



Ciena Corporation Q3 Fiscal 2014 Earnings Call

September 4, 2014
8:30 a.m. EST

A low-angle photograph of a city skyline, featuring several tall buildings with many windows. The entire image is tinted with a warm, orange-red color. The text "make [transformation] possible" is overlaid on the right side of the image.

make [transformation] possible

Forward-looking statements and non-GAAP measures

Information presented and related comments of presenters may contain forward-looking statements. Forward-looking statements include Ciena's business outlook for future periods as well as statements regarding Ciena's expectations, beliefs, intentions or strategies regarding the future and can be identified by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will," and "would" or similar words.

These forward looking statements, based on information, expectations, prospects, forecasts and assumptions available to Ciena as of the date of this event, involve inherent risk. Ciena's actual results could differ materially from those stated, forecasted or implied, due to a number of risks and uncertainties associated with Ciena's business, operations and markets, including those risk factors disclosed in Ciena's Form 10-Q filed with the SEC on June 11th, 2014.

All information, statements, and projections in this presentation and the related earnings call speak only as of the date of this presentation and related earnings call. Ciena assumes no obligation to update the information presented today, whether as a result of new information, future events or otherwise.

In addition, this presentation includes historical, and may include prospective, non-GAAP measures of Ciena's gross margin, operating expense, operating profit, net income, and net income per share. These measures are not intended to be a substitute for financial information presented in accordance with GAAP. A reconciliation of non-GAAP measures used in this presentation to Ciena's GAAP results for the relevant period can be found in the Appendix to this presentation.

Q3 FY2014 Key Takeaways

1

We are successfully driving continued improvement in operating leverage, and we are confident in our opportunity to grow and drive additional operating leverage in 2015.

- Q3 is another proof point for our business model and our execution against a successful strategy.
- Our efforts to broaden our portfolio and diversify our customer base are expanding our opportunities for revenue and margin growth – helping us continue to improve operating leverage.

2

By design, we have diversified our customers, solutions and applications to expand our addressable market with high-growth, high-value opportunities.

- **SDN:** we are an early provider of the control software *and* programmable platforms required for on-demand delivery of cloud services
- **Converged metro:** a larger, faster-growing opportunity than the core
- **Data center:** we address applications from automated cloud service delivery to simple data center interconnectivity
- **Web 2.0:** key players are building their own networks *and* influencing the architectural direction of SPs

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Ciena's selection to Domain 2.0 is a significant achievement that expands our addressable market with AT&T in direct alignment with our OPⁿ architecture.

- This award allows us to participate in applications ranging from converged metro to packet networking for SDN.
- As an investment in the long-term relationship, we've made some commercial concessions that are structured as upfront incentives.
- We've proven that investing in strategic accounts leads to sustainable, profitable growth for the company, and yields improved operating leverage over the longer term.

Q3 Fiscal 2014 Financial Highlights

Key Takeaways

- 1 **Revenue** of \$603.6 million
- 2 **Adjusted Gross Margin** of 44.3%*
- 3 **Adjusted Operating Expense** of \$206.3 million*
- 4 **Adjusted Operating Margin** of 10.1%*
- 5 **Adjusted Net Income** of \$40.9 million or \$0.32 per share*

* A reconciliation of these non-GAAP measures to our GAAP results is included in the appendix to this presentation.

Q3 Fiscal 2014 Balance Sheet and Operating Metrics

Cash and Investments	\$718.2 million*
Cash Flow from Operations	\$51.1 million
DSO	81 Days
Inventory Turns	3.8
Headcount (as of July 31, 2014)	5,136

**Includes the proceeds from the term loan facility that we closed in the quarter*

Q3 Fiscal 2014 Financial Summary

(Amounts in millions)

