UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark one)

☑	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended January 31, 2006
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from ________ to ________

Commission file number: 0-21969

Ciena Corporation

(Exact name of registrant as specified in its charter)

Delaware	**23-2725311**
State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1201 Winterson Road, Linthicum, MD	**21090**
(Address of Principal Executive Offices)	(Zip Code)

(410) 865-8500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer ☑ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as determined in Rule 12b-2 of the Exchange Act). YES o NO ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at February 28, 2006
common stock, $.01 par value	582,356,152

CIENA CORPORATION

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

CIENA CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Quarter Ended January 31,	
	2005	2006
Revenues:		
Products	$ 82,300	$ 105,941
Services	12,448	14,489
Total revenue	94,748	120,430
Costs:		
Products	60,848	60,399
Services	9,669	9,576
Total cost of goods sold	70,517	69,975
Gross profit	24,231	50,455
Operating expenses:		
Research and development	34,662	29,462
Selling and marketing	26,840	26,572
General and administrative	7,656	9,896
Amortization of intangible assets	10,411	6,295
Restructuring costs	1,125	2,015
Long-lived asset impairments	184	(3)
Recovery of doubtful accounts, net	—	(2,604)
Gain on lease settlement	—	(6,020)
Total operating expenses	80,878	65,613
Loss from operations	(56,647)	(15,158)
Interest and other income, net	7,433	9,262
Interest expense	(7,226)	(6,053)
Gain (loss) on equity investments, net	22	(733)
Gain on extinguishment of debt	—	6,690
Loss before income taxes	(56,418)	(5,992)
Provision for income taxes	577	299
Net loss	$ (56,995)	$ (6,291)
Basic and diluted net loss per common share and dilutive potential common share	$ (0.10)	$ (0.01)
Weighted average basic common and dilutive potential common shares outstanding	571,573	580,771

The accompanying notes are an integral part of these consolidated financial statements.

CIENA CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	October 31, 2005	(unaudited) January 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 358,012	$ 298,624
Short-term investments	579,531	496,010
Accounts receivable, net	72,786	81,136
Inventories, net	49,333	64,379
Prepaid expenses and other	37,867	34,717
Total current assets	1,097,529	974,866
Long-term investments	155,944	166,951
Equipment, furniture and fixtures, net	28,090	27,131
Goodwill	232,015	232,015
Other intangible assets, net	120,324	113,061
Other long-term assets	41,327	30,867
Total assets	$ 1,675,229	$ 1,544,891
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 43,868	$ 51,995
Accrued liabilities	76,491	64,138
Restructuring liabilities	15,492	12,687
Unfavorable lease commitments	9,011	8,620
Income taxes payable	5,785	5,846
Deferred revenue	27,817	30,986
Total current liabilities	178,464	174,272
Long-term deferred revenue	15,701	15,727
Long-term restructuring liabilities	54,285	35,939
Long-term unfavorable lease commitments	41,364	38,934
Other long-term obligations	1,296	1,151
Convertible notes payable	648,752	542,262
Total liabilities	939,862	808,285
Commitments and contingencies		
Stockholders' equity:		
Preferred stock — par value $0.01; 20,000,000 shares authorized; zero shares issued and outstanding	—	—
Common stock — par value $0.01; 980,000,000 shares authorized; 580,340,947 and 581,581,317 shares issued and outstanding	5,803	5,816
Additional paid-in capital	5,489,613	5,493,614
Deferred stock compensation	(2,286)	—
Changes in unrealized gains on investments, net	(4,673)	(3,433)
Translation adjustment	(495)	(505)
Accumulated deficit	(4,752,595)	(4,758,886)
Total stockholders' equity	735,367	736,606
Total liabilities and stockholders' equity	$ 1,675,229	$ 1,544,891

The accompanying notes are an integral part of these consolidated financial statements.

CIENA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended January 31,	
	2005	2006
Cash flows from operating activities:		
Net loss	$ (56,995)	$ (6,291)
Adjustments to reconcile net loss to net cash used in operating activities:		
Early extinguishment of debt	—	(6,690)
Amortization of premium on marketable securities	4,913	1,176
Non-cash loss from equity investments	—	733
Non-cash impairment of long-lived assets	184	—
Depreciation and amortization of leasehold improvements	8,383	5,312
Stock compensation	2,047	4,183
Amortization of intangibles	11,378	7,263
Provision for inventory excess and obsolescence	1,115	3,000
Provision for warranty and other contractual obligations	3,016	2,470
Other	749	608
Changes in assets and liabilities:		
Accounts receivable	(6,244)	(8,350)
Inventories	242	(18,046)
Prepaid expenses and other	4,888	10,151
Accounts payable and accrued liabilities	(13,889)	(30,813)
Income taxes payable	318	61
Deferred revenue and other obligations	(3,436)	3,195
Net cash used in operating activities	(43,331)	(32,038)
Cash flows from investing activities:		
Additions to equipment, furniture, fixtures and intellectual property	(4,201)	(4,375)
Proceeds from sale of equipment, furniture and fixtures	177	—
Restricted cash	(621)	1,102
Purchases of available for sale securities	(161,847)	(63,641)
Maturities of available for sale securities	200,731	136,219
Minority equity investments, net	(1,595)	—
Net cash provided by investing activities	32,644	69,305
Cash flows from financing activities:		
Repayment of convertible notes payable	—	(98,772)
Proceeds from issuance of common stock	347	2,117
Repayment of notes receivable from stockholders	45	—
Net cash provided by (used in) financing activities	392	(96,655)
Net decrease in cash and cash equivalents	(10,295)	(59,388)
Cash and cash equivalents at beginning of period	185,868	358,012
Cash and cash equivalents at end of period	$ 175,573	$ 298,624

The accompanying notes are an integral part of these consolidated financial statements

CIENA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) INTERIM FINANCIAL STATEMENTS

The interim financial statements included herein for Ciena Corporation (“Ciena”) have been prepared by Ciena, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, financial statements included in this report reflect all normal recurring adjustments which Ciena considers necessary for the fair statement of the results of operations for the interim periods covered and of the financial position of Ciena at the date of the interim balance sheet. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, Ciena believes that the disclosures are adequate to understand the information presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. These financial statements should be read in conjunction with Ciena’s audited consolidated financial statements and notes thereto included in Ciena’s annual report on Form 10-K for the fiscal year ended October 31, 2005.

Ciena has a 52 or 53 week fiscal year, which ends on the Saturday nearest to the last day of October in each year. For purposes of financial statement presentation, each fiscal year is described as having ended on October 31, and each fiscal quarter is described as having ended on January 31, April 30 and July 31 of each fiscal year.

(2) SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Ciena considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Restricted cash collateralizing letters of credits are included in other current assets and other long-term assets depending upon the duration of the restriction.

Investments

Ciena’s short-term and long-term investments are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income. Realized gains or losses and declines in value determined to be other than temporary, if any, on available-for-sale securities, are reported in other income or expense as incurred.

Ciena also has certain other minority equity investments in privately held technology companies. These investments are carried at cost because Ciena owns less than 20% of the voting equity and does not have the ability to exercise significant influence over these companies. These investments are inherently high risk as the market for technologies or products manufactured by these companies are usually early stage at the time of the investment by Ciena and such markets may never be significant. Ciena could lose its entire investment in some or all of these companies. Ciena monitors these investments for impairment and makes appropriate reductions in carrying values when necessary.

Inventories

Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out basis. Ciena records a provision for excess and obsolete inventory whenever an impairment has been identified.

Equipment, Furniture and Fixtures

Equipment, furniture and fixtures are recorded at cost. Depreciation and amortization are computed using the straight-line method over useful lives of two years to five years for equipment, furniture and fixtures and nine months to ten years for leasehold improvements. Impairments of equipment, furniture and fixtures are determined in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.”

Internal use software and web site development costs are capitalized in accordance with Statement of Position (SOP) No. 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,” and

Emerging Issues Task Force (EITF) Issue No. 00-02, “Accounting for Web Site Development Costs.” Qualifying costs incurred during the application development stage, which consist primarily of outside services and purchased software license costs, are capitalized and amortized over the estimated useful life of the asset.

Goodwill and Other Intangible Assets

Ciena has recorded goodwill and purchased intangible assets as a result of several acquisitions. Ciena accounts for goodwill in accordance with SFAS 142 “Goodwill and Other Intangible Assets,” which requires Ciena to test each reporting unit’s goodwill for impairment on an annual basis, which Ciena has determined to be the last business day of September each year, and between annual tests if events occur or circumstances change that would, more likely than not, reduce the fair value of the reporting unit below its carrying value. Purchased intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally three to seven years. It is Ciena’s policy to assess periodically the carrying amount of its purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangibles assets are determined in accordance with SFAS 144.

Concentrations

Substantially all of Ciena’s cash and cash equivalents, short-term and long-term investments, are maintained at two major U.S. financial institutions. The majority of Ciena’s cash equivalents consist of money market funds and overnight repurchase agreements. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk.

Additionally, Ciena’s access to certain raw materials is dependent upon single and sole source suppliers. The inability of any supplier to fulfill supply requirements of Ciena could affect future results. Ciena relies on a small number of contract manufacturers to perform the majority of the manufacturing operations for its products. If Ciena cannot effectively manage these manufacturers and forecast future demand, or if they fail to deliver products or components on time, Ciena’s business may suffer.

Revenue Recognition

Ciena recognizes revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, “Revenue Recognition,” which states that revenue is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the price to the buyer is fixed and determinable; and collectibility is reasonably assured. In instances where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. Services revenue is deferred and recognized ratably over the period during which the services are to be performed.

Some of Ciena’s communications networking equipment is integrated with software that is essential to the functionality of the equipment. Ciena provides unspecified software upgrades and enhancements related to the equipment through maintenance contracts for these products. For transactions involving the sale of software, revenue is recognized in accordance with SOP 97-2, “Software Revenue Recognition,” including deferral of revenue recognition in instances where vendor specific objective evidence for undelivered elements is not determinable.

For arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets, except as otherwise covered by SOP 97-2, the determination as to how the arrangement consideration should be measured and allocated to the separate deliverables of the arrangement is determined in accordance with EITF 00-21, “Revenue Arrangements with Multiple Deliverables.” When a sale involves multiple elements, such as sales of products that include services, the entire fee from the arrangement is allocated to each respective element based on its relative fair value and recognized when revenue recognition criteria for each element are met. Fair value for each element is established based on the sales price charged when the same element is sold separately.

Revenue Related Accruals

Ciena provides for the estimated costs to fulfill customer warranty and other contractual obligations upon the recognition of the related revenue. Such reserves are determined based upon actual warranty cost experience, estimates of component failure rates, and management’s industry experience. Ciena’s sales contracts do not permit the right of return of product by the customer after the product has been accepted.

Accounts Receivable Trade, Net

Ciena's allowance for doubtful accounts is based on its assessment, on a specific identification basis, of the collectibility of customer accounts. Ciena performs ongoing credit evaluations of its customers and generally has not required collateral or other forms of security from its customers. In determining the appropriate balance for Ciena's allowance for doubtful accounts, management considers each individual customer account receivable in order to determine collectibility. In doing so, management considers creditworthiness, payment history, account activity and communication with such customer. If a customer's financial condition changes, Ciena may be required to take a charge for an allowance on doubtful accounts. During the first quarter of fiscal 2006, Ciena recorded the recovery of a doubtful account in the amount of $2.6 million as a result of the payment of an amount due from a customer from whom payment was previously deemed doubtful due to the customer's financial condition.

Research and Development

Ciena charges all research and development costs to expense as incurred.

Advertising Costs

Ciena expenses all advertising costs as incurred.

Share-Based Compensation Expense

On November 1, 2005, Ciena adopted SFAS 123(R), "Share-Based Payment," which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based awards, made to employees and directors, including stock options, restricted stock, restricted stock units and participation in Ciena's employee stock purchase plan. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 107 relating to SFAS 123(R). Ciena has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

Ciena adopted SFAS 123(R) using the modified prospective application transition method, as of November 1, 2005, the first day of Ciena's fiscal year 2006. Ciena's consolidated financial statements as of and for the first quarter of fiscal 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective application transition method, Ciena's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Share-based compensation expense recognized under SFAS 123(R) for the first quarter of fiscal 2006 was $4.2 million, of which $0.4 million was capitalized as part of inventory.

Prior to the adoption of SFAS 123(R), Ciena accounted for share-based awards to employees and directors using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," as interpreted by FASB Interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25," as allowed under SFAS 123, "Accounting for Stock-Based Compensation." Share-based compensation expense of $2.0 million for the first quarter of fiscal 2005 was solely related to share-based awards assumed through acquisitions and restricted stock unit awards that Ciena had been recognizing in its consolidated statement of operations in accordance with the provisions set forth above. Because the exercise price of Ciena's stock options granted to employees and directors equaled the fair market value of the underlying stock at the grant date, under the intrinsic value method, no share-based compensation expense was otherwise recognized in Ciena's consolidated statement of operations.

SFAS 123(R) requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense in Ciena's consolidated statement of operations over the requisite service periods. Share-based compensation expense recognized in Ciena's consolidated statement of operations for the first quarter of fiscal 2006 includes compensation expense for share-based awards granted (i) prior to, but not yet vested as of October 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123, and (ii) subsequent to October 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In conjunction with the adoption of SFAS 123(R), Ciena changed its method of attributing the value of share-based compensation expense from the accelerated multiple-option approach to the straight-line single-option method. Compensation expense for all share-based awards granted on or prior to October 31, 2005 will continue to be recognized using the accelerated multiple-option approach. Compensation expense for all share-based awards subsequent to October 31, 2005 is recognized using the straight-line single-option method. Because share-based compensation expense is based on awards that are ultimately expected to vest, share-based compensation expense has

been reduced to account for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In Ciena's pro forma information required under SFAS 123 for periods prior to fiscal 2006, Ciena accounted for forfeitures as they occurred.

To calculate option-based compensation under SFAS 123(R), Ciena used the Black-Scholes option-pricing model, which it had previously used for valuation of option-based awards for its pro forma information required under SFAS 123 for periods prior to fiscal 2006. For additional information see Note 13. Ciena's determination of fair value of option-based awards on the date of grant using the Black-Scholes model is affected by Ciena's stock price as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to Ciena's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

No tax benefits were attributed to the share-based compensation expense because a valuation allowance was maintained for all net deferred tax assets.

Income Taxes

Ciena accounts for income taxes in accordance with SFAS 109, "Accounting for Income Taxes." SFAS 109 describes an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, and for operating loss and tax credit carry forwards. In estimating future tax consequences, SFAS 109 generally considers all expected future events other than the enactment of changes in tax laws or rates. Valuation allowances are provided, if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments

The carrying amounts of Ciena's financial instruments, which include short-term and long-term investments, accounts receivable, accounts payable, and other accrued expenses, approximate their fair values due to their short maturities.

As of the last day of the first quarter of fiscal 2006, the fair value of the $542.3 million in aggregate principal amount of convertible notes, due February 1, 2008, was $509.0 million, based on the quoted market price for the notes.

Foreign Currency Translation

Some of Ciena's foreign branch offices and subsidiaries use the U.S. dollar as their functional currency, because Ciena, as the U.S. parent entity, exclusively funds the operations of these branch offices and subsidiaries with U.S. dollars. For those subsidiaries using the local currency as their functional currency, assets and liabilities are translated at exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded directly to a separate component of stockholders' equity. Where the U.S. dollar is the functional currency, translation adjustments are recorded in other income. The net gain (loss) on foreign currency re-measurement and exchange rate changes for the first quarter of fiscal 2005 and the first quarter of fiscal 2006 were immaterial for separate financial statement presentation.

Computation of Basic Net Income (Loss) per Common Share and Diluted Net Income (Loss) per Common and Dilutive Potential Common Share

Ciena calculates earnings per share in accordance with the SFAS 128, "Earnings per Share." This statement requires dual presentation of basic and diluted EPS on the face of the income statement for entities with a complex capital structure and requires a reconciliation of the numerator and denominator used for the basic and diluted EPS computations.

Software Development Costs

SFAS 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," requires the capitalization of certain software development costs incurred subsequent to the date technological feasibility is established and prior to the date the product is generally available for sale. The capitalized cost is then amortized

over the estimated product life. Ciena defines technological feasibility as being attained at the time a working model is completed. To date, the period between achieving technological feasibility and the general availability of such software has been short, and software development costs qualifying for capitalization have been insignificant. Accordingly, Ciena has not capitalized any software development costs.

Segment Reporting

SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," establishes annual and interim reporting standards for operating segments of a company. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenue, and its major customers. Ciena organizes its operations into four separate business segments: the Transport and Switching Group (TSG), the Data Networking Group (DNG), the Broadband Access Group (BBG) and Global Network Services (GNS).

Revenue from sales to customers outside of the United States is reflected as International in Ciena's geographic segment distribution of revenue.

Reclassification

Certain prior year amounts have been reclassified to conform to current year consolidated financial statement presentation.

