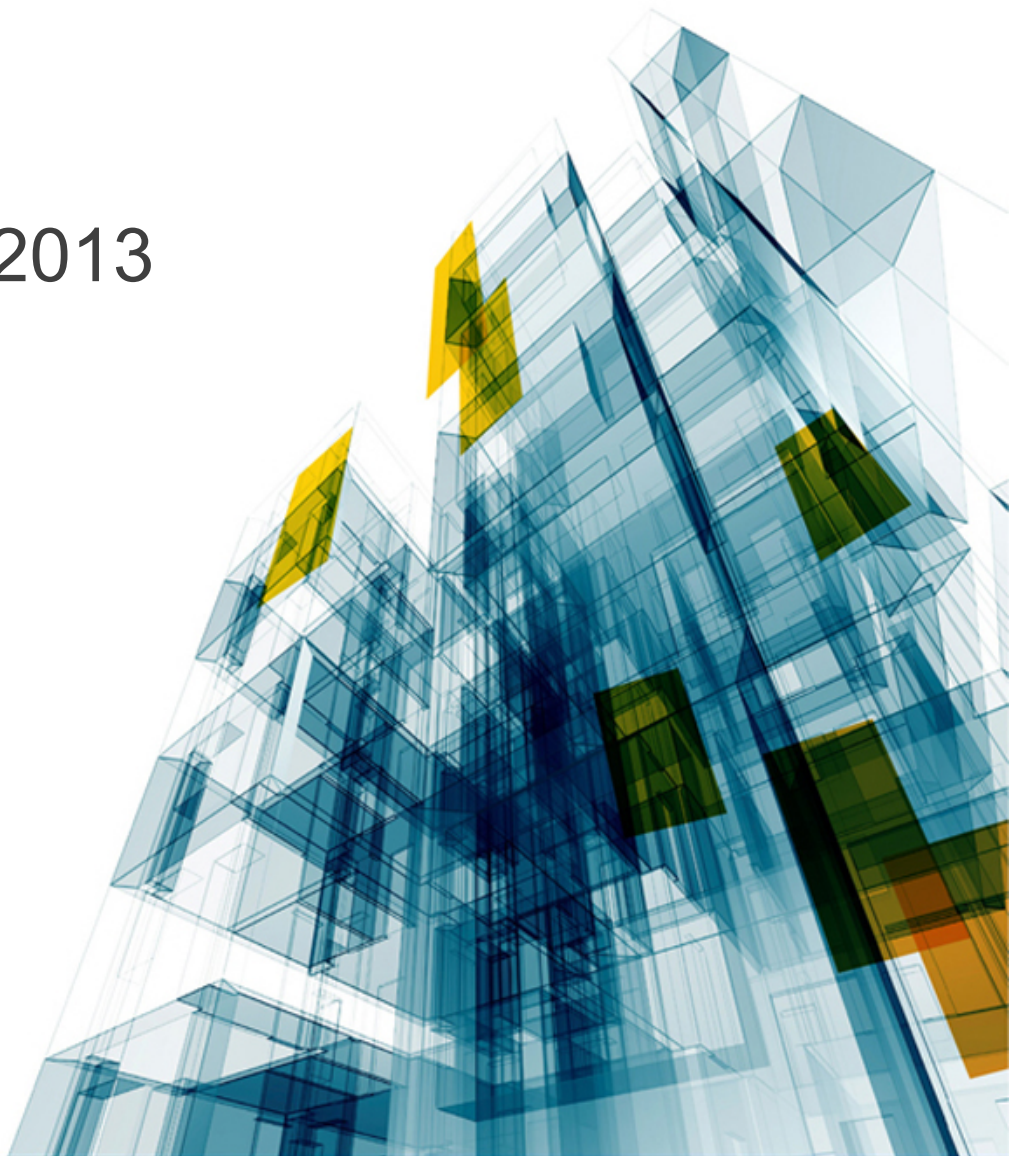




# Ciena Corporation Q4 and Year-End Fiscal 2013 Earnings Call

December 12, 2013  
8:30 a.m. EST

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# Forward-looking statements and non-GAAP measures

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

These forward looking statements, based on information, expectations, prospects, forecasts and assumptions available to Ciena as of the date of this event, involve inherent risk. Ciena's actual results could differ materially from those stated, forecasted or implied, due to a number of risks and uncertainties associated with Ciena's business, operations and markets, including those risk factors disclosed in Ciena's Form 10-Q filed with the SEC on September 11, 2013.

