000
U.S. Venture Partners VI, L.P.	5,000,000	5,000,000

Series G Preferred Stock.

On November 23, 1999, December 7, 1999 and December 28, 1999 we sold 9,230,728 shares of our Series G preferred stock at a price of $3.25 per share. The purchasers of the Series G preferred stock included, among others:

PURCHASER	SHARES OF SERIES G STOCK	AS CONVERTED SHARES OF COMMON STOCK
Clark Harris	40,000	40,000
Morgenthaler Venture Partners, V, L.P.	1,384,614	1,384,614
Entities Affiliated with U.S. Venture Partners	1,384,614	1,384,614

Loans from Shareholder

From April 1991 to September 1997, Dr. Milton Chang loaned us a total of $1,600,000. On July 7, 1999, we repaid all of the outstanding principal and interest owing under the promissory note, which totaled approximately $2,400,000, however, Dr. Chang agreed to loan us up to $2,424,000 upon thirty (30) days written request. This agreement was terminated in December 1999. 55

Loans to Officers

The following is a list of loans made by us to certain of our officers, in connection with the purchase of shares of our stock. Each of these loans were made pursuant to a full recourse promissory note secured by a stock pledge. The notes bear no interest but interest will be imputed and reported annually as compensation on the officer's W-2. All unvested shares purchased by the officers are subject to repurchase by us at the original exercise price if the officer's employment is terminated.

On January 12, 2000, we loaned $1,044,208 to Kenneth Westrick, our President and Chief Executive Officer, secured by a stock pledge, in connection with the purchase of 2,000,000 shares of our common stock at $.462 per share and associated costs. The note is interest-free and is due and payable on January 11, 2005. The entire principal amount on this note remains outstanding.

On January 12, 2000, we loaned $375,000 to Paul Smith, our Vice President, General Manager, Telecom, secured by a stock pledge, in connection with the purchase of 600,000 shares of our common stock at $.625 per share. The note is interest-free and is due and payable on January 11, 2005. The entire principal amount on this note remains outstanding.

On January 12, 2000, we loaned $312,500 to Bao-Tong Ma, our Vice President, General Manager, New Focus Pacific Co., secured by a stock pledge, in connection with the purchase of 500,000 shares of our common stock at $.625 per share. The note is interest-free and is due and payable on January 11, 2005. The entire principal amount on this note remains outstanding.

On January 12, 2000, we loaned $173,134 to George Yule, our Vice President, Vice President, Operations, secured by a stock pledge, in connection with the purchase of 100,000 shares of our common stock at $.625 and 200,000 shares of our common stock at $.512 per share and associated costs. The note is interest-free and is due and payable on January 11, 2005. The entire principal amount on this note remains outstanding.

On January 12, 2000, we loaned $137,232 to Rob Marsland, our Vice President, Focused Research secured by a stock pledge, in connection with the purchase of 70,000 shares of our common stock at $.625 per share and 400,000 shares of our common stock at $.0025 per share and associated costs. The note is interest-free and is due and payable on January 11, 2005. The entire principal amount on this note remains outstanding.

On January 12, 2000, we loaned $255,483 to Timothy Day, our Chief Technology Officer and Vice President, Operations, Telecom, secured by a stock pledge, in connection with the purchase of 400,000 shares of our common stock at $.0025 per share, 100,000 shares of our common stock at $.462 per share, 120,000 shares of our common stock at $.512 per share and 70,000 shares of our common stock at $.625 per share and associated costs. The note is interest-free and is due and payable on January 11, 2005. The entire principal amount on this note remains outstanding.

On February 9, 2000 we loaned $375,000 to Kenneth E. Westrick, our President and Chief Executive Officer, secured by a stock pledge, in connection with the sale of 300,000 shares of our common stock at $1.25 per share. The note is interest-free and is due and payable on February 9, 2005. The entire principal amount on this note remains outstanding.

On February 9, 2000 we loaned $125,000 to Paul G. Smith, our Vice President, General Manager, Telecom, secured by a stock pledge, in connection with the sale of 100,000 shares of our common stock at $1.25 per share. The note is interest-free and is due and payable on February 9, 2005. The entire principal amount on this note remains outstanding.

On February 9, 2000 we loaned $125,000 to Dr. Robert A. Marsland, our Vice President, secured by a stock pledge, in connection with the sale of 100,000 shares of our common stock at $1.25 per share. The note is interest-free and is due and payable on February 9, 2005. The entire principal amount on this note remains outstanding.

On February 9, 2000 we loaned $375,000 to Dr. Timothy Day, our Chief Technical Officer and Vice President Engineering, Telecom, secured by a stock pledge, in connection with the sale of 300,000 shares of our common stock at $1.25 per share. The note is interest-free and is due and payable on February 9, 2005. The entire principal amount on this note remains outstanding.

Other Matters

From 1990 to 1997, Dr. Chang served as our President and Chief Executive Officer. Since 1997, we have employed Dr. Chang in a research and marketing capacity. Dr. Chang received compensation of $80,539, $110,000 and $110,000 for the nine-month period ended December 31, 1999, fiscal year

ended March 31, 1999 and fiscal year ended March 31, 1998, respectively.

On March 3, 1999 and November 1, 1999, we entered into consulting agreements with John Dexheimer, one of our directors, for services to be rendered in connection with our Series E, Series F and Series G Preferred Stock financings. Pursuant to these agreements, Mr. Dexheimer received warrants to purchase 111,972 shares of Series E Preferred Stock at an exercise price of $1.20 per share and a cash payment of $618,731.

Indemnification

We will enter into indemnification agreements with each of our directors and officers. Such indemnification agreements will require us to indemnify our directors and officers to the fullest extent permitted by Delaware law. For a description of the limitation of our directors' liability and our indemnification of officers, see "Limitation on Directors' and Officers' Liability and Indemnification."

Employment Agreements

We have entered into employment arrangements, compensation arrangements and severance arrangements with certain of our executive officers, see "Management -- Employment and Change-of-Control Agreements" and "-- Executive Officers -- Compensation." For information regarding stock options, see "Management -- Stock Plans."

Future Transactions

All future transactions, including any loans from us to our officers, directors, principal stockholders or affiliates, will be approved by a majority of the board of directors, including a majority of the independent and disinterested members of the board of directors or, if required by law, a majority of disinterested stockholders, and will be on terms no less favorable to us than could be obtained from unaffiliated third parties.

Principal Stockholders

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of January 31, 2000, and as adjusted to reflect the sale of common stock offered hereby by the following:

- each stockholder known by us to own beneficially more than 5% of our common stock;

- each of our executive officers named in the compensation table above;

- each of our directors; and - all directors and executive officers as a group.

As of January 31, 2000, there were 51,015,596 shares of our common stock outstanding, assuming that all outstanding preferred stock has been converted into common stock and the exercise of warrants to purchase 121,140 shares of common stock. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed below, based on the information furnished by such owners, have sole voting power and investment power with respect to such shares. Beneficial ownership is determined in accordance with the rules of the Securities Exchange Commission. In computing the number of shares beneficially owned by a person and the percent ownership of that person, shares of common stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days after January 31, 2000 are deemed outstanding, while such shares are not deemed outstanding for purposes of computing percent ownership of any other person. Unless otherwise indicated in the footnotes below, the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

		PERCENT OF SHARES OUTSTANDING	
NAME OR GROUP OF BENEFICIAL OWNERS	SHARES BENEFICIALLY OWNED	PRIOR TO OFFERING	AFTER OFFERING
DIRECTORS AND EXECUTIVE OFFICERS			
Kenneth E. Westrick(1)	2,297,334	4.5%	
Timothy Day(2)	810,000	1.6	
Robert A. Marsland(3)	670,000	1.3	
Paul Smith(4)	600,000	1.2	
George Yule(5)	344,000	*	
Charles Boppell(6)	170,800	*	
Dr. Milton Chang(7)	13,101,456	25.7	
John Dexheimer(8)	147,666	*	
Dr. Winston S. Fu(9)	6,384,614	12.5	
R. Clark Harris(10)	57,334	*	
Robert Pavey(11)	6,384,614	12.5	
All directors and officers as a group (12 persons)(12)	31,564,742	60.4	
5% STOCKHOLDERS			
Chang Partners, A California Limited Partnership	8,000,000	15.7	
Morgenthaler Venture Partners V, L.P	6,384,614	12.5	
U.S. Venture Partners	6,287,690	12.5	

* Denotes less than one percent of the outstanding stock.

(1) Includes 1,133,332 subject to our right of repurchase which lapses over time. Also includes 21,080 shares held by Mr. Westrick's minor daughter and 22,600 shares held by Mr. Westrick's minor son.

(2) Includes 157,834 shares subject to our right of repurchase, which lapses over time.

(3) Includes 52,500 shares subject to our right of repurchase, which lapses over time.