(3) RESTRUCTURING COSTS

Ciena has previously taken actions to align its workforce, facilities and operating costs with business opportunities. Ciena historically has committed to a restructuring plan and has incurred the associated liability concurrently in accordance with the provisions of SFAS 146. The following table displays the activity and balances of the restructuring reserve account for the three months ending January 31, 2006 (in thousands):

	Workforce reduction	Consolidation of excess facilities	Total
Balance at October 31, 2005	$ 270	$ 69,507	$ 69,777
Additional reserve recorded	1,469 (a)	742 (a)	2,211
Adjustments to previous estimates	—	(196) (b)	(196)
Lease settlement	—	(6,020) (c)	(6,020)
Cash payments	(1,011)	(16,135)	(17,146)
Balance at January 31, 2006	$ 728	$ 47,898	$ 48,626
Current restructuring liabilities	$ 728	$ 11,959	$ 12,687
Non-current restructuring liabilities	$ —	$ 35,939	$ 35,939

(a) During the first quarter of fiscal 2006, Ciena recorded a charge of $0.7 million related to the closure of one of its facilities located in Kanata, Ontario and a charge of $1.5 million related to a workforce reduction of 62 employees.

(b) During the first quarter of fiscal 2006, Ciena recorded an adjustment of $0.2 million related to the costs associated with previously restructured facilities.

(c) During the first quarter of fiscal 2006, Ciena recorded a gain of $6.0 million related to the buy-out of the lease of its former Fremont, CA facility, which Ciena had previously restructured.

(4) MARKETABLE DEBT AND EQUITY SECURITIES

Cash, short-term and long-term investments, exclusive of restricted cash, are comprised of the following (in thousands):

	January 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$ 258,524	$ —	$ 1,463	$ 257,061
Asset-backed obligations	170,619	—	651	169,968
U.S. government obligations	237,252	—	1,320	235,932
Money market funds	298,623	1	—	298,624
	$ 965,018	$ 1	$ 3,434	$ 961,585
Included in cash and cash equivalents	298,623	1	—	298,624
Included in short-term investments	498,361	—	2,351	496,010
Included in long-term investments	168,034	—	1,083	166,951
	$ 965,018	$ 1	$ 3,434	$ 961,585

	October 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$ 291,044	$ —	$ 1,888	$ 289,156
Asset backed obligations	195,471	—	844	194,627
Commercial paper	—	—	—	—
U.S. government obligations	253,633	—	1,941	251,692
Money market funds	358,012	—	—	358,012
	$ 1,098,160	$ —	$ 4,673	$ 1,093,487
Included in cash and cash equivalents	358,012	—	—	358,012
Included in short-term investments	582,947	—	3,416	579,531
Included in long-term investments	157,201	—	1,257	155,944
	$ 1,098,160	$ —	$ 4,673	$ 1,093,487

The following table summarizes maturities of investments at January 31, 2006 (in thousands):

	Amortized Cost	Estimated Fair Value
Less than one year	$ 498,361	$ 496,010
Due in 1-2 years	168,034	166,951
Due in 2-5 years	—	—
	$ 666,395	$ 662,961

(5) ACCOUNTS RECEIVABLE

As of January 31, 2006, trade accounts receivable, net of allowance for doubtful accounts, included four customers who accounted for 10.0%, 12.4%, 12.8%, and 15.0% of trade accounts receivable, respectively. As of October 31, 2005, trade accounts receivable, net of allowance for doubtful accounts, included three customers who accounted for 12.1%, 13.1% and 13.8% of net trade accounts receivable, respectively.

Ciena performs ongoing credit evaluations of its customers and generally has not required collateral or other forms of security from its customers. Ciena maintains an allowance for potential losses associated with accounts that it deems doubtful on a specific identification basis. In determining the appropriate balance for Ciena’s allowance for doubtful accounts, management considers each individual customer account receivable in order to determine collectibility. In doing so, management considers creditworthiness, payment history, account activity and communication with such customer. If a customer’s financial condition changes, Ciena may be required to take a charge for an allowance on doubtful accounts. Ciena’s allowance for doubtful accounts as of October 31, 2005 and January 31, 2006 was $3.3 million and $0.7 million, respectively. During the first quarter of fiscal 2006, Ciena recorded the recovery of a doubtful account in the amount of $2.6 million.

(6) INVENTORIES

Inventories are comprised of the following (in thousands):

	October 31, 2005	January 31, 2006
Raw materials	$ 21,177	$ 24,251
Work-in-process	3,136	3,528
Finished goods	47,615	58,812
	71,928	86,591
Provision for excess and obsolescence	(22,595)	(22,212)
	$ 49,333	$ 64,379

Ciena writes down its inventory for estimated obsolescence or unmarketable inventory by the difference between the cost of inventory and the estimated market value based on assumptions about future demand and market conditions. During the three months ended January 31, 2006, Ciena recorded a provision for inventory reserves of $3.0 million, primarily related to excess inventory due to a change in forecasted sales for certain products. The following is a summary of the change in the reserve for excess inventory and obsolete inventory during the three months ended January 31, 2006 (in thousands):

	Inventory Reserve
Reserve balance as of October 31, 2005	$ 22,595
Provision for excess inventory, net	3,000
Actual inventory scrapped	(3,383)
Reserve balance as of January 31, 2006	$ 22,212

During the three months ended January 31, 2005, Ciena recorded a provision for excess inventory of $1.1 million, primarily related to excess inventory due to a change in forecasted sales for certain products. The following is a summary of the change in the reserve for excess and obsolete inventory during the three months ended January 31, 2005 (in thousands):

	Inventory Reserve
Reserve balance as of October 31, 2004	$ 21,933
Provision for excess inventory, net	1,115
Actual inventory scrapped	(493)
Reserve balance as of January 31, 2005	$ 22,555

(7) PREPAID EXPENSES AND OTHER

Prepaid expenses and other are comprised of the following (in thousands):

	October 31, 2005	January 31, 2006
Interest receivable	$ 7,743	$ 7,133
Prepaid VAT and other taxes	4,848	4,725
Prepaid expenses	9,103	9,032
Restricted cash	10,376	9,863
Other non-trade receivables	5,797	3,964
	$ 37,867	$ 34,717

(8) EQUIPMENT, FURNITURE AND FIXTURES

Equipment, furniture and fixtures are comprised of the following (in thousands):

	October 31, 2005	January 31, 2006
Equipment, furniture and fixtures	$ 249,282	$ 249,761
Leasehold improvements	32,875	32,925
	282,157	282,686
Accumulated depreciation and amortization	(254,458)	(256,713)
Construction-in-progress	391	1,158
	$ 28,090	$ 27,131

(9) OTHER INTANGIBLE ASSETS

Other intangible assets are comprised of the following (in thousands):

	October 31, 2005			January 31, 2006		
	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Developed technology	$139,983	$ (70,502)	$ 69,481	$139,983	$ (74,771)	$ 65,212
Patents and licenses	47,370	(19,219)	28,151	47,370	(20,780)	$ 26,590
Customer relationships, covenants not to compete, outstanding purchase orders and contracts	45,981	(23,289)	22,692	45,981	(24,722)	$ 21,259
	$233,334		$120,324	$233,334		$113,061

The aggregate amortization expense of other intangible assets was $11.4 million and $7.3 million for the quarter ended January 31, 2005 and 2006, respectively. The following table represents the expected future amortization of other intangible assets as follows (in thousands):

2006 (remaining nine months)	$ 21,787
2007	29,050
2008	27,840
2009	19,254
2010	14,500
Thereafter	630
	$113,061

(10) OTHER BALANCE SHEET DETAILS

Other long-term assets (in thousands):

	October 31, 2005	January 31, 2006
Maintenance spares inventory, net	$ 12,513	$ 12,606
Deferred debt issuance costs	6,406	4,759
Investments in privately held companies	7,223	6,489
Restricted cash	4,393	3,804
Other	10,792	3,209
	$ 41,327	$ 30,867

Accrued liabilities (in thousands):

	October 31, 2005	January 31, 2006
Warranty	$ 27,044	$ 26,752
Accrued compensation, payroll related tax and benefits	26,164	22,252
Accrued interest payable	6,082	—
Other	17,201	15,134
	$ 76,491	$ 64,138

The following table summarizes the activity in Ciena's accrued warranty for the three months ended January 31, 2005 and 2006 (in thousands):

Three months ended January 31,	Beginning Balance	Provisions	Settlements	Balance at end of period
2005	$ 30,189	3,016	(4,268)	$ 28,937
2006	$ 27,044	2,470	(2,762)	$ 26,752

Deferred revenue (in thousands):

	October 31, 2005	January 31, 2006
Products	$ 14,534	$ 18,023
Services	28,984	28,690
Total deferred revenue	43,518	46,713
Less current portion	(27,817)	(30,986)
Long-term deferred revenue	$ 15,701	$ 15,727

(11) CONVERTIBLE NOTES PAYABLE

Ciena 3.75% Convertible Notes, due February 1, 2008

On February 9, 2001, Ciena completed a public offering of 3.75% convertible notes, due February 1, 2008, in an aggregate principal amount of $690.0 million. Interest is payable on February 1st and August 1st of each year. At the election of the holder, the notes may be converted into shares of Ciena's common stock at any time before their maturity or their prior redemption or repurchase by Ciena. The conversion rate is 9.5808 shares per each $1,000 principal amount of notes, subject to adjustment in certain circumstances. Ciena has the option to redeem all or a portion of the notes that have not been previously converted at the following redemption prices (expressed as percentage of principal amount):

Period	Redemption Price
Beginning on February 1, 2006 and ending on January 31, 2007	101.071%
Beginning on February 1, 2007 and ending on January 31, 2008	100.536%

During the first quarter of fiscal 2006, Ciena repurchased $106.5 million of the outstanding 3.75% convertible notes for $98.8 million in open market transactions. Ciena recorded a gain on the extinguishment of debt in the amount of $6.7 million, which consists of the $7.7 million gain from the repurchase of the notes, less $1.0 million of associated debt issuance costs.

As of the last day of the first quarter of fiscal 2006, the fair value of the $542.3 million in aggregate principal amount of convertible notes outstanding was $509.0 million, based on the quoted market price for the notes.

(12) LOSS PER SHARE CALCULATION

Basic and diluted EPS are computed using the weighted average number of common shares outstanding (excluding restricted stock subject to repurchase). Because of the anti-dilutive effect, diluted EPS and the weighted average number of common shares do not include shares underlying: stock options, warrants, restricted stock, restricted stock units, and Ciena's 3.75% convertible notes. Shares underlying these securities totaled approximately

62.5 million and 63.6 million for the first quarter of fiscal 2005 and the first quarter of fiscal 2006, respectively.

(13) SHARE-BASED COMPENSATION EXPENSE

During fiscal 2005, the Board of Directors determined that all future grants of stock options, restricted stock units, or other forms of equity-based compensation will solely be issued under the Ciena Corporation 2000 Equity Incentive Plan (the "2000 Plan") and the 2003 Employee Stock Purchase Plan (the "ESPP").

Ciena Corporation 2000 Equity Incentive Plan

The 2000 Plan, which is a shareholder approved plan, was assumed by Ciena as a result of its merger with ONI. It authorizes the issuance of stock options, restricted stock, restricted stock units and stock bonuses to employees, officers, directors, consultants, independent contractors and advisors. The Board of Directors or its Compensation Committee has broad discretion to establish the terms and conditions for grants, including number of shares, vesting and required service or other performance criteria. The maximum term of any award under the 2000 Plan is ten years. The exercise price of options may not be less than 85% of the fair market value of the stock at the date of grant, or 100% of the fair market value for qualified options.

Under the terms of the 2000 Plan, the number of shares authorized for issuance will increase by 5.0% of the number of issued and outstanding shares of Ciena each January 1st, unless the Compensation Committee reduces the amount of the increase in any year. By action of the Compensation Committee, the plan increased by (i) zero shares on January 1, 2006, (ii) zero shares on January 1, 2005, and (iii) 9.5 million shares, or 2.0% of the then issued and outstanding shares of Ciena, on January 1, 2004. In addition, any shares subject to outstanding options or other awards under the ONI 1997 Stock Plan, ONI 1998 Equity Incentive Plan, or ONI 1999 Equity Incentive Plan that are forfeited upon cancellation of the award are available for grant and issuance under the 2000 Plan. As of January 31, 2006, there were 38.9 million shares authorized and available to grant under the 2000 Plan.

Stock Options

The following table is a summary of Ciena's stock option activity (shares in thousands):

	Options Outstanding	Weighted Average Exercise Price
Balance as of October 31, 2005	60,591	$ 6.40
Granted	2,570	2.42
Exercised	(1,136)	2.08
Canceled	(1,341)	5.68
Balance as of January 31, 2006	60,684	$ 4.79

The total intrinsic value of options exercised in the first quarter of fiscal 2006 was $1.5 million.

The following table summarizes information with respect to stock options outstanding at January 31, 2006 (shares and intrinsic value in thousands):

Range of Exercise Price			Options Outstanding at January 31, 2006 Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Vested Options at January 31, 2006 Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
$ 0.01	—	$ 2.36	10,120	7.19	$ 1.83	$ 21,987	3,336	2.71	$ 1.00	$ 10,016
$ 2.37	—	$ 2.49	8,781	8.97	2.45	13,644	2,187	7.85	2.41	3,480
$ 2.50	—	$ 3.29	10,058	8.49	3.07	9,394	8,619	8.41	3.10	7,738
$ 3.30	—	$ 4.48	5,350	8.01	3.93	959	5,294	7.99	3.94	927
$ 4.49	—	$ 4.53	7,377	6.81	4.53	—	7,377	6.81	4.53	—
$ 4.54	—	$ 6.71	5,125	6.93	5.91	—	5,125	6.93	5.91	—
$ 6.72	—	$ 11.88	6,028	6.26	8.50	—	6,028	6.26	8.50	—
$11.89	—	$149.50	7,845	4.98	10.66	—	7,845	4.98	10.66	—
$ 0.01	—	$149.50	60,684	7.29	$ 4.79	$ 45,984	45,811	6.63	$ 5.56	$ 22,161

As of January 31, 2006, total unrecognized compensation expense related to unvested stock options was $17.7 million. This expense is expected to be recognized over a weighted-average period of 1.6 years.

On October 26, 2005, Ciena's Board of Directors accelerated the vesting of approximately 14.1 million unvested, "out-of-the-money" stock options previously awarded to employees, officers and directors under Ciena's stock option plans. Certain performance-based options held by executives were not subject to this acceleration. For purposes of the acceleration, options with an exercise price greater than $2.49 per share were deemed "out-of-the-money." The accelerated options, which were considered fully vested as of October 26, 2005, had exercise prices ranging from $2.50 to $46.99 per share and a weighted average exercise price of $4.39 per share. Ciena did not accelerate the vesting of options that had an exercise price per share of $2.49 or less. The primary purpose of the accelerated vesting was to enable Ciena to avoid recognizing future compensation expense associated with these out-of-the-money stock options upon adoption of SFAS 123(R) for fiscal 2006.

Restricted Stock Units

A restricted stock unit is a right to receive a share of Ciena common stock when the unit vests. Ciena calculates the fair value of each restricted stock unit using the intrinsic value method and recognizes the expense straight-line over the requisite period. The following table is a summary of Ciena's restricted stock unit activity (shares and intrinsic value in thousands):

	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	Intrinsic Value at Jan. 31, 2006
Balance as of October 31, 2005	127	$ 6.76	
Granted	1,457	2.37	
Converted	(43)	6.76	
Canceled	—	—	
Balance as of January 31, 2006	1,541	$ 2.61	$ 6,164

The total intrinsic value of restricted stock units converted into shares in the first quarter of fiscal 2006 was $0.1 million.

As of January 31, 2006, total unrecognized compensation expense related to restricted stock units was $4.0 million. This expense is expected to be recognized over a weighted-average period of 1.5 years.

2003 Employee Stock Purchase Plan

In March 2003, Ciena shareholders approved the ESPP which authorized the issuance of 20.0 million shares. Under the ESPP, eligible employees may enroll in a 24-month offer period during certain open enrollment periods.

New offer periods begin March 16 and September 16 of each year. Each offer period consists of four, six-month purchase periods during which employee payroll deductions are accumulated. These deduction amounts, which are subject to certain limitations, are accumulated, and, at the end of each purchase period, are used to purchase shares of common stock. The purchase price of the shares is 15% less than the fair market value on either the first day of an offer period or the last day of a purchase period, whichever is lower. If the fair market value on the purchase date is less than the fair market value on the first day of an offer period, then participants automatically commence a new 24-month offer period. The ESPP has a ten-year term.

At the 2005 annual meeting, Ciena shareholders approved an amendment to the ESPP pursuant to which 11.8 million shares were added to the ESPP on March 16, 2005, increasing the number of shares available under the ESPP to 25.0 million. The amendment to the ESPP also provided for an “evergreen” provision, pursuant to which, beginning on December 31, 2005, the number of shares available for issuance under the ESPP annually increases by up to four million shares, provided that the total number of shares available for issuance at any time under the ESPP shall not exceed 25.0 million. Pursuant to the evergreen provision, the maximum number of shares that may be added to the ESPP during the remainder of its ten-year term is 28.0 million. On December 31, 2005, the evergreen provision automatically added an additional 2.1 million shares to the ESPP, increasing the total number of shares available to 25.0 million.

