



Ciena Corporation Q3 Fiscal 2013 Earnings Call

September 4, 2013
8:30 a.m. EDT



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 12, 2013.

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.

A strategy designed to lead the shift in network architecture

With disruptive changes occurring in end-user behavior, the network is playing an entirely new role.

Service demands are different today because the behavior of business and consumer network end-users has fundamentally changed. Drivers like cloud, mobility, and the Internet of Things mean that networks require unprecedented convergence, automation, openness, and software intelligence.

This is a fundamental shift in network architecture, not a short-term capacity upgrade.

The industry is entering a period of significant evolution in which a broad offering of services is moving to a converged network that is underpinned by Ethernet. This shift is supported by other architectural changes, including OTN, packet-optical convergence, 100G+ capacity and software definition, and customers are beginning multi-year programs to adopt these elements of next-generation networks.

We designed Ciena specifically to capitalize on this long-term shift.

Over the last five years, we have designed Ciena to take advantage of this architectural shift. From our specialist engagement model, to our visionary OPⁿ network architecture, to our industry-leading portfolio, we have positioned Ciena to capitalize on this long-term opportunity. Today we are a fundamentally different company that is a more strategic partner to our customers – we are solving their long-term *business* needs, not just short-term *capacity* challenges.

The changing market dynamics are creating significant opportunities for us. Ciena is winning in the market, and it is being reflected in our financial performance.

We are taking market share as a direct result of our strategy, and our momentum is translating into steadily improving financial performance. Market dynamics are creating opportunities that we believe will enable us to continue making progress toward our longer-term goals, including growing faster than the overall market and delivering greater operating leverage from our business.

Q3 Fiscal 2013 Financial Highlights

Key Takeaways

- 1 **Revenue** of \$538.4 million
- 2 **Adjusted Gross Margin** of 43.6%*
- 3 **Adjusted Operating Expense** of \$190.4 million*
- 4 **Adjusted Operating Margin** of 8.2%*
- 5 **Adjusted Net Income** of \$26.2 million or \$0.23 per share*

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

Q3 Fiscal 2013 Balance Sheet and Operating Metrics

Cash and Investments	\$493.2 million
Cash Flow from Operations	\$42.0 million
DSO	72 Days
Inventory Turns	4.2
Headcount (as of July 31, 2013)	4,680

Q3 Fiscal 2013 Financial Summary

(Amounts in millions)

	Q3 FY2013	Q2 FY 2013	Q1 FY 2013	Q4 FY 2012	Q3 FY 2012	Period Change	
						Q-T-Q	Y-T-Y
Revenue	\$ 538.4	\$ 507.7	\$ 453.1	\$ 465.5	\$ 474.1	6.0%	13.6%
Adjusted Gross Margin*	43.6%	42.5%	44.6%	42.7%	39.6%	1.1%	4.0%
Adjusted Operating Expenses*	\$ 190.4	\$ 197.4	\$ 176.6	\$ 191.8	\$ 175.6	(3.5%)	8.4%
Adjusted Operating Margin*	8.2%	3.7%	5.6%	1.4%	2.5%	4.5%	5.7%
Adjusted Net Income*	\$ 26.2	\$ 2.2	\$ 12.3	\$ (6.7)	\$ (4.1)	\$ 24.0	\$ 30.3
Adjusted EPS*	\$ 0.23	\$ 0.02	\$ 0.12	\$ (0.07)	\$ (0.04)	\$ 0.21	\$ 0.27

* 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 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012
Converged Packet-Optical	\$ 302.0	\$ 294.3	\$ 240.0	\$ 238.1	\$ 246.5
Packet Networking	\$ 61.6	\$ 54.2	\$ 45.8	\$ 47.3	\$ 30.2
Optical Transport	\$ 66.2	\$ 57.4	\$ 57.6	\$ 71.8	\$ 89.8
Software and Services	\$ 108.6	\$ 101.8	\$ 109.7	\$ 108.3	\$ 107.6
Total	\$ 538.4	\$ 507.7	\$ 453.1	\$ 465.5	\$ 474.1

% of Total Revenue

	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012
Converged Packet-Optical	56.1%	57.9%	53.0%	51.1%	52.0%
Packet Networking	11.4%	10.7%	10.1%	10.2%	6.4%
Optical Transport	12.3%	11.3%	12.7%	15.4%	18.9%
Software and Services	20.2%	20.1%	24.2%	23.3%	22.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue by Geographic Region

(Amounts in millions)

Revenue

	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012
United States	\$ 339.5	\$ 287.6	\$ 264.2	\$ 249.5	\$ 237.3
International	\$ 198.9	\$ 220.1	\$ 188.9	\$ 216.0	\$ 236.8
Total	\$ 538.4	\$ 507.7	\$ 453.1	\$ 465.5	\$ 474.1