	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY 2013	Q3 FY 2013	Period Change	
						Q-T-Q	Y-T-Y
Revenue	\$ 603.6	\$ 560.1	\$ 533.7	\$ 583.4	\$ 538.4	7.8%	12.1%
Adjusted Gross Margin*	44.3%	43.1%	43.4%	40.8%	43.6%	1.2%	0.7%
Adjusted Operating Expenses*	\$ 206.3	\$ 206.3	\$ 199.8	\$ 210.5	\$ 190.4	-	8.4%
Adjusted Operating Margin*	10.1%	6.2%	5.9%	4.7%	8.2%	3.9%	1.9%
Adjusted Net Income*	\$ 40.9	\$ 19.4	\$ 13.7	\$ 18.3	\$ 26.2	\$ 21.5	\$ 14.7
Adjusted EPS*	\$ 0.32	\$ 0.17	\$ 0.13	\$ 0.16	\$ 0.23	\$ 0.15	\$ 0.09

* A reconciliation of these non-GAAP measures to our GAAP results is included in the appendix to this presentation.

Revenue by Segment

(Amounts in millions)

Revenue by Segment

	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013
Converged Packet-Optical	\$ 382.0	\$ 356.8	\$ 333.4	\$ 350.9	\$ 302.0
Packet Networking	\$ 69.5	\$ 66.6	\$ 51.7	\$ 61.2	\$ 61.6
Optical Transport	\$ 31.0	\$ 29.6	\$ 40.1	\$ 52.6	\$ 66.2
Software and Services	\$ 121.1	\$ 107.1	\$ 108.5	\$ 118.7	\$ 108.6
Total	\$ 603.6	\$ 560.1	\$ 533.7	\$ 583.4	\$ 538.4

% of Total Revenue

	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013
Converged Packet-Optical	63.3%	63.7%	62.5%	60.2%	56.1%
Packet Networking	11.5%	11.9%	9.7%	10.5%	11.4%
Optical Transport	5.1%	5.3%	7.5%	9.0%	12.3%
Software and Services	20.1%	19.1%	20.3%	20.3%	20.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue by Geographic Region

(Amounts in millions)

Revenue

	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013
United States	\$ 368.1	\$ 324.0	\$ 317.4	\$ 326.2	\$ 339.5
International	\$ 235.5	\$ 236.1	\$ 216.3	\$ 257.2	\$ 198.9
Total	\$ 603.6	\$ 560.1	\$ 533.7	\$ 583.4	\$ 538.4