(4) Includes 460,000 shares subject to our right of repurchase, which lapses over time.

(5) Includes 95,834 shares subject to our right of repurchase, which lapses over time.

(6) Includes 142,000 shares subject to options, which are exercisable within 60 days of January 31, 2000.

(7) Includes 8,000,000 shares held by Chang Partners, a California limited partnership, of which Mr. Chang is a general partner.

(8) Includes 22,666 shares subject to an option, which is exercisable within 60 days of January 31, 2000.

(9) Includes 6,287,690 shares held by U.S. Venture Partners VI, L.P., 40,154 shares held by USVP VI Entrepreneurs Partners, L.P., 36,000 shares held by USVP VI Affiliates Fund, L.P. and 20,770 shares held by 2180 Associates Fund VI, L.P. Mr. Fu is an associate of U.S. Venture Partners. Mr. Fu disclaims beneficial ownership of shares held by this entity, except to the extent of his pecuniary interest in these entities.

(10) Includes 17,334 shares subject to an option exercisable within 60 days of January 31, 2000.

(11) Includes 6,384,614 shares held by Morgenthaler Ventures Partners V, L.P. Mr. Pavey is a partner at Morgenthaler Ventures. Mr. Pavey disclaims beneficial ownership of shares held by this entity, except to the extent of his pecuniary interest in these entities.

(12) Includes an aggregate of 182,000 shares subject to options exercisable within 60 days of January 31, 2000 and 1,899,500 shares subject to our right of repurchase, which lapses over time.

Description of Capital Stock

Upon the completion of this offering, we will be authorized to issue 260,000,000 shares, $0.001 par value per share, to be divided into two classes to be designated common stock and preferred stock. Of the shares authorized, 250,000,000 shares shall be designated as common stock and 10,000,000 shares shall be designated as preferred stock. The following description of our capital stock is only a summary. You should refer to our certificate of incorporation and bylaws as in effect upon the closing of this offering, 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 January 31, 2000, and assuming the conversion of all outstanding shares of preferred stock into common stock, there were 50,894,456 shares of common stock outstanding which were held of record by approximately 183 stockholders. There will be shares of common stock outstanding (assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options after January 31, 1999) after giving effect to the sale of our common stock in this offering. In addition to 4,900,304 shares issuable upon exercise of outstanding options under our 1990 Incentive Stock Option Plan, 1998 Stock Plan and 1999 Stock Plan, as of January 31, 2000, there are an aggregate of 2,200,000 shares reserved for issuance under our 2000 Stock Plan, 2000 Employee Stock Purchase Plan and 2000 Director Option Plan. See "Management -- Stock Plans" for a description of our stock plans.

The holders of our common stock are entitled to one vote per share held of record on all matters submitted to a vote of the stockholders. Our amended and restated certificate of incorporation to be filed concurrently with completion of this offering does not provide for cumulative voting in the election of directors. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of our common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by our board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, holders of our 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. Holders of our common stock have no preemptive or other subscription or conversion rights. There are no redemption or sinking fund provisions applicable to our common stock. All outstanding shares of common stock are fully paid and non-assessable, and the shares of common stock to be issued upon the completion of this offering will be fully paid and non-assessable.

Preferred Stock

Our certificate of incorporation filed in connection with this offering provides that our board of directors has the authority, without action by the stockholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences and privileges of each series. The rights, preferences and privileges of each series of preferred stock may be greater than the rights of our common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of our common stock until the board of directors determines the specific rights of the holders of any preferred stock that may be issued. However, the effects might include, among other things: (1) restricting dividends on the common stock, (2) diluting the voting power of the common stock, (3) impairing the liquidation rights of the common stock and (4) delaying or preventing a change in our control without further action by the stockholders. Upon the closing of this offering, no shares of preferred stock will be outstanding, and we have no present plans to issue any shares of preferred stock.

Registration Rights

Pursuant to a registration rights agreement we entered into with holders of shares of our preferred stock (36,681,038 shares assuming conversion of all outstanding shares of preferred stock), the holders of these shares are entitled to certain registration rights regarding these shares. The registration rights provide that if we propose to register any securities under the Securities Act, either for our own account or for the account of other security holders exercising registration rights, they are entitled to notice of the registration and are entitled to include shares of their common stock in the registration. This right is subject to conditions and limitations, including the right of the underwriters in an offering to limit the number of shares included in the registration. The holders of these shares may also require us to file up to two registration statements under the Securities Act at our expense with respect to their shares of common stock. We are required to us our best efforts to effect this registration, subject to

conditions and limitations. Furthermore, the holders of these shares may require us to file additional registration statements on Form S-3, subject to conditions and limitations. These rights terminate on the earlier of five years after the effective date of this offering, or when a holder is able to sell all its shares pursuant to Rule 144 under the Securities Action in any 90-day period.

Delaware Anti-takeover Law and Certain Charter and Bylaw Provisions

Certain provisions of Delaware law and our certificate of incorporation and bylaws could make more difficult the acquisition of our company by means of a tender offer, a proxy contest or otherwise and the removal of incumbent officers and directors. These provisions, summarized below, may discourage certain types of coercive takeover practices and inadequate takeover bids and encourage persons seeking to acquire control of our company to first negotiate with our company. We believe that the benefits of increased protection of our company's potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure our company outweigh the disadvantages of discouraging such proposals because, among other things, negotiation of such 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 certain 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 bylaws eliminate the right of stockholders to act by written consent without a meeting and require a majority of stockholders to call a special meeting. Our certificate of incorporation and bylaws do not provide for cumulative voting in the election of directors. The authorization of undesignated preferred stock makes it possible for the board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of our company. These and other provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of our company. The amendment of any of these provisions would require approval by holders of at least 66 2/3% of our outstanding common stock.

Section 203

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is .

Nasdaq Stock Market National Market Listing

We have applied to list our common stock on The Nasdaq Stock Market's National Market under the symbol "NUFO."

Shares Eligible for Future Sale

Prior to this offering, there has been no public market for our stock. Future sales of substantial amounts of our common stock in the public market following this offering or the possibility of such sales occurring could adversely affect market prices for our common stock or could impair our ability to raise capital through an offering of equity securities. Furthermore, since no shares will be available for sale shortly after this offering because of contractual and legal restrictions on resale as described below, sales of substantial amounts of our common stock in the public after these restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering, we will have shares of common stock outstanding (assuming conversion of all of the currently outstanding shares of preferred stock) based on shares outstanding as of January 31, 2000, and assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options. All of the shares sold in this offering will be freely transferable without restriction under the Securities Act. However, the sale of any of these shares if purchased by "affiliates" as that term is defined in Rule 144 are subject to certain limitations and restrictions that are described below.

The remaining 51,015,596 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. These shares are "restricted shares" as that term is defined in Rule 144 and therefore may not be sold publicly unless they are registered under the Securities Act or are sold pursuant to Rule 144 or another exemption from registration. In addition, our directors and officers as well as other stockholders and optionholders have entered into "lock-up agreements" with the underwriters. These lock-up agreements provide that, except under limited exceptions, the stockholder or optionholder may not offer, sell, contract to sell or otherwise dispose of any of our common stock or securities that are convertible into or exchangeable for, or that represent the right to receive, our common stock for a period of 180 days after the date of this prospectus. The underwriters , however, may in their sole discretion, at any time without notice, release all or any portion of the shares subject to lock-up agreements. Accordingly, of the remaining 51,015,596 shares, 41,663,728 shares will become eligible for sale 180 days after the effective date subject to Rules 144 and 701.

As of January 31, 2000, there were a total of 4,900,304 shares of common stock subject to outstanding options under our 1990 Incentive Stock Option Plan, 1998 Stock Plan and our 1999 Stock Plan, 1,461,836 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, our 2000 Employee Stock Purchase Plan and our 2000 Director Option Plan. On the date 180 days after the effective date of the offering, the date that the lock-up agreements expire, a total of 2,277,812 shares of our common stock subject to outstanding options will be vested. After the effective dates of the registration statements on Form S-8, shares purchased upon exercise of options granted pursuant to our 1998 Stock Plan, our 1990 Incentive Stock Option Plan, our 2000 Employee Stock Purchase Plan and our 2000 Director Option Plan generally would be available for resale in the public market.

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 shares. An affiliate who has 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 Stock Market's 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 certain 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 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, generally 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 purchase 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 certain restrictions, including the holding period, contained in Rule 144.

The SEC 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 of 1934, 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. Securities issued in reliance on Rule 701 may be sold by "affiliates" under Rule 144 without compliance with its one year minimum holding period requirement.

Underwriting

Under the terms and subject to the conditions contained in an underwriting agreement dated , we have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston Corporation, Chase Securities Inc., Dain Rauscher Incorporated and U.S. Bancorp Piper Jaffray Inc. are acting as representatives, the following respective numbers of shares of common stock:

Number Underwriter of Shares Credit Suisse First Boston Corporation..... Chase Securities Inc..... Dain Rauscher Incorporated..... U.S. Bancorp Piper Jaffray Inc..... Total.....