% of Total Revenue

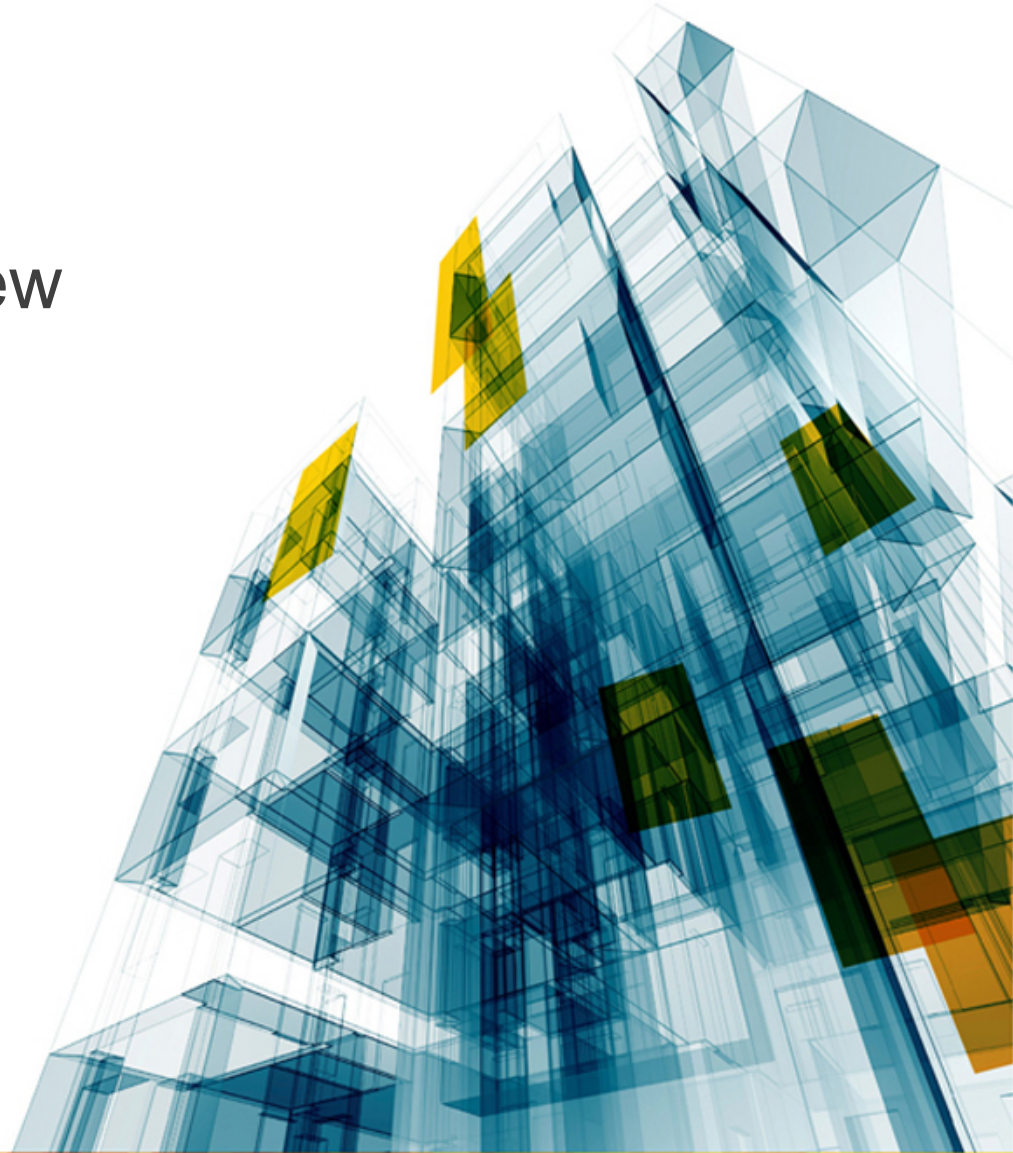
	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012
United States	63.1%	56.6%	58.3%	53.6%	50.1%
International	36.9%	43.4%	41.7%	46.4%	49.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Q4 Fiscal 2013 Business Outlook¹

Revenue	\$550 to \$580 million
Adjusted Gross Margin	Low 40s percent range
Adjusted Operating Expense	High \$190Ms range

¹ Projections or outlook with respect to future operating results are only as of September 4, 2013, 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*