As of January 31, 2006, unrecognized compensation expense related to the ESPP was $0.8 million. This expense is expected to be recognized over a weighted-average period of 1.2 years.

Share-Based Compensation under SFAS 123(R) for Fiscal 2006 and APB 25 for Fiscal 2005

On November 1, 2005, Ciena adopted SFAS 123(R), which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based payments awards made to Ciena’s employees and directors including stock options, restricted stock, restricted stock unit awards and stock purchased under Ciena’s ESPP.

Prior to the adoption of SFAS 123(R), Ciena accounted for share-based awards to employees and directors using the intrinsic value method in accordance with APB 25, as interpreted by FASB Interpretation (FIN) No. 44, “Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25,” as allowed under SFAS 123, “Accounting for Stock-Based Compensation.” Share-based compensation expense of $2.0 million for the first quarter of fiscal 2005 was solely related to share-based awards assumed through acquisitions and restricted stock unit awards that Ciena had been recognizing in its consolidated statement of operations in accordance with the provisions set forth above. Because the exercise price of Ciena’s stock options granted to employees and directors equaled the fair market value of the underlying stock at the grant date, under the intrinsic value method, no share-based compensation expense was otherwise recognized in Ciena’s consolidated statement of operations.

The following table summarizes share-based compensation expense under SFAS 123(R) for the three months ended January 31, 2006 and under APB 25, as interpreted by FIN 44, for the three months ended January 31, 2005, which was allocated as follows (in thousands):

	Quarter Ended January 31,	
	2005	2006
Product costs	$ —	$ 135
Service costs	—	188
Stock-based compensation expense included in cost of sales	—	323
Research and development	1,011	1,637
Sales and marketing	876	1,046
General and administrative	160	821
Stock-based compensation expense included in operating expense	2,047	3,504
Stock-based compensation expense capitalized in inventory	—	356
Total stock-based compensation	$ 2,047	$ 4,183

Pro Forma Share-Based Compensation under SFAS 123 for Fiscal 2005

Had (i) compensation expense for Ciena's stock option plans and employee stock purchase plan been determined based on the Black-Scholes valuation method; and (ii) the fair value at the grant date for awards in the first quarter of fiscal 2005 been determined consistent with the provisions of SFAS 123, "Accounting for Stock Based Compensation" as amended by SFAS 148, "Accounting for Stock Based Compensation-Transition and Disclosure," Ciena's net loss and net loss per share for the first quarter of fiscal 2005 would have changed by the pro forma amounts indicated below (in thousands, except per share data):

	Quarter Ended January 31, 2005
Net loss applicable to common stockholders — as reported	$ (56,995)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	11,799
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	2,047
Net loss applicable to common stockholders — pro forma	$ (66,747)
Basic and diluted net loss per share — as reported	$ (0.10)
Basic and diluted net loss per share — pro forma	$ (0.12)

Fair Value and Assumptions Used to Calculate Fair Value under SFAS 123(R) and SFAS 123

The weighted average fair value of each restricted stock unit granted under Ciena's stock option plans for the first quarter of fiscal 2006 was $2.37, and there were no restricted stock units issued in the first quarter of fiscal 2005. The fair value of each restricted stock unit award is estimated on the date of grant using the intrinsic value method. The weighted average fair value of each option granted for the first quarter of fiscal 2005 and the first quarter of fiscal 2006 was $1.62 and $1.47, respectively.

The fair value of each option award is estimated on the date of grant using the Black-Scholes Option Pricing Model, with the following weighted average assumptions for the first quarter of fiscal 2005 and the first quarter of fiscal 2006:

	Quarter Ended January 31,	
	2005	2006
Expected volatility	66%	62%
Risk-free interest rate	3.65%	4.3% - 4.5%
Expected life (years)	4.5	6.0 - 6.1
Expected dividend yield	0.0%	0.0%

Assumptions for Option-Based Awards under SFAS 123(R)

Consistent with SFAS 123(R) and SAB 107, Ciena considered the implied volatility and historical volatility of its stock price in determining its expected volatility, and, finding both to be equally reliable, determined that a combination of both would result in the best estimate of expected volatility.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of Ciena's employee stock options.

The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding. Because Ciena considers its options to be "plain vanilla," it calculated the expected term using the simplified method as prescribed in SAB 107. Under SAB 107, options are considered to be "plain vanilla" if they have the following basic characteristics: granted "at-the-money"; exerciseability is conditioned upon service through the vesting date; termination of service prior to vesting results in forfeiture; limited exercise period following termination of service; options are non-transferable and non-hedgeable.

The dividend yield assumption is based on Ciena's history and expectation of dividend payouts.

As share-based compensation expense recognized in the consolidated statement of operations for the first quarter of fiscal 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures were estimated based on Ciena's historical experience.

Assumptions for option-based awards under SFAS 123

Prior to the first quarter of fiscal 2006, Ciena considered the implied volatility and historical volatility of its stock price in determining its expected volatility. The risk-free interest rate was based upon assumption of interest rates appropriate for the term of Ciena's employee stock options. The dividend yield assumption was based on Ciena's history and expectation of dividend payouts. Forfeitures prior to the first quarter of fiscal 2006 were accounted for as they occurred.

(14) COMPREHENSIVE LOSS

The components of comprehensive loss were as follows (in thousands):

	Quarter ended January 31,	
	2005	2006
Net loss	$ (56,995)	$ (6,291)
Change in unrealized loss on available-for-sale securities, net of tax	(2,444)	1,240
Change in accumulated translation adjustments	(8)	(10)
Total comprehensive loss	$ (59,447)	$ (5,061)

(15) SEGMENT REPORTING

Revenue from sales to customers outside of the United States is reflected as International in the geographic distribution of revenue below. Ciena's geographic distribution of revenue for the first quarter of fiscal 2005 and fiscal 2006 was as follows (in thousands, except percentage data):

	Quarter Ended January 31,			
	2005	%*	2006	%*
United States	$ 78,686	83.0	$ 102,670	85.3
International	16,062	17.0	17,760	14.7
Total	$ 94,748	100.0	$ 120,430	100.0

* Denotes % of total revenue

During the first quarter of fiscal 2005 and fiscal 2006, customers who each accounted for at least 10% of Ciena's revenue during the respective periods were as follows (in thousands, except percentage data):

	Quarter Ended January 31,			
	2005	%*	2006	%*
Company A	n/a	—	$ 13,990	11.6
Company B	17,643	18.6	23,494	19.5
Company C	12,420	13.1	n/a	—
Company D	n/a	—	17,073	14.2
Total	$ 30,063	31.7	$ 54,556	45.3

n/a Denotes revenue recognized less than 10% of total revenue for the period

* Denotes % of total revenue

The table below (in thousands, except percentage data) sets forth Ciena's operating segment revenues for the first quarter of fiscal 2005 and fiscal 2006.

	Quarter Ended January 31,			
	2005	%*	2006	%*
Revenues:				
TSG	$ 50,440	53.3	$ 74,901	62.3
DNG	16,579	17.5	6,057	5.0
BBG	15,281	16.1	24,983	20.7
GNS	12,448	13.1	14,489	12.0
Consolidated revenue	$ 94,748	100.0	$ 120,430	100.0

* Denotes % of total revenue

Segment profit (loss) is determined based on internal performance measures used by the Chief Executive Officer to assess the performance of each operating segment in a given period. In connection with that assessment, the Chief Executive Officer excludes the following non-performance items: corporate selling and marketing, corporate general and administrative costs, amortization of intangibles, in-process research and development, restructuring costs, long-lived asset impairment, recovery of sale, export and use taxes, provisions or recovery of doubtful accounts, accelerated amortization of leaseholds, interest income, interest expense, equity investment gains or losses, gains or losses on extinguishment of debt, and provisions for income taxes.

The table below sets forth Ciena's operating segment profit (loss) and the reconciliation to consolidated net loss for the first quarter of fiscal 2005 and the first quarter of fiscal 2006.

	Quarter Ended January 31,	
	2005	2006
Segment profit (loss):		
TSG	$ (16,902)	$ 9,937
DNG	4,857	(1,408)
BBG	(3,442)	5,298
GNS	2,238	4,775
Total segment profit (loss)	$ (13,249)	$ 18,602
Non-performance items:		
Corporate selling and marketing	(22,135)	(24,181)
Corporate general and administrative	(7,496)	(9,896)
Stock compensation costs:		
Research and development	(1,011)	—
Selling and marketing	(876)	—
General and administrative	(160)	—
Amortization of intangible assets	(10,411)	(6,295)
Restructuring costs	(1,125)	(2,015)
Long-lived asset impairments	(184)	3
Recovery of doubtful accounts, net	—	2,604
Gain on lease settlement	—	6,020
Interest and other financial charges, net	229	9,166
Provision for income taxes	(577)	(299)
Consolidated net loss	$ (56,995)	$ (6,291)

(16) CONTINGENCIES

Litigation

On October 3, 2000, Stanford University and Litton Systems filed a complaint in the United States District Court for the Central District of California against Ciena and several other defendants, alleging that optical fiber amplifiers incorporated into certain of those parties' products infringe U.S. Patent No. 4,859,016 (the "'016 Patent"). The complaint seeks injunctive relief, royalties and damages. On October 10, 2003, the court stayed the case pending final resolution of matters before the U.S. Patent and Trademark Office (the "PTO"), including a request for and disposition of a reexamination of the '016 Patent. On October 16, 2003 and November 2, 2004, the PTO granted reexaminations of the '016 Patent, resulting in a continuation of the stay of the case. On July 11, 2005, the PTO

issued a Notice of Intent to Issue a Reexamination Certificate and a Statement of Reasons for Patentability/Confirmation, stating its intent to confirm all claims of '016 Patent. As a result, on October 10, 2005, Litton Systems filed a motion with the district court for an order lifting the stay of the case, and defendant Pirelli S.p.A. filed with the PTO a new request for ex parte reexamination of the '016 Patent. On December 15, 2005, the PTO denied Pirelli's request for reexamination. On December 19, 2005, the district court denied Litton Systems' motion to lift the stay. The PTO has not yet issued a Reexamination Certificate. Ciena believes that it has valid defenses to the lawsuit and intends to defend it vigorously in the event the stay of the case is lifted.

As a result of its merger with ONI Systems Corp. in June 2002, Ciena became a defendant in a securities class action lawsuit. Beginning in August 2001, a number of substantially identical class action complaints alleging violations of the federal securities laws were filed in the United States District Court for the Southern District of New York. These complaints name ONI, Hugh C. Martin, ONI's former chairman, president and chief executive officer; Chris A. Davis, ONI's former executive vice president, chief financial officer and administrative officer; and certain underwriters of ONI's initial public offering as defendants. The complaints were consolidated into a single action, and a consolidated amended complaint was filed on April 24, 2002. The amended complaint alleges, among other things, that the underwriter defendants violated the securities laws by failing to disclose alleged compensation arrangements (such as undisclosed commissions or stock stabilization practices) in the initial public offering's registration statement and by engaging in manipulative practices to artificially inflate the price of ONI's common stock after the initial public offering. The amended complaint also alleges that ONI and the named former officers violated the securities laws on the basis of an alleged failure to disclose the underwriters' alleged compensation arrangements and manipulative practices. No specific amount of damages has been claimed. Similar complaints have been filed against more than 300 other issuers that have had initial public offerings since 1998, and all of these actions have been included in a single coordinated proceeding. Mr. Martin and Ms. Davis have been dismissed from the action without prejudice pursuant to a tolling agreement. In July 2004, following mediated settlement negotiations, the plaintiffs, the issuer defendants (including Ciena), and their insurers entered into a settlement agreement, whereby the plaintiffs' cases against the issuers are to be dismissed. The plaintiffs and issuer defendants subsequently moved the court for preliminary approval of the settlement agreement, which motion was opposed by the underwriter defendants. On February 15, 2005, the district court granted the motion for preliminary approval of the settlement agreement, subject to certain modifications to the proposed bar order, and directed the parties to submit a revised settlement agreement reflecting its opinion. On August 31, 2005, the district court issued a preliminary order approving the stipulated settlement agreement, approving and setting dates for notice of the settlement to all class members, and scheduling the fairness hearing for April 2006. After the fairness hearing, if the court determines that the settlement is fair to the class members, the settlement will be approved. The settlement agreement does not require Ciena to pay any amount toward the settlement or to make any other payments.

On January 18, 2005, Ciena filed a complaint in the United States District Court, Eastern District of Texas, Marshall Division against Nortel Networks, Inc., Nortel Networks Corporation and Nortel Networks Limited (collectively, "Nortel"), which complaint was subsequently amended. Ciena's amended complaint charges Nortel with infringement of nine patents related to Ciena's communications networking systems and technology. Ciena seeks to enjoin Nortel's infringing activities and recover damages caused by such infringement. On March 14, 2005, Nortel filed an answer to Ciena's complaint and a counterclaim against Ciena, each of which have subsequently been amended. Nortel's amended counterclaim charges Ciena with infringement of 13 patents related to Nortel's communications networking systems and technology, including certain of Nortel's SONET, ATM and VLAN systems and technology. Nortel's counterclaim seeks injunctive relief and damages. Trial on 13 of the 22 total patents in suit (six for Ciena and seven for Nortel) is currently scheduled for June 2006.

In addition to the matters described above, Ciena is subject to various legal proceedings, claims and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, Ciena does not expect that the ultimate costs to resolve these matters will have a material effect on the company's results of operations, financial position or cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Some of the statements contained, or incorporated by reference, in this quarterly report discuss future events or expectations, contain projections of results of operations or financial condition, changes in the markets for our products and services, or state other "forward-looking" information. Ciena's "forward-looking" information is based on various factors and was derived using numerous assumptions. In some cases, you can identify these "forward-looking statements" by words like "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of those words and other comparable words. You should be aware that these statements only reflect our current predictions and beliefs. These

statements are subject to known and unknown risks, uncertainties and other factors, and actual events or results may differ materially. Important factors that could cause our actual results to be materially different from the forward-looking statements are disclosed throughout this report, particularly under the heading "Risk Factors" in Item 1A of Part II of this report below. You should review these risk factors and the rest of this quarterly report in combination with the more detailed description of our business in our annual report on Form 10-K, which we filed with the Securities and Exchange Commission on January 12, 2006, for a more complete understanding of the risks associated with an investment in Ciena's securities. Ciena undertakes no obligation to revise or update any forward-looking statements.

Overview

Ciena Corporation supplies communications networking equipment, software and services to telecommunications service providers, cable operators, governments and enterprises. Our product and service offerings enable customers to converge, transition and connect communications networks that deliver voice, video and data services. We are a network specialist, focused on optimizing access and edge networks for broadband communication, enhancing enterprise data services and evolving network infrastructures to support new, high-bandwidth applications and network convergence. Our equipment, software and services enable customers to gain a competitive advantage by increasing the functionality of their networks and reducing their costs of transporting voice, video and data.

Our revenue increased to $120.4 million in the first quarter of fiscal 2006, representing a 27.1% increase from $94.7 million in the first quarter of fiscal 2005 and a 1.9% increase from $118.2 million in the fourth quarter of fiscal 2005. We have started to witness indications of increased demand for our equipment, software and services as customers appear to be investing in their core and metro network infrastructures to satisfy increasing capacity needs. We are also seeing increased investment at the edge of the network as a result of increased sales of broadband services by communications service providers. Finally, some large carriers are considering, or have taken steps towards developing, next-generation, converged networks in order to increase the efficiency of their networks and expand their service offerings. One example is BT's 21st Century Network, or 21CN, for which we were selected as a preferred supplier for the optical transmission portion. Our revenues for the first quarter do not include any revenue from the 21CN project.

We expect further revenue growth and improvement in our financial results during fiscal 2006. Some of this expected revenue growth will come from orders related to larger network builds, which occur in phases. The timing and size of these orders, our ability to deliver products against them, and the timing of satisfaction of acceptance criteria will all contribute to fluctuations in our revenues from quarter to quarter. We also expect the cash required to finance inventory and accounts receivable to fluctuate, but generally to increase during fiscal 2006.

Our revenues, margins, and cash requirements are significantly dependent upon, among other things, the availability of component supplies and manufacturing capacity sufficient to meet demand, particularly as it relates to larger network builds. Recently, we have experienced component supply shortages affecting our operations. Supply shortages can be exacerbated by difficulties in forecasting and aligning our supply needs with customer demand, which is often difficult to predict. If shortages persist or worsen, they could constrain our future growth and revenue opportunities and adversely affect our financial performance.