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

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

# A strategy designed to lead the shift in network architecture

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

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

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

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

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

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

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

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

# Q4 Fiscal 2013 Financial Highlights

## Key Takeaways

- 1 **Revenue** of \$583.4 million
- 2 **Adjusted Gross Margin** of 40.8%\*
- 3 **Adjusted Operating Expense** of \$210.5 million\*
- 4 **Adjusted Operating Margin** of 4.7%\*
- 5 **Adjusted Net Income** of \$18.3 million or \$0.16 per share\*

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

# Q4 Fiscal 2013 Balance Sheet and Operating Metrics

Cash and Investments	\$486.5 million
Cash Flow from Operations	\$3.6 million
DSO	75 Days
Inventory Turns	4.6
Headcount (as of October 31, 2013)	4,754

# Q4 Fiscal 2013 Financial Summary

(Amounts in millions)

	Q4 FY2013	Q3 FY 2013	Q2 FY 2013	Q1 FY 2013	Q4 FY 2012	Period Change	
						Q-T-Q	Y-T-Y
Revenue	\$ 583.4	\$ 538.4	\$ 507.7	\$ 453.1	\$ 465.5	8.4%	25.3%
Adjusted Gross Margin*	40.8%	43.6%	42.5%	44.6%	42.7%	(2.8)%	(1.9)%
Adjusted Operating Expenses*	\$ 210.5	\$ 190.4	\$ 197.4	\$ 176.6	\$ 191.8	10.6%	9.7%
Adjusted Operating Margin*	4.7%	8.2%	3.7%	5.6%	1.4%	(3.5)%	3.3%
Adjusted Net Income (Loss)*	\$ 18.3	\$ 26.2	\$ 2.2	\$ 12.3	\$ (6.7)	\$ (7.9)	\$ 25.0
Adjusted EPS*	\$ 0.16	\$ 0.23	\$ 0.02	\$ 0.12	\$ (0.07)	\$ (0.07)	\$ 0.23

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

# Revenue by Segment

(Amounts in millions)

## Revenue by Segment

	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012
Converged Packet-Optical	\$ 350.9	\$ 302.0	\$ 294.3	\$ 240.0	\$ 238.1
Packet Networking	\$ 61.2	\$ 61.6	\$ 54.2	\$ 45.8	\$ 47.3
Optical Transport	\$ 52.6	\$ 66.2	\$ 57.4	\$ 57.6	\$ 71.8
Software and Services	\$ 118.7	\$ 108.6	\$ 101.8	\$ 109.7	\$ 108.3
<b>Total</b>	<b>\$ 583.4</b>	<b>\$ 538.4</b>	<b>\$ 507.7</b>	<b>\$ 453.1</b>	<b>\$ 465.5</b>

## % of Total Revenue

	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012
Converged Packet-Optical	60.2%	56.1%	57.9%	53.0%	51.1%
Packet Networking	10.5%	11.4%	10.7%	10.1%	10.2%
Optical Transport	9.0%	12.3%	11.3%	12.7%	15.4%
Software and Services	20.3%	20.2%	20.1%	24.2%	23.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

# Revenue by Geographic Region

(Amounts in millions)

## Revenue

	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012
United States	\$ 326.2	\$ 339.5	\$ 287.6	\$ 264.2	\$ 249.5
International	\$ 257.2	\$ 198.9	\$ 220.1	\$ 188.9	\$ 216.0
<b>Total</b>	<b>\$ 583.4</b>	<b>\$ 538.4</b>	<b>\$ 507.7</b>	<b>\$ 453.1</b>	<b>\$ 465.5</b>