% of Total Revenue

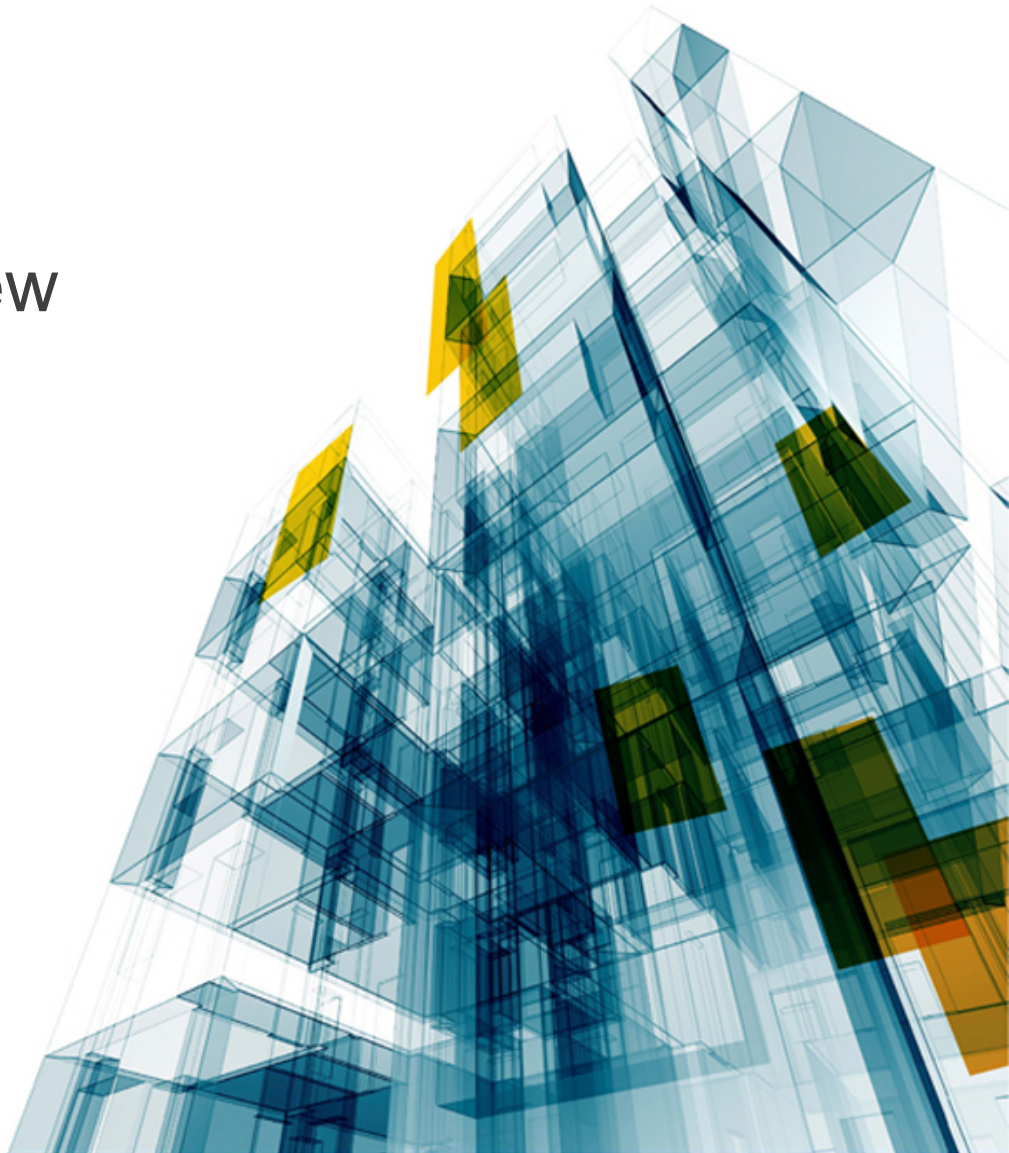
	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013
United States	61.0%	57.8%	59.5%	55.9%	63.0%
International	39.0%	42.2%	40.5%	44.1%	37.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Q4 Fiscal 2014 Business Outlook¹

Revenue	\$570 to 610 million
Adjusted Gross Margin	High 30s to low 40s percent range
Adjusted Operating Expense	Approximately \$210 million range

¹ Projections or outlook with respect to future operating results are only as of September 4, 2014 the date presented on the related earnings call. Ciena assumes no obligation to update this information, whether as a result of new information, future events, or otherwise.

Convertible Debt Overview



CONVERTIBLE DEBT PROFILE*



- \$1.2B aggregate principal amount outstanding; \$725M has a conversion price of slightly above \$20
 - For some portion of the debt, once the stock reaches and sustains certain prices that are 30 - 50% above the conversion price, Ciena has the ability to cause a conversion or to exercise a redemption right in an effort to cause a conversion.*
- Shares underlying the convertible notes are added to the weighted average dilutive potential shares outstanding at specific net income assumption levels that correlate to each issue (see slide 12 or slide 13 in this presentation); and correspondingly, the interest expense is removed for the respective issue(s).

