



Ciena Corporation Q1 Fiscal 2014 Earnings Call

March 6, 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 March 7th, 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.

Q1 Fiscal 2014 Financial Highlights

Key Takeaways

- 1 **Revenue** of \$533.7 million
- 2 **Adjusted Gross Margin** of 43.4%*
- 3 **Adjusted Operating Expense** of \$199.8 million*
- 4 **Adjusted Operating Margin** of 5.9%*
- 5 **Adjusted Net Income** of \$13.7 million or \$0.13 per share*

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

Q1 Fiscal 2014 Balance Sheet and Operating Metrics

Cash and Investments	\$440.1 million
Cash Flow Used In Operations	\$(37.2) million
DSO	88 Days
Inventory Turns	3.5
Headcount (as of January 31, 2014)	4,865

Q1 Fiscal 2014 Financial Summary

(Amounts in millions)

	Q1 FY2014	Q4 FY2013	Q3 FY 2013	Q2 FY 2013	Q1 FY 2013	Period Change	
						Q-T-Q	Y-T-Y
Revenue	\$ 533.7	\$ 583.4	\$ 538.4	\$ 507.7	\$ 453.1	(8.5)%	17.8%
Adjusted Gross Margin*	43.4%	40.8%	43.6%	42.5%	44.6%	2.6%	(1.2)%
Adjusted Operating Expenses*	\$ 199.8	\$ 210.5	\$ 190.4	\$ 197.4	\$ 176.6	(5.1)%	13.1%
Adjusted Operating Margin*	5.9%	4.7%	8.2%	3.7%	5.6%	1.2%	0.3%
Adjusted Net Income*	\$ 13.7	\$ 18.3	\$ 26.2	\$ 2.2	\$ 12.3	\$ (4.6)	\$ 1.4
Adjusted EPS*	\$ 0.13	\$ 0.16	\$ 0.23	\$ 0.02	\$ 0.12	\$ (0.03)	\$ 0.01

* 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

	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013
Converged Packet-Optical	\$ 333.4	\$ 350.9	\$ 302.0	\$ 294.3	\$ 240.0
Packet Networking	\$ 51.7	\$ 61.2	\$ 61.6	\$ 54.2	\$ 45.8
Optical Transport	\$ 40.1	\$ 52.6	\$ 66.2	\$ 57.4	\$ 57.6
Software and Services	\$ 108.5	\$ 118.7	\$ 108.6	\$ 101.8	\$ 109.7
Total	\$ 533.7	\$ 583.4	\$ 538.4	\$ 507.7	\$ 453.1

% of Total Revenue

	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013
Converged Packet-Optical	62.5%	60.2%	56.1%	57.9%	53.0%
Packet Networking	9.7%	10.5%	11.4%	10.7%	10.1%
Optical Transport	7.5%	9.0%	12.3%	11.3%	12.7%
Software and Services	20.3%	20.3%	20.2%	20.1%	24.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue by Geographic Region

(Amounts in millions)

Revenue

	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013
United States	\$ 317.4	\$ 326.2	\$ 339.5	\$ 287.6	\$ 264.2
International	\$ 216.3	\$ 257.2	\$ 198.9	\$ 220.1	\$ 188.9
Total	\$ 533.7	\$ 583.4	\$ 538.4	\$ 507.7	\$ 453.1