## % of Total Revenue

	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012
United States	55.9%	63.1%	56.6%	58.3%	53.6%
International	44.1%	36.9%	43.4%	41.7%	46.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



# Three-Year Financial Summary

(Amounts in millions)

	FY2013	FY 2012	FY 2011
Revenue	\$ 2,082.5	\$ 1,833.9	\$ 1,742.0
Adjusted Gross Margin*	42.8%	40.9%	42.6%
Adjusted Operating Expenses*	\$ 775.0	\$ 715.8	\$ 724.1
Adjusted Operating Margin*	5.6%	1.9%	1.0%
Adjusted Net Income (Loss)*	\$ 59.0	\$ (23.5)	\$ (24.2)
Adjusted EPS*	\$ 0.54	\$ (0.24)	\$ (0.25)

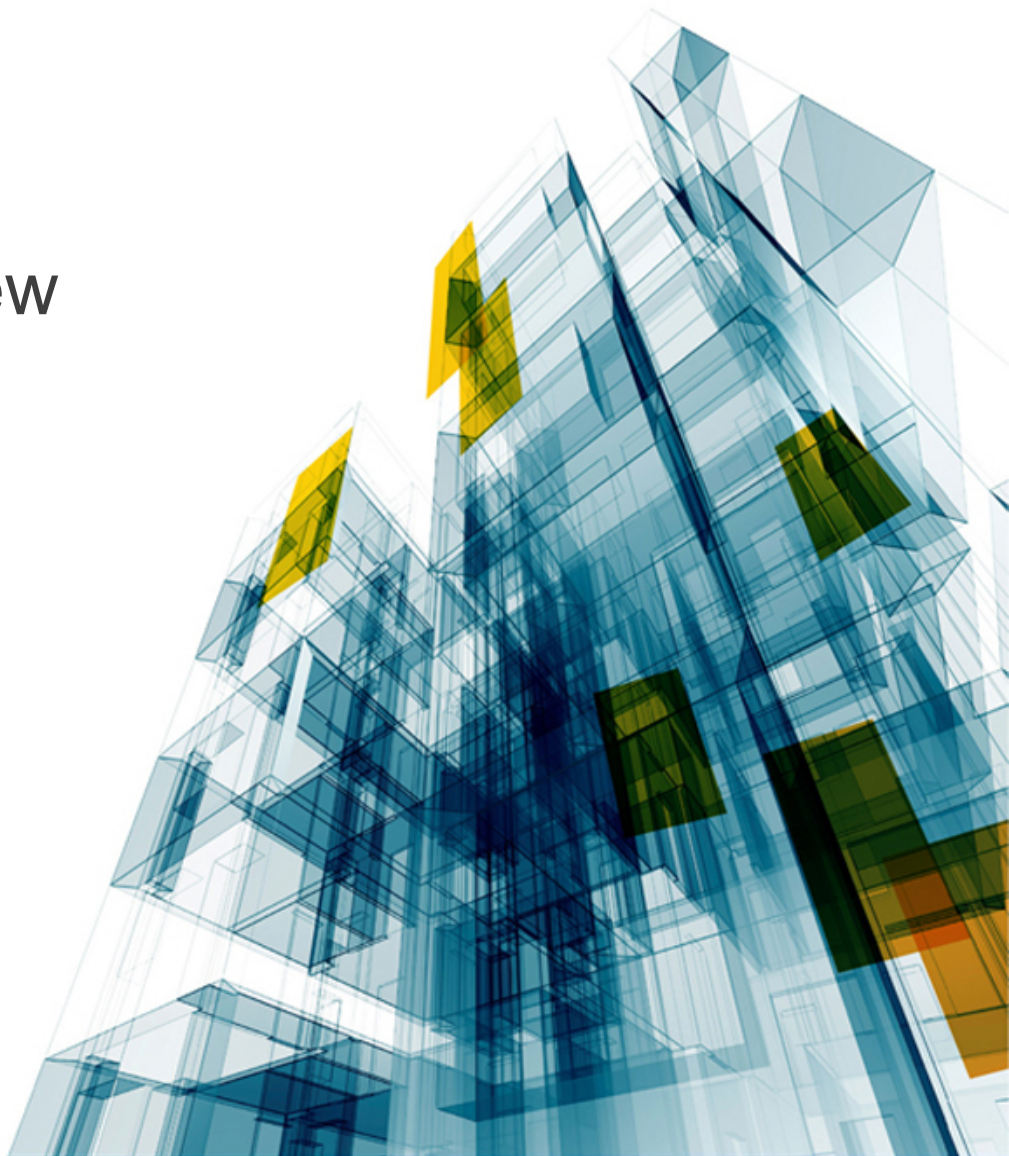
\* A reconciliation of these non-GAAP measures to our GAAP results is included in the appendix to this presentation.

