



# Ciena Corporation Q2 Fiscal 2014 Earnings Call

June 5, 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, creating a dramatic and modern atmosphere.

**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 7<sup>th</sup>, 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.

# Q2 2014 Key Takeaways

## **We've built a balanced and diversified business that is specifically aligned with high-growth opportunities.**

- We are capturing greater wallet share by addressing more applications beyond pure optical infrastructure.
- We are broadening and diversifying our customer base.
- And our portfolio is ideally aligned with the new requirements of the emerging on-demand environment.

## **We continue to execute well.**

- We are enabling convergence, delivering a next-generation architecture, growing faster than the market, and making steady progress in increasing our operating leverage.
- The market is evolving as we expected, and the value proposition around our OP<sup>n</sup> architecture and solutions is resonating with customers.
- We have consistently executed well, and as a result, our financial performance is steadily improving.

# Q2 Fiscal 2014 Financial Highlights

## Key Takeaways

- 1 **Revenue** of \$560.0 million
- 2 **Adjusted Gross Margin** of 43.1%\*
- 3 **Adjusted Operating Expense** of \$206.3 million\*
- 4 **Adjusted Operating Margin** of 6.2%\*
- 5 **Adjusted Net Income** of \$19.4 million or \$0.17 per share\*

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

# Q2 Fiscal 2014 Balance Sheet and Operating Metrics

Cash and Investments	\$430.2 million
Cash Flow from Operations	\$2.0 million
DSO	83 Days
Inventory Turns	3.5
Headcount (as of April 30, 2014)	4,998

# Q2 Fiscal 2014 Financial Summary

(Amounts in millions)

	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY 2013	Q2 FY 2013	Period Change	
						Q-T-Q	Y-T-Y
Revenue	\$ 560.0	\$ 533.7	\$ 583.4	\$ 538.4	\$ 507.7	4.9%	10.3%
Adjusted Gross Margin*	43.1%	43.4%	40.8%	43.6%	42.5%	(0.3%)	0.6%
Adjusted Operating Expenses*	\$ 206.3	\$ 199.8	\$ 210.5	\$ 190.4	\$ 197.4	3.3%	4.5%
Adjusted Operating Margin*	6.2%	5.9%	4.7%	8.2%	3.7%	0.3%	2.5%
Adjusted Net Income*	\$ 19.4	\$ 13.7	\$ 18.3	\$ 26.2	\$ 2.2	\$ 5.7	\$ 17.2
Adjusted EPS*	\$ 0.17	\$ 0.13	\$ 0.16	\$ 0.23	\$ 0.02	\$ 0.04	\$ 0.15

\* 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

	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013
Converged Packet-Optical	\$ 356.8	\$ 333.4	\$ 350.9	\$ 302.0	\$ 294.3
Packet Networking	\$ 66.5	\$ 51.7	\$ 61.2	\$ 61.6	\$ 54.2
Optical Transport	\$ 29.6	\$ 40.1	\$ 52.6	\$ 66.2	\$ 57.4
Software and Services	\$ 107.1	\$ 108.5	\$ 118.7	\$ 108.6	\$ 101.8
<b>Total</b>	<b>\$ 560.0</b>	<b>\$ 533.7</b>	<b>\$ 583.4</b>	<b>\$ 538.4</b>	<b>\$ 507.7</b>

## % of Total Revenue

	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013
Converged Packet-Optical	63.7%	62.5%	60.2%	56.1%	57.9%
Packet Networking	11.9%	9.7%	10.5%	11.4%	10.7%
Optical Transport	5.3%	7.5%	9.0%	12.3%	11.3%
Software and Services	19.1%	20.3%	20.3%	20.2%	20.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

# Revenue by Geographic Region

(Amounts in millions)

## Revenue

	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013
United States	\$ 323.9	\$ 317.4	\$ 326.2	\$ 339.5	\$ 287.6
International	\$ 236.1	\$ 216.3	\$ 257.2	\$ 198.9	\$ 220.1
<b>Total</b>	<b>\$ 560.0</b>	<b>\$ 533.7</b>	<b>\$ 583.4</b>	<b>\$ 538.4</b>	<b>\$ 507.7</b>