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below.

The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering of common stock may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to additional shares at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a concession of $ per share. The underwriters and selling group members may allow a discount of $ per share on sales to other broker/dealers. After the initial public offering, the public offering price and concession and discount to broker/dealers may be changed by the representatives.

The following table summarizes the compensation and estimated expenses we will pay.

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting Discounts and Commissions paid by us.....	$	$	$	$
Expenses payable by us.....	$	$	$	$

The underwriters have informed us that they do not expect discretionary sales to exceed 5% of the shares of common stock being offered.

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any such offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus, except issuances pursuant to the exercise of employee stock options outstanding on the date hereof or pursuant to our dividend reinvestment plan.

Our officers and directors and stockholders have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any such aforementioned transaction is to be settled by delivery of our common stock or such other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus.

The underwriters have reserved for sale, at the initial public offering price up to shares of the common stock for employees, directors and certain other persons associated with us who have expressed an interest in purchasing common stock in the offering. The number of shares available for sale to the general public in the offering will be reduced to the extent such persons purchase such reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

We have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments which the underwriters may be required to make in that respect.

We have applied to list the shares of common stock on The Nasdaq Stock Market's National Market under the symbol "NUFO".

The representatives may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934.

- Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions.

- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the common stock to be higher than it would otherwise be in the absence of these transactions. These transactions may be effected on The Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

Notice to Canadian Residents

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are effected. Accordingly, any resale of the common stock in Canada must be made in accordance with applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with available statutory exemptions or pursuant to a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

Representations of Purchasers

Each purchaser of common stock in Canada who receives a purchase confirmation will be deemed to represent to us and the dealer from whom such purchase confirmation is received that (i) such purchaser is entitled under applicable provincial securities laws to purchase such common stock without the benefit of a prospectus qualified under such securities laws, (ii) where required by law, that such purchaser is purchasing as principal and not as agent, and (iii) such purchaser has reviewed the text above under "Resale Restrictions".

Rights of Action (Ontario Purchasers)

The securities being offered are those of a foreign issuer and Ontario purchasers will not receive the contractual right of action prescribed by Ontario securities law. As a result, Ontario purchasers must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of the U.S. federal securities laws.

Enforcement of Legal Rights

All of the issuer's directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the issuer or such persons. All or a substantial portion of the assets of the issuer and such persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the issuer or such persons in Canada or to enforce a judgment obtained in Canadian courts against such issuer or persons outside of Canada.

Notice to British Columbia Residents

A purchaser of common stock to whom the Securities Act (British Columbia) applies is advised that such purchaser is required to file with the British Columbia Securities Commission a report within ten days of the sale of any common stock acquired by such purchaser pursuant to this offering. Such report must be in the form attached to British Columbia Securities Commission Blanket Order BOR #95/17, a copy of which may be obtained from us. Only one such report must be filed in respect of common stock acquired on the same date and under the same prospectus exemption.

Taxation and Eligibility for Investment

Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and with respect to the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

Legal Matters

The validity of the common stock offered hereby will be passed upon for us by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California. Legal matters will be passed upon for the underwriters by Brobeck, Phleger & Harrison LLP, San Francisco, California.

Experts

Ernst & Young LLP, independent auditors have audited our consolidated financial statements and schedule at March 31, 1999 and December 31, 1999 and for each of the two years in the period ended March 31, 1999, and for the nine months ended December 31, 1999 as described in their report. We have included our financial statements and schedule in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given upon their authority as experts in accounting and auditing.

Additional Information

We have filed with the Securities and Exchange Commission, Washington, D.C., a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered hereby. This prospectus does not contain all the information set forth in the registration statement and the exhibits and schedules thereto. For further information with respect to us and our common stock, reference is made to the registration statement and to the exhibits and schedules filed therewith. Statements contained in this prospectus as to the contents of any contract or other document referred to are not necessarily complete, and in each instance reference is made to the copy of the contract or other document filed as an exhibit to the registration statement, each statement being qualified in all respects by this reference. A copy of the registration statement may be inspected by anyone without charge at the Public Reference Section of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of all or any portion of the registration statement may be obtained from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, upon payment of prescribed fees. The Commission maintains a Web site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

New Focus, Inc.

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Report of Ernst & Young Llp, Independent Auditors

The Board of Directors and Shareholders New Focus, Inc.

We have audited the accompanying consolidated balance sheets of New Focus, Inc. as of March 31, 1999 and December 31, 1999, and the related consolidated statements of operations, shareholders' equity (net capital deficiency), and cash flows for each of the two years in the period ended March 31, 1999, and for the nine-month period ended December 31, 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 auditing standards generally accepted in the United States. 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 consolidated financial position of New Focus, Inc. at March 31, 1999 and December 31, 1999, and the consolidated results of its operations and its cash flows for each of the two years in the period ended March 31, 1999, and for the nine-month period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP San Jose, California February 25, 2000, except as to Note 12, as to which the date is March , 2000 The foregoing report is in the form that will be signed upon the completion of the Company's reincorporation in the state of Delaware.

/s/ ERNST & YOUNG LLP San Jose, California February 29, 2000

New Focus, Inc.

Consolidated Balance Sheets (In Thousands, Except Share and Per Share Amounts)

Assets

	MARCH 31, 1999	DECEMBER 31, 1999	UNAUDITED PRO FORMA STOCKHOLDERS' EQUITY DECEMBER 31, 1999
Current assets:			
Cash and cash equivalents	$ 51	$ 28,067	
Accounts receivable, less allowance for doubtful accounts of $135 at March 31, 1999 and $160 at December 31, 1999	2,064	3,102	
Unbilled receivables	192	121	
Inventories	3,654	6,217	
Prepaid expenses and other current assets	141	243	
Total current assets	6,102	37,750	
Fixed assets, net	1,880	6,895	
Other assets, net of accumulated amortization of $29 at March 31, 1999 and $56 at December 31, 1999	258	207	
Total assets	$ 8,240	$ 44,852	
LIABILITIES AND STOCKHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)			
Current liabilities:			

Loans payable to bank	$ 1,755	$ --	
Accounts payable	1,788	5,658	
Accrued expenses	1,567	2,540	
Deferred research and development funding	250	250	
Current portion of long-term debt	263	276	
Total current liabilities	5,623	8,724	
Notes payable to stockholder/director	2,305	--	
Accrued interest to stockholder/director	117	--	
Long-term debt, less current portion	588	368	
Deferred rent	790	747	
Commitments and contingencies			
Stockholders' equity (net capital deficiency):			
Series A through G convertible preferred stock, $0.001 par value: Authorized shares -- 44,083,326 Issued and outstanding shares -- 20,737,000 at March 31, 1999 and 41,939,144 at December 31, 1999 (liquidation preference of $99,340 at December 31, 1999)	21	42	$ --
Common stock, $0.001 par value: Authorized shares -- 80,000,000 Issued and outstanding shares -- 2,410,380 at March 31, 1999 and 2,578,824 at December 31, 1999, and 44,517,968 pro forma	2	2	44
Additional paid-in capital	6,627	51,168	51,168
Deferred compensation	--	(689)	(689)
Accumulated deficit	(7,833)	(15,510)	(15,510)
Total stockholders' equity (net capital deficiency)	(1,183)	35,013	$ 35,013
Total liabilities and stockholders' equity (net capital deficiency)	$ 8,240	$ 44,852	

See accompanying notes. F-3

New Focus, Inc.