# Q1 Fiscal 2014 Business Outlook<sup>1</sup>

Revenue	\$515 to \$545 million
Adjusted Gross Margin	Low 40s percent range, higher than FYQ4'13
Adjusted Operating Expense	About \$205 million

<sup>1</sup> Projections or outlook with respect to future operating results are only as of December 12, 2013, the date presented on the related earnings call. Ciena assumes no obligation to update this information, whether as a result of new information, future events, or otherwise.

# Convertible Debt Overview



# CONVERTIBLE DEBT PROFILE\*



- \$1.2B aggregate principal amount outstanding, down from \$1.4B
  - 2013s retired in May (\$216.2M)
  - Half of the original principal amount of the 2015s were extended to 2020 in December 2012
- \$725M of the \$1.2B outstanding has a conversion price slightly above \$20
  - For some portion of the debt, once the stock reaches and sustains certain prices that are 30 - 50% above the conversion price, Ciena has the ability to cause a conversion or to exercise a redemption right in an effort to cause a conversion.\*
- Shares underlying the convertible notes are added to the weighted average dilutive potential shares outstanding at specific net income assumption levels that correlate to each issue (see slide 13 or slide 14 in this presentation); and correspondingly, the interest expense is removed for the respective issue(s).

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

# HIGHLIGHTED TERMS PER ISSUE<sup>1</sup>

	<b>Par Value (in millions)</b>	<b>Underlying Shares (in thousands)</b>	<b>Conversion Price</b>	<b>Additional Redemption / Conversion Provisions</b>	<b>Net Income Threshold for Diluted EPS (in millions)<sup>2</sup></b>
<b>4.0% convertible senior notes, due March 15, 2015</b>	\$187.5	9,198	\$20.39	Redeemable for cash (plus a make whole) at Ciena's election - If closing price is $\geq$ \$30.59 for 20 of 30 consecutive trading days	\$26
<b>0.875% convertible senior notes, due June 15, 2017</b>	\$500	13,108	\$38.15	No	\$11
<b>3.75% convertible senior notes due October 15, 2018</b>	\$350	17,356	\$20.17	No	\$23
<b>4.0% convertible senior notes, due March 15, 2020</b>	\$187.5	9,198	\$20.39	Convertible into shares, (plus a make whole), at Ciena's election - If VWAP is $\geq$ \$26.51 for 20 of 30 consecutive trading days	\$42

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

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

Convertible Notes and Diluted EPS Analysis as of December 12, 2013

*In thousands (except per share amounts)*

Outstanding Notes	Par Value	Quarterly Assumptions							Current Basic Shares	The quarterly net income assumption levels must be equal or greater than below amounts for the respective underlying common shares from the issue to be included in Diluted EPS
		Coupon Interest Expense	Debt Issuance Cost	Non-Cash Interest Expense from Accretion of Principal	Non-Cash Interest Expense from Amortization of Redemption Option and Debt Discount	Total Interest Expense	Underlying Common Shares			
0.875% notes	500,000	1,094	294			1,388	13,108	103,523	\$	11,253
3.75% notes	350,000	3,281	309			3,590	17,356	103,523	\$	23,312
4.0% notes	187,500	1,875	257		(43)	2,090	9,198	103,523	\$	26,089
4.0% notes	187,500	1,875	77	870	284	3,106	9,198	103,523	\$	42,219
<b>Total</b>	<b>\$ 1,225,000</b>	<b>\$ 8,125</b>	<b>\$ 937</b>	<b>\$ 870</b>	<b>\$ 242</b>	<b>\$ 10,174</b>	<b>48,860</b>			