Gross margin increased to 41.9% in the first quarter of 2006, up from 25.6% in the first quarter of fiscal 2005 and 39.9% for the fourth quarter of fiscal 2005. Gross margin improvement reflects both changes in product mix and significant gains resulting from our focus on cost reductions. To continue to drive cost improvements we are employing a global approach to sourcing components and manufacturing our products, and are increasingly utilizing overseas suppliers in lower cost regions, particularly in Asia. We believe that these steps will be important to maintain and build upon our gross margin improvement in recent quarters.

Operating expense decreased to $65.6 million in the first quarter of fiscal 2006, from $80.9 million in the first quarter of fiscal 2005. This decrease was due in large part to reducing headcount and closing facilities in the United States and Canada in prior periods. In the first quarter of 2006, we also recognized gains of $6.0 million from the buy-out of the lease on our former Fremont, CA facility, and $2.6 million due to the recovery of a doubtful account.

In early November 2005, we effected a headcount reduction of 62 employees and closed one of our facilities in Kanata, Ontario. This resulted in a restructuring charge of $2.2 million in the first quarter of fiscal 2006. We expect to take additional steps to reduce our operating expense and will incur additional restructuring costs during future periods. As of January 31, 2006, headcount was 1,442, down from 1,497 at the end of fiscal 2005.

The first quarter of fiscal 2006 represents our first fiscal period following adoption of Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment," which requires that we recognize compensation expense on our consolidated statement of operations for all share-based awards made to employees and directors based on estimated fair values. We have adopted SFAS 123(R) using the modified prospective application transition method, and accordingly have not restated financial statements for prior periods to include the impact of SFAS 123(R). To determine the valuation of share-based awards under SFAS 123(R), we continue to use the Black-Scholes option pricing model that we utilized to determine our pro forma share-based compensation in prior periods. Share-based compensation was $4.2 million during the first quarter of fiscal 2006, of which $0.4 million was capitalized as part of inventory. Additional information regarding our adoption of SFAS 123(R) during the first quarter of fiscal 2006 is set forth in the notes to the financial statements above and in "Critical Accounting Policies and Estimates" below.

During the first quarter of fiscal 2006, we repurchased an additional $106.5 million in principal amount of our outstanding 3.75% convertible notes, due February 1, 2008, in open market transactions. These additional repurchases used approximately $98.8 million in cash and resulted in a gain on the extinguishment of debt in the amount of $6.7 million, which consists of the $7.7 million gain from the repurchase of the notes less $1.0 million of associated debt issuance costs. At January 31, 2006, the remaining principal balance on our outstanding convertible notes was $542.3 million. We intend to continue to evaluate and pursue opportunities to achieve cost savings relating to the repayment of our outstanding convertible notes when it is prudent to do so.

Results of Operations

Three months ended January 31, 2005 compared to three months ended January 31, 2006

Revenue, cost of goods sold and gross profit

Cost of goods sold consists of component costs, direct compensation costs, warranty and other contractual obligations, royalties, license fees, direct technical support costs, cost of excess and obsolete inventory and overhead related to manufacturing, technical support and engineering, furnishing and installation ("EF&I") operations.

The table below (in thousands, except percentage data) sets forth the changes in revenue, cost of goods sold and gross profit from the first quarter of fiscal 2005 to the first quarter of fiscal 2006.

	Quarter Ended January 31,				Increase	
	2005	%*	2006	%*	(decrease)	%**
Revenue:						
Products	$ 82,300	86.9	$ 105,941	88.0	$ 23,641	28.7
Services	12,448	13.1	14,489	12.0	2,041	16.4
Total revenue	94,748	100.0	120,430	100.0	25,682	27.1
Costs:						
Products	60,848	64.2	60,399	50.1	(449)	(0.7)
Services	9,669	10.2	9,576	8.0	(93)	(1.0)
Total cost of goods sold	70,517	74.4	69,975	58.1	(542)	(0.8)
Gross profit	$ 24,231	25.6	$ 50,455	41.9	$ 26,224	108.2

* Denotes % of total revenue

** Denotes % change from 2005 to 2006

The table below (in thousands, except percentage data) sets forth the changes in product revenue, product cost of goods sold and product gross profit from the first quarter of fiscal 2005 to the first quarter of fiscal 2006.

	Quarter Ended January 31,				Increase	
	2005	%*	2006	%*	(decrease)	%**
Product revenue	$ 82,300	100.0	$ 105,941	100.0	$ 23,641	28.7
Product cost of goods sold	60,848	73.9	60,399	57.0	(449)	(0.7)
Product gross profit	$ 21,452	26.1	$ 45,542	43.0	$ 24,090	112.3

* Denotes % of product revenue

** Denotes % change from 2005 to 2006

The table below (in thousands, except percentage data) sets forth the changes in service revenue, service cost of goods sold and service gross profit (loss) from the first quarter of fiscal 2005 to the first quarter of fiscal 2006.

	Quarter Ended January 31,				Increase	
	2005	%*	2006	%*	(decrease)	%**
Service revenue	$ 12,448	100.0	$ 14,489	100.0	$ 2,041	16.4
Service cost of goods sold	9,669	77.7	9,576	66.1	(93)	(1.0)
Service gross profit	$ 2,779	22.3	$ 4,913	33.9	$ 2,134	76.8

* Denotes % of service revenue

** Denotes % change from 2005 to 2006

Revenue from sales to customers outside of the United States is reflected as International in the geographic distribution of revenue below. The table below (in thousands, except percentage data) sets forth the changes in geographic distribution of revenues from the first quarter of fiscal 2005 to the first quarter of fiscal 2006.

	Quarter Ended January 31,				Increase	
	2005	%*	2006	%*	(decrease)	%**
United States	$ 78,686	83.0	$ 102,670	85.3	$ 23,984	30.5
International	16,062	17.0	17,760	14.7	1,698	10.6
Total	$ 94,748	100.0	$ 120,430	100.0	$ 25,682	27.1

* Denotes % of total revenue

** Denotes % change from 2005 to 2006

During the first quarter of fiscal 2005 and first quarter of fiscal 2006, certain customers each accounted for at least 10% of our revenues during the respective periods as follows (in thousands, except percentage data):

	Quarter Ended January 31,			
	2005	%*	2006	%*
Company A	n/a	—	$ 13,990	11.6
Company B	17,643	18.6	23,494	19.5
Company C	12,420	13.1	n/a	—
Company D	n/a	—	17,073	14.2
Total	$ 30,063	31.7	$ 54,556	45.3

n/a Denotes revenue recognized less than 10% of total revenue for the period

* Denotes % of total revenue

Revenue

- **Product revenue** increased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006, primarily due to increased sales of our transport and switching products and increased sales of our broadband access systems, partially offset by a decrease in sales of our data networking products.
- **Service revenue** increased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006, primarily due to increases in deployment services, maintenance and support services and product training services.

- **United States revenue** increased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006, primarily due to increased sales of our transport and switching products and increased sales of our broadband access systems, partially offset by a decrease in sales of our data networking products.

- **International revenue** increased slightly from the first quarter of fiscal 2005 to the first quarter of fiscal 2006, primarily due to increased sales of our transport and switching products and maintenance and support services.

Gross profit

- **Gross profit as a percentage of revenue** increased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 largely due to increased sales volume, sales of higher margin products and cost improvements resulting from our efforts to employ a global approach to sourcing components and manufacturing our products.

- **Gross profit on products as a percentage of product revenue** increased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006, primarily due to cost reductions and higher margin product mix.

- **Gross profit on services as a percentage of services revenue** increased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 largely due to increased sales of product training services and reduced service overhead and deployment costs. Service gross profit during the first quarter of fiscal 2006 benefited from an unusually favorable mix of deployment service engagements with higher than normal margins, as well as higher margin product training revenue.

Operating expenses

The table below (in thousands, except percentage data) sets forth the changes in operating expenses from the first quarter of fiscal 2005 to the first quarter of fiscal 2006.

	Quarter Ended January 31,				Increase	
	2005	%*	2006	%*	(decrease)	%**
Research and development	$ 34,662	36.6	$ 29,462	24.5	$ (5,200)	(15.0)
Selling and marketing	26,840	28.3	26,572	22.1	(268)	(1.0)
General and administrative	7,656	8.1	9,896	8.2	2,240	29.3
Amortization of intangible assets	10,411	11.0	6,295	5.2	(4,116)	(39.5)
Restructuring costs	1,125	1.2	2,015	1.7	890	79.1
Long-lived asset impairment	184	0.2	(3)	(0.0)	(187)	(101.6)
Recovery of doubtful accounts, net	—	0.0	(2,604)	(2.2)	(2,604)	n/a
Gain on lease settlement	—	0.0	(6,020)	(5.0)	(6,020)	n/a
Total operating expenses	$ 80,878	85.4	65,613	54.5	$ (15,265)	(18.9)

* Denotes % of total revenue

** Denotes % change from 2005 to 2006

- **Research and development expense** decreased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006, primarily due to reductions of $3.3 million in employee compensation and $1.5 million in depreciation expense. The reduction in employee compensation was driven by headcount reductions, partially offset by an increase of $0.6 million in share-based compensation expense.

- **Selling and marketing expense** slightly decreased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 due to reductions of $1.3 million in depreciation costs and $0.5 million in temporary import costs, offset by increases of $0.8 million in employee compensation and $0.7 million in demonstration equipment costs. The increase in employee compensation was primarily driven by an increase of $0.6 million in salaries and commissions and $0.2 million in share-based compensation expense.

- **General and administrative expense** increased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 primarily due to increases of $1.4 million in employee compensation and $0.8 million in audit fees, slightly offset by a decrease of $0.3 million in information system costs. The increase in employee compensation included $0.7 million in share-based compensation expense.

- **Amortization of intangible assets costs** decreased from the first quarter of fiscal 2005 to the first quarter of

fiscal 2006 due to the write off of intangible assets recorded in the fourth quarter of fiscal 2005.

- **Restructuring costs** incurred during the first quarter of 2006 were related to a work force reduction of approximately 62 employees and the closure of a facility located in Kanata, Ontario. These actions were taken as part of our continuing efforts to reduce expense. We expect to incur additional restructuring costs during fiscal 2006.

- **Recovery of doubtful accounts, net** for the first quarter of fiscal 2006 was related to the payment of an amount due from a customer from whom payment was previously deemed doubtful due to the customer's financial condition.

- **Gain on lease settlement** for the first quarter of fiscal 2006 was related to the termination of our obligations under the lease for our former Fremont, CA facility.

Other items

The table below (in thousands, except percentage data) sets forth the changes in other items from the first quarter of fiscal 2005 to the first quarter of fiscal 2006.

	Quarter Ended January 31,				Increase (decrease)	%**
	2005	%*	2006	%*		
Interest and other income, net	$ 7,433	7.8	$ 9,262	7.7	$ 1,829	24.6
Interest expense	$ 7,226	7.6	$ 6,053	5.0	$ (1,173)	(16.2)
Gain (loss) on equity investments	$ 22	0.0	$ (733)	(0.6)	$ (755)	(3,431.8)
Gain on extinguishment of debt	$ —	—	$ 6,690	5.6	$ 6,690	n/a
Provision for income taxes	$ 577	0.6	$ 299	0.2	$ (278)	(48.2)

* Denotes % of total revenue

** Denotes % change from 2005 to 2006

- **Interest and other income, net** increased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 primarily due to the impact of higher interest rates.

- **Interest expense** decreased from the first quarter of 2005 to the first quarter of 2006 due to the decrease in our debt obligations resulting from the repurchase of some of our 3.75% convertible notes during fiscal 2005 and fiscal 2006.

- **Loss on equity investments, net** increased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 due to a decline in the value of our investments in privately held technology companies that was determined to be other than temporary.

- **Gain on extinguishment of debt** for the first quarter of fiscal 2006 resulted from our repurchase of $106.5 million of our outstanding 3.75% convertible notes, due February 1, 2008, in open market transactions for $98.8 million. We recorded a gain on the extinguishment of debt in the amount of $6.7 million, which consists of the $7.7 million gain from the repurchase of the notes, less $1.0 million of associated debt issuance costs.

- **Provision for income taxes** for the first quarter of fiscal 2005 and the first quarter of fiscal 2006 was primarily attributable to foreign tax related to Ciena's foreign operations. We did not record a tax benefit for domestic losses during either period. We will continue to maintain a valuation allowance against certain deferred tax assets until sufficient evidence exists to support its reversal.

Summary of Operating Segments

The table below (in thousands, except percentage data) sets forth the changes in our operating segment revenues from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 for our four operating segments: Transport and Switching Group (TSG); Data Networking Group (DNG); Broadband Access Group (BBG); and the Global Networking Services Group (GNS).

	Quarter Ended January 31,				Increase	
	2005	%*	2006	%*	(decrease)	%**
Revenues:						
TSG	$ 50,440	53.3	$ 74,901	62.3	$ 24,461	48.5
DNG	16,579	17.5	6,057	5.0	(10,522)	(63.5)
BBG	15,281	16.1	24,983	20.7	9,702	63.5
GNS	12,448	13.1	14,489	12.0	2,041	16.4
Consolidated revenue	$ 94,748	100.0	$ 120,430	100.0	$ 25,682	27.1

*   Denotes % of total revenue

**   Denotes % change from 2005 to 2006

- **TSG revenue** increased from first quarter of fiscal 2005 to the first quarter of fiscal 2006 primarily due to increased sales of core transport and switching products.

- **DNG revenue** decreased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 due to decreased sales of multiservice edge switching products. DNG revenue for the first quarter of fiscal 2005 reflected $14.3 million of revenue recognized upon initial acceptance by Verizon of multiservice edge switching products, some of which was shipped in prior quarters.

- **BBG revenue** increased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 due to increased sales of our CNX-5 Broadband DSL System.

- **GNS revenue** increased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 due to increases in deployment services, maintenance and support services, and product training services.

Segment profit (loss) is based on internal performance measures used by the Chief Executive Officer to assess the performance of each operating segment in a given period. In making that assessment, the Chief Executive Officer excludes the following non-performance items: corporate selling and marketing, corporate general and administrative costs, amortization of intangibles, in-process research and development, restructuring costs, long-lived asset impairment, recovery of sale, export and use taxes, provisions or recovery of doubtful accounts, accelerated amortization of leaseholds, interest income, interest expense, equity investment gains or losses, gains or losses on extinguishment of debt, and provisions for income taxes.

The table below (in thousands, except percentage data) sets forth the changes in our segment profit (loss) and the reconciliation to consolidated net loss for the first quarter of fiscal 2005 to the first quarter of fiscal 2006.

	Quarter Ended January 31,		Increase	
	2005	2006	(decrease)	%**
Segment profit (loss):				
TSG	$ (16,902)	$ 9,937	$ 26,839	(158.8)
DNG	4,857	(1,408)	(6,265)	(129.0)
BBG	(3,442)	5,298	8,740	(253.9)
GNS	2,238	4,775	2,537	113.4
Total segment profit (loss)	$ (13,249)	$ 18,602	$ 31,851	(240.4)
Non-performance items:				
Corporate selling and marketing	(22,135)	(24,181)	(2,046)	9.2
Corporate general and administrative	(7,496)	(9,896)	(2,400)	32.0
Stock compensation costs:				
Research and development	(1,011)	—	1,011	(100.0)
Selling and marketing	(876)	—	876	(100.0)
General and administrative	(160)	—	160	(100.0)
Amortization of intangible assets	(10,411)	(6,295)	4,116	(39.5)
Restructuring costs	(1,125)	(2,015)	(890)	79.1
Long-lived asset impairments	(184)	3	187	(101.6)
Recovery of doubtful accounts, net	—	2,604	2,604	n/a
Gain on lease settlement	—	6,020	6,020	n/a
Interest and other financial charges, net	229	9,166	8,937	3,902.6
Provision for income taxes	(577)	(299)	278	(48.2)
Consolidated net loss	$ (56,995)	$ (6,291)	$ 50,704	(89.0)

** Denotes % change from 2005 to 2006

- **TSG:** The performance improvement from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 is primarily attributable to $25.2 million in increased gross profit and a $1.5 million reduction in research and development costs.

- **DNG:** The decline in performance from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 is primarily attributable to decreased revenues. DNG revenue in the first quarter of fiscal 2005 reflected $14.3 million of revenue recognized upon initial acceptance by Verizon of multiservice edge switching equipment, some of which was shipped in prior quarters.

- **BBG:** The performance improvement from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 is primarily attributable to increased revenue and a $3.3 million reduction in research and development costs, partially offset by a $2.2 million charge related to excess inventory due to a change in forecasted sales for certain products.

- **GNS:** The performance improvement from the first quarter of fiscal 2005 to the first quarter of fiscal 2006 is primarily attributable to increased sales of deployment services, maintenance and support services, and product training services without a corresponding increase in expenses. GNS gross profit during the first quarter of fiscal 2006 benefited from an unusually favorable mix of deployment service engagements with higher than normal margins, as well as higher margin product training revenue.