Consolidated Statements of Operations (In Thousands, Except Per Share Amounts)

	YEARS ENDED MARCH 31, 1998	1999	NINE MONTHS ENDED DECEMBER 31, 1999
Net revenues	$15,482	$17,285	$18,101
Cost of net revenues(1)	8,186	9,225	12,525
Gross profit	7,296	8,060	5,576
Operating expenses:			
Research and development(2)	6,188	9,115	8,386
Less funding received from research and development contracts	(2,467)	(1,736)	(1,034)
Net research and development	3,721	7,379	7,352
Sales and marketing(3)	2,193	2,987	2,982
General and administrative(4)	1,355	2,360	2,704
Deferred compensation	--	--	132
Total operating expenses	7,269	12,726	13,170
Operating income (loss)	27	(4,666)	(7,594)
Interest expense	(328)	(327)	(176)

Other income, net	25	24	95
Loss before provision for income taxes	(276)	(4,969)	(7,675)
Provision for income taxes	10	2	2
Net loss	$ (286)	$(4,971)	$(7,677)
Historical basic and diluted net loss per share	$ (0.25)	$ (2.18)	$ (3.11)
Shares used to compute historical basic and diluted net loss per share	1,148	2,284	2,468
Pro forma basic and diluted net loss per share			$ (0.24)
Shares used to compute pro forma basic and diluted net loss per share			32,223

(1) Excluding $62 in amortization of deferred stock based compensation (2) Excluding $54 in amortization of deferred stock based compensation (3) Excluding $10 in amortization of deferred stock based compensation (4) Excluding $6 in amortization of deferred stock based compensation See accompanying notes. F-4

New Focus, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (NET CAPITAL DEFICIENCY) (IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN	DEFERRED	ACCUMULATED	
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	COMPENSATION	DEFICIT	TOTAL
Balance at March 31, 1997	16,160,000	$16	1,127,180	$1	$ 2,128	$ --	$ (2,576)	$ (431)
Issuance of common stock from exercise of options	--	--	157,716	--	16	--	--	16
Repurchase of common stock	--	--	(8,996)	--	(1)	--	--	(1)
Net loss	--	--	--	--	--	--	(286)	(286)
Balance at March 31, 1998	16,160,000	16	1,275,900	1	2,143	--	(2,862)	(702)
Issuance of Series C preferred stock, net of issuance cost of $16	600,000	1	--	--	493	--	--	494
Issuance of Series D preferred stock, net of issuance cost of $54	3,977,000	4	--	--	3,919	--	--	3,923
Issuance of common stock from exercise of options	--	--	1,443,444	1	187	--	--	188
Repurchase of common stock	--	--	(308,964)	--	(193)	--	--	(193)
Warrant issued to long-term creditor	--	--	--	--	78	--	--	78
Net loss	--	--	--	--	--	--	(4,971)	(4,971)
Balance at March 31, 1999	20,737,000	21	2,410,380	2	6,627	--	(7,833)	(1,183)
Issuance of Series E preferred								

stock, net of issuance cost of $489	10,857,616	11	--	--	12,526	--	--	12,537
Issuance of Series F preferred stock, net of issuance cost of $28	1,113,800	1	--	--	1,307	--	--	1,308
Issuance of Series G preferred stock, net of issuance cost of $160	9,230,728	9	--	--	29,832	--	--	29,841
Issuance of common stock from exercise of options	--	--	168,444	--	55	--	--	55
Deferred compensation	--	--	--	--	821	(821)	--	--
Amortization of deferred compensation	--	--	--	--	--	132	--	132
Net loss	--	--	--	--	--	--	(7,677)	(7,677)
Balance at December 31, 1999	41,939,144	$42	2,578,824	$2	$51,168	$(689)	$(15,510)	$35,013

See accompanying notes. F-5

New Focus, Inc.

Consolidated Statements of Cash Flows (In Thousands)

	YEARS ENDED MARCH 31,		NINE MONTHS ENDED DECEMBER 31,
	1998	1999	1999
OPERATING ACTIVITIES			
Net loss	$ (286)	$(4,971)	$(7,677)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation of fixed assets	475	588	756
Amortization of intangibles	41	10	27
Amortization of deferred compensation	--	--	132
Deferred rent	184	--	(43)
Changes in operating assets and liabilities:			
Accounts receivable and unbilled receivables	(1,231)	372	(967)
Inventories	(1,515)	184	(2,563)
Prepaid expenses and other current assets	(78)	93	(102)
Accounts payable	1,137	(884)	3,870
Accrued expenses and accrued interest to stockholder	440	697	856
Deferred research and development funding	250	--	--
Net cash used in operating activities	(583)	(3,911)	(5,711)
INVESTING ACTIVITIES			
Acquisition of property and equipment	(396)	(1,359)	(5,771)
Decrease in other assets	17	2	24
Net cash used in investing activities	(379)	(1,357)	(5,747)
FINANCING ACTIVITIES			
Proceeds from notes payable to stockholders	400	200	--
Proceeds from bank loans	1,395	1,755	1,245
Proceeds from issuance of preferred stock	--	4,217	43,686

Proceeds from equipment loan	--	800	--
Proceeds from capital lease obligations	--	35	--
Payments on notes payable	(19)	(21)	(2,305)
Payments on bank loan	(828)	(1,772)	(3,000)
Payments on equipment loan	--	(50)	(195)
Payments under capital lease obligations	(55)	(36)	(12)
Proceeds from exercise of stock options	16	188	55
Repurchase of common stock	(1)	(193)	--
Net cash provided by financing activities	908	5,123	39,474
Increase (decrease) in cash	(54)	(145)	28,016
Cash at beginning of period	250	196	51
Cash at end of period	$ 196	$ 51	$28,067
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid for interest	$ 174	$ 155	$ 188
Promissory note payable converted to equity	$ --	$ 200	$ --
Interest on note converted to principal	$ --	$ 680	$ --
Warrant issued to long-term creditor	$ --	$ 78	$ --

See accompanying notes. F-6

New Focus, Inc.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Description of Business New Focus, Inc. (the Company) was incorporated in California on April 17, 1990. The Company is engaged in developing, manufacturing, and marketing telecommunications equipment and photonics products primarily for use in the telecommunications and research markets.

Basis of Presentation The consolidated financial statements include the Company and its wholly owned subsidiary, Focused Research, Inc. All intercompany transactions and balances have been eliminated.

During 1999, the Company changed its year end to December 31, 1999 from March 31, 2000.

Cash Equivalents

Cash equivalents consist of a money market fund. For purposes of the accompanying statements of cash flows, the Company considers all such liquid instruments with an original maturity date of three months or less to be cash equivalents. The fair value, based on quoted market prices of the cash equivalents, is substantially equal to their carrying value at March 31, 1999 and December 31, 1999.

Inventories

Inventories are stated at the lower of cost or market on a first-in, first-out basis. Inventories consist of the following:

	MARCH 31, 1999	DECEMBER 31, 1999
	(IN THOUSANDS)	

Raw Materials	$1,994	$3,247
Work in Progress	372	1,283
Finished Goods	1,288	1,687
Total	$3,654	$6,217

Fixed Assets

The Company records its property and equipment at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years. Amortization is computed on leasehold improvements using the straight-line method over the shorter of the estimated useful lives of the assets or the term of the lease.

Other Assets

Other assets consist primarily of deposits as well as intangible assets. Intangible assets, consisting of goodwill and debt issuance costs from warrants relating to the Company's equipment line are amortized over their estimated useful lives of approximately three years.

In connection with the Company's acquisition in July 1996 of Palo Alto Research Corporation, the Company issued a $110,000 note payable, bearing interest at 6.74%, to the former owner of the business in exchange for $48,000 in fixed assets and $9,000 in inventory. The remaining $53,000 in the purchase price was classified as goodwill and is being amortized over four years. The terms of the note require the Company to repay this debt over four years with annual installments of $25,000 including interest. At December 31, 1999, the Company owed $23,400 in principal on this note.

Advertising Expenses

The cost of advertising is expensed as incurred. The Company's advertising costs for the fiscal years ended March 31, 1998 and 1999 and for the nine-month period ended December 31, 1999 were approximately $316,000, $342,000, and $256,967, respectively.

Revenue Recognition

Product revenue is recorded upon shipment provided there are no significant remaining obligations and collectibility is probable. The Company provides an allowance for estimated returns of defective products.

Research and Development Company-sponsored research and development costs as well as costs related to research and development contracts are currently expensed. Total expenditures for research and development in fiscal 1998 and 1999, and the nine-month period ended December 31, 1999 were $6,188,000, $9,115,000, and $8,386,000, respectively. Funding received from research and development contracts is netted against research and development costs, which were $2,467,000, $1,736,000, and $1,034,000 for the fiscal years ended March 31, 1998 and 1999, and for the nine-

month period ended December 31, 1999, respectively. The funding relates to various arrangements, primarily with government agencies, whereby the Company is reimbursed for substantially all of its costs incurred under the related project. Unbilled receivables reflect the costs incurred under these contracts that have yet to be billed at the balance sheet date.

Unaudited Pro Forma Stockholders' Equity If the offering contemplated by the Company is consummated, all of the convertible preferred stock outstanding as of the closing date will automatically be converted into 41,939,144 shares of common stock based on the shares of convertible preferred stock outstanding at December 31, 1999. The unaudited pro forma stockholders' equity reflects this conversion.

Stock-Based Compensation The Company accounts for stock-based awards to employees under the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and has adopted the disclosure-only alternative of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123).

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 from these estimates.

Comprehensive Income

Effective April 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (FAS 130). FAS 130 established rules for reporting and displaying comprehensive income. The Company's comprehensive net loss was the same as its net loss for the years ended March 31, 1998 and 1999 and the nine months ended December 31, 1999.

Recent Accounting Pronouncements In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133). FAS 133 provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. In June 1999, the Board issued FAS 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133", which deferred the effective date of FAS 133 until fiscal years beginning after June 15, 2000. The Company believes that the adoption of FAS 133 will not have a significant impact on the Company's operating results or cash flows.