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

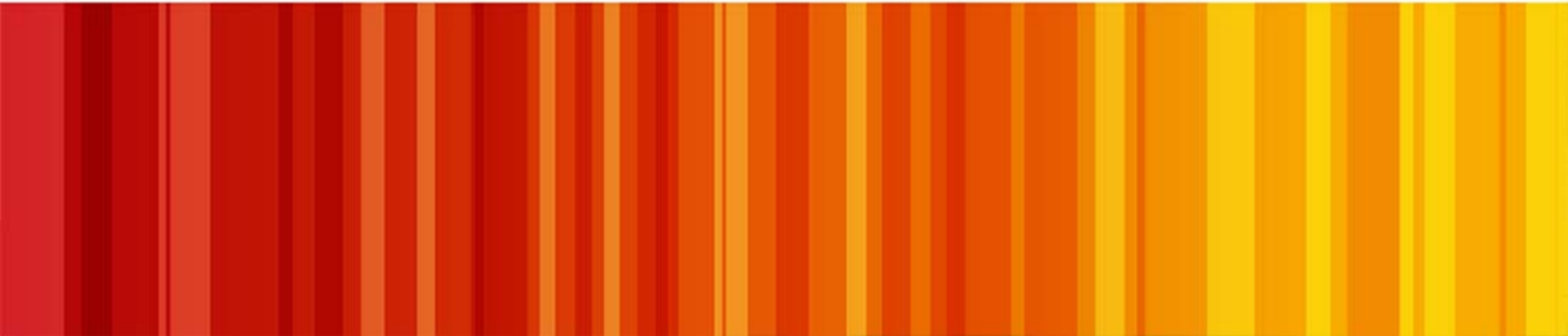
Ciena's outstanding convertible notes are considered anti-dilutive when the related interest expense on a per common share "if converted basis" exceeds Basic EPS for the period.

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

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

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

# Q4 and Year-End Fiscal 2013 Appendix



## Gross Profit Reconciliation *(Quarter ended October 31, 2013)*

*(Amounts in thousands)*

	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012
GAAP gross profit	\$ 231,646	\$ 228,221	\$ 209,513	\$ 195,795	\$ 192,206
Share-based compensation-products	617	658	686	561	647
Share-based compensation-services	448	461	435	427	326
Amortization of intangible assets	5,384	5,384	5,384	5,385	5,384
Total adjustments related to gross profit	6,449	6,503	6,505	6,373	6,357
<b>Adjusted (non-GAAP) gross profit</b>	<b>\$ 238,095</b>	<b>\$ 234,724</b>	<b>\$ 216,018</b>	<b>\$ 202,168</b>	<b>\$ 198,563</b>
<b>Adjusted (non-GAAP) gross margin</b>	<b>40.8%</b>	<b>43.6%</b>	<b>42.5%</b>	<b>44.6%</b>	<b>42.7%</b>



## Operating Expense Reconciliation (Quarter ended October 31, 2013) (Amounts in thousands)

	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012
GAAP operating expense	\$ 232,063	\$ 213,390	\$ 220,093	\$ 201,404	\$ 214,141
Share-based compensation-research and development	1,923	2,054	2,204	2,033	2,500
Share-based compensation-sales and marketing	3,603	3,562	3,382	2,743	3,048
Share-based compensation-general and administrative	3,157	3,198	3,144	2,556	2,205
Acquisition and integration costs	-	-	-	-	20
Amortization of intangible assets	12,439	12,440	12,439	12,453	12,545
Restructuring costs	428	202	1,509	5,030	1,990
Settlement of patent litigation	-	1,500	-	-	-
Total adjustments related to operating expense	21,550	22,956	22,678	24,815	22,308
<b>Adjusted (non-GAAP) operating expense</b>	<b>\$ 210,513</b>	<b>\$ 190,434</b>	<b>\$ 197,415</b>	<b>\$ 176,589</b>	<b>\$ 191,833</b>