**Each of the notes has specific terms and conditions. The summary above is qualified by reference to the full text of the indentures. Please review the respective indentures for full details of the converts.*

HIGHLIGHTED TERMS PER ISSUE¹

	Par Value (in millions)	Underlying Shares (in thousands)	Conversion Price	Additional Redemption / Conversion Provisions	Net Income Threshold for Diluted EPS (in millions)²
4.0% convertible senior notes, due March 15, 2015	\$187.5	9,198	\$20.39	Redeemable for cash (plus a make whole) at Ciena's election - If closing price is \geq \$30.59 for 20 of 30 consecutive trading days	\$26
0.875% convertible senior notes, due June 15, 2017	\$500	13,108	\$38.15	No	\$11
3.75% convertible senior notes due October 15, 2018	\$350	17,356	\$20.17	No	\$24
4.0% convertible senior notes, due March 15, 2020	\$187.5	9,198	\$20.39	Convertible into shares, (plus a make whole), at Ciena's election - If VWAP is \geq \$26.51 for 20 of 30 consecutive trading days	\$44

¹Each of the notes has specific terms and conditions. The summary above is qualified by reference to the full text of the indentures. Please review the respective indentures for full details of the converts.

²The assumed amount of net income at which the shares underlying the convert would be included in EPS and interest expense on the note would be excluded.

Convertible Notes and Diluted EPS Analysis as of August 2, 2014

In thousands (except per share amounts)

Outstanding Notes	Par Value	Quarterly Assumptions							Underlying Common Shares	Current Weighted Average Basic Common Shares Outstanding	The quarterly net income assumption levels must be equal or greater than below amounts for the respective underlying common shares from the issue to be included in Diluted EPS
		Coupon Interest Expense	Debt Issuance Cost	Non-Cash Interest Expense from Accretion of Principal	Non-Cash Interest Expense from Amortization of Redemption Option and Debt Discount	Total Interest Expense					
4.0% notes due 2015	187,500	1,875	257		(43)	2,089	9,198	106,236	\$	26,401	
0.875% notes due 2017	500,000	1,094	294			1,388	13,108	106,236	\$	11,402	
3.75% notes due 2018	350,000	3,281	309			3,590	17,356	106,236	\$	23,603	
4.0% notes due 2020	187,500	1,875	76	885	327	3,163	9,198	106,236	\$	43,608	
Total	\$ 1,225,000	\$ 8,125	\$ 936	\$ 885	\$ 284	\$ 10,230	48,860				

This spreadsheet is intended to assist people in developing their own assumptions. Ciena assumes no obligation to update the information presented herein, whether as a result of new information, future events or otherwise.

Ciena's outstanding convertible notes are considered anti-dilutive when the related interest expense on a per common share "if converted basis" exceeds Basic EPS for the period.

Over the term of the notes the amount of accretion of principal (included as a non-cash component of interest expense) and amortization of the debt discount will fluctuate by immaterial amounts.

This schedule reflects the quarterly net income required for the inclusion of the common shares underlying each issue in determining Diluted EPS, with each issue considered on a cumulative basis in order from most to least dilutive.

Net income or earnings per share assumptions regarding the convertible notes are for information purposes only and do not reflect Ciena's business outlook. Ciena makes no assumptions as to whether or when the Company could achieve the relevant metrics provided in this presentation.



Q3 Fiscal 2014 Appendix

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The sky is a solid, vibrant red, and the buildings are bathed in a warm, orange-red light, creating a dramatic and futuristic atmosphere.

make [transformation] possible

Gross Profit Reconciliation

(Amounts in thousands)

	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013
GAAP gross profit	\$ 263,973	\$ 237,691	\$ 225,851	\$ 231,646	\$ 228,221
Share-based compensation-products	737	741	506	617	658
Share-based compensation-services	572	568	580	448	461
Amortization of intangible assets	2,201	2,328	4,451	5,384	5,384
Total adjustments related to gross profit	3,510	3,637	5,537	6,449	6,503
Adjusted (non-GAAP) gross profit	\$ 267,483	\$ 241,328	\$ 231,388	\$ 238,095	\$ 234,724
Adjusted (non-GAAP) gross margin	44.3%	43.1%	43.4%	40.8%	43.6%

Operating Expense Reconciliation (Amounts in thousands)