## % of Total Revenue

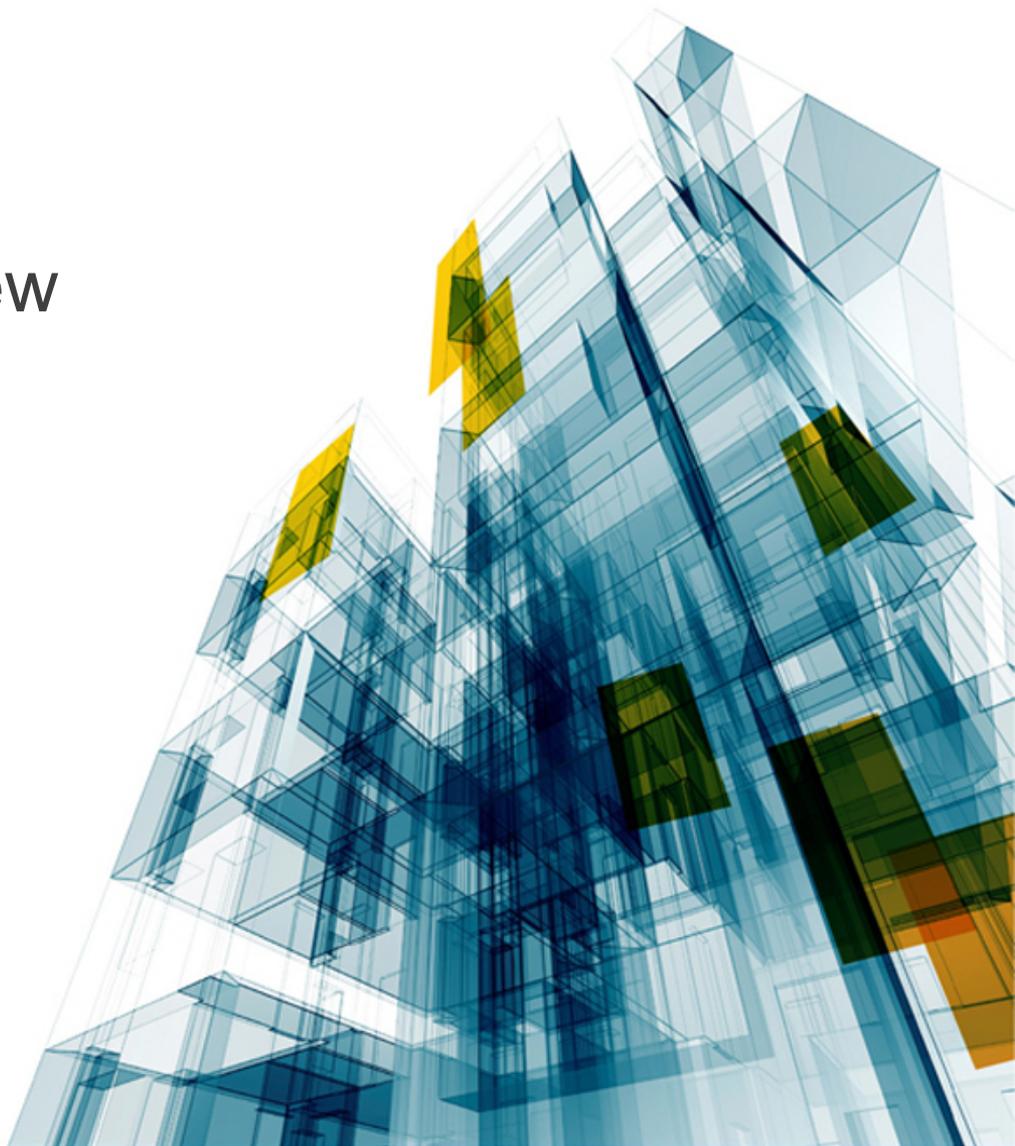
	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013
United States	57.8%	59.5%	55.9%	63.1%	56.6%
International	42.2%	40.5%	44.1%	36.9%	43.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