## Income (Loss) from Operations Reconciliation (Quarter ended October 31, 2013) (Amounts in thousands)

	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012
GAAP income (loss) from operations	\$ (417)	\$ 14,831	\$ (10,580)	\$ (5,609)	\$ (21,935)
Total adjustments related to gross profit	6,449	6,503	6,505	6,373	6,357
Total adjustments related to operating expense	21,550	22,956	22,678	24,815	22,308
<b>Adjusted (non-GAAP) income from operations</b>	<b>\$ 27,582</b>	<b>\$ 44,290</b>	<b>\$ 18,603</b>	<b>\$ 25,579</b>	<b>\$ 6,730</b>
<b>Adjusted (non-GAAP) operating margin</b>	<b>4.7%</b>	<b>8.2%</b>	<b>3.7%</b>	<b>5.6%</b>	<b>1.4%</b>

## Net Income (Loss) Reconciliation *(Quarter ended October 31, 2013)* *(Amounts in thousands)*

	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012
GAAP net loss	\$ (9,797)	\$ (1,231)	\$ (27,079)	\$ (47,324)	\$ (38,771)
Total adjustments related to gross profit	6,449	6,503	6,505	6,373	6,357
Total adjustments related to operating expense	21,550	22,956	22,678	24,815	22,308
Loss on extinguishment of debt	-	-	-	28,630	-
Non-cash interest expense	284	267	247	100	-
Change in fair-value of embedded redemption feature	(230)	(2,290)	(120)	(310)	3,440
<b>Adjusted (non-GAAP) net income (loss)</b>	<b>\$ 18,256</b>	<b>\$ 26,205</b>	<b>\$ 2,231</b>	<b>\$ 12,284</b>	<b>\$ (6,666)</b>
Weighted average basic common shares outstanding	103,523	102,713	101,913	101,204	100,506
Weighted average dilutive potential common shares outstanding	119,401 <sup>1</sup>	144,277 <sup>3</sup>	103,165	120,817	100,506

## Net Income (Loss) per Common Share *(Quarter ended October 31, 2013)*

	Q4 FY2013	Q3 FY2013	Q2 FY2013	Q1 FY2013	Q4 FY2012
GAAP diluted net loss per common share	\$ (0.09)	\$ (0.01)	\$ (0.27)	\$ (0.47)	\$ (0.39)
<b>Adjusted (Non-GAAP) diluted net income (loss) per common share</b>	<b>\$ 0.16<sup>2</sup></b>	<b>\$ 0.23<sup>4</sup></b>	<b>\$ 0.02</b>	<b>\$ 0.12</b>	<b>\$ (0.07)</b>

## Gross Profit Reconciliation (Year ended October 31, 2013) (Amounts in thousands)

	FY2013	FY2012	FY2011
GAAP gross profit	\$ 865,175	\$ 724,224	\$ 709,146
Share-based compensation-products	2,522	2,156	2,269
Share-based compensation-services	1,771	1,462	1,881
Amortization of intangible assets	21,537	22,032	23,307
Fair value adjustment of acquired inventory	-	-	5,735
Total adjustments related to gross profit	25,830	25,650	33,192
<b>Adjusted (non-GAAP) gross profit</b>	<b>\$ 891,005</b>	<b>\$ 749,874</b>	<b>\$ 742,338</b>
<b>Adjusted (non-GAAP) gross margin</b>	<b>42.8%</b>	<b>40.9%</b>	<b>42.6%</b>

## Operating Expense Reconciliation (Year ended October 31, 2013) (Amounts in thousands)

	FY2013	FY2012	FY2011
GAAP operating expense	\$ 866,950	\$ 804,070	\$ 872,339
Share-based compensation-research and development	8,214	8,567	10,149
Share-based compensation-sales and marketing	13,290	11,558	12,182
Share-based compensation-general and administrative	12,055	8,691	11,140
Acquisition and integration costs	-	(120)	42,088
Amortization of intangible assets	49,771	51,697	69,665
Restructuring costs	7,169	7,854	5,781
Change in fair value of contingent consideration	-	-	(3,289)
Settlement of patent litigation	1,500	-	500
Total adjustments related to operating expense	91,999	88,247	148,216
<b>Adjusted (non-GAAP) operating expense</b>	<b>\$ 774,951</b>	<b>\$ 715,823</b>	<b>\$ 724,123</b>