	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013
GAAP operating expense	\$ 226,971	\$ 230,529	\$ 222,496	\$ 232,063	\$ 213,390
Share-based compensation-research and development	2,368	2,782	2,572	1,923	2,054
Share-based compensation-sales and marketing	3,890	4,246	4,063	3,603	3,562
Share-based compensation-general and administrative	3,376	3,661	3,506	3,157	3,198
Amortization of intangible assets	11,019	11,493	12,439	12,439	12,440
Restructuring costs	63	-	115	428	202
Settlement of patent litigation	-	2,000	-	-	1,500
Total adjustments related to operating expense	20,716	24,182	22,695	21,550	22,956
Adjusted (non-GAAP) operating expense	\$ 206,255	\$ 206,347	\$ 199,801	\$ 210,513	\$ 190,434

Income (Loss) from Operations Reconciliation (Amounts in thousands)

	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013
GAAP income (loss) from operations	\$ 37,002	\$ 7,162	\$ 3,355	\$ (417)	\$ 14,831
Total adjustments related to gross profit	3,510	3,637	5,537	6,449	6,503
Total adjustments related to operating expense	20,716	24,182	22,695	21,550	22,956
Adjusted (non-GAAP) income from operations	\$ 61,228	\$ 34,981	\$ 31,587	\$ 27,582	\$ 44,290
Adjusted (non-GAAP) operating margin	10.1%	6.2%	5.9%	4.7%	8.2%

Net Income (Loss) Reconciliation (Amounts in thousands)

	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013
GAAP net income (loss)	\$ 16,160	\$ (10,158)	\$ (15,936)	\$ (9,797)	\$ (1,231)
Total adjustments related to gross profit	3,510	3,637	5,537	6,449	6,503
Total adjustments related to operating expense	20,716	24,182	22,695	21,550	22,956
Non-cash interest expense	327	302	293	284	267
Change in fair-value of embedded redemption feature	190	1,460	1,090	(230)	(2,290)
Adjusted (non-GAAP) net income	\$ 40,903	\$ 19,423	\$ 13,679	\$ 18,256	\$ 26,205
Weighted average basic common shares outstanding	106,236	105,451	104,501	103,523	102,713
Weighted average dilutive potential common shares outstanding	156,561 ¹	120,628 ³	119,789 ⁵	119,401 ⁷	144,277 ⁹

Net Income (Loss) per Common Share

	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013
GAAP diluted net income (loss) per common share	\$ 0.15	\$ (0.10)	\$ (0.15)	\$ (0.09)	\$ (0.01)
Adjusted (Non-GAAP) diluted net income per common share	\$ 0.32²	\$ 0.17⁴	\$ 0.13⁶	\$ 0.16⁸	\$ 0.23¹⁰

Reconciliation Endnotes

1. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2014 includes 1.5 million shares underlying certain stock options and restricted stock units, 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due March 15, 2015, 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017, 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018, and 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due December 15, 2020.*
2. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2014 requires adding back interest expense of approximately \$2.1 million associated with Ciena's 4.0% convertible senior notes, due March 15, 2015, \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018, and \$2.8 million associated with Ciena's 4.0% convertible senior notes, due December 15, 2020 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
3. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2014 includes 2.1 million shares underlying certain stock options and restricted stock units, and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
4. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2014 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
5. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the first quarter of fiscal 2014 includes 2.2 million shares underlying certain stock options and restricted stock units, and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
6. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the first quarter of fiscal 2014 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
7. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the fourth quarter of fiscal 2013 includes 2.8 million shares underlying certain stock options and restricted stock units and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
8. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the fourth quarter of fiscal 2013 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
9. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2013 includes 1.9 million shares underlying certain stock options and restricted stock units, 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due March 15, 2015, 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017, and 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018.*
10. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the fiscal third quarter of 2013 requires adding back interest expense of approximately \$2.1 million associated with Ciena's 4.0% convertible senior notes, due March 15, 2015, approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, and approximately \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018 to the Adjusted (non-GAAP) net income (loss) in order to derive the numerator for the Adjusted earnings per common share calculation.*