Liquidity and Capital Resources

At January 31, 2006, our principal source of liquidity was cash and cash equivalents, short-term investments and long-term investments. The following table summarizes our cash and cash equivalents, short-term investments and long-term investments (in thousands):

	October 31, 2005	January 31, 2006	Increase (decrease)
Cash and cash equivalents	$ 358,012	$ 298,624	$ (59,388)
Short-term investments	579,531	496,010	(83,521)
Long-term investments	155,944	166,951	11,007
Total cash, cash equivalents, short-term and long-term investment	$ 1,093,487	$ 961,585	$ (131,902)

The decrease in total cash, cash equivalents and short-term and long-term investments during the first quarter of fiscal 2006 was primarily related to $32.0 million of cash consumed in operating activities and $98.8 million of cash used for the repurchase of our 3.75% convertible notes. Based on past performance and current expectations, we believe that our cash and cash equivalents, short-term investments, and cash generated from operations will satisfy our working capital needs, capital expenditures and other liquidity requirements associated with our existing operations through at least the next 12 months.

The following sections review the significant activities that had an impact on our cash during the first quarter of fiscal 2006.

Operating Activities

The following tables set forth (in thousands) significant components of our $32.0 million of cash used in operating activities for the first quarter of fiscal 2006.

Net loss

	Quarter Ended January 31, 2006
Net loss	$ (6,291)

Our first quarter of fiscal 2006 net loss included the significant non-cash items summarized in the following table (in thousands):

Gain on early extinguishment of debt	$ (6,690)
Amortization of intangibles	7,263
Share-based compensation costs	4,183
Depreciation and amortization of leasehold improvements	5,312
Total significant non-cash charges	$ 10,068

Accounts Receivable, Net

Cash consumed by accounts receivable, net increased from the first quarter of fiscal 2005 to the first quarter of fiscal 2006, primarily due to increased sales, and higher days sales outstanding (“DSO”). Ciena’s DSO for periods ending January 31, 2005 and January 31, 2006 were 49.5 days and 60.4 days, respectively. Increased DSOs were primarily affected by large shipments of product during the last month of our fiscal quarter rather than extended payment terms. We expect that our accounts receivable, net and DSOs may fluctuate from quarter to quarter in fiscal 2006, but generally will increase during fiscal 2006, due to the size and timing of orders, the timing of satisfaction of contractual acceptance criteria, and extended payment terms.

The following table sets forth (in thousands) changes to our accounts receivable, net of allowance for doubtful accounts balance from the end of fiscal 2005 through the first quarter of fiscal 2006.

	October 31, 2005	January 31, 2006	Increase (decrease)
Accounts receivable, net	$ 72,786	$ 81,136	$ 8,350

Inventory, Net

Cash consumed by inventory, net increased from first quarter of fiscal 2005 to the first quarter of fiscal 2006 primarily due to increased demand, and a decrease in inventory turns. Ciena’s inventory turns for the periods ending

January 31, 2005 and January 31, 2006 were 5.3 turns per year and 3.8 turns per year, respectively. The decrease was primarily related to increases in finished goods inventory purchased by Ciena based on customer forecasts in advance of orders and finished goods inventory located at customer facilities awaiting contractual acceptance. We expect cash consumed by inventory will fluctuate from quarter to quarter in fiscal 2006, but generally will increase during fiscal 2006, due to increases in finished goods inventory located at customer facilities awaiting contractual acceptance.

The following table sets forth (in thousands) changes to the components of our inventory from the end of fiscal 2005 through the first quarter of fiscal 2006.

	October 31, 2005	January 31, 2006	Increase (decrease)
Raw materials	$ 21,177	$ 24,251	$ 3,074
Work-in-process	3,136	3,528	392
Finished goods	47,615	58,812	11,197
Gross inventory	71,928	86,591	14,663
Reserve for excess and obsolescence	(22,595)	(22,212)	383
Net inventory	$ 49,333	$ 64,379	$ 15,046

Restructuring and unfavorable lease commitments

In the first quarter of fiscal 2006, we paid $12.8 million in connection with a termination of our obligations under a lease for our former Fremont, CA facility. Ciena paid an additional $3.4 million on leases related to restructured facilities and $2.5 million on leases associated with unfavorable lease commitments. The following table reflects (in thousands) the balances of liabilities for our restructured facilities and unfavorable lease commitments and the change in these balances from the fourth quarter of fiscal 2005 to the first quarter of fiscal 2006.

	October 31, 2005	January 31, 2006	Increase (decrease)
Restructuring liabilities	$ 15,492	$ 12,687	$ (2,805)
Unfavorable lease commitments	9,011	8,620	(391)
Long-term restructuring liabilities	54,285	35,939	(18,346)
Long-term unfavorable lease commitments	41,364	38,934	(2,430)
Total restructuring liabilities and unfavorable lease commitments	$ 120,152	$ 96,180	$ (23,972)

Interest Payable on Ciena's 3.75% Convertible Notes

Interest on Ciena's 3.75% convertible notes is payable on February 1st and August 1st of each year. During the first quarter of fiscal 2006, Ciena paid $11.5 million in interest on the convertible notes. To the extent that Ciena makes its interest payment on the convertible notes prior to the end the first and third quarter or each fiscal year, the accrued interest payable balance as of the end of these quarters will be zero. The following table reflects (in thousands) the balances of interest payable and the change in this balance from the fourth quarter of fiscal 2005 to the first quarter of fiscal 2006.

	October 31, 2005	January 31, 2006	Increase (decrease)
Accrued interest payable	$ 6,082	$ —	$ (6,082)

Financing Activities

Cash used in financing activities during the first quarter of fiscal 2006 was primarily related to the repurchase of $106.5 million of our outstanding 3.75% convertible notes, due February 1, 2008, in open market transactions for $98.8 million. We recorded a gain on the extinguishment of debt in the amount of $6.7 million, which consists of the $7.7 million gain from the repurchase of the notes less $1.0 million of associated debt issuance costs.

Contractual Obligations

The following is a summary of our future minimum payments under contractual obligations as of January 31, 2006 (in thousands):

	Total	Less than one year	One to three years	Three to five years	Thereafter
Convertible notes (1)	$582,932	$ 20,335	$562,597	$ —	$ —
Operating leases	153,506	25,554	55,867	43,085	29,000
Purchase obligations (2)	95,710	95,710	—	—	—
Total	$832,148	$ 141,599	$618,464	$ 43,085	$ 29,000

(1) Our 3.75% convertible notes have an aggregate principal amount of $542.3 million, due February 1, 2008. Interest is payable on February 1st and August 1st of each year.

(2) Purchase commitments relate to amounts we are obligated to pay to our contract manufacturers and component suppliers for inventory.

Some of our commercial commitments, including some of the future minimum payments set forth above, are secured by standby letters of credit. The following is a summary of our commercial commitments secured by standby letters of credit by commitment expiration date as of January 31, 2006 (in thousands):

	Total	Less than one year	One to three years	Three to five years	Thereafter
Standby letters of credit	$ 11,536	$ 10,786	$ 750	$ —	$ —

Off-Balance Sheet Arrangements

Ciena does not engage in any off-balance sheet financing arrangements. In particular, we do not have any interest in so-called limited purpose entities, which include special purpose entities (SPEs) and structured finance entities.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires Ciena to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we reevaluate our estimates, including those related to bad debts, inventories, investments, intangible assets, goodwill, income taxes, warranty obligations, restructuring, and contingencies and litigation. Ciena bases its estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Among other things, these estimates form the basis for judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. During fiscal 2006, reevaluation of certain estimates led to the effects described below.

Revenue Recognition

Some of our communications networking equipment is integrated with software that is essential to the functionality of the equipment. We provide unspecified software upgrades and enhancements related to the equipment through our maintenance contracts for these products. Accordingly, we account for revenue in accordance with Statement of Position No. 97-2, “Software Revenue Recognition,” and all related interpretations. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product is specified by the customer, revenue is deferred until all acceptance criteria have been met. Customer purchase agreements and customer purchase orders are generally used to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer’s payment history. When a sale involves multiple elements, such as sales of products that include services, the entire fee from the arrangement is allocated to each respective element based on its relative fair value and recognized when revenue recognition criteria for each element are met. The amount of product and service revenue recognized is affected by our judgments as to whether an arrangement includes multiple elements and, if so, whether vendor-specific objective evidence of fair value exists. Changes to the elements in an

arrangement and our ability to establish vendor-specific objective evidence for those elements could affect the timing of revenue recognition. Our total deferred revenue for products was $14.5 million and $18.0 million as of October 31, 2005 and January 31, 2006, respectively. Our service revenue is deferred and recognized ratably over the period during which the services are to be performed. Our total deferred revenue for services was $29.0 million and $28.7 million as of October 31, 2005 and January 31, 2006, respectively.

Share-Based Compensation

On November 1, 2005, Ciena adopted SFAS 123(R), "Shared-Based Payment," which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based awards, made to employees and directors, including stock options, restricted stock, restricted stock units and participation in Ciena's employee stock purchase plan. Share-based compensation expense recognized in Ciena's consolidated statement of operations for the first quarter of fiscal 2006 includes compensation expense for share-based awards granted (i) prior to, but not yet vested as of October 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123, and (ii) subsequent to October 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R).

We estimate the fair value of stock options granted using the Black-Scholes option pricing method. This option pricing model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding. Because Ciena considers its options to be "plain vanilla" we calculate the expected term using the simplified method as prescribed in SAB 107. Under SAB 107, options are considered to be "plain vanilla" if they have the following basic characteristics: granted "at-the-money"; exerciseability is conditioned upon service through the vesting date; termination of service prior to vesting results in forfeiture; limited exercise period following termination of service; options are non-transferable and non-hedgeable. The expected stock price volatility was determined using a combination of historical and implied volatility of Ciena's common stock. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Because share-based compensation expense is based on awards that are ultimately expected to vest, it has been reduced to account for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In Ciena's pro forma information required under SFAS 123 for the periods prior to fiscal 2006, Ciena accounted for forfeitures as they occurred. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation.

Reserve for Inventory Obsolescence

Ciena writes down inventory that has become obsolete or unmarketable by an amount equal to the difference between the cost of inventory and the estimated market value based on assumptions about future demand and market conditions. During the first quarter of fiscal 2006, we recorded a charge of $3.0 million primarily related to excess inventory due to a change in forecasted sales for certain products. In an effort to limit our exposure to delivery delays and to satisfy customer needs for shorter delivery terms, we are currently transitioning our manufacturing operations from the build-to-order model we have used in recent years, to a build-to-forecast model for some of our product lines, including core transport and switching and metro transport. This change in our inventory purchases exposes us to the risk that our customers will not order those products for which we have forecasted sales, or will purchase less than we have forecasted. If actual market conditions differ from those we have assumed, we may be required to take additional inventory write-downs or benefits.

Restructuring

As part of its restructuring costs, Ciena provides for the estimated cost of the net lease expense for facilities that are no longer being used. The provision is equal to the fair value of the minimum future lease payments under our contracted lease obligations, offset by the fair value of the estimated sublease payments that we may receive. As of January 31, 2006, Ciena's accrued restructuring liability related to net lease expense and other related charges was $47.9 million. The total minimum lease payments for these restructured facilities are $67.9 million. These lease payments will be made over the remaining lives of our leases, which range from one month to thirteen years. If actual market conditions are less favorable than those we have projected, we may be required to recognize additional restructuring costs associated with these facilities.

Accounts Receivable Trade, Net

Ciena's allowance for doubtful accounts is based on our assessment, on a specific identification basis, of the collectibility of customer accounts. Ciena performs ongoing credit evaluations of its customers and generally has not required collateral or other forms of security from its customers. In determining the appropriate balance for Ciena's allowance for doubtful accounts, management considers each individual customer account receivable in order to determine collectibility. In doing so, management considers creditworthiness, payment history, account activity and communication with such customer. If a customer's financial condition changes, Ciena may be required to take a charge for an allowance on doubtful accounts. During the first quarter of fiscal 2006, Ciena recorded the recovery of a doubtful account in the amount of $2.6 million as a result of the payment of an amount due from a customer from whom payment was previously deemed doubtful due to the customer's financial condition.

Goodwill

At January 31, 2006, Ciena's consolidated balance sheet included $232.0 million in goodwill. Due to Ciena's reorganization into operating segments, SFAS 142 requires that we assign goodwill to Ciena's reporting units. Ciena has determined its operating segments and reporting units are the same. In accordance with SFAS 142, Ciena tests each reporting unit's goodwill for impairment on an annual basis, and between annual tests if an event occurs or circumstances change that would, more likely than not, reduce the fair value of the reporting unit below its carrying value. If actual market conditions differ or forecasts change at the time of our annual assessment in fiscal 2006 or in periods prior to our annual assessment, we may be required to record additional goodwill impairment charges.

Intangible Assets

As of January 31, 2006, Ciena's consolidated balance sheet included $113.1 million in other intangible assets, net. We account for the impairment or disposal of long-lived assets such as equipment, furniture, fixtures, and other intangible assets in accordance with the provisions of SFAS 144. In accordance with SFAS 144, Ciena tests each intangible asset for impairment whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. If actual market conditions differ or forecasts change, we may be required to record additional impairment charges in future periods.

Investments

As of January 31, 2006, Ciena's minority investments in privately held technology companies were $6.5 million. These investments are generally carried at cost because Ciena owns less than 20% of the voting equity and does not have the ability to exercise significant influence over any of these companies. These investments are inherently high risk as the market for technologies or products manufactured by these companies are usually early stage at the time of the investment by Ciena and such markets may never materialize or become significant. Ciena could lose its entire investment in some or all of these companies. Ciena monitors these investments for impairment and makes appropriate reductions in carrying values when necessary. Ciena recorded a net charge of $0.7 million during the first quarter of fiscal 2006, from a decline in the fair value of certain equity investments that was determined to be other than temporary. If market conditions, expected financial performance or the competitive position of the companies in which we invest deteriorate, Ciena may be required to record an additional charge in future periods.

Deferred Tax Valuation Allowance

As of January 31, 2006, Ciena has recorded a valuation allowance of $1.2 billion against our gross deferred tax assets of $1.2 billion. We calculated the valuation allowance in accordance with the provisions of SFAS 109, "Accounting for Income Taxes," which requires an assessment of both positive and negative evidence when measuring the need for a valuation allowance. Evidence such as operating results during the most recent three-year period is given more weight than forecasted results, due to our current lack of visibility and the degree of uncertainty that we will achieve the level of future profitability needed to record the deferred assets. Our cumulative loss in the most recent three-year period represents sufficient negative evidence to require a valuation allowance under the provisions of SFAS 109. We intend to maintain a valuation allowance until sufficient positive evidence exists to support its reversal.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about Ciena's market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. Ciena is exposed to market risk related to changes in interest rates and foreign currency exchange rates. Ciena does not use derivative financial instruments for speculative or trading purposes.

Interest Rate Sensitivity. Ciena maintains a short-term and long-term investment portfolio. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10% from levels at January 31, 2006, the fair value of the portfolio would decline by approximately $36.1 million.

Foreign Currency Exchange Risk. As a global concern, Ciena faces exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and if our exposure increases, adverse movement in foreign currency exchange rates could have a material adverse impact on Ciena's financial results. Historically Ciena's primary exposures have been related to non-dollar denominated operating expenses in Europe and Asia where Ciena sells primarily in U.S. dollars. Ciena is prepared to hedge against fluctuations in foreign currency if this exposure becomes material. As of January 31, 2006, the assets and liabilities of Ciena related to non-dollar denominated currencies were not material. Therefore, we do not expect an increase or decrease of 10% in the foreign exchange rate would have a material impact on Ciena's financial position.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, Ciena carried out an evaluation under the supervision and with the participation of Ciena's management, including Ciena's Chief Executive Officer and Chief Financial Officer, of Ciena's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon this evaluation, Ciena's Chief Executive Officer and Chief Financial Officer concluded that Ciena's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There was no change in Ciena's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, Ciena's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

On October 3, 2000, Stanford University and Litton Systems filed a complaint in the United States District Court for the Central District of California against Ciena and several other defendants, alleging that optical fiber amplifiers incorporated into certain of those parties' products infringe U.S. Patent No. 4,859,016 (the "'016 Patent"). The complaint seeks injunctive relief, royalties and damages. On October 10, 2003, the court stayed the case pending final resolution of matters before the U.S. Patent and Trademark Office (the "PTO"), including a request for and disposition of a reexamination of the '016 Patent. On October 16, 2003 and November 2, 2004, the PTO granted reexaminations of the '016 Patent, resulting in a continuation of the stay of the case. On July 11, 2005, the PTO issued a Notice of Intent to Issue a Reexamination Certificate and a Statement of Reasons for Patentability/Confirmation, stating its intent to confirm all claims of '016 Patent. As a result, on October 10, 2005, Litton Systems filed a motion with the district court for an order lifting the stay of the case, and defendant Pirelli S.p.A. filed with the PTO a new request for ex parte reexamination of the '016 Patent. On December 15, 2005, the PTO denied Pirelli's request for reexamination. On December 19, 2005, the district court denied Litton Systems' motion to lift the stay. The PTO has not yet issued a Reexamination Certificate. We believe that we have valid defenses to the lawsuit and intend to defend it vigorously in the event the stay of the case is lifted.