## Income (Loss) from Operations Reconciliation (Year ended October 31, 2013) (Amounts in thousands)

	FY2013	FY2012	FY2011
GAAP loss from operations	\$ (1,775)	\$ (79,846)	\$ (163,193)
Total adjustments related to gross profit	25,830	25,650	33,192
Total adjustments related to operating expense	91,999	88,247	148,216
<b>Adjusted (non-GAAP) income from operations</b>	<b>\$ 116,054</b>	<b>\$ 34,051</b>	<b>\$ 18,215</b>
<b>Adjusted (non-GAAP) operating margin</b>	<b>5.6%</b>	<b>1.9%</b>	<b>1.0%</b>

## Net Income (Loss) Reconciliation *(Year ended October 31, 2013)* *(Amounts in thousands)*

	FY2013	FY2012	FY2011
GAAP net loss	\$ (85,431)	\$ (144,021)	\$ (195,521)
Total adjustments related to gross profit	25,830	25,650	33,192
Total adjustments related to operating expense	91,999	88,247	148,216
Loss on extinguishment of debt	28,630	-	-
Non-cash interest expense	898	-	-
Gain on cost method investment	-	-	(7,249)
Change in fair-value of embedded redemption feature	(2,950)	6,600	(2,800)
<b>Adjusted (non-GAAP) net income (loss)</b>	<b>\$ 58,976</b>	<b>\$ (23,524)</b>	<b>\$ (24,162)</b>
Weighted average basic common shares outstanding	102,350	99,341	95,854
Weighted average dilutive potential common shares outstanding	120,263 <sup>5</sup>	99,341	95,854

## Net Income (Loss) per Common Share *(Year ended October 31, 2013)*

	FY2013	FY2012	FY2011
GAAP diluted net loss per common share	\$ (0.83)	\$ (1.45)	\$ (2.04)
<b>Adjusted (Non-GAAP) diluted net income (loss) per common share</b>	<b>\$ 0.54<sup>6</sup></b>	<b>\$ (0.24)</b>	<b>\$ (0.25)</b>

## Reconciliation Endnotes

- 1. Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income (loss) per common share for the fourth quarter of fiscal 2013 includes 2.8 million shares underlying certain stock options and restricted stock units and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
- 2. The calculation of Adjusted (non-GAAP) diluted net income (loss) per common share for the fourth quarter of fiscal 2013 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income (loss) in order to derive the numerator for the Adjusted earnings per common share calculation.*
- 3. Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income (loss) per common share for the fiscal third quarter of 2013 includes 1.9 million shares underlying certain stock options and restricted stock units, 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due March 15, 2015, 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017, and 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018.*
- 4. The calculation of Adjusted (non-GAAP) diluted net income (loss) per common share for the fiscal third quarter of 2013 requires adding back interest expense of approximately \$2.1 million associated with Ciena's 4.0% convertible senior notes, due March 15, 2015, approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, and approximately \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018 to the Adjusted (non-GAAP) net income (loss) in order to derive the numerator for the Adjusted earnings per common share calculation.*
- 5. Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income (loss) per common share for fiscal 2013 includes 2.1 million shares underlying certain stock options and restricted stock units, 2.7 million shares underlying Ciena's 0.25% convertible senior notes, which were paid at maturity during the second quarter of fiscal 2013 and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
- 6. The calculation of Adjusted (non-GAAP) diluted net income (loss) per common share for fiscal 2013 requires adding back interest expense of approximately \$0.7 million associated with Ciena's 0.25% convertible senior notes, which were paid during the second quarter of fiscal 2013 and approximately \$5.5 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income (loss) in order to derive the numerator for the Adjusted earnings per common share calculation.*