% of Total Revenue

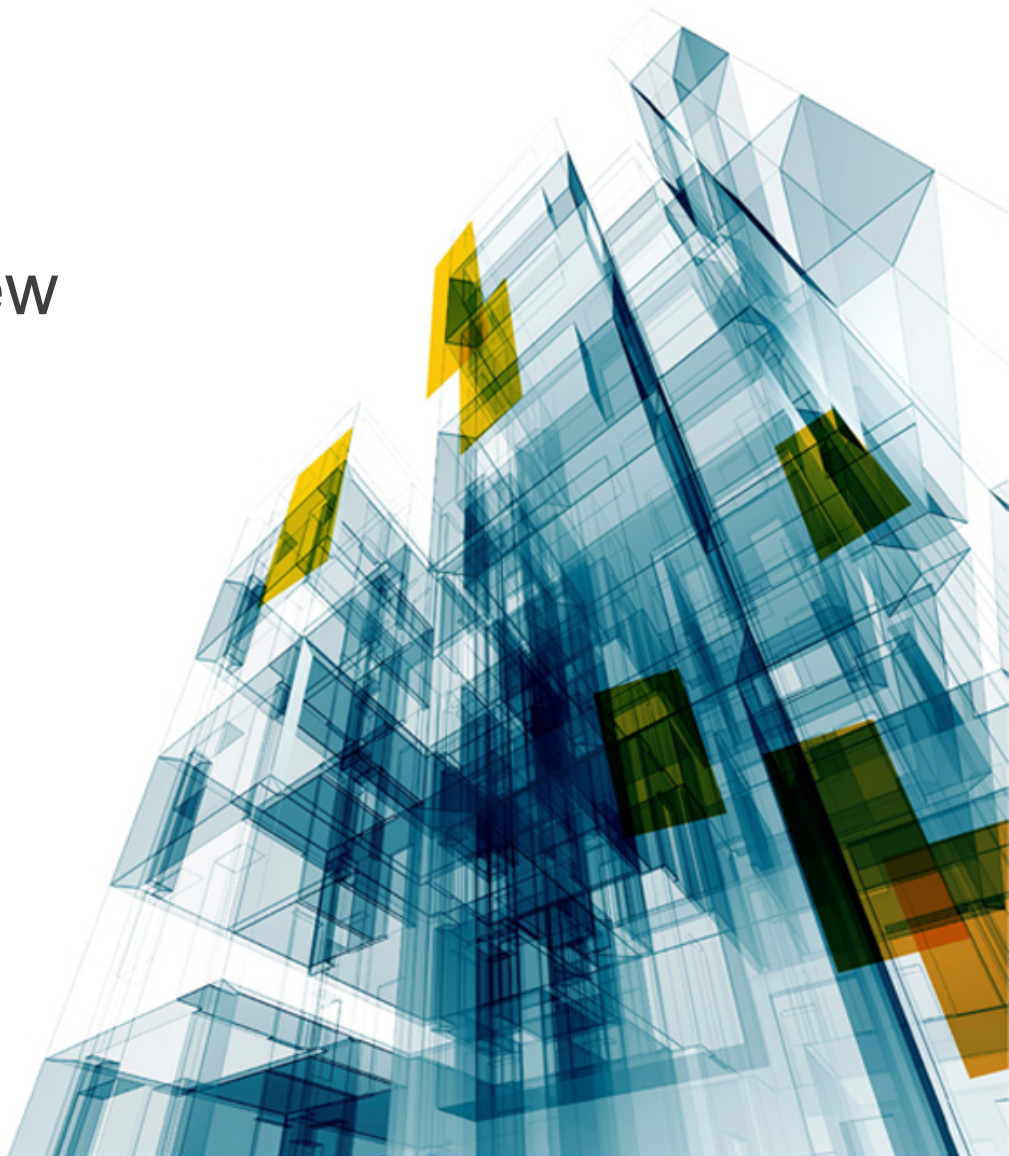
	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013
United States	59.5%	55.9%	63.1%	56.6%	58.3%
International	40.5%	44.1%	36.9%	43.4%	41.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Q2 Fiscal 2014 Business Outlook¹

Revenue	\$540 to \$570 million
Adjusted Gross Margin	Low 40s percent range, lower than Q1'14
Adjusted Operating Expense	\$210 million range

¹ Projections or outlook with respect to future operating results are only as of March 6, 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 11 or slide 12 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	\$43

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 February 1, 2014

In thousands (except per share amounts)

Outstanding Notes	Par Value	Quarterly Assumptions							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	Underlying Common Shares	Current Weighted Average Basic Common Shares Outstanding	
0.875% notes	500,000	1,094	294			1,388	13,108	104,501	\$ 11,294
3.75% notes	350,000	3,281	309			3,590	17,356	104,501	\$ 23,392
4.0% notes	187,500	1,875	257		(43)	2,090	9,198	104,501	\$ 26,177
4.0% notes	187,500	1,875	77	877	293	3,122	9,198	104,501	\$ 42,604
Total	\$ 1,225,000	\$ 8,125	\$ 937	\$ 877	\$ 250	\$ 10,190	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.