As a result of our merger with ONI Systems Corp. in June 2002, we became a defendant in a securities class action lawsuit. Beginning in August 2001, a number of substantially identical class action complaints alleging violations of the federal securities laws were filed in the United States District Court for the Southern District of New York. These complaints name ONI, Hugh C. Martin, ONI's former chairman, president and chief executive officer; Chris A. Davis, ONI's former executive vice president, chief financial officer and administrative officer; and certain underwriters of ONI's initial public offering as defendants. The complaints were consolidated into a single action, and a consolidated amended complaint was filed on April 24, 2002. The amended complaint alleges, among other things, that the underwriter defendants violated the securities laws by failing to disclose alleged compensation arrangements (such as undisclosed commissions or stock stabilization practices) in the initial public offering's

registration statement and by engaging in manipulative practices to artificially inflate the price of ONI's common stock after the initial public offering. The amended complaint also alleges that ONI and the named former officers violated the securities laws on the basis of an alleged failure to disclose the underwriters' alleged compensation arrangements and manipulative practices. No specific amount of damages has been claimed. Similar complaints have been filed against more than 300 other issuers that have had initial public offerings since 1998, and all of these actions have been included in a single coordinated proceeding. Mr. Martin and Ms. Davis have been dismissed from the action without prejudice pursuant to a tolling agreement. In July 2004, following mediated settlement negotiations, the plaintiffs, the issuer defendants (including Ciena), and their insurers entered into a settlement agreement, whereby the plaintiffs' cases against the issuers are to be dismissed. The plaintiffs and issuer defendants subsequently moved the court for preliminary approval of the settlement agreement, which motion was opposed by the underwriter defendants. On February 15, 2005, the district court granted the motion for preliminary approval of the settlement agreement, subject to certain modifications to the proposed bar order, and directed the parties to submit a revised settlement agreement reflecting its opinion. On August 31, 2005, the district court issued a preliminary order approving the stipulated settlement agreement, approving and setting dates for notice of the settlement to all class members, and scheduling the fairness hearing for April 2006. After the fairness hearing, if the court determines that the settlement is fair to the class members, the settlement will be approved. The settlement agreement does not require Ciena to pay any amount toward the settlement or to make any other payments.

On January 18, 2005, Ciena filed a complaint in the United States District Court, Eastern District of Texas, Marshall Division against Nortel Networks, Inc., Nortel Networks Corporation and Nortel Networks Limited (collectively, "Nortel"), which complaint was subsequently amended. Ciena's amended complaint charges Nortel with infringement of nine patents related to Ciena's communications networking systems and technology. Ciena seeks to enjoin Nortel's infringing activities and recover damages caused by such infringement. On March 14, 2005, Nortel filed an answer to Ciena's complaint and a counterclaim against Ciena, each of which have subsequently been amended. Nortel's amended counterclaim charges Ciena with infringement of 13 patents related to Nortel's communications networking systems and technology, including certain of Nortel's SONET, ATM and VLAN systems and technology. Nortel's counterclaim seeks injunctive relief and damages. Trial on 13 of the 22 total patents in suit (six for Ciena and seven for Nortel) is currently scheduled for June 2006.

In addition to the matters described above, we are subject to various legal proceedings, claims and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material effect on our results of operations, financial position or cash flows.

Item 1A. Risk Factors

Investing in our securities involves a high degree of risk. In addition to the other information contained in this report, you should consider the following risk factors before investing in our securities.

We face intense competition that could hurt our sales and our ability to achieve and maintain profitability.

The markets in which we compete for sales of networking equipment, software and services are extremely competitive, particularly the market for sales to telecommunications service providers. Competition in these markets is based on any one or a combination of the following factors: price, functionality, manufacturing capability, installation, services, existing business and customer relationships, scalability and the ability of products and services to meet customers' immediate and future network requirements. A small number of very large companies have historically dominated the communications networking equipment industry. Our industry has also increasingly experienced competition from low-cost producers in Asia. Many of our competitors have substantially greater financial, technical and marketing resources, greater manufacturing capacity and better established relationships with incumbent carriers and other potential customers than us. As a result of increased merger activity among communication service providers, there has been speculation of consolidation among networking equipment providers, which, if it occurred, could cause some competitors to grow even larger and more powerful. We also compete with a number of smaller companies that provide significant competition for a specific product or market. These competitors often base their products on the latest available technologies. Due to the narrower focus of their efforts, these competitors may achieve commercial availability of their products more quickly and may be more attractive to customers. As we seek to expand our channel sales strategy, we also may face competition from resellers and distributors of some of our products, who may be competitors in other customer markets or with respect to complementary technologies.

Increased competition in our markets has resulted in aggressive business tactics, including:

- intense price competition;
- discounting resulting from sales of used equipment or inventory that a competitor has written down or written off;
- early announcements of competing products and extensive marketing efforts;
- "one-stop shopping" options;
- competitors offering to repurchase our equipment from existing customers;
- customer financing assistance;
- marketing and advertising assistance; and
- intellectual property assertions and disputes.

The tactics described above can be particularly effective in an increasingly concentrated base of potential customers such as communications service providers. Our inability to compete successfully in our markets would harm our sales and our ability to achieve and maintain profitability.

Our revenue and operating results can fluctuate unpredictably from quarter to quarter.

Our revenue can fluctuate unpredictably from quarter to quarter. Fluctuations in our revenue can lead to even greater fluctuations in our operating results. Our budgeted expense levels depend in part on our expectations of future revenue. Any substantial adjustment to expenses to account for lower levels of revenue is difficult and takes time. Consequently, if our revenue declines, our levels of inventory, operating expense and general overhead would be high relative to revenue, resulting in additional operating losses.

Other factors contribute to fluctuations in our revenue and operating results, including:

- the level of demand for our products and the timing and size of customer orders, particularly from telecommunications service provider customers;
- satisfaction of contractual customer acceptance criteria and related revenue recognition requirements;
- availability of an adequate supply of components and sufficient manufacturing capacity;
- changes in customers' requirements, including delay, changes or cancellations of orders from customers;
- the introduction of new products by us or our competitors;

- readiness of customer sites for installation;
- any significant payment by us associated with the resolution of pending legal proceedings;
- changes in accounting rules; and
- changes in general economic conditions as well as those specific to our market segments.

Many of these factors are beyond our control, particularly in the case of large carrier orders and multi-vendor or multi-technology network builds where the achievement of certain performance thresholds for acceptance is subject to the readiness and performance of the customer or other providers, changes in customer requirements or installation plans, and the availability of an adequate supply of components and manufacturing capacity. Any one or a combination of the factors above may cause our revenue and operating results to fluctuate from quarter to quarter. These fluctuations may make it difficult to manage our business and achieve or maintain profitability. As a consequence, our revenues and operating results for a particular quarter may be difficult to predict and our prior results are not necessarily indicative of results likely in future periods.

Our gross margin may fluctuate from quarter to quarter and our product gross margins may be adversely affected by a number of factors, some of which are beyond our control.

Our gross margin fluctuates from period to period and our product gross margins may be adversely affected by numerous factors, including:

- increased price competition, including competition from low-cost producers in Asia;
- the mix in any period of higher and lower margin products and services;
- sales volume during the period;
- charges for excess or obsolete inventory;
- changes in the price or availability of components for our products;
- our ability to continue to reduce product manufacturing costs;
- introduction of new products, with initial sales at relatively small volumes with resulting higher production costs; and
- increased warranty or repair costs.

The factors discussed above regarding fluctuations in revenue and operating results can also affect margins. We expect product gross margin to continue to fluctuate from quarter to quarter. Fluctuations in product gross margin may make it difficult to manage our business and achieve or maintain profitability. As a consequence, our gross margin for a particular quarter may be difficult to predict and our prior results are not necessarily indicative of results likely in future periods.

Our business and results of operations are significantly affected by conditions in the communications industry, including increases in consolidation activity.

The last few years have seen substantial changes in the communications industry. Many of our customers and potential customers, including telecommunications service providers that have historically provided a significant portion of our sales, have confronted static or declining revenue for their traditional voice services. Traditional communications service providers are under increasing competitive pressure from providers within their industry and other participants that offer, or seek to offer, overlapping or similar services. These pressures are likely to continue to cause communications service providers to seek to minimize the costs of the equipment that they buy and may cause static or reduced capital expenditures by customers or potential customers. These competitive pressures may also result in pricing becoming a more important factor in customer purchasing decisions. Increased focus on pricing may favor low-cost communications equipment vendors in Asia and larger competitors that can spread the effect of price discounts across a broader offering of products and services and across a larger customer base.

In 2005, several large communications service providers announced merger transactions. These included the mergers of Verizon and MCI, and SBC and AT&T, all of which have been significant customers during prior periods. These mergers will have a major impact on the future of the telecommunications industry. They will further increase concentration of purchasing power among a few large service providers and may result in delays in, or the curtailment of, investments in communications networks, as a result of changes in strategy, network overlap, cost reduction efforts or other considerations. These industry conditions may negatively affect our business, financial condition and results of operation.

We may not be successful in selling our products into new markets and developing and managing new sales

channels.

We continue to take steps to sell our expanded product portfolio into new markets and to a broader customer base, including communication service providers, enterprises, cable operators, and federal, state and local governments. To succeed in these markets, we believe we must develop and manage new sales channels and distribution arrangements. We expect these relationships to be an increasing part of our business as we seek to grow. Because we have only limited experience in developing and managing such channels, we may not be successful in reaching additional customer segments, expanding into new geographic regions, or reducing the financial risks of entering new markets and pursuing new customer segments. In addition, sales to federal, state and local governments require compliance with complex procurement regulations with which we have little experience. We may be unable to increase our sales to government contractors if we determine that we cannot comply with applicable regulations. Our failure to comply with regulations for existing contracts could result in civil, criminal or administrative proceedings involving fines and suspension or debarment from federal government contracts. Failure to manage additional sales channels effectively would limit our ability to succeed in these new markets and could adversely affect our ability to grow our customer base and revenues.

Network equipment sales to large communications service providers often involve, lengthy sales cycles and protracted contract negotiations and may require us to assume terms or conditions that negatively affect our pricing, payment and timing of revenue recognition.

In recent years we have sought to add large, incumbent communication service providers as customers for our products, software and services. Our future success will depend on our ability to maintain and expand our sales to these existing communications service provider customers and add new customers. Many of our competitors have long-standing relationships with communications service providers, which can pose significant obstacles to our sales efforts. Sales to large communications service providers typically involve lengthy sales cycles, protracted or difficult contract negotiations, and extensive product testing and network certification. We are sometimes required to assume terms or conditions that negatively affect pricing, payment and the timing of revenue recognition in order to consummate a sale. This may negatively affect the timing of revenue recognition, which would, in turn, negatively affect our gross margin and results of operations. Communications service providers may ultimately insist upon terms and conditions, that we deem too onerous or not in our best interest. As a result, we may incur substantial expenses and devote time and resources to potential relationships that never materialize.

Continued shortages in component supply or manufacturing capacity could increase our costs, adversely affect our results of operations and constrain our ability to grow our business.

As we have expanded our product portfolio, increased our use of contract manufacturers and increased our product sales in recent years, manufacturing capacity and supply constraints related to components and subsystems have become increasingly significant issues for us. We have encountered and continue to experience component shortages that have affected our operations and ability to deliver products timely to customers. Growth in customer demand for the communications networking products supplied by us, our competitors and other third parties, has resulted in supply constraints among providers of some components used in our products. Component shortages and manufacturing capacity constraints may also arise, or be exacerbated by difficulties with our suppliers or contract manufacturers, or our failure to adequately forecast our component or manufacturing needs. If shortages or delays persist or worsen, the price of required components may increase, or the components may not be available at all. If we are unable to secure the components or subsystems that we require at reasonable prices, or are unable to secure manufacturing capacity adequate to meet our needs, we may not be able to satisfy our contractual obligations to customers and our revenue and gross margins could be materially affected. We may also be subject to payment of liquidated damages for delays under customer contracts, and our customer relationships and business reputation may be harmed.

Product performance problems could damage our business reputation and limit our sales prospects.

The development and production of new products with high technology content is complicated and often involves problems with software, components and manufacturing methods. Modifying our products to enable customers to integrate them into a new type of network architecture entails similar risks. If significant reliability, quality, or network monitoring problems develop as a result of our product development, manufacturing or integration, a number of negative effects on our business could result, including:

- increased costs associated with fixing software or hardware defects, including service and warranty expenses;

- payment of liquidated damages for performance failures;
- high inventory obsolescence expense;
- delays in collecting accounts receivable;
- reduced orders from existing or potential customers; and
- damage to our reputation.

Because we outsource manufacturing and use a direct order fulfillment model for certain of our products, we may be subject to product performance problems as a result of the acts or omissions of these third parties. These product performance problems could damage our business reputation and negatively affect our sales.

We must continue to make substantial and prudent investments in product development in order to keep pace with technological advances and succeed in existing and new markets for our products.

In order to be successful, we must balance our initiatives to reduce our operating costs against the need to keep pace with technological advances. The market for communications networking equipment, software and services is characterized by rapid technological change, frequent introductions of new products, and recurring changes in customer requirements. To succeed, we must continue to develop new products and new features for existing products that meet customer requirements and market demand. In addition, we must be able to identify and gain access, including any applicable third party licenses, to new technologies as our market segments evolve. Because our market segments are constantly evolving, we may allocate development resources toward products or technologies for which market demand is lower than anticipated. We may ultimately decide that such lower than expected demand no longer warrants continued investment in a product or technology. These decisions are difficult and may be disruptive to our business and our relationship with customers. Managing our efforts to keep pace with new technologies and reduce operating expense is difficult and there is no assurance that we will be successful.

We may be required to take further write-downs of goodwill and other intangible assets.

As of January 31, 2006, we had $232.0 million of goodwill on our balance sheet. This amount primarily represents the remaining excess of the total purchase price of our acquisitions over the fair value of the net assets acquired. At January 31, 2006, we had $113.1 million of other intangible assets on our balance sheet. The amount primarily reflects purchased technology from our acquisitions. At January 31, 2006, goodwill and other intangible assets represented approximately 22.3% of our total assets. During the fourth quarter of 2005, we incurred a goodwill impairment charge of approximately $176.6 million and an impairment of other intangibles of $45.7 million. If we are required to record additional impairment charges related to goodwill and other intangible assets, such charges would have the effect of decreasing our earnings or increasing our losses in such period. If we are required to take a substantial impairment charge, our earnings per share or net loss per share could be materially adversely affected in such period.

We may experience unanticipated delays in the development and enhancement of our products that may negatively affect our competitive position and business.

Because our products are based on complex technology, we can experience unanticipated delays in developing, improving, manufacturing or deploying them. Each step in the development life cycle of our products presents serious risks of failure, rework or delay, any one of which could decrease the timing and cost effective development of such product and could affect customer acceptance of the product. Specialized application specific integrated circuits ("ASICs") and intensive software testing and validation are key to the timely introduction of enhancements to several of our products, and schedule delays are common in the final validation phase, as well as in the manufacture of specialized ASICs. In addition, unexpected intellectual property disputes, failure of critical design elements, and a host of other execution risks may delay or even prevent the introduction of these products. If we do not develop and successfully introduce products in a timely manner, our competitive position may suffer and our business, financial condition and results of operations would be harmed.

We may incur significant costs and our competitive position may suffer as a result of our efforts to protect and enforce our intellectual property rights or respond to claims of infringement from others.

Despite efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. This is likely to become an increasingly important issue as we expand our operations and product development into countries that provide a lower level of intellectual property protection. Monitoring unauthorized use of our products is difficult, and we cannot be certain that the steps that we are taking

will prevent unauthorized use of our technology. If competitors are able to use our technology, our ability to compete effectively could be harmed.

In recent years, we have filed suit to enforce our intellectual property rights and, from time to time, have been subject to litigation and other third party intellectual property claims, including as a result of our indemnification obligations to customers or resellers that purchase our products. The frequency of these assertions is increasing as patent holders, including entities that are not in our industry and that purchase patents as an investment or to monetize such rights by obtaining royalties, use such actions as a competitive tactic and a source of additional revenue. Intellectual property claims can significantly divert the time and attention of our personnel and result in costly litigation. Our pending patent infringement litigation with Nortel Networks, described elsewhere in this report, has resulted in, and is likely to continue to result in, significant costs. If we are unsuccessful in this litigation, we may be required to pay significant damages, and could be enjoined from marketing or selling certain products. Intellectual property infringement claims can also require us to pay substantial royalties, enter into license agreements and/or develop nor-infringing technology. Accordingly, the costs associated with third party intellectual property claims could adversely affect our business, results of operations and financial condition.

We may be required to write off significant amounts of inventory.