# Q3 Fiscal 2014 Business Outlook<sup>1</sup>

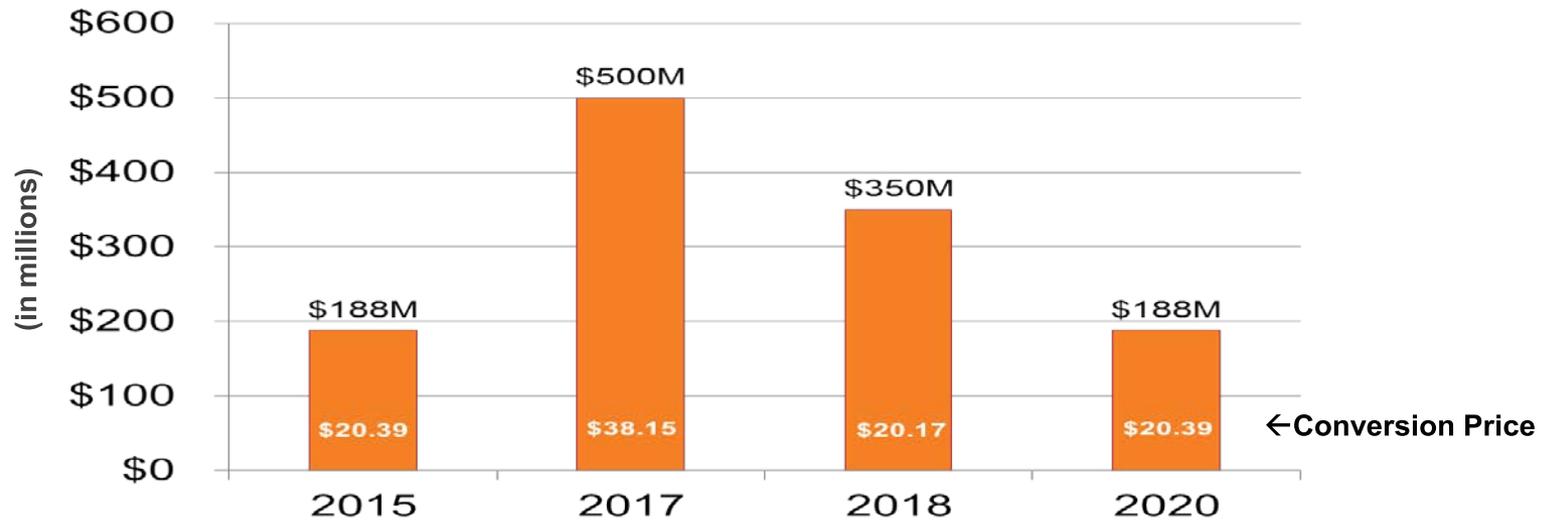
Revenue	\$585 to 615 million
Adjusted Gross Margin	Low-to-mid 40s percent range
Adjusted Operating Expense	Approximately \$210 million range

<sup>1</sup> Projections or outlook with respect to future operating results are only as of June 5, 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 ISSUE<sup>1</sup>

	<b>Par Value (in millions)</b>	<b>Underlying Shares (in thousands)</b>	<b>Conversion Price</b>	<b>Additional Redemption / Conversion Provisions</b>	<b>Net Income Threshold for Diluted EPS (in millions)<sup>2</sup></b>
<b>4.0% convertible senior notes, due March 15, 2015</b>	\$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
<b>0.875% convertible senior notes, due June 15, 2017</b>	\$500	13,108	\$38.15	No	\$11
<b>3.75% convertible senior notes due October 15, 2018</b>	\$350	17,356	\$20.17	No	\$24
<b>4.0% convertible senior notes, due March 15, 2020</b>	\$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

<sup>1</sup>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.

<sup>2</sup>The 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 May 3, 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					
0.875% notes due 2017	500,000	1,094	294			1,388		13,108	105,451	\$	11,383
3.75% notes due 2018	350,000	3,281	309			3,590		17,356	105,451	\$	23,566
4.0% notes due 2015	187,500	1,875	257		(43)	2,089		9,198	105,451	\$	26,360
4.0% notes due 2020	187,500	1,875	76	883	302	3,136		9,198	105,451	\$	43,114
<b>Total</b>	<b>\$ 1,225,000</b>	<b>\$ 8,125</b>	<b>\$ 936</b>	<b>\$ 883</b>	<b>\$ 259</b>	<b>\$ 10,203</b>		<b>48,860</b>			

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.