Q1 Fiscal 2014 Appendix

A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The sky is a gradient of red and orange, suggesting a sunset or sunrise. The buildings are silhouetted against the bright sky.

make [transformation] possible

Gross Profit Reconciliation

(Amounts in thousands)

	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013
GAAP gross profit	\$ 225,851	\$ 231,646	\$ 228,221	\$ 209,513	\$ 195,795
Share-based compensation-products	506	617	658	686	561
Share-based compensation-services	580	448	461	435	427
Amortization of intangible assets	4,451	5,384	5,384	5,384	5,385
Total adjustments related to gross profit	5,537	6,449	6,503	6,505	6,373
Adjusted (non-GAAP) gross profit	\$ 231,388	\$ 238,095	\$ 234,724	\$ 216,018	\$ 202,168
Adjusted (non-GAAP) gross margin	43.4%	40.8%	43.6%	42.5%	44.6%

Operating Expense Reconciliation (Amounts in thousands)

	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013
GAAP operating expense	\$ 222,496	\$ 232,063	\$ 213,390	\$ 220,093	\$ 201,404
Share-based compensation-research and development	2,572	1,923	2,054	2,204	2,033
Share-based compensation-sales and marketing	4,063	3,603	3,562	3,382	2,743
Share-based compensation-general and administrative	3,506	3,157	3,198	3,144	2,556
Amortization of intangible assets	12,439	12,439	12,440	12,439	12,453
Restructuring costs	115	428	202	1,509	5,030
Settlement of patent litigation	-	-	1,500	-	-
Total adjustments related to operating expense	22,695	21,550	22,956	22,678	24,815
Adjusted (non-GAAP) operating expense	\$ 199,801	\$ 210,513	\$ 190,434	\$ 197,415	\$ 176,589

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

	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013
GAAP income (loss) from operations	\$ 3,355	\$ (417)	\$ 14,831	\$ (10,580)	\$ (5,609)
Total adjustments related to gross profit	5,537	6,449	6,503	6,505	6,373
Total adjustments related to operating expense	22,695	21,550	22,956	22,678	24,815
Adjusted (non-GAAP) income from operations	\$ 31,587	\$ 27,582	\$ 44,290	\$ 18,603	\$ 25,579
Adjusted (non-GAAP) operating margin	5.9%	4.7%	8.2%	3.7%	5.6%

Net Income (Loss) Reconciliation (Amounts in thousands)

	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013
GAAP net loss	\$ (15,936)	\$ (9,797)	\$ (1,231)	\$ (27,079)	\$ (47,324)
Total adjustments related to gross profit	5,537	6,449	6,503	6,505	6,373
Total adjustments related to operating expense	22,695	21,550	22,956	22,678	24,815
Loss on extinguishment of debt	-	-	-	-	28,630
Non-cash interest expense	293	284	267	247	100
Change in fair-value of embedded redemption feature	1,090	(230)	(2,290)	(120)	(310)
Adjusted (non-GAAP) net income	\$ 13,679	\$ 18,256	\$ 26,205	\$ 2,231	\$ 12,284
Weighted average basic common shares outstanding	104,501	103,523	102,713	101,913	101,204
Weighted average dilutive potential common shares outstanding	119,789 ¹	119,401 ³	144,277 ⁵	103,165 ⁷	120,817 ⁸

Net Income (Loss) per Common Share

	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013
GAAP diluted net loss per common share	\$ (0.15)	\$ (0.09)	\$ (0.01)	\$ (0.27)	\$ (0.47)
Adjusted (Non-GAAP) diluted net income per common share	\$ 0.13²	\$ 0.16⁴	\$ 0.23⁶	\$ 0.02	\$ 0.12⁹

Reconciliation Endnotes

- 1. 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.*
- 2. 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.*
- 3. 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.*
- 4. 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.*
- 5. Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income 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.*
- 6. 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 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 fiscal second quarter of 2013 includes 1.3 million shares underlying certain stock options and restricted stock units.*
- 8. Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the fiscal first quarter of 2013 includes 1.0 million shares underlying certain stock options and restricted stock units, 5.5 million shares underlying Ciena's 0.25% convertible senior notes, due May 1, 2013, and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
- 9. The calculation of Adjusted (non-GAAP) diluted net income per common share for the fiscal first quarter of 2013 requires adding back interest expense of approximately \$0.3 million associated with Ciena's 0.25% convertible senior notes, due May 1, 2013 and 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.*