- \$1.22B aggregate principal amount outstanding, down from \$1.44B
 - 2013s retired in May (\$216.2M)
 - Half of the original principal amount of the 2015s were extended to 2020 in December 2012
- \$725M of the \$1.22B outstanding has a conversion price 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	\$23
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	\$41

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 & Diluted EPS Analysis as of September 4, 2013

In thousands

Quarterly Assumptions

Outstanding Notes	Par value	Coupon interest expense	Debt issuance cost	Non-Cash		Total interest expense	Underlying Common Shares	Current Basic shares	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
				Interest Expense from Accretion of principal	Expense of redemption option & debt discount				
0.875% notes	500,000	1,094	294			1,388	13,108	102,713	\$11,076
3.75% notes	350,000	3,281	309			3,590	17,356	102,713	\$22,965
4.0% notes	187,500	1,875	257		(43)	2,090	9,198	102,713	\$25,707
4.0% notes	187,500	1,875	75	868	266	3,084	9,198	102,713	\$41,307
Total	\$1,225,000	\$8,125	\$935	\$868	\$224	\$10,152	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 2013 Appendix



Gross Profit Reconciliation

(Amounts in thousands)

	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012
GAAP gross profit	\$ 228,221	\$ 209,513	\$ 195,795	\$ 192,206	\$ 181,321
Share-based compensation-products	658	686	561	647	564
Share-based compensation-services	461	435	427	326	332
Amortization of intangible assets	5,384	5,384	5,385	5,384	5,385
Total adjustments related to gross profit	6,503	6,505	6,373	6,357	6,281
Adjusted (non-GAAP) gross profit	\$ 234,724	\$ 216,018	\$ 202,168	\$ 198,563	\$ 187,602
Adjusted (non-GAAP) gross margin	43.6%	42.5%	44.6%	42.7%	39.6%

Operating Expense Reconciliation (Amounts in thousands)

	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012
GAAP operating expense	\$ 213,390	\$ 220,093	\$ 201,404	\$ 214,141	\$ 196,593
Share-based compensation-research and development	2,054	2,204	2,033	2,500	1,841
Share-based compensation-sales and marketing	3,562	3,382	2,743	3,048	2,589
Share-based compensation-general and administrative	3,198	3,144	2,556	2,205	1,547
Acquisition and integration costs	-	-	-	20	6
Amortization of intangible assets	12,440	12,439	12,453	12,545	12,714
Restructuring costs	202	1,509	5,030	1,990	2,291
Settlement of patent litigation	1,500	-	-	-	-
Total adjustments related to operating expense	22,956	22,678	24,815	22,308	20,988
Adjusted (non-GAAP) operating expense	\$ 190,334	\$ 197,415	\$ 176,589	\$ 191,833	\$ 175,605

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

	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012
GAAP income (loss) from operations	\$ 14,831	\$ (10,580)	\$ (5,609)	\$ (21,935)	\$ (15,272)
Total adjustments related to gross profit	6,503	6,505	6,373	6,357	6,281
Total adjustments related to operating expense	22,956	22,678	24,815	22,308	20,988
Adjusted (non-GAAP) income from operations	44,290	18,603	25,579	6,730	11,997
Adjusted (non-GAAP) operating margin	8.2%	3.7%	5.6%	1.4%	2.5%

Net Income (Loss) Reconciliation (Amounts in thousands)

	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012
GAAP net loss	\$ (1,231)	\$ (27,079)	\$ (47,324)	\$ (38,771)	\$ (29,817)
Total adjustments related to gross profit	6,503	6,505	6,373	6,357	6,281
Total adjustments related to operating expense	22,956	22,678	24,815	22,308	20,988
Loss on extinguishment of debt	-	-	28,630	-	-
Non-cash interest expense	267	247	100	-	-
Change in fair-value of embedded redemption feature	(2,290)	(120)	(310)	3,440	(1,570)
Adjusted (non-GAAP) net income (loss)	\$ 26,205	\$ 2,231	\$ 12,284	\$ (6,666)	\$ (4,118)
Weighted average basic common shares outstanding	102,713	101,913	101,204	100,506	99,530
Weighted average dilutive potential common shares outstanding	144,277 ¹	103,165	120,817	100,506	99,530

Net Income (Loss) per Common Share

	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012
GAAP diluted net loss per common share	\$ (0.01)	\$ (0.27)	\$ (0.47)	\$ (0.39)	\$ (0.30)
Adjusted (Non-GAAP) diluted net income (loss) per common share	\$ 0.23²	\$ 0.02	\$ 0.12	\$ (0.07)	\$ (0.04)

1. Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income (loss) per common share for the fiscal third quarter of 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.

2. The calculation of Adjusted (non-GAAP) diluted net income (loss) 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.