In recent years, we have placed the majority of our orders to manufacture components or complete assemblies for many of our products only when we have firm orders from our customers. Because this practice can result in delays in the delivery of products to customers, we are increasingly ordering equipment and components from our suppliers based on forecasts of customer demand across all of our products. We believe this change is necessary in response to increased customer insistence upon shortened delivery terms. This change in our inventory purchases exposes us to the risk that our customers will not order those products for which we have forecasted sales, or will purchase fewer than the number of products we have forecasted. In such event, we may be required to write off, or write down inventory, potentially resulting in an accounting charge that could materially affect our results of operations for the quarter in which such charge occurs.

We must manage our relationships with electronic manufacturing service (EMS) providers in order to ensure that our product requirements are met timely and effectively.

We rely on EMS providers to perform the majority of the manufacturing operations for our products and components, and are increasingly utilizing overseas suppliers, particularly in Asia. Because EMS providers are subject to many of the same risks as equipment vendors serving the communications industry, many EMS providers have experienced their own financial difficulties in recent years. The qualification of our EMS providers is a costly and time-consuming process, and these manufacturers build product for other companies, including our competitors. We are constantly reviewing our manufacturing capability, including the work of our EMS providers, to ensure that our production requirements are met in terms of cost, capacity, quality and reliability. From time to time, we may decide to transfer the manufacturing of a product from one EMS provider to another, to better meet our production needs. It is possible that we may not effectively manage this transition or the new contract manufacturer may not perform as well as expected. As a result, we may not be able to fill orders in a timely manner, which could harm our business. In addition, we do not have contracts in place with some of these providers. Our inability to effectively manage our relationships with our EMS providers, particularly overseas, could negatively affect our business and results of operations.

We depend on a limited number of suppliers, and for some items we do not have a substitute supplier.

We depend on a limited number of suppliers for our product components and subsystems, as well as for equipment used to manufacture and test our products. Our products include several components for which reliable, high-volume suppliers are particularly limited. Some key optical and electronic components we use in our products are currently available only from sole or limited sources, and in some cases, that source also is a competitor. The loss of a source of key components could require us to re-engineer products that use those components, which would increase our costs. Increases in demand for components by us, our competitors or other third parties from sole or limited sources would result in additional supply constraints. Delays in component availability or delivery, or component performance problems, could result in delayed deployment of our products, and inability to recognize revenue, which would negatively affect our results of operations. These delays could also limit our opportunity to pursue additional growth or revenue opportunities and harm our business reputation and customer relationships.

Our international operations could expose us to additional risk and result in increased operating expense.

We market, sell and service our products globally. We have established offices around the world, including in North America, Europe, Latin America and the Asia Pacific region. In addition, we are increasingly relying upon overseas suppliers, particularly in Asia, to manufacture our products and components. In 2005, we established a development operation in India to pursue offshore development resources. We expect that our international activities will be dynamic over the foreseeable future as we enter some new markets and withdraw from or reduce operations in others in order to match our resources with revenue opportunities. These changes to our international operations will require significant management attention and financial resources. In some countries, our success will depend in part on our ability to form relationships with local partners. Our inability to identify appropriate partners or reach mutually satisfactory arrangements for international sales of our products could impact our ability to maintain or increase international market demand for our products.

International operations are subject to inherent risks, and our future results could be adversely affected by a number of factors, including:

- greater difficulty in collecting accounts receivable and longer collection periods;
- difficulties and costs of staffing and managing foreign operations;
- the impact of recessions in economies outside the United States;
- reduced protection for intellectual property rights in some countries;
- adverse tax consequences;
- political and economic instability;
- trade protection measures, export compliance, qualification do transact business and other regulatory requirements;
- effects of changes in currency exchange rates; and
- natural disasters and epidemics.

Our efforts to offshore certain resources and operations to India may not be successful and may expose us to unanticipated costs or liabilities.

We have established a development operation in India and expect to increase hiring of personnel for this facility during the remainder of fiscal 2006. We have limited experience in offshoring our business functions, particularly development operations, and there is no assurance that our plan will enable us to achieve meaningful cost reductions or greater resource efficiency. Further, offshoring to India involves significant risks, including:

- the hiring and retention of appropriate engineering resources, particularly in view of the rapid increase in similar activity in India by other companies that are competing to hire engineers with the skills that we require;
- the knowledge transfer related to our technology and exposure to misappropriation of intellectual property or confidential information, including information that is proprietary to us, our customers and other third parties;
- heightened exposure to changes in the economic, security and political conditions of India;
- currency exchange and tax risks associated with offshore operations; and
- development efforts that do not meet our requirements because of language, cultural or other differences associated with international operations, resulting in errors or delays.

Difficulties resulting from the factors above and other risks associated with offshoring could impair our development efforts, harm our competitive position and damage our reputation with existing and potential customers. These factors could be disruptive to our business and may cause us to incur substantial unanticipated costs or expose us to unforeseen liabilities.

The steps that we are taking to restructure our operations and align our resources with market opportunities could disrupt our business.

We have taken several steps, including reductions in force, dispositions of assets and office closures, and internal reorganizations to reduce the size and cost of our operations and to better match our resources with our market opportunities. During the next twelve months we expect to take additional steps to reduce our operating expenses. These efforts could be disruptive to our business. Reductions to headcount and other cost cutting measures

may result in the loss of technical expertise that could adversely affect our research and development efforts and ability to meet product development schedules. Efforts to reduce operating expense often result in the recording of accounting charges, such as inventory and technology-related write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, or claims from users of discontinued products. If we are required to take a substantial charge, our earnings per share or net loss per share would be adversely affected in such period. If we cannot manage our cost reduction and restructuring efforts effectively, our business, results of operations and financial condition could be harmed.

Our exposure to the credit risks of our customers and resellers may make it difficult to collect receivables and could adversely affect our operating results and financial condition.

Industry and economic conditions have weakened the financial position of some of our customers. To sell to some of these customers, we may be required to take risks of uncollectible accounts. We may be exposed to similar risks relating to third party resellers and other sales channel partners, as we intend to increasingly utilize such parties as we enter into new geographic regions, particularly in Europe. While we monitor these situations carefully and attempt to take appropriate measures to protect ourselves, it is possible that we may have to write down or write off doubtful accounts. Such write-downs or write-offs would negatively affect our operating results for the period in which they occur, and, if large, could have a material adverse effect on our operating results and financial condition.

If we are unable to attract and retain qualified personnel, we may be unable to manage our business effectively.

If we are unable to retain and motivate our existing employees and attract qualified personnel to fill key positions, we may be unable to manage our business effectively, including the development of existing and new products. If we lose members of our management team or other key personnel, it may be difficult to replace them. Competition for highly skilled technical and other personnel with experience in our industry can be intense. Because we generally do not have employment contracts with our employees, we must rely upon providing competitive compensation packages and a high-quality work environment in order to retain and motivate employees. We have paid our employees significantly reduced or no bonuses for several years. In addition, we have informed employees that we will not be issuing stock options at the same level as historical grants. In addition to these compensation issues, we must continue to motivate and retain employees, which may be difficult due to morale challenges posed by our continuing workforce reductions and offshoring of certain operations.

Our failure to identify additional service delivery partners and manage our relationships with these partners effectively could adversely impact our financial results and relationship with customers.

We rely on a number of service delivery partners, both domestic and international, to complement our global service and support resources. We expect to increasingly rely upon third party service delivery partners for the installation of our equipment in larger network builds, which often include more onerous installation, testing and acceptance terms. In order to ensure that we timely install our products and satisfy obligations to our customers, we must identify, train and certify additional appropriate partners. The certification of these partners can be costly and time-consuming, and these partners service products for other companies, including our competitors. There can be no assurance that we will be able to identify an adequate number of qualified service delivery partners. We may not be able to effectively manage our relationships with our partners and we cannot be certain that they will be able to deliver our services in the manner or time required. If our service partners are unsuccessful in delivering services:

- we may suffer delays in recognizing revenues in cases where revenue recognition is dependent upon product installation, testing and acceptance;
- our services revenue may be adversely affected; and
- our relationship with customers could suffer.

We may be required to assume warranty, service and other unexpected obligations in connection with our resale of complementary products of other companies.

We have entered into agreements with strategic partners that permit us to distribute the products of other companies. As part of our strategy to diversify our product portfolio and customer base, we may enter into additional resale agreements in the future. To the extent we succeed in reselling the products of these companies, we may be required by customers to assume certain warranty and service obligations. While our suppliers often agree to support us with respect to these obligations, we may be required to extend greater protection in order to effect a sale.

Moreover, our suppliers are relatively small companies with limited financial resources. If they are unable to provide the required support, we may have to expend our own resources to do so. This risk is amplified because the equipment that we are selling has been designed and manufactured by other third parties and may be subject to warranty claims, the magnitude of which we are unable to evaluate fully. We may be required to assume warranty, service and other unexpected obligations in connection with our resale of complementary products of other companies.

Our strategy of pursuing strategic acquisitions and investments may expose us to increased costs and unexpected liabilities.

Our business strategy includes acquiring or making strategic investments in other companies to increase our portfolio of products and services, expand the markets we address, diversify our customer base and acquire or accelerate the development of new or improved products. To do so, we may use cash, issue equity that would dilute our current shareholders' ownership, incur debt or assume indebtedness. Strategic investments and acquisitions involve numerous risks, including:

- difficulties in integrating the operations, technologies and products of the acquired companies;
- diversion of management's attention;
- potential difficulties in completing projects of the acquired company and costs related to in-process research and development;
- the potential loss of key employees of the acquired company;
- subsequent amortization expenses related to intangible assets and charges associated with impairment of goodwill;
- ineffective internal controls over financial reporting for purposes of Section 404 of the Sarbanes-Oxley Act;
- dependence on unfamiliar supply partners; and
- exposure to unanticipated liabilities, including intellectual property infringement claims.

As a result of these and other risks, any acquisitions or strategic investments may not reap the intended benefits and may ultimately have a negative impact on our business, results of operation and financial condition.

We may be adversely affected by fluctuations in currency exchange rates.

Historically, our primary exposure to currency exchange rates has been related to non-U.S. dollar denominated operating expenses in Europe, Asia and Canada where we sell primarily in U.S. dollars. As we increase our international sales and utilization of international suppliers, we may decide to transact additional business in currencies other than the U.S. dollar. As a result, we would be subject to the impact of foreign exchange translation on our financial statements. For those countries outside the United States where we have significant sales, a devaluation in the local currency would result in reduced revenue and operating profit and reduce the value of our local inventory presented in our financial statements. In addition, fluctuations in foreign currency exchange rates may make our products more expensive for customers to purchase or increase our operating costs, thereby adversely affecting our competitiveness. To date, we have not significantly hedged against foreign currency fluctuations; however, we may pursue hedging alternatives in the future. Although exposure to currency fluctuations to date has not had an adverse effect on our business, there can be no assurance that exchange rate fluctuations in the future will not have a material adverse effect on our revenue from international sales and, consequently, our business, operating results and financial condition.

Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business, operating results and stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include in our annual report on Form 10-K, a report containing management's assessment of the effectiveness of our internal controls over financial reporting as of the end of our fiscal year and a statement as to whether or not such internal controls are effective. Such report must also contain a statement that our independent registered public accounting firm has issued an attestation report on management's assessment of such internal controls.

We initially became subject to these requirements for our fiscal year ended October 31, 2005. Compliance with these requirements has resulted in, and is likely to continue to result in, significant costs, the commitment of time and operational resources and the diversion of management's attention. Growth of our business, including our broader

product portfolio and increased transaction volume, will necessitate ongoing changes to our internal control systems, processes and infrastructure, including our information systems. Our increasingly global operations, including our development facility in India and offices abroad, will pose additional challenges to our internal control systems as their operations become more significant. We cannot be certain that our current design for internal control over financial reporting, and any modifications necessary to reflect changes in our business, will be sufficient to enable management or our independent registered public accounting firm to determine that our internal controls are effective as of the end of fiscal 2006 or on an ongoing basis. If we are unable to assert that our internal controls over financial reporting are effective (or if our independent registered public accounting firm is unable to attest that our management's report is fairly stated or they are unable to express an opinion on our management's assessment of the effectiveness of internal controls over financial reporting or on the effectiveness of our internal controls over financial reporting), our business may be harmed. Market perception of our financial condition and the trading price of our stock may be adversely affected and customer perception of our business may suffer.

Our stock price is volatile.

Our common stock price has experienced substantial volatility in the past, and may remain volatile in the future. Volatility can arise as a result of a number of the factors discussed in this "Risk Factors" section, as well as divergence between our actual or anticipated financial results and published expectations of analysts, and announcements that we, our competitors, or our customers may make.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) – (b) Not applicable.

(c) The following table provides information with respect to any purchase made by or on behalf of Ciena, or any "affiliated purchaser" as defined in 17 C.F.R. § 240.10b-18(a)(3), of shares of any class of equity securities registered by Ciena pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs (1)	(d) Maximum number (or appropriate dollar value) of shares that may yet be purchased under the plans or programs (1)
October 30, 2005 through November 26, 2005	2,419	$ 0.00	2,419	*
November 27, 2005 through December 24, 2005	—	—	—	*
December 25, 2005 through January 28, 2006	601	$ 0.00	601	*
Total	3,020	$ 0.00	3,020	*

* Not applicable. See description of repurchase activity below.

(1) As initially disclosed in our Form 10-Q for the first quarter of fiscal 2005, Ciena does not repurchase its shares in open market transactions. The repurchase activity in the table above consists solely of Ciena's repurchase of outstanding shares in private transactions with certain former employees. Pursuant to the terms of equity compensation plans and certain award agreements that Ciena assumed in connection with its acquisitions of WaveSmith Networks, Inc. and Catena Networks Inc., employees may exercise certain stock options prior to vesting. Under these plans, upon the employee's termination of employment, Ciena is granted the right to repurchase the shares issued, to the extent that the option has not vested, at the grantee's exercise price. If Ciena does not exercise this repurchase right, the shares vest and remain owned by the grantee.

Ciena believes it is in the best interest of its shareholders, and it is Ciena's corporate practice, to repurchase shares subject to these award agreements if the closing price of such shares on the NASDAQ National

Market during the 30 day period following the grantee's termination of employment is greater than the grantee's exercise price. At the end of our first quarter of fiscal 2006, 44,949 outstanding shares remained subject to repurchase pursuant to the terms above. This number of shares subject to Ciena repurchase will (i) increase, to the extent that holders of equity awards under these plans exercise any options that have not yet vested, and (ii) decrease, as such awards vest pursuant to their terms and Ciena's repurchase rights lapse. Ciena expects that all awards assumed through acquisition that permit early exercise by the grantee and repurchase by Ciena will be fully vested on May 1, 2006, at which time Ciena's repurchase rights will lapse.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit	Description
10.1	Form of Revised Indemnification Agreement between Ciena Corporation and Directors and Executive Officers**
10.2	Third Amended and Restated 1994 Stock Option Plan (Incorporated by reference from Ciena's Form S-8 filed October 30, 2001).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

** Represents management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CIENA CORPORATION

Date: March 3, 2006

By: /s/ Gary B. Smith
Gary B. Smith
President, Chief Executive Officer
and Director
(Duly Authorized Officer)

Date: March 3, 2006

By: /s/ Joseph R. Chinnici
Joseph R. Chinnici
Senior Vice President, Finance and
Chief Financial Officer
(Principal Finance Officer)

Exhibit 10.1

INDEMNIFICATION AGREEMENT

THIS AGREEMENT is made this __________ day of ____________________, 200___, between Ciena Corporation, a Delaware corporation (the "Company"), and ____________________ (the "Indemnitee"), with respect to the following facts:

A The Company's Restated Certificate of Incorporation limits the personal liability of the Company's directors to the Company or its stockholders for monetary damages arising from a breach of fiduciary duty, as provided therein, to the fullest extent permitted by the Delaware General Corporation Law (the "DGCL");

B. The Company's Restated Certificate of Incorporation and Bylaws require the Company to indemnify its directors, officers, employees and agents, as provided therein, to the fullest extent permitted by the DGCL;

C. The Company's Restated Certificate of Incorporation provides that Expenses incurred by a director or officer in defending a civil or criminal action, suit or proceeding may be paid by the Company as the Board of Directors deems appropriate, provided such director or officer delivers an undertaking to repay such amount if it shall ultimately be determined that such person is not entitled to indemnification;

D. The Company recognizes Indemnitee's need for protection against personal liability and that increases in corporate litigation potentially subject the Indemnitee to greater risk in his or her service of the Company;

E. In order to induce Indemnitee to serve, or to continue to serve the Company in an effective manner, the Company wishes to provide the Indemnitee with the benefits contemplated by this Agreement;

F. The contractual assurances made herein are supplemental to, and in furtherance of any indemnification or advancement of Expenses provided in the Company's Restated Certificate of Incorporation, Restated Bylaws, or subject to D&O Insurance, if any, obtained by the Company; and

G. As a result of the provision of such benefits, Indemnitee has agreed to serve or to continue to serve the Company.

NOW, THEREFORE, the parties hereto do hereby agree as follows:

1. Definitions. The following terms, as used herein, shall have the following respective meanings:

a. Beneficial Ownership: shall be determined, and a Person shall be the "Beneficial Owner" of all securities that such Person is deemed to own beneficially,

pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended, or any successor rule or statutory provision (the "Exchange Act").

b. A Change in Control: shall be deemed to have occurred if:

(A) any Person (other than (i) the Company or any Subsidiary, or (ii) any employee stock ownership or other employee benefit plan of the Company or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) is or becomes, after the date of this Agreement, the Beneficial Owner of 20% or more of the total voting power of the Voting Shares;

(B) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director whose election or appointment by the Board of Directors or nomination or recommendation for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof;

(C) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the Voting Shares of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Shares of the surviving entity) at least 80% of the total voting power represented by the Voting Shares of the Company or the surviving entity outstanding;

(D) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or

(E) there is a change in control of a nature that would be required to be reported in response to Item 5.01 of Form 8-K promulgated under the Exchange Act as that Item is in effect as of the date hereof or any subsequent Item of Form 8-K that replaces Item 5.01.

c. Claim: means any threatened, pending or completed action, suit, arbitration or proceeding, or any formal or informal inquiry or investigation, whether brought by or in the right of the Company, by a third party or otherwise, that Indemnitee in good faith believes might lead to the institution of any action, suit, arbitration or proceeding, whether civil, criminal, administrative, investigative or other, or any appeal therefrom.

d. D&O Insurance: means any valid directors' and officers' liability insurance policy maintained by the Company for the benefit of the Indemnitee, if any.

e. Determination: means a determination, and "Determined" means a matter that has been determined based on the facts known at the time, by: (i) a

majority vote of a quorum of disinterested directors, or (ii) if a quorum is not obtainable, or even if obtainable, if a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or, in the event there has been a Change in Control, by the Special Independent Counsel (in a written opinion) selected by Indemnitee as set forth in Section 6, or (iii) a majority of the disinterested stockholders of the Company, or (iv) a final adjudication by a court of competent jurisdiction.

f. Excluded Claim: means any payment for Losses or Expenses in connection with any Claim: (i) based upon or attributable to Indemnitee's gaining in fact any personal profit or personal advantage to which Indemnitee is not entitled; or (ii) for the return by Indemnitee of any illegal payments to Indemnitee; or (iii) for an accounting of profits in fact made from the purchase or sale by Indemnitee of securities of the Company within the meaning of Section 16 of the Exchange Act, or similar provisions of any state law; or (iv) for acts or omissions not made in good faith or that result from Indemnitee's intentional misconduct or knowing violation of law; or (v) the payment of which by the Company is not permitted by applicable law, including Section 145 of the DGCL.

g. Expenses: means any reasonable expenses incurred by Indemnitee as a result of a Claim or Claims made against Indemnitee for Indemnifiable Events including, without limitation, attorneys' fees, retainers, court costs, transcript costs, expert witness fees, administrative costs or fees, costs relating to the payment of any bond reasonably necessary and all other costs, expenses and obligations (including reasonable travel expenses) paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in any Claim relating to any Indemnifiable Event.

h. Fines: means any fine, penalty or, with respect to an employee benefit plan, any excise tax or penalty assessed with respect thereto.

i. Indemnifiable Event: means any event or occurrence, occurring prior to or after the date of this Agreement, related to the fact that Indemnitee is or was a director, officer, employee, trustee, agent or fiduciary of the Company, or is or was serving at the request of the Company as a director, officer, employee, trustee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by Indemnitee, including, but not limited to, any breach of duty, neglect, error, misstatement, misleading statement, omission, or other act done or wrongfully attempted by Indemnitee, or any of the foregoing alleged by any claimant, in any such capacity.

j. Losses: means any amounts or sums that Indemnitee is legally obligated to pay as a result of a Claim or Claims made against Indemnitee for Indemnifiable Events including, without limitation, damages, judgments and sums or amounts paid in settlement of a Claim or Claims, and Fines.

k. Person: means any individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

l. Potential Change in Control: shall be deemed to have occurred if (A) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (B) any Person publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control; or (C) the Board of Directors adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

m. Reviewing Party: means any appropriate person or body consisting of a member or members of the Company's Board of Directors or any other person or body appointed by the Board (including the Special Independent Counsel referred to in Section 6) who is not a party to the particular Claim for which Indemnitee is seeking indemnification.

n. Subsidiary: means any corporation of which a majority of any class of equity or voting security is owned, directly or indirectly, by the Company.

o. Trust: means the trust established pursuant to Section 7 hereof.

p. Voting Shares: means any issued and outstanding shares of capital stock of the Company entitled to vote generally in the election of directors.

2. Indemnification and Advancement of Expenses.

a. In consideration of, and as an inducement to, the Indemnitee's rendering valuable services to the Company, the Company agrees that in the event Indemnitee is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company will indemnify Indemnitee to the fullest extent authorized by law, against any and all Expenses and Losses (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses and Losses) of such Claim, whether or not such Claim proceeds to judgment or is settled or otherwise is brought to a final disposition, subject in each case, to the further provisions of this Agreement.

b. In the event Indemnitee is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, Expenses incurred by Indemnitee shall be paid by the Company in advance of the final disposition of such action, suit or proceeding. The Company shall advance Expenses to Indemnitee, on an unsecured and interest free basis, to the fullest extent authorized by the DGCL.

c. Indemnitee undertakes and agrees to reimburse the Company for all Losses and Expenses paid by the Company in connection with any Claim against

Indemnitee in the event and only to the extent that a Determination shall have been made by a court of competent jurisdiction in a decision from which there is no further right to appeal that Indemnitee is not entitled to be indemnified by the Company for such Losses and Expenses because the Claim is an Excluded Claim or because Indemnitee is otherwise not entitled to payment under this Agreement or the DGCL.

3. Limitations on Indemnification. Notwithstanding the provisions of Section 2, Indemnitee shall not be indemnified and held harmless from any Losses or Expenses (a) that have been Determined, as provided herein, to constitute an Excluded Claim; (b) to the extent Indemnitee is indemnified by the Company and has actually received payment pursuant to the Restated Certificate of Incorporation, Restated Bylaws, D&O Insurance, or otherwise; or (c) other than pursuant to the last sentence of Section 4(d) or Section 14, in connection with any Claim initiated by Indemnitee, unless the Company has joined in or the Board of Directors has authorized such Claim.

4. Indemnification Procedures.

a. Promptly after receipt by Indemnitee of notice of any Claim, Indemnitee shall, if indemnification with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement thereof and Indemnitee agrees further not to make any admission or effect any settlement with respect to such Claim without the consent of the Company, except any Claim with respect to which the Indemnitee has undertaken the defense in accordance with the second to last sentence of Section 4(d).

b. If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement of the Claim to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all Losses and Expenses payable as a result of such Claim.

c. The Company shall be obligated to pay the Expenses of any Claim in advance of the final disposition thereof and the Company, if appropriate, shall be entitled to assume the defense of such Claim, with counsel satisfactory to Indemnitee, upon the delivery to Indemnitee of written notice of its election so to do. After delivery of such notice, the Company will not be liable to Indemnitee under this Agreement for any legal or other Expenses subsequently incurred by the Indemnitee in connection with such defense other than reasonable Expenses of investigation; provided that Indemnitee shall have the right to employ its counsel in such Claim but the Fees and Expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense shall be at the Indemnitee’s expense; provided further that if: (i) the employment of counsel by Indemnitee has been previously authorized by the Company; (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense; or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such action, the reasonable Fees and Expenses of counsel shall be at the expense of the Company.

d. All payments on account of the Company’s indemnification obligations under this Agreement shall be made within 60 days of Indemnitee’s written request therefor unless a Determination is made that the Claims giving rise to Indemnitee’s request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company’s obligation to pay Expenses under Section 4(c) of this Agreement prior to the final disposition of any Claim shall be made within 20 days of Indemnitee’s written request therefor and such obligation shall not be subject to any such Determination but shall be subject to Section 2(c) of this Agreement. In the event the Company takes the position that the Indemnitee is not entitled to indemnification in connection with the proposed settlement of any Claim, the Indemnitee shall have the right at its own expense to undertake defense of any such Claim, insofar as such proceeding involves Claims against the Indemnitee, by written notice given to the Company within ten days after the Company has notified the Indemnitee in writing of its contention that the Indemnitee is not entitled to indemnification. If it is subsequently determined in connection with such proceeding that the Indemnifiable Events are not Excluded Claims and that the Indemnitee, therefore, is entitled to be indemnified under the provisions of Section 2 hereof, the Company shall promptly indemnify the Indemnitee.

5. Settlement. The Company shall have no obligation to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Claim effected without the Company’s prior written consent. The Company shall not settle any Claim in which it takes the position that Indemnitee is not entitled to indemnification in connection with such settlement without the consent of the Indemnitee, nor shall the Company settle any Claim in any manner which would impose any Fine or any obligation on Indemnitee, without Indemnitee’s written consent. Neither the Company nor Indemnitee shall unreasonably withhold their consent to any proposed settlement.

6. Change in Control. The Company and Indemnitee agree that if there is a Change in Control of the Company (other than a Change in Control that has been approved by a majority of the Company’s Board of Directors who were directors immediately prior to such Change in Control) then all Determinations thereafter with respect to the rights of Indemnitee to be paid Losses and Expenses under this Agreement shall be made only by a special independent counsel (the “Special Independent Counsel”) selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld) or by a court of competent jurisdiction. The Company shall pay the reasonable fees of such Special Independent Counsel and shall indemnify such Special Independent Counsel against any and all reasonable Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto. The Company covenants and agrees that, in the event of a Change in Control, the Company will use its best efforts (i) to have the obligations of the Company under this Agreement including, but not limited to those under Section 7, expressly assumed by the surviving, purchasing or succeeding entity, or (ii) otherwise to adequately provide for the satisfaction of the Company’s obligations under this Agreement, in a manner reasonably acceptable to the Indemnitee.

7. Establishment of Trust. Upon the earlier of a Potential Change in Control or a Change in Control, the Company shall, upon written request by Indemnitee, create a trust (the “Trust”) for the benefit of the Indemnitee and from time to time upon written

request of Indemnitee shall fund the Trust in an amount sufficient to satisfy any and all Losses and Expenses which are actually paid or which Indemnitee reasonably determines from time to time may be payable by the Company under this Agreement. The amount or amounts to be deposited in the Trust pursuant to the foregoing funding obligation shall be determined by the Reviewing Party, in any case in which the Special Independent Counsel is involved. The terms of the Trust shall provide that upon a Change in Control: (i) the Trust shall not be revoked or the principal thereof invaded without the written consent of the Indemnitee; (ii) the trustee of the Trust shall advance, within twenty days of a request by the Indemnitee, any and all Expenses to the Indemnitee (and the Indemnitee hereby agrees to reimburse the Trust under the circumstances under which the Indemnitee would be required to reimburse the Company under Section 4(e) of this Agreement); (iii) the Company shall continue to fund the Trust from time to time in accordance with the funding obligations set forth above; (iv) the trustee of the Trust shall promptly pay to the Indemnitee all Losses and Expenses for which the Indemnitee shall be entitled to indemnification pursuant to this Agreement; and (v) all unexpended funds in the Trust shall revert to the Company upon a final determination by a court of competent jurisdiction in a final decision from which there is no further right of appeal that the Indemnitee has been fully indemnified under the terms of this Agreement. The Trustee of the Trust shall be chosen by the Indemnitee.

8. No Presumption. For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not, of itself, create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law.

9. Non-exclusivity, Etc. The rights of the Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Restated Certificate of Incorporation, the Company’s Restated Bylaws, the DGCL, any vote of stockholders or disinterested directors or otherwise, both as to action in the Indemnitee’s official capacity and as to action in any other capacity by holding such office, and shall continue after the Indemnitee ceases to serve the Company as a director, officer, employee, agent or fiduciary, for so long as the Indemnitee shall be subject to any Claim by reason of (or arising in part out of) an Indemnifiable Event. To the extent that a change in the DGCL (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Restated Certificate of Incorporation and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. Subject to the limitations of Section 3 and except as would cause the Company to violate applicable law, the benefits under this Agreement will be available to Indemnittee regardless of any amendment to or revocation of the Company’s Restated Certificate of Incorporation or Restated Bylaws.

10. Liability Insurance. To the extent the Company maintains D&O Insurance, Indemnitee, if an officer or director of the Company, shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any director or officer of the Company.

11. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

12. Partial Indemnity, Etc. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses and Losses of a Claim but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any or all Claims relating in whole or in part to any Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, Indemnitee shall be indemnified against all Expenses incurred in connection therewith. In connection with any Determination as to whether Indemnitee is entitled to be indemnified hereunder the burden of proof shall be on the Company to establish that Indemnitee is not so entitled.

13. Liability of Company. The Indemnitee agrees that neither the stockholders nor the directors nor any officer, employee, representative or agent of the Company shall be personally liable for the satisfaction of the Company’s obligations under this Agreement and the Indemnitee shall look solely to the assets of the Company for satisfaction of any claims hereunder.

14. Enforcement. Indemnitee’s right to indemnification and other rights under this Agreement shall be specifically enforceable by Indemnitee only in the state or Federal courts of the States of Delaware or Maryland and shall be enforceable notwithstanding any adverse Determination by the Company’s Board of Directors, independent legal counsel, the Special Independent Counsel or the Company’s stockholders and no such Determination shall create a presumption that Indemnitee is not entitled to be indemnified hereunder. In any such action the Company shall have the burden of proving that indemnification is not required under this Agreement. In the event that any action is instituted by Indemnitee under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnitee shall be entitled to be paid all Expenses incurred by Indemnitee with respect to such action, unless the court determines that each of the material assertions made by Indemnitee as a basis for such action were not made in good faith or were frivolous.

15. Severability. In the event that any provision of this Agreement is determined by a court to require the Company to do or to fail to do an act which is in violation of applicable law, such provision (including any provision within a single section, paragraph or sentence) shall be limited or modified in its application to the minimum extent necessary to avoid a violation of law, and, as so limited or modified, such provision and the balance of this Agreement shall be enforceable in accordance with their terms to the fullest extent permitted by law.

16. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware applicable to agreements made and to be performed entirely within such State.

17. Consent to Jurisdiction. The Company and the Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the States of Delaware and Maryland for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state and Federal courts of the States of Delaware and Maryland.

18. Notices. All notices, or other communications required or permitted hereunder shall be sufficiently given for all purposes if in writing and personally delivered, telegraphed, telexed, sent by facsimile transmission or sent by registered or certified mail, return receipt requested, with postage prepaid addressed as follows, or to such other address as the parties shall have given notice of pursuant hereto:

If to the Company, to:

Ciena Corporation
1201 Winterson Road
Linthicum, Maryland 21090
Attention: General Counsel

If to the Indemnitee, to:

____

____

19. Counterparts. This Agreement may be signed in counterparts, each of which shall be an original and all of which, when taken together, shall constitute one and the same instrument.

20. Successors and Assigns. This Agreement shall be binding upon all successors and assigns of the Company, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company. The rights to indemnification and advancement of Expenses provided herein shall continue as to Indemnitee after Indemnitee has ceased to be a member of the Board of Directors and/or no longer serves as an officer of the Company, and shall inure to the benefit of Indemnitee's successors and assigns, heirs, executors, administrators, conservators and guardians of Indemnitee.

21. Amendment; Waiver. No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or

shall constitute a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

IN WITNESS WHEREOF, the Company and Indemnitee have executed this Agreement as of the day and year first above written.

Ciena Corporation		**Indemnitee**	
By:	______________________		______________________
Title:	______________________	Name:	______________________
Date:	______________________	Date:	______________________

Exhibit 31.1

CIENA CORPORATION

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Gary B. Smith, certify that:

1. I have reviewed this quarterly report of Ciena Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 3, 2006

/s/ Gary B. Smith

Gary B. Smith
President and Chief Executive Officer

EXHIBIT 31.2

CIENA CORPORATION

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Joseph R. Chinnici, certify that:

1. I have reviewed this quarterly report of Ciena Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 3, 2006

/s/ Joseph R. Chinnici

Joseph R. Chinnici
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

CIENA CORPORATION

Written Statement of Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, the Chief Executive Officer of Ciena Corporation (the "Company"), hereby certifies that, to his knowledge, on the date hereof:

(a) the Report on Form 10-Q of the Company for the quarter ended January 31, 2006 filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gary B. Smith

Gary B. Smith
President and Chief Executive Officer
March 3, 2006

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Ciena Corporation and will be retained by Ciena Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CIENA CORPORATION

Written Statement of Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, the Chief Financial Officer of Ciena Corporation (the “Company”), hereby certifies that, to his knowledge, on the date hereof:

(a) the Report on Form 10-Q of the Company for the quarter ended January 31, 2006 filed on the date hereof with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph R. Chinnici

Joseph R. Chinnici
Senior Vice President and Chief Financial Officer
March 3, 2006

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Ciena Corporation and will be retained by Ciena Corporation and furnished to the Securities and Exchange Commission or its staff upon request.