2. Concentration of Credit Risk

The Company sells to a large number of companies and research laboratories involved in the application of laser technology. The Company performs ongoing credit evaluations of its customers and does not require collateral. The Company provides reserves for potential credit losses, and such losses have been within management's expectations.

Financial instruments that potentially subject the Company to significant concentrations of credit risks consist principally of cash, cash equivalents and accounts receivable. The Company places its cash equivalents in high-credit quality financial institutions. The Company is exposed to credit risk in the event of default by these institutions to the extent of the amount recorded on the balance sheet. As of December 31, 1999 all money market funds are invested in a single fund.

3. Property and Equipment

Property and equipment consist of the following:

	MARCH 31, 1999	DECEMBER 31, 1999
	(IN THOUSANDS)	
Manufacturing and development equipment	$ 2,250	$ 6,404
Computer software and equipment	1,282	1,787
Office equipment	166	259
Leasehold improvements	213	1,120
Construction in Progress	--	91
	3,911	9,661
Less accumulated depreciation and amortization	(2,031)	(2,766)
	$ 1,880	$ 6,895

4. Debt

Note payable to stockholder/director The Company had unsecured promissory notes payable to a stockholder/director. On July 21, 1998, the principal and interest outstanding was rolled over in a new promissory note issued with interest at 7.35% per annum. At March 31, 1999, the Company had borrowings outstanding under this arrangement of $2,305,000 and owed interest of $117,000. The promissory note and its related interest were repaid outstanding during the nine-month period ended December 31, 1999.

Loan Payable to Bank

On October 19, 1998, the Company entered into a revolving line of credit agreement with a bank. At March 31, 1999, the Company had borrowings under this arrangement amounting to $1,755,000 at an

interest rate of 8.625%. The line was repaid during the nine-month period ended December 31, 1999. At December 31, 1999, the line of credit agreement had expired.

Equipment Loan Payable On February 9, 1999, the Company entered into an agreement for an equipment loan facility for a maximum of $2,000,000, which expired on December 31, 1999. The loan facility charges interest at 8.4% per annum and has a termination payment for 10% of the original principal amount. Certain equipment of the Company secures the loan facility. Under the terms of this agreement the Company is restricted from paying cash dividends, until the time it has completed a qualified initial public offering of not less than $20,000,000. At March 31, 1999, the Company had borrowed $800,000 under this loan facility of which $750,000 and $598,000 was outstanding at March 31, 1999 and December 31, 1999, respectively.

Future minimum payments on this facility at December 31, 1999 are as follows:

(In Thousands)

2000	$231
2001	265
2002	102
Total	$598

The Company will pay $45,000 in 2000 and $1,000 in 2001 in relation to other long-term debt facilities outstanding at December 31, 1999.

5. Commitments and Contingencies

Operating Leases

The Company leases its facilities and certain equipment under noncancelable operating lease agreements that expire at various dates throughout fiscal 2007. Net rental expense for these leases aggregated $444,000, $440,000, and $383,000 for the fiscal years ended March 31, 1998 and 1999, and the nine-month period ended December 31, 1999, respectively. These amounts are net of $230,000, $255,000, and $91,000 of sublease income for the fiscal years ended March 31, 1998 and 1999, and the nine-month period ended December 31, 1999.

Future minimum lease payments under noncancelable operating leases at December 31, 1999 are as follows:

Operating Leases (In Thousands)

2000	$ 1,405
2001	1,964
2002	2,016
2003	2,061
2004	2,132
Thereafter	3,340
Total minimum payments	$12,918

Litigation

On December 8, 1999, Kaifa Technology, Inc., recently acquired by E-Tek Dynamics, Inc., filed a complaint against the Company for patent infringement in the United States District Court, Northern District of California. In addition to maintaining its original claim of patent infringement against the

Company, Kaifa has asserted claims against the Company of intentional and negligent interference with contract, trade secret misappropriation, unfair competition and breach of contract. Kaifa is seeking a declaratory judgment, damages, injunctive relief and attorney's fees. On February 23, 2000, the Company filed a motion to dismiss Kaifa's complaint and joined one of their employees named in the complaint in filing another motion to dismiss Kaifa's complaint. On the same date, certain of the employees named in the complaint also filed a motion to dismiss Kaifa's complaint. These motions are scheduled to be heard on March 31, 2000. The Company intends to defend the action vigorously. If the Company is unsuccessful in defending this action, any remedies awarded to Kaifa may have a material adverse effect on the Company. Furthermore, defending this action will be costly and divert management's attention regardless of whether the action is successfully defended.

In addition, the Company is subject to various claims which arise in the normal course of business. In the opinion of management, the ultimate disposition of these claims will not have a material adverse effect on the position of the Company.

6. Employee Benefit Plan

The Company sponsors a 401(k) Profit Sharing Plan that allows voluntary contributions by employees who have six months or more of service. Eligible employees may elect to contribute up to the maximum allowed under the Internal Revenue Service regulations.

The Company made matching contributions of a participant's salary deferral of 10%, 25%, and 25% and recognized costs of $26,000, $131,000 and $125,000 related to this plan in the fiscal years ended March 31, 1998 and 1999 and the nine month fiscal year ended December 31, 1999, respectively.

7. Income Taxes

The difference between the provision for income taxes and the amount computed by applying the federal statutory income tax rate (34%) to loss before provision for income taxes is explained below (in thousands):

	YEARS ENDED MARCH 31,		NINE MONTHS ENDED DECEMBER 31,
	1998	1999	1999
Tax (benefit) at federal statutory rate	$(94)	$(1,689)	$(2,609)
Loss for which no tax benefit is currently recognizable	94	1,689	2,609
State taxes	2	2	2
Alternate minimum taxes	8	--	--
Total provision	$ 10	$ 2	$ 2

Significant components of the Company's deferred tax assets are as follows:

	MARCH 31,		DECEMBER 31,
	1998	1999	1999
	(IN THOUSANDS)		
Deferred tax assets:			
Net operating loss carryforwards	$ 121	$ 1,469	$ 4,363
Tax credit carryforwards	788	1,044	1,428
Capitalized research and development	340	390	786
Other individually immaterial items	735	1,097	501
Total deferred tax assets	1,984	4,000	7,078
Valuation allowance	(1,984)	(4,000)	(7,078)
Net deferred tax assets	$ --	$ --	$ --

The valuation allowance increased by $3,078,000 during the nine-month period ended December 31, 1999, and $2,016,000 for the period ended March 31, 1999. Approximately $260,000 of the valuation allowance for deferred tax assets relates to benefits of stock option deductions which, when recognized, will be allocated directly to additional paid in capital.

Financial Accounting Standards Board Statement No. 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon the weight of available evidence, which included the Company's historical operating performance and the reported cumulative net losses in all prior years, the Company has provided a full valuation allowance against its net deferred tax assets.

As of December 31, 1999 the Company had federal and state net operating loss carryforwards of approximately $12,000,000 and $400,000, respectively. As of December 31, 1999, the Company also had federal and state research and development tax credit carryforwards of approximately $900,000

and $700,000, respectively. The net operating loss and tax credit carryforwards will expire at various dates beginning in 2004 through 2019, if not utilized.

Utilization of the net operating loss and tax credit carryforwards may be subject to substantial annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of net operating losses and tax credit carryforwards before utilization.

8. Stockholders' Equity

Stock Split

On August 20, 1999 the Company's Board of Directors and stockholders approved a two-for-one stock split of the Company's common and preferred stock. On February 9, 2000 the Company's Board of Directors and stockholders approved another two-for-one stock split of the Company's common and preferred stock. All preferred stock, common stock, common equivalent shares, and per share amounts have been adjusted retroactively to give effect to the stock splits.

New Focus, Inc.

Notes to Consolidated Financial Statements (Continued)

Preferred Stock

Preferred stock consists of the following:

	MARCH 31, 1999	DECEMBER 31, 1999
Series A:		
Authorized, issued and outstanding shares	15,160,000	15,160,000
Series B:		
Authorized, issued, and outstanding shares	1,000,000	1,000,000
Series C:		
Authorized, issued, and outstanding shares	600,000	600,000
Series D:		
Authorized shares	6,000,000	6,000,000
Issued and outstanding shares	3,977,000	3,977,000
Series E:		
Authorized shares		10,978,756
Issued and outstanding shares		10,857,616
Series F:		
Authorized shares		1,113,800
Issued and outstanding shares		1,113,800
Series G:		
Authorized shares		9,230,770
Issued and outstanding shares		9,230,728

All preferred stock series are convertible into common stock at the option of the stockholder on a one-for-one basis subject to antidilution adjustments. Conversion is mandatory concurrent with a qualified initial public offering of not less than $15,000,000 and a per share price of not less than $3.75. Such conversion can occur for Series A, B and C convertible preferred stock upon the consent of the holders of a majority of the then outstanding shares of convertible preferred stock voting as a single class. Such conversion can occur for Series D, E, F and G convertible preferred stock upon the consent of the holders of a majority of the then outstanding shares of Series D, E, F and G convertible preferred stock voting as a single class. The preferred stockholders have voting rights equal to the voting rights of the common stockholders on an as-if-converted basis.