# Q2 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)

	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013
GAAP gross profit	\$ 237,691	\$ 225,851	\$ 231,646	\$ 228,221	\$ 209,513
Share-based compensation-products	741	506	617	658	686
Share-based compensation-services	568	580	448	461	435
Amortization of intangible assets	2,328	4,451	5,384	5,384	5,384
Total adjustments related to gross profit	3,637	5,537	6,449	6,503	6,505
<b>Adjusted (non-GAAP) gross profit</b>	<b>\$ 241,328</b>	<b>\$ 231,388</b>	<b>\$ 238,095</b>	<b>\$ 234,724</b>	<b>\$ 216,018</b>
<b>Adjusted (non-GAAP) gross margin</b>	<b>43.1%</b>	<b>43.4%</b>	<b>40.8%</b>	<b>43.6%</b>	<b>42.5%</b>

## Operating Expense Reconciliation (Amounts in thousands)

	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013
GAAP operating expense	\$ 230,529	\$ 222,496	\$ 232,063	\$ 213,390	\$ 220,093
Share-based compensation-research and development	2,782	2,572	1,923	2,054	2,204
Share-based compensation-sales and marketing	4,246	4,063	3,603	3,562	3,382
Share-based compensation-general and administrative	3,661	3,506	3,157	3,198	3,144
Amortization of intangible assets	11,493	12,439	12,439	12,440	12,439
Restructuring costs	-	115	428	202	1,509
Settlement of patent litigation	2,000	-	-	1,500	-
Total adjustments related to operating expense	24,182	22,695	21,550	22,956	22,678
<b>Adjusted (non-GAAP) operating expense</b>	<b>\$ 206,347</b>	<b>\$ 199,801</b>	<b>\$ 210,513</b>	<b>\$ 190,434</b>	<b>\$ 197,415</b>

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

	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013
GAAP income (loss) from operations	\$ 7,162	\$ 3,355	\$ (417)	\$ 14,831	\$ (10,580)
Total adjustments related to gross profit	3,637	5,537	6,449	6,503	6,505
Total adjustments related to operating expense	24,182	22,695	21,550	22,956	22,678
<b>Adjusted (non-GAAP) income from operations</b>	<b>\$ 34,981</b>	<b>\$ 31,587</b>	<b>\$ 27,582</b>	<b>\$ 44,290</b>	<b>\$ 18,603</b>
<b>Adjusted (non-GAAP) operating margin</b>	<b>6.2%</b>	<b>5.9%</b>	<b>4.7%</b>	<b>8.2%</b>	<b>3.7%</b>

## Net Income (Loss) Reconciliation (Amounts in thousands)

	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013
GAAP net loss	\$ (10,158)	\$ (15,936)	\$ (9,797)	\$ (1,231)	\$ (27,079)
Total adjustments related to gross profit	3,637	5,537	6,449	6,503	6,505
Total adjustments related to operating expense	24,182	22,695	21,550	22,956	22,678
Non-cash interest expense	302	293	284	267	247
Change in fair-value of embedded redemption feature	1,460	1,090	(230)	(2,290)	(120)
<b>Adjusted (non-GAAP) net income</b>	<b>\$ 19,423</b>	<b>\$ 13,679</b>	<b>\$ 18,256</b>	<b>\$ 26,205</b>	<b>\$ 2,231</b>
Weighted average basic common shares outstanding	105,451	104,501	103,523	102,713	101,913
Weighted average dilutive potential common shares outstanding	120,628 <sup>1</sup>	119,789 <sup>3</sup>	119,401 <sup>5</sup>	144,277 <sup>7</sup>	103,165 <sup>9</sup>

## Net Income (Loss) per Common Share

	Q2 FY2014	Q1 FY2014	Q4 FY2013	Q3 FY2013	Q2 FY2013
GAAP diluted net loss per common share	\$ (0.10)	\$ (0.15)	\$ (0.09)	\$ (0.01)	\$ (0.27)
<b>Adjusted (Non-GAAP) diluted net income per common share</b>	<b>\$ 0.17<sup>2</sup></b>	<b>\$ 0.13<sup>4</sup></b>	<b>\$ 0.16<sup>6</sup></b>	<b>\$ 0.23<sup>8</sup></b>	<b>\$ 0.02</b>

## Reconciliation Endnotes

- 1. 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.*
- 2. 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.*
- 3. 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.*
- 4. 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.*
- 5. 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.*
- 6. 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.*
- 7. 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.*
- 8. 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.*
- 9. 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.*