The Series D, E, F, and G preferred stockholders are entitled to dividends, prior and in preference to any other dividends payable, at the rate of $0.08, $0.095, $0.095, and $0.26 per share, respectively. The dividends are noncumulative until and unless the Company has not closed a qualified initial public offering or the Series D, E, F, and G preferred stock has not been converted into common stock by December 31, 2000. In this respect, the dividends will begin to accumulate beginning January 1, 2002 at the same dividend rate and will be due and payable quarterly in arrears. After payment of dividends to Series D, E, F, and G preferred stockholders, Series A, B, and C preferred stockholders are entitled to noncumulative dividends, when and if declared by the Board of Directors, at an annual amount of $0.01, $0.02, and $0.0275 per share, respectively. Such dividends have a preference over the payment of dividends on common stock.

In the event of liquidation, payment will be made to Series D, E, F, and G preferred stockholders, prior and in preference to any other stockholders, for the purchase price of $1.00, $1.20, $1.20, and $3.25 per share, respectively, plus all declared and unpaid dividends. Subsequent to this payment, the Series A, B, C, D, E, F, and G preferred stockholders are entitled to a liquidation preference distribution of $0.125, $0.25, $0.85, $1.00, $1.20, $1.20, and $3.25 per share, respectively, plus all declared and unpaid dividends. Any amounts in excess of this amount will be distributed to common stockholders.

Stock Option Plans

Under its 1990 Incentive Stock Option Plan, the Company may grant incentive stock options and nonstatutory stock options to employees, directors, and consultants. Under its 1998 Stock Plan, the Company may grant options and stock purchase rights to employees and consultants provided that incentive stock options may only be granted to employees. During the year ended December 31, 1999, the Company established the 1999 Stock Option Plan. Under its 1999 Stock Plan, the Company may grant options and stock purchase rights to employees and consultants provided that incentive stock

options may only be granted to employees. Options may be granted to purchase common stock at an exercise price of not less than 100% of the fair value of the stock at the date of grant as determined by the Board of Directors. Generally, options vest ratably over five years and expire after ten years.

The following table summarizes activity under the 1990, 1998 and 1999 Stock Plans:

	OPTIONS AVAILABLE FOR GRANT	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
Balance at March 31, 1997	1,944,000	5,230,000	$0.21
Granted	(2,948,000)	2,948,000	$0.48
Exercised	--	(158,000)	$0.10
Canceled	1,220,000	(1,220,000)	$0.37
Repurchased	8,000	--	$0.15
Balance at March 31, 1998	224,000	6,800,000	$0.30
Authorized	3,200,000	--	$ --
Granted	(2,984,000)	2,984,000	$0.62
Exercised	--	(1,443,000)	$0.13
Canceled	208,000	(208,000)	$0.41
Repurchased	308,000	--	$0.63
Balance at March 31, 1999	956,000	8,133,000	$0.44
Authorized	5,400,000	--	--
Granted	(692,000)	692,000	$0.63
Exercised		(168,000)	$0.33
Canceled	218,000	(218,000)	$0.55
Repurchased	--	--	
Balance at December 31, 1999	5,882,000	8,439,000	$0.45
Options exercisable at March 31, 1998		3,076,000	$0.10
Options exercisable at March 31, 1999		2,660,000	$0.22
Options exercisable at December 31, 1999		3,881,000	$0.33

The weighted average fair value of options granted in the fiscal years ended March 31, 1998 and 1999 and for the nine-month period ended December 31, 1999 was $0.48, $0.55, and $0.56, respectively.

The following summarizes option information relating to outstanding options under the plans as of December 31, 1999:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$0.0025 - $0.0125	1,236,000	.88 years	$0.01	1,236,000	$0.01
$0.025 - $0.0625	165,000	4.93 years	$0.04	156,000	$0.04
$.375 - $.4625	2,927,000	7.48 years	$0.45	1,445,000	$0.45
$.5125	715,000	8.09 years	$0.51	269,000	$0.51
$.625	3,396,000	8.79 years	$0.63	775,000	$0.63
$0.0025 - $.625	8,439,000	7.04 years	$0.45	3,881,000	$0.33

In addition, nonplan options to purchase 800,000 shares of common stock at an exercise price of $0.0025 per share were granted to the Company's founder and Chairman of the Board in fiscal 1991 and are fully exercisable. These options expire in April 2000 if not exercised.

Deferred Compensation During the nine months ended December 31, 1999, the Company recorded aggregate deferred compensation of $821,000 representing the difference between the exercise price of stock options granted and the then deemed fair value of the Company's common stock. These amounts are being amortized as charges to operations, using the graded method, over the vesting periods of the individual stock options, generally five years. Under the graded method, approximately 51.53%, 24.62%, 14.16%, 7.37% and 2.32%, respectively, of each options compensation expense is recognized in each of the five years following the date of grant. For the nine-month period ended December 31, 1999, the Company amortized $132,000 of deferred compensation.

Pro Forma Disclosure of the Effect of Stock-Based Compensation The Company has elected to follow APB Opinion No. 25 and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FAS 123 requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB Opinion No. 25, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, there is no compensation expense recognized.

Pro forma information regarding net loss is required by FAS 123 which also requires that the information be determined as if the Company has accounted for its employee stock options granted during the fiscal periods ended March 31, 1998 and 1999 and the nine-month periods ended December 31, 1999 under the fair value method of FAS 123. The fair value for these options was estimated at the date of grant using the minimum value method with the following weighted average assumptions:

	YEARS ENDED MARCH 31,		NINE MONTHS ENDED DECEMBER 31,
	1998	1999	1999
Risk-free interest rate.....	5.9%	5.14%	6.0%
Dividend yield.....	0%	0%	0%
Expected option life.....	5.0 years	5.0 years	5.0 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 the 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, under the graded method. Because FAS 123 is applicable only to options granted subsequent to March 31, 1995, its pro forma effect will not be fully reflected until calendar year 2000 and thereafter.

If compensation cost for the Company's stock-based compensation plan had been determined based on the fair value at the grant dates for awards under this plan consistent with the method provided for under FAS 123, then the Company's net loss would have been as indicated in the pro forma amount below:

	YEARS ENDED MARCH 31,		NINE MONTHS ENDED DECEMBER 31,
	1998	1999	1999
Net loss as reported	$(286,000)	$(4,971,000)	$(7,677,000)
Pro forma net loss	$(349,000)	$(5,116,000)	$(7,845,000)
Net loss per share as reported, basic and diluted	$ (0.25)	$ (2.18)	$ (3.11)
Pro forma net loss per share, basic and diluted	$ (0.30)	$ (2.24)	$ (3.18)

Warrants

During the year ended March 31, 1999 the Company issued a warrant for the purchase of 140,000 shares of the Company's Series D preferred stock at $1.00 per share in connection with entering into an equipment loan agreement. The fair value of the warrant was determined using the Black-Scholes method and the following assumptions: expected life 5 years, exercise price $1.00, stock price on date of grant $1.00, expected dividend yield of 0%, risk free rate of 5%, and expected volatility of 0.30 to be $78,000. This amount was capitalized as debt issuance costs and is being amortized over the life of the loan. The warrant expires not earlier than December 31, 2004. The warrant incorporates antidilution protection.

During the nine-month period ended December 31, 1999 the Company committed to issue a warrant for the purchase of 112,000 shares of the Company's Series E preferred stock at a price of $1.20 per share in return for fees associated with issuance of Series E preferred stock. The fair value of the warrant was determined using the Black-Scholes method and the following assumptions: expected life 5 years, exercise price $1.20, stock price on date of grant $1.20, expected dividend yield of 0%, risk free rate of 6%, and expected volatility of 0.27 to be $48,000. This amount was offset against the proceeds of the Series E preferred stock. The warrant expires not earlier than February 9, 2005. The warrant incorporates antidilution protection.

During the nine-month period ended December 31, 1999 the Company committed to issue a warrant to purchase 9,000 shares of the Company's Series E preferred shares at a price of $1.20 per share. The fair value of the warrant was determined using the Black-Scholes method and the following assumptions: expected life 5 years, exercise price $1.20, stock price on date of grant $1.20, expected

dividend yield of 0%, risk free rate of 6%, and expected volatility of 0.27 to be $4,000. This amount was expensed in the current period. The warrant expires not earlier than February 9, 2005. The warrant incorporates antidilution protection. F-16

New Focus, Inc.

Notes to Consolidated Financial Statements (Continued)

Common Stock

At December 31, 1999, common stock reserved for future issuance is as follows:

Stock option plan:	
Outstanding options	8,439,000
Reserved for future grants	5,882,000
	14,321,000
Warrants for Series D preferred stock	140,000
Warrants for Series E preferred stock	121,000
Nonplan stock options granted	800,000
Convertible preferred stock	41,939,000
	57,321,000

9. Segments of an Enterprise and Related Information

Through March 31, 1998, the Company operated as one segment. For the fiscal period ended March 31, 1999, the Company had two reportable segments: Telecom and Commercial Photonics Group (CPG). The telecom segment performs research and development, manufacturing, marketing and sales of fiber amplified products, wavelength management products, high-speed opto-electronics and tunable laser modules, which are primarily sold to manufacturers of networking and test equipment in the optical telecommunications markets. The CPG segment performs research and development, manufacturing, marketing and sales of photonic tools, which are primarily used for commercial and research applications.

The Company evaluates performance and allocates resources based on profit or loss from operations before income taxes, excluding gains and losses on the Company's investment portfolio. The accounting policies for the reportable segments are consistent with those described in the summary of significant accounting policies. There were no intercompany sales or transfers.

The Company does not segregate assets by segment.

YEAR ENDED MARCH 31, 1999 TELECOM CPG TOTAL (IN THOUSANDS)

REVENUES			
Revenues from external customers	$ 45	$17,240	$17,285
Depreciation expense	$ 102	$ 486	$ 588
Operating segment profit (loss)	$(6,658)	$ 1,992	$(4,666)

NINE MONTHS ENDED DECEMBER 31, 1999 TELECOM CPG TOTAL (IN THOUSANDS)

Revenues from external customers	$ 5,002	$13,099	$18,101
Depreciation expense	$ 289	$ 467	$ 756
Operating segment profit (loss)	$(9,087)	$ 1,625	$(7,462)

Notes to Consolidated Financial Statements (Continued)

	YEAR ENDED MARCH 31, 1999	NINE MONTHS ENDED DECEMBER 31, 1999
	(IN THOUSANDS)	
PROFIT OR LOSS		
Total profit or loss for reportable segments	$(4,666)	$(7,462)
Other income (expense), net	(303)	(81)
Amortization of deferred compensation	--	(132)
Income before income taxes	$(4,969)	$(7,675)
GEOGRAPHIC INFORMATION	REVENUES	REVENUES
United States	$12,445	$13,214
Asia	2,247	1,629
Europe	2,593	3,258
Consolidated total	$17,285	$18,101

Revenues are attributed to countries based on the location of customers.

10. Net Loss Per Share and Unaudited Pro Forma Stockholders' Equity

The Company follows the provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Basic and diluted net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period less outstanding nonvested shares. Outstanding nonvested shares are not included in the computations of basic and diluted net loss per share until the time-based vesting restrictions have lapsed.

	YEARS ENDED MARCH 31,		NINE MONTHS ENDED DECEMBER 31,
	1998	1999	1999
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net loss (numerator)	$ (286)	$(4,971)	$(7,677)
Shares used in computing historical basic and diluted net loss per share (denominator):			
Denominator for historical basic and diluted net loss per share -- weighted average common shares outstanding	1,148	2,284	2,468
Conversion of preferred stock (pro forma)			29,755
Denominator for pro forma basic and diluted net loss per share			32,223

Historical basic and diluted net loss per share.....	$(0.25)	$ (2.18)	$ (3.11)
Pro forma basic and diluted net loss per share.....			$ (0.24)

The Company has excluded the impact of all convertible preferred stock, warrants for convertible preferred stock and common stock and outstanding stock options from the calculation of historical diluted loss per common share because all such securities are antidilutive for all periods presented. The total number of shares excluded from the calculations of historical diluted net loss per share was 22,960,000 and 27,351,000 for the years ended March 31, 1998 and 1999 and 38,193,000 for the nine months ended December 31, 1999.

New Focus, Inc.

Notes to Consolidated Financial Statements (Continued)

11. Interim Financial Results (Unaudited)

The following table provides financial information for the nine months ended December 31, 1998, (in thousands, except per share amount) and presents comparable information to the Company's nine-month period ended December 31, 1999.

Net revenues..... $12,544 Gross profit..... $ 5,919 Net loss..... $(3,375) Historical basic and diluted net loss per share..... $ (1.50) Shares used to compute historical basic and diluted net loss per share..... 2,245

12. Subsequent Events

On January 12, 2000 the Company made full recourse loans aggregating approximately $2.7 million to certain executive officers in connection with their purchase of shares of common stock. Each of these loans were made pursuant to a full recourse promissory note secured by a stock pledge. The notes bear no interest but interest will be imputed and reported annually as compensation on the officer's W-2. All unvested shares purchased by officers are subject to repurchase by us at the original exercise price if the officer's employment is terminated.

On February 9, 2000, the Board of Directors adopted the 2000 Stock Plan (2000 Plan), subject to stockholder approval, to provide for the grant of incentive stock options to purchases shares of common stock to employees, directors and consultants. The 2000 Plan is administered by the Board of Directors, and may be delegated to a committee.

A total of 1,000,000 shares of common stock has been reserved for issuance. The number of shares of common stock reserved for issuance will increase annually beginning in fiscal 2001 subject to the Board of Directors to a maximum of 6% of the outstanding share of common stock.

The exercise price is to be determined by the Board of Directors or the committee. The Board of Directors or the committee reserve the right, under the Restricted Stock Repurchase Agreement to repurchase options, at a price determined by the same, upon the termination of an optionee, On February 9, 2000, the Board of Directors adopted the 2000 Director Option Plan (Directors' Plan), subject to stockholder approval, to provide for the automatic grant of options to purchase shares of common stock to our non-employee directors who are not any of the Company's affiliates' employees or consultants. The Directors' Plan is administered by the Board of Directors, and may be delegated to a committee.

A total of 200,000 shares of common stock have been reserved for issuance. Under the terms of the Directors' Plan, as of the initial public offering, each non-employee Director, and each person who is thereafter elected or appointed for the first time to be a non-employee, or Director by the Board stockholder, be granted an option to purchase 25,000 shares of common stock. In addition, upon the date of each annual stockholders' meeting subsequent to the date of each non-employee directors' initial grant under the directors' plan, each person who is then serving as a non-employee director automatically shall be granted an option to purchase 5,000 shares of common stock.

On February 9, 2000, the Company's Board of Directors, subject to stockholder approval, approved the 2000 Employee Stock Purchase Plan (Purchase Plan). A total of 1,000,000 shares of common stock have been reserved for issuance, plus annual increases equal to the lesser of (i) 1,000,000 shares of common stock, (ii) 1.25% of the outstanding shares on such date or (iii) a lesser amount determined by the Board of Directors. Under the Purchase Plan, the Board of Directors may authorize participation by eligible employees, in periodic offerings following the adoption of the Purchase Plan. The offering period F-19

for any offering will be no more than 27 months. The price of common stock purchased under the Purchase Plan will be equal to 85% of the lower of the fair market value of the common stock on the commencement date of each offering period or the relevant purchase date.

In the event of certain changes in control, the Board of Directors has discretion to provide that each right to purchase common stock will be assumed or an equivalent right will be substituted by the successor corporation. In the event that the successor corporation does not assume or substitute each right to purchase common stock, the Board of Directors may shorten the vesting period. The Purchase Plan will terminate at the Board's discretion or when all of the shares reserved for issuance under the Purchase Plan have been issued.

On February 9, 2000, the Company's board of directors, subject to approval of the Amended and Restated Certificate of Incorporation by the state of Delaware, authorized the reincorporation of the Company in Delaware. The par value of the preferred and common stock is $0.001 per share. The Company's Certificate of Incorporation will be amended to authorize 10,000,000 shares of preferred stock and 250,000,000 shares of common stock. The board of directors has the authority to fix or alter the designations, powers, preferences, and rights of the shares of each such series. The Company's reincorporation has been reflected in the consolidated financial statements for all periods presented.

On February 28, 2000, the Company issued rights to 116,000 shares of the Company's stock in connection with a business acquisition.

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 New Focus, Inc. 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	$22,770
NASD filing fee Nasdaq National Market listing fee	9,125
Printing and engraving costs	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue Sky fees and expenses	3,000
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 of the Registrant's Certificate of Incorporation provides for the indemnification of directors to the fullest extent permissible under Delaware law.

Article of the Registrant's Bylaws provides for the indemnification of officers, directors and third parties acting on behalf of the Registrant if such person acted in good faith and in a manner reasonably believed to be in and not opposed to the best interest of the Registrant, and, with respect to any

criminal action or proceeding, the indemnified party had no reason to believe his or her conduct was unlawful.

The Registrant has entered into indemnification agreements with its directors and executive officers, in addition to indemnification provided for in the Registrant's Bylaws, and intends to enter into indemnification agreements with any new directors and executive officers in the future.

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) On April 18, 1990, we sold 400,000 shares of common stock to Milton Chang at a purchase price of $.005 per share. On April 18, 1990, the Board of Directors granted Milton Chang an option outside of our Stock Option Plan for 800,000 shares of our Common Stock at an exercise price of $.0025. Mr. Chang exercised this option on January 19, 2000.

(2) From February 28, 1997 through January 31, 2000, (the most recent practicable date) we granted stock options to acquire an aggregate of 5,826,000, 422,000 and 1,989,200 shares of our common stock at prices ranging from $.46 to $1.25, $.62 to $.62 and from $.62 to $1.25 to employees, consultants and directors pursuant to our 1990 Incentive Stock Option Plan, 1998 Stock Plan and 1999 Stock Plan, respectively.

(3) From April, 1991 through February, 1992, we issued 8,640,000 shares of Series A preferred stock to Milton Chang pursuant to a series of put-option agreements at a price of $.1250.

(4) From May, 1990 through January 1991 we sold 15,160,000 shares of Series A Preferred Stock for $.125 per share to a group of private investors for an aggregate purchase price of $1,895,000.

(5) On December 10, 1993, we sold 1,000,000 shares of Series B Preferred Stock for $0.25 per share to a group of private investors for an aggregate purchase price of $250,000.

(6) On July 24, 1998, we sold 600,000 shares of Series C Preferred Stock for $.85 per share to a group of private investors for an aggregate purchase price of $510,000.

(7) On July 31, 1998, and August 6, 1998, we sold 3,977,000 shares of Series D Preferred Stock for $1.00 per share to a group of private investors for an aggregate purchase price of $3,977,000.

(8) On February 9, 1999, in connection with a Loan and Security Agreement, we issued a warrant to purchase 140,000 shares of Series D Preferred Stock at an exercise price of $1.00 to Venture Lending and Leasing II, Inc.

(9) On June 14, 1999, we sold 10,857,616 shares of Series E Preferred Stock for $1.20 per share to a group of private investors for an aggregate purchase price of $13,029,139.20.

(10) We entered into a Technology Transfer Agreement dated June 24, 1999, with Peter Chen pursuant to which we purchased certain technology from Mr. Chen in consideration for options to purchase 230,000 shares of our common stock at the fair market value and the sum of $220,000. Additional terms and conditions are set forth in such Technology Transfer Agreement.

(11) On October 15, 1999, we sold 1,113,800 shares of Series F Preferred for $1.20 per share to a group of private investors for an aggregate purchase price of $1,336,560.

(12) On November 23, 1999, we sold 9,350,728 shares of Series G Preferred for $3.25 per share to a group of private investors for an aggregate purchase price of $30,389,866.

(13) On March 3, 1999 and November 1, 1999, we entered into consulting agreements with John Dexheimer, one of our directors, for services rendered in connection with the Series E, Series F and Series G Preferred Stock financings. Pursuant to these agreements, Mr. Dexheimer received warrants to purchase 111,792 shares of Series E Preferred Stock at a price per share of $1.20.

(14) On February 28, 2000, we issued rights to 116,000 shares of our stock in connection with a business acquisition.

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.

The sales of the above securities were deemed to be exempt from registration in reliance on Rule 701 promulgated under Section 3(b) under the Securities Act as transactions pursuant to a compensatory benefit plan or a written contract relating to compensation, or in reliance on Section 4(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving any public offering. 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 other instruments issued in such transactions.

All recipients either received adequate information about New Focus, Inc. or had access, through employment or other relationships, to such information.

Item 16. Exhibits and Financial Statement Schedules

(a) EXHIBITS

Exhibit Number Description

1.1*	Form of Underwriting Agreement
3.1	Amended and Restated Certificate of Incorporation of the Registrant
3.2	Bylaws of the Registrant
4.1*	Form of stock certificates
4.2*	Warrant to Purchase Series D Preferred Stock dated February 19, 1999 between Registrant and Venture Lending and Leasing
4.3	Warrant to Purchase Series E Preferred Stock dated February 9, 2000 between Registrant and John Dexheimer.
4.4	Warrant to Purchase Series E Preferred stock dated February 9, 2000, between Registrant and Pamela York.
5.1*	Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation
10.1	Form of Indemnification Agreement between the Registrant and each of its directors and officers
10.2*	2000 Stock Plan
10.3*	2000 Employee Stock Purchase Plan
10.4*	2000 Director Option Plan and form of agreement thereunder
10.5	Form of Amendment to New Focus, Inc. Non-Statutory Stock Option Agreement, Restated Stock Purchase Agreement, including Security Agreement and Promissory Note between Registrant and Kenneth E. Westrick, Paul Smith, Bao-Tong Ma, George Yule, Robert Marsland, Timothy Day, dated January 12, 2000.
10.6	Premises Lease Contract between Registrant and Shenzhen New and High-tech Village Development Company dated September 23, 1999.
10.7*	Lease Agreement between Registrant and Silicon Valley Properties dated December 23, 1999.
10.8*	Agreement on Terms and Conditions of Purchase and Sale of Optical Components dated January 1, 2000.
10.9*	Lease Agreement between Focused Research Inc. and University Science Center Partnership, dated May 22, 1996, as amended, June 19, 1997.
10.10	Fifth Amended and Restated Registration Rights Agreement
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21.1	List of Subsidiaries
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-5)
27.1*	Financial Data Schedules

* To be filed by amendment (b) FINANCIAL STATEMENT SCHEDULES

Schedule Ii -- Valuation and Qualifying Accounts

Allowance for Doubtful Accounts:

	BALANCES AT BEGINNING OF PERIOD	ADDITIONS-CHARGED TO COSTS AND EXPENSES	DEDUCTIONS-WRITE-OFFS	BALANCES AT END OF PERIOD
Year ended March 31, 1998.....	$ 70	$ 63	--	$$133
Year ended March 31, 1999.....	$133	$ 40	$(38)	$135
Nine months ended December 31, 1999.....	$135	$ 39	$(14)	$160

Schedules other than that listed above have been omitted since they are not required or are not applicable or the required information is shown in the financial statements or related notes.

Item 17. Undertakings

The undersigned Registrant hereby undertakes 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 a 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.

The undersigned Registrant hereby undertakes 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 of 1933, as amended, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Santa Clara, State of California, on the 1st day of March, 2000.

New Focus, Inc.

By: /s/ KENNETH E. WESTRICK Kenneth E. Westrick President and Chief Executive Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Kenneth E. Westrick and William L. Potts, Jr. 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/ KENNETH E. WESTRICK - ---------- Kenneth E. Westrick	President, Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2000
/s/ WILLIAM L. POTTS, JR. - ---------- William L. Potts, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer)	March 1, 2000

/s/ CHARLES BOPPELL Director March 1, 2000 Charles Boppell /s/ DR. MILTON CHANG Director March 1, 2000 Dr. Milton Chang /s/ JOHN DEXHEIMER Director March 1, 2000 John Dexheimer /s/ DR. WINSTON FU Director March 1, 2000 Dr. Winston Fu

Signature Title Date

/s/ R. CLARK HARRIS Director March 1, 2000 R. Clark Harris /s/ ROBERT D. PAVEY Director March 1, 2000 Robert D. Pavey

Exhibit Index

Exhibit Number Description

1.1*	Form of Underwriting Agreement
3.1	Amended and Restated Certificate of Incorporation of the Registrant
3.2	Bylaws of the Registrant
4.1*	Form of stock certificates
4.2*	Warrant to Purchase Series D Preferred Stock dated February 19, 1999 between Registrant and Venture Lending and Leasing
4.3	Warrant to Purchase Series E Preferred Stock dated February 9, 2000 between Registrant and John Dexheimer.
4.4	Warrant to Purchase Series E Preferred stock dated February 9, 2000, between Registrant and Pamela York.
5.1*	Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation
10.1	Form of Indemnification Agreement between the Registrant and each of its directors and officers
10.2*	2000 Stock Plan
10.3*	2000 Employee Stock Purchase Plan
10.4*	2000 Director Option Plan and form of agreement thereunder
10.5	Form of Amendment to New Focus, Inc. Non Statutory Stock Option Agreement, Restated Stock Purchase Agreement, including Security Agreement and Promissory Note between Registrant and Kenneth E. Westrick, Paul Smith, Bao-Tong Ma, George Yule, Robert Marsland, Timothy Day, dated January 12, 2000.
10.6	Premises Lease Contract between Registrant and Shenzhen New and High-tech Village Development Company dated September 23, 1999.
10.7*	Lease Agreement between Registrant and Silicon Valley Properties dated December 23, 1999.
10.8*	Agreement on Terms and Conditions of Purchase and Sale of Optical Components dated January 1, 2000.
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